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DEPARTMENT OF
FINANCIAL INSTITUTIONS

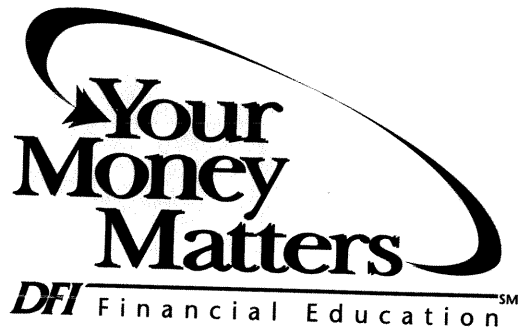
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Madison, WI 53703**

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Entrepreneurship

So You Want to Go Public...

Going Public with a Small Business





The Decision to Sell

Offering and selling securities is never a "sure thing." Of all the decisions you will make on the road to selling securities, perhaps the most difficult and important is whether selling securities is the right financing tool for your business.

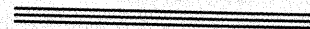
Unless you can comfortably answer "yes" to all three of the following questions, you may find that offering securities is not in your best interest.

1 Is your company ready?

- Is your company properly formed and organized? If not, any structural changes should be made before you file your offering, not afterwards.
- Do you already have a well-defined and stable business plan in place? Without a good business plan, you may find it difficult to adequately answer questions in the disclosure document, and you may find investors wary of your offering.

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- Does your company have current financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP)? Depending on the size and type of offering, reviewed or audited statements may be required.

2 Are you and your management ready?

- Can you afford to spend a significant amount of time away from your normal business operations to prepare your offering? Many are surprised at the amount of time it takes.

- Are you prepared to invest a significant amount of energy in selling your offering? Meetings with, and presentations to, potential investors will often be required.
- Are you willing to give up a portion of your profits to provide a return to investors? You must be ready to share the rewards, as well as the risks.
- If you are successful with your securities offering, someone else will own a share of your business. When they do, they may want a say in how things are run. Shareholder issues may take up a significant amount of your time.
- You will have ongoing responsibilities after the offering, such as preparing and distributing an annual financial report to all of your investors.

3 Will your investors be ready?

- Investors look for liquidity. Although investments in small business should be viewed as long-term, even long-term investors need to see some light at the end of the tunnel. Will your company ever be large enough that a trading market could develop for your stock?

- Investors want a share of the profits. If your company has profits, what are your plans for their distribution? Will investors see any of the profits? Will you reinvest the profits in the company? Or will they go towards salaries or bonuses to key employees?
- How much control will investors have? If investors don't like what is happening in the company, they may want to do something about it such as request representation on your board of directors.

Are You Ready for the Spotlight?

Securities laws are concerned

with all aspects of the sale of securities in order to protect investors. Never attempt to hide anything about your business from your attorney, accountant, business advisor, securities officials, or potential investors.

Offering Alternatives

Different offerings fit different needs; not all offerings are alike. Anyone who thinks a securities offering is a one-size-fits-all proposition is wrong. The best offerings are tailor-made to specific financial needs and goals. Once you've decided to proceed, then you have to figure out what kind of offering is best.

Choosing What Kind of Security to Offer

What kind of security you offer will depend on how your company is organized. Are you the sole proprietor of a company seeking to "go public," or is your company already incorporated? Have you formed a limited liability company (usually referred to as an "LLC") or do you intend to organize and operate as a limited partnership? Your form of organization will usually dictate the kind of security available for you to offer.

1 Common Stock. Selling common stock means selling shares in the equity of a corporation. This is the security most often offered. It doesn't require you to make any promises or guarantees regarding return-on-investment.

2 Debt. A debt security is the evidence of a loan by investors to your company. You agree to repay the loan at a specific date and with a specific annual rate of interest. Debt securities can be secured by collateral such as a mortgage on some or all of your company's assets, or the debt can be an unsecured promise of repayment and is then usually called an unsecured note or a debenture.

3 Preferred Stock. Preferred stock is a hybrid between debt and common stock; the investment often promises a fixed return which must be paid before common stockholders are awarded any dividends for their investment.

4 Limited Partnership Interests. Limited partnerships, another form of business organization, are often used to achieve certain tax advantages, but many special rules apply.

5 LLC Memberships. LLC memberships, sometimes referred to as shares, represent equity in a limited liability company. LLC memberships may also provide certain tax advantages, but, as with limited partnership interests, many special rules apply.

A Word to the Wise! In determining whether your company is properly organized, or

what kind of security to offer, it is probably a good idea to obtain the services of one or more of the following professionals: a securities attorney, a tax consultant, or a financial adviser.

Registration? Exemption? Selling Your Securities Legally

The Fine Print! *Because the discussion in this brochure cannot and does not involve giving "legal advice," consideration should be given to seeking professional advice (e.g., legal, financial) about making an offering of securities. Violations of the Wisconsin Uniform Securities Law may result in administrative, civil, or criminal liability.*

Wisconsin law requires that before a security may be offered or sold in this state, it must be registered or qualify for an exemption from registration. The provision of the law under which you will market your securities depends on the amount of money your company needs, along with the number of investors you plan

on soliciting. Also, the type of disclosure and advertising used may be determined by the securities provision you choose.

Be Careful! *Several of the exemption provisions contained in the Wisconsin Law are summarized below. That discussion does not set forth all the requirements and limitations of each exemption. Therefore, the relevant statutory provision and related administrative rules must be consulted before attempting to use those exemptions.*

1 In many cases, an exemption from registration of your securities may be available.

- Is your company in the pre-organizational stage (in the process of being organized)? If so, you may be able to solicit indications of interest from potential investors to determine whether a market for your securities exists. The indications of interest must be non-binding, and no funds may be accepted.

- If your company is already organized, you may still be able to "test the waters" by using general advertising to determine investor interest in your offering. Call or write the Department of Financial Institu-

tions (the "Department") and ask for a "Testing the Waters" brochure. **CAUTION: If you "test the waters," you may not be able to take advantage of a federal Regulation D, Rule 505 or 506 exemption because of the prohibition on the use of public advertising contained in that regulation.**

- If you plan to sell your securities to only a few people a registration exemption may be available to you for the sale of securities by a company with its principal office in Wisconsin if no more than 15 persons (not counting "institutional investors") will hold any of the company's securities after the sale.

- Transactions involving the offer of securities to up to 10 persons (not counting institutional investors, but including persons to whom an offer was made in connection with the exemption discussed in the previous paragraph) in Wisconsin in any 12-month period may be exempt from registration.

- Rules 505 and 506 under Federal Regulation D exempts a securities offering by an issuer to limited numbers of investors. Wisconsin law contains a paral-

lel exemption.

- If your company's principal office and the majority of its full-time employees are located in Wisconsin, an exemption may be available for sales to up to 100 investors in this state.

- Other exemptions may be available if you plan to sell to persons who already hold your securities, or to persons who are officers, directors, or employees of your company.

- In all, Wisconsin securities law contains more than 40 provisions for exemption from registration, including the authority of the Department to issue discretionary orders of exemption when registration is not necessary for the protection of Wisconsin investors.

2 If a registration exemption is not available in Wisconsin for what you plan to do, you will have to file an application to register your securities.

- Do you plan to offer your securities only in Wisconsin? If so, you may not have to file federally with the Securities and Exchange Commission (the "SEC"), but this Department will require an offering document to be filed and will review it care-

fully with an eye to adequate disclosure of all relevant facts.

- What kind of offering document will you prepare? The Small Company Offering Registration ("SCOR") is a question and answer form of prospectus that guides the user in making adequate disclosure. It is available for a fee from the Department. The traditional narrative form of prospectus may also be used.
- Does your offering qualify for exemption from registration with the SEC under Regulation A? No companion exemption exists in Wisconsin law, so it is likely that your offering will have to be registered in Wisconsin.
- Perhaps you qualify for exemption from registration with the SEC under Rule 504 of Regulation D. Again, it is likely that you will have to register your securities in Wisconsin because no companion exemption exists for Rule 504 (as it does for Rule 505 and Rule 506).

Need to Know More? *These exemption and registration options are discussed in more detail in our "Raising Capital" brochure which is available upon request.*

Preparing the Filing Package

Unless you're a "one man band," you're going to need help. Piecing together a well-prepared offering package requires expertise in a lot of areas. We advise obtaining the help of an experienced securities attorney and a qualified accountant. Nonetheless, requesting and studying our "Raising Capital" brochure should help get you started.

Understand Your Filing Obligations

If you can determine which exemp-

tion or registration provision is appropriate for your offering, and it appears that a filing is required, you may call us for forms or to clarify filing procedures. Some materials are available at no cost. Others, such as the SCOR disclosure document, are available from the Department for a fee.

- Take time to read all instructions completely.
- Make sure you will be able to comply fully with all applicable rules.
- Contact the Department as

soon as possible if you identify any "gray areas" regarding whether a specific rule applies to your situation, or if you foresee a potential problem.

- Make a note of any questions so you can obtain clarification from the Department.

Consider a "Pre-Filing Conference"

Taking advantage of a

Pre-Filing Conference which is offered to Wisconsin-based issuers by the Department's Small Business Information Center is a good idea. Here you will be able to obtain answers to any questions you have about your offering, whether you need to make a filing, how to fill out forms, preparation of disclosure statements, etc. We may be able to provide samples of previously filed documents for you to review when preparing your disclosure document. You are welcome to bring your attorney or accountant if desired. But before you arrive, be sure you:

- Make an appointment with the Department.
- Come prepared with a list of your questions.
- Have on hand as much information as possible about your

business, including your business plan.

- Notify the Department so any necessary background research can be conducted before the actual conference if you anticipate discussing a particularly difficult subject or problem.

Preparing Your Disclosure Document

Once you've had a

Pre-Filing Conference, you're ready to prepare your disclosure document. The disclosure document is the most important part of your Filing Package, so take the time to prepare it carefully.

- Make sure the section on your company's existing and proposed business is accurate and thorough.
- Disclose in great detail how you plan to use proceeds from your offering.
- The section containing risk factors will be carefully examined, so make sure it is comprehensive and accurate.
- It's a good idea to double-check arithmetic and percentage calculations.
- Avoid inconsistencies and obvious omissions.

- Add footnotes, if needed, to explain things further.
- Your final document should be easy to read and understand.

Preparing Your Filing Package

Along with a completed Disclosure Document, you'll also need to include several additional items in your Filing Package:

- Review the list of exhibits to be sent with your filing, and make sure that everything is included.
- Include a cover letter which cites the statute under which the filing is being made, explains any missing items from the required exhibits, and identifies a contact person at your company or your law firm.
- Make sure your application (if one is required) is signed. If you use the SCOR disclosure document, it must also be signed.
- Don't hesitate to send along any additional supporting information you believe will be helpful to the Department. Your cover letter should disclose whether any of this additional information will be provided to potential investors. If so, it

should be listed as an exhibit in the table of contents to the disclosure document.

Warning! *Securities laws vary from state to state. If you plan to conduct your offering in more than one state, you will likely have to file both with the SEC and with any other state in which you are offering. Information on filing requirements can be obtained from the SEC and each state's Securities Division.*

Midwest Regional Review Program

To assist small businesses wanting to register their securities in more than one state, the Department has helped develop and is participating in the Midwest Regional Review Program.

If you intend to sell your securities in more than one of the participating states, which currently include Illinois, Indiana, Iowa, Kansas, Michigan, Missouri, Nebraska, North Dakota, South Dakota, and Wisconsin, and are exempt from registering federally

with the SEC under either Regulation A or Rule 504 of Regulation D, you may file an application simultaneously in each state where you propose to sell securities. A single state will coordinate the review of your offering and work with you to resolve any problems. Check with the Department for additions or deletions to the list of participating states.

You will not have to pay any additional fees to participate, although you will have to file a brief application for regional review with your registration application in each state where you plan to sell your securities. The application contains other criteria pertaining to offering size, type, price, etc., which must be met.

For further information, or to obtain the Program application and instructions, contact the Department.

The Review Process

It may take longer than you think. Reviewing a securities offering can be time-consuming for the Department. During the course of the review, certain revisions to your documents may be required. Making these revisions quickly and accurately can greatly reduce delays.

How Long Does it Take? The average filing takes up to four weeks to

review. The time between the end of the review and clearance of your offering depends on the quality of your disclosure, the complexity of your offering, and the speed of your response to any comments the Department has made.

Common Problem Areas to Avoid:

Incomplete or unclear business description. A surprising number of disclosure documents contain glaring omissions or discrepancies, or an inadequate description of exactly what it is a company does or plans to do.

Although issuers are reluctant to discuss their company's weaknesses, such disclosure is mandatory.

2 Prior sales of securities. It is not uncommon for the Department to discover, upon routine examination, that prior sales of securities have been made outside applicable securities laws. If an improper sale was made, it must be corrected before any further offerings can take place. The Department can provide guidance on what must be done.

3 Erroneous or misleading financial statements. The best way to prevent errors, omissions or discrepancies in your financial statements is to have your accountant's help. Inform your accountant that you intend to use the financial statements in an offering document and that the accountant's consent will be required. If the Department finds errors, further inquiry is required and statements must be corrected before the offering can proceed.

4 Forecasts and projections. Unless your projections have been prepared and examined by an independent accountant, it is likely that questions will arise as to

the assumptions used in making the forecasts and the rationale behind them.

Completing the Review Process

After the Department's initial review, a

comment letter will be prepared and sent to your contact person. If the comments are particularly difficult or complex, a meeting may be requested.

To expedite subsequent reviews, the Department requests that comments be responded to in numerical order and that changes to the offering document be underlined. Several subsequent reviews may be required before an offering is ready for clearance.

When all issues have been resolved, the Department will clear the offering. In many cases, an order of exemption or registration indicating the effective date and terms of the offering will be issued, but the offering may begin upon oral confirmation from the Department that the offering has been cleared.

The Offering

Getting cleared doesn't mean investors will suddenly appear out of nowhere. It would be nice if once your offering were cleared, investors would show up on your doorstep with money in hand. But in reality, marketing your offering is one of the toughest things of all.

Obtaining the services of a securities brokerage firm to market your securities may be beneficial. The Department has brochures available that may assist you. In addition, our Licensing and Compliance Section should be able to answer your questions about brokerage firms. Call (608) 266-3693 and ask to speak to an examiner.

During the offering period, you will continue to have obligations to the Department.

1 Material Changes. If the disclosure contained in your offering document is no longer accurate because of material changes to your offering or in your business, your disclosure document must be updated and the Department notified.

2 Advertising. If the securities provision under which you

have filed allows the use of advertising, a copy of every advertisement for your offering must be reviewed and permitted by the Department before you use it.

Conclusion

The Department has worked to streamline the process for meeting the technical requirements necessary to issue and sell securities in Wisconsin so that both large and small businesses can more easily raise needed capital.

If you have any questions, or would like to arrange a conference, contact the Department at:

**Department of Financial
Institutions**

Division of Securities

P. O. Box 1768

Madison WI 53701-1768

608-266-8557

608-256-1259 (Fax)

Talk to someone in the Small Business Information Center, at (608) 266-8557, if you need forms, brochures, or other information. Or visit us at our Website at www.wdfi.org.

The Department of Financial Institutions, Division of Securities is located on the fourth floor of 345 West Washington Avenue, in Madison, just three blocks from the Capitol.

A Final Caution! *The information provided in this brochure is summarized from the Wisconsin Uniform Securities Law and the companion Administrative Rules, and you should not act on the information contained in this brochure without consulting those laws and rules.*

For a fee, you may obtain from the Department separate copies of the Wisconsin Securities Laws and Administrative Rules.



About the State of Wisconsin Department of Financial Institutions

DFI provides financial education through our Your Money Matters program including:

- Speakers for meetings and seminars, conventions, professional and civic groups, high school and college classes, and other audiences of 30 or more.
- Presentations for the public on current financial topics.
- Education Centers featuring on-line access.
- Informational brochures on Investing, Credit, Financing and Entrepreneurship.

DFI regulates the following:

Division of Banking - regulatory responsibility for state-chartered banks, mortgage bankers and licensed financial service providers.

Division of Corporate and Consumer Services - responsible for the Uniform Commercial Code (UCC) filings, and maintaining the state-wide data base of UCC lien filings for secured transactions, and for organizing or licensing domestic and foreign corporations, limited partnerships, limited liability companies, and limited liability partnerships.

Office of Credit Unions - supervision of state-chartered credit unions.

Division of Savings Institutions - supervision of savings and loans, and savings banks.

Division of Securities - regulates offerings of securities including mutual funds; franchise offerings; broker-dealers and securities agents; investment advisers and investment adviser representatives.

Wisconsin Consumer Act - Counsels consumers and merchants regarding their rights and responsibilities under the Act, which governs consumer credit transactions and the collection of consumer debt.



More About DFI

DFI is a self-supporting agency funded by fees charged to those it regulates.

DFI is here to serve you!
Visit us at:

**345 West Washington Avenue,
Madison, Wisconsin.**

Office hours are Monday through Friday, 7:45 a.m. to 4:30 p.m.

DFI To learn more about us
visit our Website at:

www.wdfi.org