Public Franchises - Own The Franchise, Own The Stock

A franchise company can gain many benefits from going public - liquidity, the ability to raise capital, prestige, greater perceived value in the marketplace, and the ability to make acquisitions using stock. We know that big publicly traded franchises out-perform their non-franchise counterparts, but what about the little guys? Franchises that are only a few years old or have modest revenues might assume they are out of the game. The fact is, armed with the right information and a little help, anyone can go public. In this issue we continue our insider's view of taking a franchise public as we speak with James Cassidy of Tiber Creek Corporation.

Going public without an underwriter or an IPO

Tiber Creek Corporation specializes in taking small to mid-sized businesses public. Legal expertise is provided by President James Cassidy, a securities attorney with his own law firm in Washington, D.C. Partner Jim McKillop, VP Corporate Development, contributes expertise gained with many years of experience with Merrill Lynch to the financial side of the business. Together, they take companies to the brokerage community and process them through the whole mechanism of becoming public.

Traditionally in the U.S., a company first goes to an underwriter who then raises the money to go public. James Cassidy says that's an excellent way to go, but it is not always necessary. He goes on, "Our specialty is taking companies public in transactions where they are not raising capital at the very same time they are going public. We work with companies that want to become public without an underwritten offering and without an IPO.

There are several reasons this might be the case. They may have raised some money privately and now want to give their shareholders a public market for their stock. Some companies want to have stock with a market value so they can make acquisitions of other companies using that stock. Others are planning ahead. They don't want to raise capital now, but are planning to do so in a year or two and are positioning themselves to be a public company with a good market value when the time comes. One very common reason to go public is that companies are almost always valued higher than the very same company when it's privately held. Therefore, if you want to sell your company, it's not a bad idea to go public first because you're going to get a bigger price."

Cassidy says Tiber Creek Corp. levels the playing field for emerging companies, which usually operate below Wall Street's radar screen. "It is our belief that these smaller, less-known businesses can grow and prosper just as well as larger companies - if not better - with the proper
help. In the U.S. there are no minimum asset or revenue requirements in going public. Most of the companies we work with tend to be a year or two old and have less than $25 million in assets or $25 million in sales," says Cassidy.

**Markets for the rest of us**
The principal markets for these new companies are the Pink Sheets and the OTC Bulletin Board. "Everybody knows the NYSE and the AMEX, but that is not normally where companies start to trade," Cassidy explains. "Unless you are a really big company, you start out trading on either the OTC or the Pink Sheets." Cassidy points out that there is a significant difference between the two markets. "The OTC requires you to be a reporting company, filing regularly with the SEC every quarter, every year, and when certain things occur. And you have to have audited financial statements.

The Pink Sheets, however, is a gentler, easier market for a new company with small revenues. You do not have to be a reporting company and audited financial statements are not required. This used to be a very limited market, but since becoming electronic in 1999, the Pink Sheets has become a very nice alternative to the OTC. We are increasingly recommending it to smaller companies as the preferable choice rather than assuming the greater burdens of the OTC."

There are two main advantages to taking companies public via the OTC or Pink Sheets. They are less expensive and less hassle in terms of regulations and requirements. A company can go public for around $50,000 for the Pink Sheets and maybe twice that for the OTC. The reduction in ongoing costs is even more attractive. "Typically for small companies, annual costs for staying on the OTC are maybe $50-60,000," says Cassidy. "On the Pink Sheets, most people subscribe to a service that allows them to publish their information for around $500 a year - and there are no legal costs at all to stay on it."

**Adding a second product line - your stock**
Cassidy says franchises have to be aware of two things. "When you take a franchise public, you now have two sets of regulations to follow and two sets of financial documents to keep up with. You also, in essence, take on a second product line. If your business sells hammers, for example, when you are public you have two businesses: you have your hammers and you have your stock. And you need to pay attention to it. You have to make people buy your stock the same way you make them buy your hammers.

You have to work at promoting it and selling it because it isn't going to do it by itself," says Cassidy. He continues, "If you don't, you won't have a stock price that you or your investors are going to be happy with. Being happy with your stock price is absolutely essential."

"It's a wonderful American tradition," says Cassidy. "You can go public if you want to go public. The really important thing is to make sure that you have a good reason to do so. There are plenty
of good reasons - providing an exit strategy for your investors, being able to raise capital later on, making acquisitions with stock, and increasing the value of your company, to name a few.

When in the business cycle you choose to go public will depend on your reason. But we are strong believers in the public market so we tend to believe that going public early is good. If there's not a good reason to start with then there's never a good time to go public. But if you have a good reason to go public, then the sooner you do it the better."

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Going Public on the Pink Sheets

What do Rolls Royce Aerospace, Nestle Chocolate, and Heineken Beer have in common? They all trade on the Electronic Pink Sheets (also known as "The National Quotation Bureau" (NQB). The Pink Sheets have been around for over 100 years. It began as a paper-based, inter-dealer quotation service linking competing market makers in OTC securities across the country.

In 1904, Roger W. Babson (the financier who founded Babson College) established a statistical organization to collect bond offering information from every source possible. The voluminous amount of information about issues and quotations was issued in a monthly publication. In 1911, Arthur F. Elliot, a Boston-based financial book publisher, started a daily service that provided information on the securities in which other dealers and brokers were interested, the amounts they were willing to buy and sell and the prices bid and asked.

It was the original service of reporting daily security quotations of investment dealers and brokers in the OTC market. Elliot's and Babson's organizations and services complemented each other, making the combining of the two a natural step. The two services were consolidated and became The "National Quotation Bureau" (NQB) in October of 1913.

Up until the 1990's, OTC stock prices (bids and offers) were actually printed on pink paper, hence the name "Pink Sheets." In the late 1990s the Pink Sheets transformed itself by going electronic. In September of 1999, Pink Sheets introduced the Electronic Quotation Service, an Internet-based, real-time quotation service for OTC equities and bonds for market makers and brokers. "National Quotation Board" (NQB) then changed its name to the Pink Sheets reflecting its long history of using pink sheets of paper to provide stock quotations for investment broker-dealers.

The Pink Sheets was designed to serve small and emerging companies well, but there are also large firms listed among the thousands of companies trading there. Many companies find it an
attractive place to trade because they don't want to deal with all the rules and regulations of trading on NASDAQ. The Pink Sheets are increasingly becoming an alternative to the OTC Bulletin Board and NASDAQ because it allows a company to have many of the same benefits of a private and a public company. It has about half the cost of listing on NASDAQ and there are no audited financials, no SEC periodic reporting required, and you do not need to comply with Sarbanes Oxley.

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