Published based on How To Go Public: Make It Easy With A DPO

How To Go Public: Make It Easy With A DPO

A direct public offering is when a company raises capital by selling its shares directly to what is referred to as affinity groups, unlike an IPO which are sold by a broker dealer to its customers and the general public through other broker dealers who have customers interested in buying shares in the company.

In IPO's you have a firm commitment underwriting, where the underwriters promise to purchase the securities for their own account if they can not sell them to customers.

Best-effort underwriting: The underwriters do not guarantee any specific number of shares to be sold, they merely act as brokers.

In an IPO the lead underwriter is referred to as the syndicate manager, he keeps the book and invites other broker dealers to join the syndicate. In a firm commitment underwriting, an underwriter's agreement makes members liable for any unsold securities, regardless of how much of their allotment they sold. .

In a direct public offering the company sells the shares to affinity groups; who falls in this category? Customers, suppliers, distributors, friends, family, employees and other members of the community. In a direct public offering (DPO) the company places its shares in the hands of those people who are familiar with the company and know the company's product and management, and are most likely to hold the shares longer because they feel comfortable with the company's prospects for the future.

Direct public offerings are considerably less expensive than IPO's and most effective for smaller offerings, for large offerings the sales staff and customer base of a broker dealer are usually necessary.

Since the affinity group is already familiar with the company and its practices it doesn't put pressure on the company to change the way it does business, and will remain loyal to the company because of it's presence in the community.

DPO's are preferable to venture capital financing because it allows the present management to execute its business plan without outside interference. When a small company turns to a single large investor they tend to surrender the freedom to make all the decisions.

In a DPO like other methods of going public today audited financial statements are required. Unlike a reverse merger you choose your shareholders and you don't have to deal with shady, unscrupulous shell owners.

Shell owners usually keep between 5-15% of the shares outstanding and are quick to liquidate, and they do not have an interest in the well being of the company's share price. Even if you insert a stipulation in the contract that they can not sell for a year they will find a way of shorting the stock and destroying the share price.

This makes the DPO a preferable option even for companies that don't need financing but would like to go public.

A DPO does not always require audited financials but if you plan on going public you will need them. So you must hire an auditing firm that is "peer review" or PCAOB.

If you wish to take your company public then you must file a form S-1 with the Securities and Exchange Commission and a form 211 must be filed with FINRA.

A DPO is an alternative to an IPO or Reverse Merger for a company wishing to go public or obtain financing; it allows the company owner(s) to call the shots instead of an underwriter or a shell owner.

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