DIRECT PUBLIC OFFERING GUIDE

FOR OTC MARKETS

From Private Company to Publicly Quoted Security

HAMILTON & ASSOCIATES LAW GROUP, P.A.

AS SEEN IN

FORBES · BLOOMBERG · BLOOMBERG LAW · BUSINESS INSIDER · RADIO FREE EUROPE

Also cited in the South Florida Business Journal, Dealflow, New Cannabis Ventures, Willamette Week & EB5Investors

The Direct Public Offering Guide

A Comprehensive Roadmap from Private Company to Publicly Quoted Security

Tier standards, continued-qualification criteria, and process mechanics in this guide are drawn primarily from the official rulebooks published by OTC Markets Group at www.otcmarkets.com — the OTCQX Rules for U.S. Companies (V11, effective April 6, 2026), the OTCQB Rules (V6, effective April 6, 2026), and the OTCID Rules (v1.0) — and from FINRA's published materials at www.finra.org, including FINRA Rule 6432, the electronic Form 211, FINRA Rule 6490, and Regulatory Notices 14-29, 17-26, and 21-33. This guide is for general educational purposes only and does not constitute legal, accounting, or investment advice. Engage qualified securities counsel and a PCAOB-registered auditor before undertaking any offering.

Table of Contents

---

1. Introduction: What a Direct Public Offering Is (and Is Not)

A Direct Public Offering (DPO) is a capital-raising method in which a company sells its securities directly to investors — customers, community members, employees, accredited investors, and the general public — without hiring an investment bank to underwrite the deal. The company itself acts as its own distributor, sets its own share price, and controls its own marketing, subject to strict securities-law constraints.

A DPO should be distinguished from several transactions it is often confused with:

A traditional IPO involves one or more underwriters who purchase shares from the company and resell them to institutional clients, charging a gross spread that typically runs about seven percent of the offering plus substantial expenses. Underwriters also impose their own diligence, lockups, and pricing discipline. A DPO eliminates the underwriter — and with it, both the cost and the built-in distribution network.

A "direct listing" on the NYSE or Nasdaq (the Spotify/Slack model) is a listing of existing shares without raising new capital, available in practice only to large, well-known companies. A DPO, by contrast, is usually a primary offering by a small or mid-cap issuer that raises new money and then seeks a quotation, most often on the OTC markets rather than a national exchange.

A reverse merger involves combining with an existing public shell. Because OTC Markets rules expressly disqualify shell and blank-check companies from the OTCQX and OTCQB tiers, and because the SEC applies heightened scrutiny to former shells, the DPO route — building your own public company from scratch — has become the cleaner, more durable path for many issuers.

The typical DPO arc looks like this: the company registers or qualifies an offering with the SEC → sells shares directly to investors over weeks or months → closes the offering with a sufficiently broad shareholder base → engages a market maker to file Form 211 with FINRA (or applies directly to OTC Markets where eligible) → obtains a ticker symbol and begins trading on an OTC tier → pursues DTC eligibility so shares can actually move electronically → maintains ongoing disclosure.

---

2. Strategic Rationale: Why Choose a DPO and an OTC Quotation

For small- and mid-cap companies, the OTC markets offer a genuine alternative to Nasdaq and the NYSE, and a DPO offers a genuine alternative to an underwritten offering. The logic operates on two time horizons.

In the near term, the appeal is cost and control. Total out-of-pocket expenses for a DPO with an OTC quotation typically land in the low-to-mid six figures (detailed in Section 13), versus $1.5 million to $4+ million in fees and expenses for even a small underwritten IPO on a national exchange. Timelines are shorter, ongoing compliance is lighter, and management retains control over pricing and allocation. There are no exchange-mandated minimum board sizes on the lower tiers, no underwriter lockups, and no roadshow circuit.

In the longer term, an OTC quotation functions as a springboard. A company that builds a trading history, a clean disclosure record, an audited financial track record, and a growing shareholder base on OTCQB or OTCQX is a far stronger candidate for uplisting to Nasdaq or the NYSE than a private company arriving cold. Many companies use two to four years on the OTC markets deliberately as an on-ramp.

How OTC trading differs mechanically from exchange trading. National exchanges use centralized electronic matching engines that pair buy and sell orders automatically. The OTC markets instead operate through a decentralized web of broker-dealers — market makers — who publish competing bid and ask quotations on OTC Link ATS and transact directly with one another on behalf of customers. Liquidity therefore depends on how many market makers quote the stock and how actively investors trade it, which is why building a real, distributed shareholder base during the DPO is not just a regulatory checkbox but the foundation of a functioning market.

Honest trade-offs. OTC-quoted securities generally carry wider spreads, thinner volume, and less analyst coverage. Many institutions cannot buy them under internal mandates. "Penny stock" rules under SEC Rule 15g-9 impose extra broker obligations for low-priced securities, which is one reason the higher tiers build in penny-stock exemption tests. Companies should enter the process with realistic expectations about post-quotation liquidity.

---

3. Choosing Your Registration or Exemption Pathway

Before any shares can be sold to the public, the offering must either be registered with the SEC or fit within an exemption. The pathway you choose drives your costs, your disclosure burden, your investor pool, and which OTC tier you can reach. The four main routes:

3.1 Form S-1 Registration (Full SEC Registration)

The classic route. The company files a registration statement on Form S-1 containing a full prospectus: business description, risk factors, management's discussion and analysis (MD&A), executive compensation, related-party transactions, and audited financial statements. The SEC staff reviews the filing and issues comment letters — usually two to four rounds — before declaring it effective. Once effective, the company can sell to an unlimited number of investors, accredited or not, in any state (state "blue sky" registration is preempted only for exchange-listed securities, so a Rule 504/S-1 OTC issuer must still address state law — see Section 3.5).

An S-1 issuer becomes an SEC reporting company, filing Forms 10-K, 10-Q, and 8-K going forward. This is the most expensive and slowest route, but it satisfies the reporting-status requirement for every OTC tier, is the format brokers and DTC know best, and positions the company most directly for eventual uplisting. Smaller reporting companies and emerging growth companies benefit from scaled disclosure — two years of audited financials rather than three, reduced compensation disclosure, and exemption from auditor attestation on internal controls.

3.2 Regulation A ("Reg A+") Qualification

Regulation A is a streamlined public-offering exemption available to U.S. and Canadian companies, using an offering statement on Form 1-A. It has two tiers:

- **Tier 1** permits offerings up to **$20 million** in a 12-month period. There is no ongoing SEC reporting requirement and financial statements need not be audited for SEC purposes (state law may differ) — but the offering must be qualified in every state where sold, which can be slow and expensive. Tier 1 is rarely used for DPOs of any size.
- **Tier 2** permits offerings up to **$75 million** in a 12-month period, requires audited financials and ongoing semiannual/annual reporting (Forms 1-SA, 1-K, 1-U), and — critically — **preempts state blue-sky registration**, allowing nationwide sales after a single SEC qualification. Non-accredited investors are limited to investing 10% of their income or net worth per offering unless the securities will be exchange-listed.

Reg A Tier 2 has become the workhorse of the modern DPO: general solicitation is permitted (including "testing the waters" before qualification), anyone can invest, and the ongoing disclosure regime is lighter than full Exchange Act reporting. OTC Markets recognizes Regulation A reporting status as satisfying the reporting-standard requirement for its tiers.

3.3 Alternative Reporting Standard (Non-SEC-Reporting Path)

Companies that raised money privately (for example, under Rule 506 of Regulation D) and are exempt from SEC registration can still qualify for OTC quotation by publishing current information — annual and quarterly reports, audited annuals for the higher tiers, attorney letters where required — directly through the OTC Markets Disclosure & News Service. This is the cheapest ongoing regime, but restricted shares from private placements generally cannot trade until Rule 144 holding periods run, so building a free-trading float takes longer, and some brokers and institutions will not touch non-reporting issuers.

3.4 Qualified Foreign Exchange Listing

Companies already listed on a qualifying foreign exchange (TSX, LSE, ASX, and many others) can rely on the Exchange Act Rule 12g3-2(b) exemption by making their home-country disclosure available in English, and use that status to qualify for OTC quotation — the standard route for cross-listed international issuers.

3.5 The State Law Overlay

Do not forget blue-sky law. An S-1 offering of a security that will trade only OTC does **not** get federal preemption of state registration, so counsel must register or find exemptions state by state for each state in which offers are made. Reg A Tier 2 preempts state registration of the offering itself (states may still require notice filings and fees, typically a few hundred to a couple thousand dollars per state). Secondary-market blue-sky compliance (so brokers can recommend the stock post-quotation) is usually handled via "manual exemptions" tied to the OTC Markets disclosure profile, which OTCQX and OTCQB status supports in most states.

---

4. Understanding the OTC Markets Tier Structure

OTC Markets Group organizes quoted securities into four tiers, each signaling a different level of disclosure and financial standing:

Tier	Positioning	Typical Issuer
OTCQX® Best Market	Top tier; high financial standards, best-practice governance, current disclosure, U.S. securities-law compliance	Established domestic and international operating companies
OTCQB® Venture Market	Middle tier for early-stage and developing companies that are current in reporting	Entrepreneurial and development-stage U.S. and international companies
OTCID™ Basic Market	Baseline tier (launched July 2025, replacing "Pink Current"); requires ongoing financial disclosure, a management certification, and a verified company profile	Companies providing baseline information
Pink Limited™ Market	Bottom tier for companies with only limited information available; significant trading restrictions	Issuers not meeting OTCID standards

Most DPO issuers target OTCQB at the outset (achievable financial thresholds, meaningful credibility) or OTCID (minimal thresholds), with OTCQX as a later step. Each tier is governed by a published rulebook available on www.otcmarkets.com — the OTCQX Rules for U.S. Companies, the OTCQX Rules for International Companies, the OTCQB Rules, and the OTCID Rules — together with tier-specific Disclosure Guidelines and the Corporate Services Fee Schedule.

Important: OTC Markets Group adopted significant amendments to the OTCQX Rules effective April 6, 2026 (Version 11), which raised several admission standards; companies already on OTCQX as of that date have transition relief on certain provisions until April 6, 2027. The eligibility tables below reflect the current, as-amended rules.

---

5. Initial Eligibility: OTCQX, OTCQB, and OTCID

The first practical step in tier selection is an eligibility self-audit against each tier's admission criteria.

5.1 Threshold Disqualifiers (OTCQX and OTCQB)

Shell companies and blank-check companies cannot be admitted (SPACs are evaluated case-by-case at OTC Markets' discretion), and companies in bankruptcy or reorganization proceedings are ineligible. For a DPO issuer this is rarely a problem — the whole point of the DPO is to build a real operating public company — but companies with a shell in their history should raise it with counsel early.

5.2 Reporting Status (All Tiers)

Every tier from OTCID upward requires the company to fit a recognized reporting category and be current in all reporting obligations. Under the OTCQX Rules for U.S. Companies these are: (a) SEC Reporting Company or Regulation A Reporting Company; (b) a bank filing reports with its bank regulator; or (c) a company exempt from SEC registration reporting under the Alternative Reporting Standard. (International companies listed on a Qualified Foreign Exchange qualify under the parallel international rulebooks.) These categories map directly onto the pathways in Section 3.

5.3 OTCQX and OTCQB — Admission Criteria (Current Rules)

The table below reflects the OTCQX Rules for U.S. Companies (V11, effective April 6, 2026) and the OTCQB Rules (V6, effective April 6, 2026):

Requirement	OTCQX (U.S. Companies)	OTCQB
Shell / blank-check / bankruptcy	Prohibited (SPACs considered case-by-case under Section 1.3 with extra criteria: $20M public-float market value, $5.00 bid, SEC reporting, active pursuit of a combination, de-SPAC within 18 months)	Shell/blank-check companies and companies in bankruptcy ineligible
Penny-stock exemption	Required — see 5.4	Not required
Bid price (admission)	$0.25 per share ($1.00 for banks) at the close on each of the 30 consecutive calendar days before admission; conditional admission possible where there was no prior U.S. public market, with the test then met for 30 days post-admission	$0.01 minimum bid
Market capitalization	**$25 million** on each of the 30 consecutive calendar days before admission (look-back waivable at OTC Markets' discretion where there was no prior public market, with the $25M then maintained for 30 days post-admission)	No minimum
Public float	Market value of public float of at least **$5 million**, plus either (1) float ≥ 20% of the class, or (2) float between 10% and 20% together with total assets of $50 million and stockholders' equity of $10 million	Freely traded public float ≥ 10% of the class
Beneficial shareholders	At least **100** beneficial shareholders each owning ≥ 100 shares	At least 50 beneficial shareholders each owning ≥ 100 shares

Requirement	OTCQX (U.S. Companies)	OTCQB
Financial statements	Audited annuals with an opinion that is not adverse, disclaimed, or qualified; PCAOB-registered auditor (Regulation A companies exempt from the PCAOB requirement for *initial* eligibility only); U.S. GAAP; unaudited interims permitted with balance sheet, income statement, and cash-flow statement	Audited annual financials (PCAOB audit for U.S. companies); interims
Market makers	Proprietary priced quotes by two market makers on OTC Link ATS, with a phase-in: at least one upon admission (or within three business days if admitted via an OTC Markets Initial Review) and two within 90 days	Form 211 clearance / market-maker quotation
Governance	At least two independent directors; audit committee of **at least two members** with a majority independent; annual shareholder meetings with annual financials available 15 days prior; proxy distribution rules. Companies with no prior U.S. public market may phase in the director/committee requirements over up to one year	Officer certification; officer, director, and control-person disclosure
Transfer agent	Must retain a transfer agent participating in the Transfer Agent Verified Shares Program and authorize it to share authorized/outstanding share data and issuance history with OTC Markets	Same for U.S. companies
Banks (additional)	Total assets ≥ $100 million, stockholders' equity ≥ $4 million, and an approved Corporate Broker	—

"Public Float" and "Affiliate" are defined terms: an affiliate includes officers, directors, controlling persons, 10%+ beneficial owners, and persons controlling a 10%+ owner, and affiliate-held shares are excluded from float.

5.4 The Penny-Stock Exemption Tests (OTCQX Only)

Under Section 1.1(A) of the current OTCQX Rules, based on audited financial reports dated within 15 months of admission, the applicant must report either:

1. **Net tangible assets** of $2 million if the company has been in continuous operation for at least three years, or $5 million if in continuous operation for less than three years (an interim audited balance sheet dated within 135 days of admission may be used); **or**
2. **Average revenue** of at least $6 million for the last three years (requires at least three years of operations and reported revenue).

A company that meets neither test may qualify **conditionally** until publication of its next annual report if each applying class of securities has a minimum bid price of $5.00 and the company provides interim unaudited financials demonstrating, to OTC Markets Group's satisfaction, that it will meet one of the two tests by that next annual report. A conditionally admitted company must continuously maintain the $5.00 bid price. (Companies already on OTCQX as of April 6, 2026 become subject to the revised test effective April 6, 2027.)

5.5 OTCID Criteria

OTCID (governed by the OTCID Rules, v1.0) is deliberately minimal: satisfy a recognized reporting standard, provide audited annual financial statements plus interims, publish a management certification through OTCIQ.com, maintain a verified company profile, pay the applicable fees, and respond to OTC Markets Group's requests (including Personal Information Forms and background-check authorizations for officers, directors, and control persons). There are no bid-price, market-cap, shareholder-count, or governance thresholds, making OTCID the natural landing spot for a first-time DPO issuer that has not yet built the metrics for OTCQB or OTCQX.

5.6 Staying On: Continued Qualification and Removal (OTCQX)

Admission is not the finish line — the current OTCQX Rules impose ongoing quantitative standards, with defined cure periods:

- **Ongoing bid price:** minimum $0.10 per share ($1.00 for banks) as of the close on at least one of every 30 consecutive calendar days.
- **Ongoing market capitalization:** at least $10 million on at least one of every 30 consecutive calendar days.
- **Market makers:** at least two publishing proprietary priced quotations on OTC Link ATS at all times.
- **Cure periods:** generally 30 calendar days for most deficiencies; 45 days for delinquent periodic reports (15 days for Regulation A companies, per Rule 15c2-11); 90 days for loss of the penny-stock exemption; and 90 days (with 10 consecutive compliant trading days required) for bid-price, market-cap, or market-maker shortfalls.
- **Immediate removal triggers:** closing bid below $0.01 for five consecutive trading days; no proprietary priced quotes for four consecutive trading days; entry into bankruptcy or reorganization (including conservatorship or receivership); or, for conditionally qualified companies, loss of the conditional criteria.
- **Freshness of audits:** published audited financials must at all times be dated within the prior 18 months (16 months for Alternative Reporting companies, per Rule 15c2-11).

OTC Markets Group also retains discretion to remove a security at any time for public-interest concerns, and a change in control requires a new application and application fee within 20 days of notification. A company removed within the prior 180 days may request readmission if it meets all admission requirements and was not removed for nonpayment.

6. Pre-Offering Preparation: Corporate Housekeeping

Months before any filing, the company should complete the unglamorous work that determines whether the offering goes smoothly:

Entity and capitalization cleanup. Confirm good standing in every jurisdiction of organization and operation; reconcile the cap table down to the last option and convertible note; paper every prior issuance and verify that each historical raise fit a valid exemption (a defective prior offering can poison the DPO); adopt public-company-ready charter documents and bylaws.

Financial statements and audit. Engage a PCAOB-registered audit firm early — audit-readiness is the single most common source of delay. Two fiscal years of audited statements are required for S-1 (smaller reporting companies) and Reg A Tier 2. Companies with informal bookkeeping should budget significant time for cleanup before the auditors even start.

Governance build-out. Recruit independent directors if OTCQX is the target; adopt insider-trading, disclosure, and related-party policies; consider D&O insurance (brokers will quote public-company D&O once a quotation is imminent).

Transfer agent engagement. Appoint an SEC-registered transfer agent before the offering closes — the agent will maintain the shareholder register, issue book-entry (DRS) shares, and, for the OTC tiers, must participate in the Transfer Agent Verified Shares Program, which reports share-balance data to OTC Markets.

CUSIP and EDGAR onboarding. Obtain a CUSIP number for the class of securities (issued via CUSIP Global Services; a few hundred dollars). Obtain SEC EDGAR filer codes (Form ID) — free from the SEC, but you will pay an EDGAR filing agent to convert and file documents (see Section 13).

Offering mechanics. Decide on escrow arrangements, minimum/maximum offering size, subscription processing (increasingly handled by online DPO platforms or broker-dealers acting as administrative agents), and anti-money-laundering / bad-actor (Rule 262 / Rule 506(d)) checks on all covered persons.

---

7. The Offering Itself: Selling Shares Directly to Investors

Once the S-1 is declared effective or the Form 1-A is qualified, the selling window opens. Practical realities of self-distribution:

Marketing within the rules. Under Reg A, general solicitation is broadly permitted, including pre-qualification “testing the waters” (with required legends). Under an S-1, offers must stay within the prospectus and permitted free-writing rules. All offering communications should be pre-cleared by counsel — the antifraud provisions of Section 10(b) and Rule 10b-5 apply to every tweet, webinar, and pitch deck.

Who sells. Officers and directors can generally sell without broker registration under Exchange Act Rule 3a4-1 if they meet its conditions (no transaction-based compensation, not associated with a broker, limited participation). Many issuers nonetheless engage a FINRA-member broker-dealer on a best-efforts basis (typically 1%–8% commission on funds raised, far below underwriting spreads) to access the broker's client network and handle compliance-sensitive functions.

Pricing. The company sets the price, typically supported by a valuation analysis. Overpricing is the classic DPO failure mode: it stalls the raise and sets up a broken post-quotation market. Pricing above $0.25 (for eventual OTCQX headroom) and structuring the share count so a $5.00 price is plausibly reachable later are common planning considerations.

Closing discipline. Track subscriptions against the stated minimum; hold funds in escrow until the minimum is hit if the offering is contingent; issue shares promptly through the transfer agent in book-entry form; and keep meticulous records of investor counts and share amounts — those numbers feed directly into the OTC and FINRA processes.

---

8. Building the Shareholder Base

A functioning OTC market needs breadth of ownership, and both OTC Markets and market makers look hard at distribution:

- Under the current rules, OTCQX requires **at least 100 beneficial round-lot holders** (100+ shares each), and OTCQB requires **at least 50**.
- Market makers filing Form 211 commonly apply their own practical screens before they will sponsor a security. Illustrative thresholds seen in practice: **at least ~30 round-lot shareholders, at least 1,000,000 total shares outstanding, and at least 250,000 free-trading shares.** These are not FINRA rules — they are the market maker's own diligence and policy standards, and each firm sets its own; confirm the sponsoring firm's requirements directly.
- Concentration matters as much as count. Fifty holders where three insiders own 95% of the stock produces no real float. Aim for genuine dispersion among unaffiliated investors, since affiliate-held and family-held shares are excluded from "public float."

A DPO is uniquely suited to this requirement because it creates dozens or hundreds of direct, unrestricted holders in one motion — one of its structural advantages over a private placement followed by a registration.

---

9. Rule 15c2-11, FINRA Rule 6432, and the Form 211 Process

No broker-dealer may publish quotations in a non-exchange-listed security in a quotation medium until the information requirements of SEC Rule 15c2-11 are satisfied, and FINRA

Rule 6432 is the mechanism by which member firms demonstrate that compliance to FINRA. Following the SEC's 2020 overhaul of Rule 15c2-11 and FINRA's conforming amendments to Rule 6432 (adopted in Regulatory Notice 21-33, effective September 28, 2021), there are two ways into the quoted market:

Path A — OTC Markets as Qualified Interdealer Quotation System (Qualified IDQS)

OTC Markets Group's OTC Link ATS operates as a Qualified IDQS. When it conducts the initial information review for a security (an "Initial Review," typically in conjunction with an OTCQX or OTCQB application), it makes a publicly available determination of Rule 15c2-11 compliance, submits a **modified Form 211** to FINRA for that review, and files a daily security file with FINRA summarizing all securities for which it makes such determinations. Individual market makers may then rely on the Qualified IDQS's publicly available determination and begin quoting **without filing their own Form 211**. For OTCQX companies admitted via an Initial Review, the rules build in the phase-in described in Section 5.3: one market maker quoting within three business days of admission and two within 90 days.

Path B — A Market Maker Files the Standard Form 211

Where the issuer is not going through an OTC Markets Initial Review (for example, an OTCID-bound issuer) or a firm chooses to conduct its own review, a sponsoring market maker performs the Rule 15c2-11 information review itself and files the **standard electronic Form 211** with FINRA through FINRA Gateway (the electronic form replaced the paper version in October 2017; firm users need Submit entitlement from their Super Account Administrator). Key mechanics drawn from FINRA's published guidance:

- **Form structure.** The electronic Form 211 consists of a cover page and five sections: (1) issuer and security information (name, contact information, total shares outstanding, and similar data); (2) the issuer information required by the applicable paragraph of Rule 15c2-11(a) (prospectus, Reg A offering circular, current reports, or the catch-all current-information package); (3) the supplemental information required by Rule 15c2-11(b)(1)–(b)(3) (including what the firm knows about the issuer, the source of the security, and any relationship to insiders); (4) supplemental information; and (5) the firm's certification.
- **Documents on EDGAR or a Qualified IDQS site.** Where the underlying issuer reports are publicly available on EDGAR or through a Qualified IDQS's website, the filing firm may identify the reports relied upon rather than attaching copies — one of the burden-reducing changes FINRA adopted in 2021.
- **Processing before quoting.** A member must receive notification from FINRA that the standard Form 211 has been **processed** before initiating or resuming quotations, and before entering a priced quotation. FINRA's OTC Compliance Unit reviews the filing and issues comment requests; it may decline to process a form that is incomplete, outdated, or misleading, or where the issuer fails to respond to comments. In practice this review commonly takes several weeks to a few months, depending on comment rounds.

- **No issuer filing; no compensation.** The issuer cannot file Form 211 itself, and under Rule 15c2-11's anti-fraud framework and FINRA guidance a market maker cannot be compensated for filing it — the firm acts because it anticipates trading revenue. Any "pay-for-211" arrangement is a red flag.
- **Exceptions.** Rule 15c2-11 contains exceptions that relieve a firm of the Form 211 obligation, including quotations representing unsolicited customer orders and the **"piggyback" exception** for securities that have been the subject of regular and continuous quotations (which is why, once one firm's Form 211 clears and quoting begins, additional market makers can join without new filings so long as the issuer's information remains current and publicly available).

The issuer's job in Path B is to deliver a complete, current, internally consistent information package to the sponsoring market maker — financials, share structure, officer/director/control-person details, business description, offering documents, and shareholder records — and to respond quickly to FINRA comment cycles relayed through the firm. Cultivating the market-maker relationship early, ideally during the offering, prevents the awkward gap where the raise is closed but no one will sponsor the quotation. Once quoting begins, the issuer requests its ticker via FINRA's OTC Equity Symbol Request process (handled through FINRA Gateway by the member firm).

---

10. OTC Markets Application, Review, and Approval

The tier application is submitted through OTC Markets' online system (with disclosure managed through the OTCIQ.com issuer portal). Using the published OTCQB application process as the model, the sequence runs: submit the application and application fee → complete initial eligibility review with the assigned OTC Markets analyst (who may request supplemental items such as updated financials, Personal Information Forms, and background-check authorizations for officers, directors, and control persons) → post required disclosure through OTCIQ.com or EDGAR → submit a Company Update Form so the Company Profile is verified, current, and complete → post the initial certification signed by the CEO or CFO (verifying officers, directors, affiliates, and advisors) → secondary review by OTC Markets compliance → payment of the annual fee → trading begins on the tier under the assigned ticker. OTCQX applicants work through the parallel OTCQX process, including the management certification and, where applicable, sponsor/advisor arrangements.

Ongoing tier status then depends on the continued-qualification standards summarized in Section 5.6 and the disclosure obligations in Section 12.

---

11. DTC Eligibility: The Step Most Issuers Underestimate

A ticker symbol does not by itself make shares tradable in the modern market. Virtually all street-name trading settles through the Depository Trust Company (DTC). Until the security is **DTC-eligible**, most retail brokers cannot accept deposits of the shares or settle trades electronically, leaving the "public" company effectively frozen.

DTC eligibility must be sponsored by a DTC participant (a clearing broker-dealer) — the issuer cannot apply directly. The sponsoring participant submits the eligibility package (offering documents, opinion of counsel on free tradability, transfer-agent confirmations), and DTC reviews it, sometimes issuing deficiency letters. Issuers with prior shell history, toxic convertible financing, or questionable share issuances face "chills" or outright rejection. Budget for this step (see Section 13), start it as soon as the quotation path is clear, and keep the share-issuance record spotless — it is the document set DTC scrutinizes most.

---

12. Ongoing Compliance and Disclosure Obligations

Life after admission depends on the pathway chosen:

Regime	Ongoing Obligations
SEC reporting (post-S-1, after Form 8-A or Section 15(d))	Annual 10-K, quarterly 10-Qs, current 8-Ks; Section 16 and beneficial-ownership filings if registered under Section 12; XBRL tagging; annual audit
Regulation A Tier 2	Annual 1-K (audited; under the OTCQX Rules, ongoing Reg A audits must be by a PCAOB-registered auditor), semiannual 1-SA, current 1-U; for OTCQX companies, a Form 1-U quarterly disclosure covering semiannual-report content within 45 days of the first and third fiscal quarter ends, plus proxies filed on Form 1-U; exit report 1-Z
Alternative Reporting Standard	Annual and quarterly disclosure through OTCIQ.com per the tier's Disclosure Guidelines; audited annuals dated within the prior 16 months at all times; material-events disclosure
All OTCQX/OTCQB/OTCID issuers	Annual management certifications; Company Profile verified and updated at least every six months; prompt disclosure of material news through OTCIQ.com or an integrated newswire; prompt disclosure of convertible-debt arrangements (including purchase agreements, notes, and irrevocable transfer-agent instructions); annual tier fees (assessed for calendar-year periods beginning January 1, prorated in the first year); compliance with continued-eligibility standards

Corporate actions — FINRA Rule 6490 and Rule 10b-17. OTC-quoted issuers must give FINRA at least 10 days' prior notice of dividends, stock splits, reverse splits, name changes, mergers, acquisitions, dissolutions, changes in the nature of securities, bankruptcies, and liquidations, using FINRA's Issuer Company-Related Action Notification Form (available on finra.org). FINRA processes these actions — and can deny processing under Rule 6490 where a filing appears deficient or connected to potentially manipulative conduct — and charges escalating fees for late notice, so calendar these deadlines alongside the disclosure calendar. OTCQX companies are contractually obligated under the OTCQX Rules to make these FINRA notifications.

Late filings. SEC and Reg A reporting companies file Form 12b-25 on EDGAR when a report will be late; Alternative Reporting and bank reporting companies must post a Notification of Late Filing through OTCIQ.com within one business day of the due date, which extends a quarterly deadline by 5 days and an annual deadline by 15 days.

Falling out of compliance triggers demotion down the tier ladder after the applicable cure periods (see Section 5.6) — OTCQB companies that lapse fall to OTCID or Pink Limited, with immediate consequences for tradability and broker acceptance.

---

13. Cost Breakdown: What a DPO Actually Costs

This section aggregates the real-world cost centers of a DPO through OTC quotation. Figures are typical U.S. market ranges as of mid-2026 for small-cap issuers; every engagement varies with complexity, cleanliness of records, and offering size. Always obtain current quotes — several of these fees change annually.

13.1 Two Kinds of Costs: Mandatory Regulatory Charges vs. Negotiable Professional Fees

DPO budgeting becomes much clearer once the costs are sorted into two fundamentally different buckets. **Mandatory regulatory and quasi-regulatory charges** are fixed by statute, rule, or a published fee schedule — no one can negotiate them, and they are the same for every issuer of a given size and pathway. **Professional and service-provider costs** are set by the market — every one of them can be negotiated, competitively bid, or structured as a flat fee, and they account for the overwhelming majority of the total budget.

Table A — Mandatory Regulatory and Quasi-Regulatory Charges

Charge	Who Sets It	Amount
SEC registration fee (Form S-1 registered offerings only)	SEC, Section 6(b); annual fee-rate order	$138.10 per $1,000,000 of maximum aggregate offering price (FY2026 rate)
SEC fee on Form 1-A (Regulation A)	—	**$0 — Regulation A offering statements carry no SEC filing fee**
EDGAR filer codes (Form ID)	SEC	Free
FINRA Form 211	FINRA Rule 6432 / SEC Rule 15c2-11	**No charge to the issuer — and FINRA rules prohibit the market maker from collecting any fee from the issuer for filing Form 211**

Charge	Who Sets It	Amount
FINRA corporate-action processing (Rule 6490)	FINRA fee schedule	Fixed fees per action, escalating sharply for late notice
OTC Markets application and annual tier fees	OTC Markets Corporate Services Fee Schedule	OTCID ≈ $3,500 application + $8,040/yr; OTCQB ≈ $6,000 application + $16,500/yr; OTCQX ≈ $6,000 application + $26,880/yr (per recent published sources; confirm current schedule)
State blue-sky filing fees	Each state's securities statute	Registration or notice-filing fees per state (Reg A Tier 2 notice filings typically a few hundred to ~$2,000 per state; S-1/OTC state registrations vary)
CUSIP assignment	CUSIP Global Services published fee	~$500 – $1,000 one-time
State franchise taxes / registered agent	State of organization	Statutory amounts

Table B — Negotiable Professional and Service-Provider Costs

Cost	Typical One-Time / Initial	Typical Ongoing (Annual)
Securities legal counsel	$40,000 – $150,000+ (S-1); $30,000 – $100,000 (Reg A Tier 2)	$15,000 – $60,000
Accounting cleanup / PCAOB audit	$15,000 – $75,000 (two years, small issuer)	$12,000 – $50,000 audit + $5,000 – $25,000 interim reviews
EDGAR filing agent (EDGARization/XBRL)	$1,500 – $10,000 for the offering document	$3,000 – $15,000 across periodic filings
Transfer agent	$500 – $2,500 setup	$2,000 – $12,000
Form 211 information-package support (issuer's own counsel/consultants — never payment to the market maker)	$5,000 – $25,000	—
DTC eligibility (sponsoring participant + counsel)	$5,000 – $25,000	—

Cost	Typical One-Time / Initial	Typical Ongoing (Annual)
Escrow / subscription platform / broker-dealer of record	Flat fees $5,000 – $50,000, and/or 1% – 8% of funds raised	—
D&O insurance (optional but advisable)	—	$10,000 – $50,000+
Marketing / investor relations	$10,000 – $100,000+ (offering-dependent)	Variable

The asymmetry is striking: for a $10 million Reg A Tier 2 DPO, the truly mandatory federal charges can total **zero dollars** at the SEC and FINRA level, with only OTC Markets tier fees, modest state notice fees, and the CUSIP charge fixed — everything else on the invoice is a negotiated professional fee. For an S-1 of the same size, the only added mandatory federal charge is a ≈ $1,381 registration fee. Issuers should therefore direct their cost-control energy at Table B: competitive bids on the audit, flat-fee legal engagements, and transfer-agent contracts with capped exit fees move the total far more than anything in Table A.

Realistic all-in totals: a lean Reg A Tier 2 or S-1 DPO landing on OTCID or OTCQB commonly runs **$100,000 – $250,000** through first trade, with **$40,000 – $120,000** in annual carrying costs thereafter; an OTCQX-caliber launch with full governance build-out runs meaningfully higher. Companies raising under roughly $1–2 million should think hard about whether the fixed-cost load is proportionate.

13.2 Legal Fees (Negotiable)

Securities counsel is normally the largest single line item. The work spans offering-structure advice, drafting the S-1 or Form 1-A (risk factors, MD&A, business section), responding to SEC comment letters, blue-sky compliance, exemption analysis of all prior raises, the Rule 15c2-11 information package, the OTC Markets application, legality and free-tradability opinions (needed for the transfer agent, DTC, and OTC Markets), and ongoing reporting support. Drivers of cost: number of SEC comment rounds, messiness of the cap table, prior-offering defects, number of states, and whether the company drafts its own business sections. Flat-fee arrangements for Reg A offerings are increasingly common; hourly S-1 engagements at boutique securities firms typically bill $350–$800/hour.

13.3 Accounting and Auditing (Negotiable)

Two distinct spends:

- **Audit (PCAOB-registered firm).** Required for S-1, Reg A Tier 2, and the audited-annual requirement of every OTC tier. A clean, small operating company's two-year initial audit typically costs $15,000–$50,000; complex revenue recognition, inventory, subsidiaries, or restatements push it to $75,000+. Recurring annual audits for small OTC issuers generally run $12,000–$50,000.
- **Outside accounting / audit-readiness.** Converting informal books to GAAP, building supporting schedules, and drafting footnotes — often another $5,000–

$30,000 up front, plus ongoing bookkeeping/CFO-for-hire services. Interim financial statements (reviewed or unreviewed depending on regime) add quarterly or semiannual cost.

Under-budgeting here is the number-one cause of blown timelines: auditors cannot start until the books are auditable.

13.4 SEC Filing Fees (Mandatory — S-1 Only)

The SEC's Section 6(b) registration fee applies to **registered** offerings — a Form S-1 registration statement pays the fee on the maximum aggregate offering price. **A Regulation A offering statement on Form 1-A pays no SEC filing fee at all** — this is one of Regulation A's built-in cost advantages, since qualification is an exemption process rather than a registration. **For fiscal year 2026 (October 1, 2025 – September 30, 2026), the S-1 rate is $138.10 per $1,000,000 registered**, down from $153.10 in fiscal 2025. Examples at the FY2026 rate:

Offering Size (Form S-1)	SEC Registration Fee	Same Offering on Form 1-A
$5,000,000	≈ $691	$0
$10,000,000	≈ $1,381	$0
$20,000,000	≈ $2,762	$0
$75,000,000	≈ $10,358	$0 (Tier 2 maximum)

The rate resets every October 1 — verify the current rate at sec.gov before filing an S-1, and note that fee tables in old templates are a recurring source of filing errors. Obtaining EDGAR access codes via Form ID is likewise free for every issuer; only the third-party filing agent (Section 13.5) costs money.

13.5 EDGAR Filer and Filing-Agent Costs (Codes Free; Agent Negotiable)

Obtaining EDGAR access codes (CIK, CCC, passphrase) via Form ID is **free**. The real cost is the **EDGAR filing agent** — the service bureau that converts documents into EDGAR-compliant HTML and tags financial statements in XBRL/Inline XBRL. Typical pricing: full-service EDGARization of an S-1 or 1-A with exhibits runs $1,500–$6,000 (more with heavy amendments); XBRL tagging of financial statements adds roughly $500–$3,000 per filing depending on complexity; routine filings (8-Ks, 1-Us) cost $100–$500 each; annual and quarterly reports with XBRL commonly run $750–$3,500 each. Self-service software platforms (e.g., GoFiler-type tools) can cut these costs substantially for companies willing to handle conversion in-house. Budget $3,000–$15,000 per year for a typical small reporting issuer's filing-agent spend.

13.6 Transfer Agent Costs (Negotiable)

An SEC-registered transfer agent is mandatory in practice and required by OTC tier rules (including participation in the Transfer Agent Verified Shares Program). Typical small-issuer pricing: setup/onboarding of $500–$2,500; monthly maintenance of $150–$500 (scaling with holder count); per-certificate or per-transfer charges of $10–$50; DRS/book-entry statements, proxy/annual-meeting mailing services, and dividend processing billed separately. All-in, most small OTC issuers spend **$2,000–$12,000 per year**. Beware of transfer agents offering rock-bottom rates with punitive “deconversion” fees for leaving — negotiate exit terms at signing.

13.7 OTC Markets Fees (Mandatory per Fee Schedule)

The authoritative source is the **Corporate Services Fee Schedule published on www.otcmarkets.com** — every tier rulebook defines the Application Fee and Annual Fee by reference to that schedule, all fees are non-refundable, OTC Markets may modify them from time to time, and annual fees are assessed for calendar-year periods beginning January 1 (prorated in the first year based on the month of approval, with payment for the following year due by December 1). Reference points from recent public sources: For 2026, **OTCID** includes a **$3,500 application fee and $8,040 annually thereafter**; **OTCQB** includes **$6,000 application fee and a $16,500 annual fee**; **OTCQX** includes a **$6,000 application fee and a $26,880 annual fee**. A change in control triggers a new application and application fee, and requalification after removal carries its own fee. Because the schedule changes, pull the current Corporate Services Fee Schedule from otcmarkets.com before budgeting.

13.7a FINRA-Related Costs (Mandatory Where Applicable)

FINRA charges the issuer nothing for Form 211 — and, more than that, **FINRA rules prohibit the market maker from collecting any fee, payment, or other compensation from the issuer for filing Form 211**. The filing firm must act on its own initiative because it anticipates trading revenue; any consultant or firm proposing that the issuer “pay for a 211” is proposing a rule violation and should be shown the door. The issuer’s only Form 211-related spend is its own counsel’s work assembling the Rule 15c2-11 information package (a negotiable professional cost — Table B). The one recurring mandatory FINRA charge comes later: **corporate-action processing fees under FINRA Rule 6490** whenever the company announces dividends, splits, reverse splits, name/symbol changes, or similar actions — with materially higher fees for untimely notice, a recurring budgeting trap for reverse splits done on short timelines. Current amounts are published in FINRA’s fee schedules on finra.org.

13.8 Other Recurring and Situational Costs

FINRA/Form 211-related legal support (the issuer’s side of the information package); DTC eligibility sponsorship; annual state franchise taxes and registered-agent fees; press-release wire services for material news; IR website and shareholder communications; annual-meeting and proxy costs; and, for OTCQX aspirants, the cost of recruiting and compensating independent directors and standing up an audit committee.

---

14. Realistic Timeline

Phase	Duration
Corporate cleanup, audit, drafting	2 – 5 months
SEC review (S-1 or Form 1-A) through effectiveness/qualification	2 – 5 months
Selling period of the offering	1 – 9 months (issuer-controlled)
Form 211 / OTC Markets review and approval	1 – 3 months (can overlap with late selling period)
DTC eligibility	1 – 3 months (can overlap)
Total, filing to liquid trading	**~6 – 15 months typical**

The compressible variables are audit readiness and the selling period; the SEC, FINRA, and DTC review clocks are largely outside issuer control.

---

15. Common Pitfalls and How to Avoid Them

Defective prior offerings. An earlier "friends and family" round done without a valid exemption creates rescission risk and SEC comment problems. Fix it (rescission offers, disclosure) before filing, not after.

Overpricing the offering. The most frequent cause of failed DPOs. Price for completion and a healthy aftermarket, not for a headline valuation.

Treating the shareholder count as a formality. Fifty statutory holders concentrated in insiders' relatives will not satisfy market makers or produce float. Distribution is the product.

Ignoring DTC until after the ticker. A quotation without DTC eligibility is a car without wheels. Start the sponsorship conversation during the offering.

Paying a market maker for Form 211. Prohibited. Any consultant proposing to "buy" a 211 filing is proposing a securities-law violation.

Under-scoping the audit. Engage the PCAOB firm at the very start; the audit is on the critical path of everything else.

Promotional excess. Aggressive stock promotion around thin OTC securities draws SEC and FINRA attention, trading halts, and Caveat Emptor flags. Keep all communications inside the disclosure documents and counsel-reviewed.

Letting compliance lapse post-quotation. Missed filings cascade quickly into tier demotion, broker restrictions, and DTC chills. Calendar every deadline from day one.

---

16. The Long Game: Uplisting to a National Exchange

For many issuers the OTC quotation is a waypoint. A typical uplisting plan: maintain 12–24+ months of clean reporting and trading history; grow into the exchange's quantitative standards (Nasdaq Capital Market initial listing generally requires, among alternatives, a $4.00 bid price — or $2.00/$3.00 under certain closing-price alternatives — plus stockholders'-equity/market-value/income tests, 1,000,000 unrestricted publicly held shares, 300+ round-lot holders, and three market makers, alongside full governance requirements); build the independent board and committees in advance (an OTCQX stint forces much of this early); and consider a concurrent underwritten raise at uplisting, which is common because exchange listing unlocks institutional demand. Companies that used the DPO-to-OTC route as designed arrive at this step with audited history, seasoned disclosure, and an existing shareholder base — precisely the profile exchanges and bankers want.

---

17. Glossary of Key Terms

Alternative Reporting Standard (ARS): OTC Markets' disclosure framework allowing non-SEC-reporting companies to qualify for quotation by publishing financial and company information on the OTC Markets platform.

Blue-sky laws: State securities laws requiring registration or exemption of offerings (and sometimes secondary trading) at the state level.

CUSIP: The nine-character identifier assigned to a security, required for clearing, settlement, and transfer-agent operations.

DTC eligibility: Acceptance of a security into the Depository Trust Company system, enabling electronic book-entry settlement through brokers.

EDGAR: The SEC's Electronic Data Gathering, Analysis, and Retrieval system, through which all SEC filings are made.

Form 211: The form a market maker files with FINRA under Rule 6432 demonstrating compliance with Rule 15c2-11 before initiating quotations in a non-exchange-listed security.

Market maker: A broker-dealer that publishes bid and ask quotations and stands ready to trade a security for its own account on OTC Link ATS.

PCAOB: Public Company Accounting Oversight Board; audits for SEC-registered and Reg A offerings must be performed by PCAOB-registered firms.

Penny stock: Generally, a low-priced equity not meeting the exemptions of Exchange Act Rule 3a51-1; triggers additional broker sales-practice obligations.

Public float: Unrestricted shares excluding those held by affiliates, family members of officers/directors, and family members of 10%+ beneficial owners.

Rule 15c2-11: The SEC rule conditioning broker-dealer quotations on the availability and review of current issuer information.

Transfer Agent Verified Shares Program: OTC Markets' program under which participating transfer agents report authorized and outstanding share data directly to OTC Markets.

Uplisting: Moving a security's trading venue from the OTC markets to a national exchange such as Nasdaq or the NYSE.

Primary Sources and Further Reading

OTC Markets Group (www.otcmarkets.com): OTCQX Rules for U.S. Companies (V11, effective April 6, 2026); OTCQX Rules for International Companies; OTCQB Rules (V6, effective April 6, 2026); OTCID Rules (v1.0); the OTCQX, OTCQB, and OTCID Disclosure Guidelines; the Corporate Services Fee Schedule (otcmarkets.com/corporate-services/fee-schedule); the OTCQB Application Guide for U.S. Companies; and the Transfer Agent Verified Shares Program materials.

FINRA (www.finra.org): FINRA Rule 6432 (Compliance with the Information Requirements of SEA Rule 15c2-11) and the electronic Form 211 page under Filing & Reporting / OTC Reporting Facility; FINRA Rule 6490 and the Issuer Company-Related Action Notification Form; Regulatory Notice 14-29 (Form 211 structure and 15c2-11 exceptions); Regulatory Notice 17-26 (electronic Form 211); and Regulatory Notice 21-33 (amended Rule 6432, Qualified IDQS modified Form 211 and daily security file). FINRA's OTC Compliance Unit handles Form 211 questions.

SEC (www.sec.gov): Securities Act Rule 15c2-11 (as amended 2020); Regulation A; Forms S-1, 1-A, and 12b-25; EDGAR Form ID; and the Section 6(b) Filing Fee Rate Advisory for Fiscal Year 2026 ($138.10 per million, effective October 1, 2025).

Additional context on typical service-provider pricing was drawn from current market commentary. Fee schedules, tier rules, and regulatory requirements change frequently — verify all figures against the primary sources above before relying on them.