

TE 250: Week 11

IP, Building Teams & Business Formation

Mark Karassek
mkarasek@illinois.edu



Technology Entrepreneur Center



Cozad Demo Day Thurs | Apr 13

The big day is almost here!
Come see the latest UIUC
student startups as they com-
pete for over \$300k in funding
and prizes.

RSVP: go.illinois.edu/cozad



Cozad Finals Event Wed | Apr 19

Join the webinar and see the
TOP SIX student startup teams
pitch at DPI in Chicago. The Grand
Prize and other top placement
prizes will be awarded!

RSVP: go.illinois.edu/cozad



Speaker Mike Quinn Wed | Apr 19

Join us to hear from entrepreneur
Mike Quinn, who will speak to us
virtually from the UK, about the
hard-won lessons of failing to win.
Moderated by Dr. Gerald O. Wilson.

RSVP: go.illinois.edu/mikequinn



Celebrate With Us! Wed | Apr 26

We'll be awarding the **remaining Cozad prizes, the \$20,000 Illinois Innovation Award, the \$10,000 Fiddler Innovation Fellowship, and more!** Food will be provided.

RSVP: go.illinois.edu/apr26

Agenda

- Review rest of semester
- Team formation
- Business formation
- Pitch presentation examples
- Petal diagram presentations

Looking at the rest of the semester...

- Should be accumulating interviews and documenting them on the tracker. How are they impacting your vision for a solution?
- Topics still to be covered:
 - ~~Week 10: Market segmentation and sizing with breakout (10pts)~~
 - Week 11: Venture formation, etc with breakout (10pts)
 - Week 12: IP and Finance, Making a pitch with breakout (10pts)
 - Week 13: Alternate activity – combined with TE360/460 – 1 hr class (10pts)
 - Week 14/15: Pitching
- Final Presentations (2): 4/26 & 5/3
- Attendance mandatory for both final presentation sessions
 - Failure to attend without excused absence results in loss of significant participation points

Why form a business?

Liability

- Businesses can be set up to be distinct from their owner(s)
- If set up correctly, actions taken on behalf of the biz do not expose owners to liability

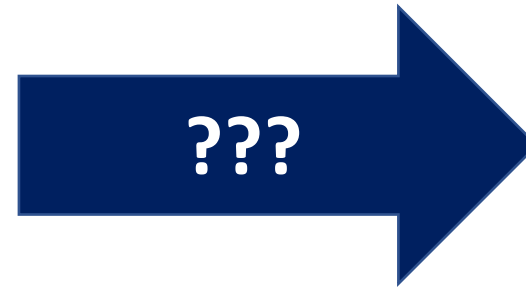
Legacy

- Businesses can evolve, change hands,...live forever

NOKIA



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Company Profile

Name	Kongo-Gumi Co.,Ltd.
Head Office	1-14-29 Shitennoji, Tennoji-ku, Osaka
Founded	578 (Asuka Era, Year 6 under Bidatsu Emperor, 30th Emperor of Japan)
Business	Design and construction of shrines and temples, restoration and repair of cultural heritage buildings.

Additional Benefits

- Legal tax shelter
- Operational structure
- Image / Perception
- Ability to raise capital

When is the right time to form?

- No sooner than is necessary
 - Capital
 - Award
 - IP assignment
- Upon agreement for a larger group
 - To prevent renegotiation

Considerations

- Legal liability
- Tax implications
- Formation & admin costs
- Flexibility
- Future needs

Entity Types

1. Sole Proprietorship
2. Partnership
 - LP, LLP, LLLP
3. Corporation (Inc., Co. or Corp.)
 - Subchapter S Corp.
 - C-Corp.
 - Not For Profit
 - Benefit Corp
4. Limited Liability Company
 - Single Member LLC
 - L3C
 - LLP, LLLP

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Not-for-profits

An organization that uses surplus revenues to further achieve its purpose or mission, instead of distributing to stakeholders

- 501(c)3 of tax code
- Organizations:
 1. Charitable
 2. Religious
 3. Educational
 4. Recreational
- Contributions are tax deductible
- Not for profit \neq Not Profitable
- *Not for profit is a tax designation, not a way of doing business*



	Sole Proprietorship	General Partnership	S Corporation	C Corporation	Limited Liability Company	Single Member Limited Liability Company
Liability (Limited v. Personal)	An individual carrying on a business for profit.	Association of two or more co-owners carrying on a business for profit.	Limited liability for shareholders even if they participate in management.	Limited liability for shareholders even if they participate in management.	Combines limited liability provided by a corporation with pass through partnership tax treatment.	Limited liability for owners makes it a better choice than sole proprietorship unless cost of formation or maintenance is a controlling factor.
	Unlimited personal liability for the owner.	Partners have unlimited personal liability for partnership debts.				
Tax Implications	Single level of income tax.	Pass through tax treatment (partnership files form 1065 but all income and expenses pass through to individual partners on Schedule K-1).	Pass through tax treatment under most circumstances but not as complete as for the LLC.	Tax at both corporate and shareholder level - this double tax can be avoided to some extent by payment of reasonable salaries to shareholders in exchange for services actually rendered.	LLC files a partnership tax return (form 1065) with all income and expenses being passed through to individual owners of the LLC on a K-1.	Disregarded entity from an income tax perspective all income and expenses are reported on the sole member's tax return and no income tax return need be filed by the LLC.
	All income and expenses reported on Schedule C of the owner's 1040.					

	Sole Proprietorship	General Partnership	S Corporation	C Corporation	Limited Liability Company	Single Member Limited Liability Company
Complexity of Formation and Management	Relatively simple to start.	Relatively easy to start - partnership agreement is typically entered into but is not legally required.	Formation steps include filing Articles of Incorporation with the Secretary of State, filing Sub S election with the IRS, adoption of Bylaws and, usually, adoption of a Shareholder (buy-sell) Agreement.	Formation similar to S corp except Sub S election not filed with IRS.	Formation steps include filing articles of organization with the Secretary of State, contributing an appropriate amount of capital, and adopting an operating agreement.	Formation process similar to multiple-member LLC except that the operating agreement will likely be less complex.
	If business conducted other than under the name of the sole proprietor, assumed name publication needed.	Managed by the partners or as described in the partnership agreement.		Typically required for publicly traded corporations, businesses that require venture capital, or if a broad based stock option program is utilized.	Can be managed by the members or, more often, by managers selected by the members. Can also elect officers.	In addition to circumstances where a sole proprietorship would be considered, a single-member LLC is often used by a corporation or LLC as a subsidiary to insulate the liability associated with a particular line of business.
	Managed by the sole proprietor.	Problem: Any partner can bind the partnership.			Self-employment tax treatment may be less favorable than for S corp.	

	Sole Proprietorship	General Partnership	S Corporation	C Corporation	Limited Liability Company	Single Member Limited Liability Company
Capital - Effect on Ability to Raise Capital through Angel Investment, VC or IPO	Any transfer of the business would be of the underlying assets as opposed to a transfer of shares in the business.	Ability to raise capital is limited since most investors would prefer to invest in an entity offering limited liability.	Limit of 100 shareholders, only one class of stock is allowed, difference in voting rights is allowed, partnerships and corporations cannot be shareholders, only U.S. citizens and residents may be shareholders.	No limits on type or number of shareholders, different classes of stock allowed (common and preferred) thus enabling different priority for return of capital.	No limitation on the number of members, no limitation on who may invest, treatment of gain on distribution of appreciated property more favorable, different classes of ownership are allowed so there is the flexibility to provide for a priority return of capital to investors.	Outside investment allowed only if converted to a multi-member LLC.
	Capital needs - addressed through loan to sole proprietor.	LLC is almost always the better choice if partnership tax treatment is the goal.	Is easier to convert S corp to C corp than it is LLC to C corp in event venture capital is sought.	If venture capital is being sought, incorporation should be in the state of Delaware.	Often used to own commercial real estate.	

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Assembling A Team

Honest and Critical
evaluation of
oneself is key to
wise team building

Diverse skills are
required for
diverse roles

Complementary
personalities

Character counts

It's a matter of
respect

Build relationships
slowly, and when
the time comes
act swiftly.

The background of the slide features a series of thin, curved lines in shades of gray, creating a sense of motion and depth. These lines are more prominent on the left side and fade towards the right.

Components of the Team

1. Founders, Co-Founders
2. First Employees, Key Managers
3. Service Providers
4. Board of Directors/Advisors
5. Mentors
6. Investors



1. Founders and Co-Founders

- Founder implies single person who launched the business
- Co-Founder implies multiple founders or individuals brought on as partners at the outset of the business
- Co-Founders typically have complementary skill sets



1. Founders/Co-Founders

- Responsible for vision
- Must articulate vision and get buy-in from others
- Founder/Co-Founder is your most important title



2. First Employees, Key Managers

- Working in a startup is not for everyone
- It takes a strong will and stronger stomach
- Buy-in to the vision is key, it's more than just another job
- Be forthright about risks
- Ultimately, it's not about the size of the slice, it's about the size of the pie.



2. Evaluating Employees/Managers

- Would Mother approve?
- Can this person become my best?
- The top prospect scenario:
 - Does it instill panic or relief?



2. Recruiting the Best

- Finding and signing the best is one of your earliest and most important sales calls
- Be willing to share the rewards and power to get the right people
- Be careful about becoming “top-heavy”
- Beware of people unwilling to share early risks.



2. Building Out the Team

- Add to the mix as needs arise and time & funds permit
- Consider creative use of outside champions, part-time help and compensation packages when getting started
- Utilize your network to find the right people.



2. Termination

- You should know about personality, style, values, etc. within the early weeks
- Reduce liabilities early




3. Service Providers

- Outsourcing is NOT a dirty word
 - leave it to the experts!!!
- Ask about reduced rates or deferred payment options for start-ups
- Providers validate your concepts and provide a sense of confidence for potential investors
- Providers include:
 - Attorneys
 - Accountants
 - Consultants
 - Bankers.



3. Service Providers – Corporate Attorneys

- Early assistance in establishing legal form
- Later help with wide variety of business needs:
 - Contracts of all kinds
 - Alliances with other companies
 - Employment law.



3. Service Providers – IP Attorneys

- Early help in deciding what form of protection, if any, is appropriate
- Ongoing assistance obtaining and maintaining protection or negotiating licenses.



3. Service Providers – Accountants

- Help with initial business plan financials
- Ensure roll-outs are on target
- Act as or recommend CFO
- Introduce you to investors
- Produce audited statements.



3. Service Providers: Consultants/Agencies

- Market research
- Business plan preparation
- Technical assistance
- Product prototyping & development
- Business development
- Marketing plan development
- Sales implementation
- Recruiting

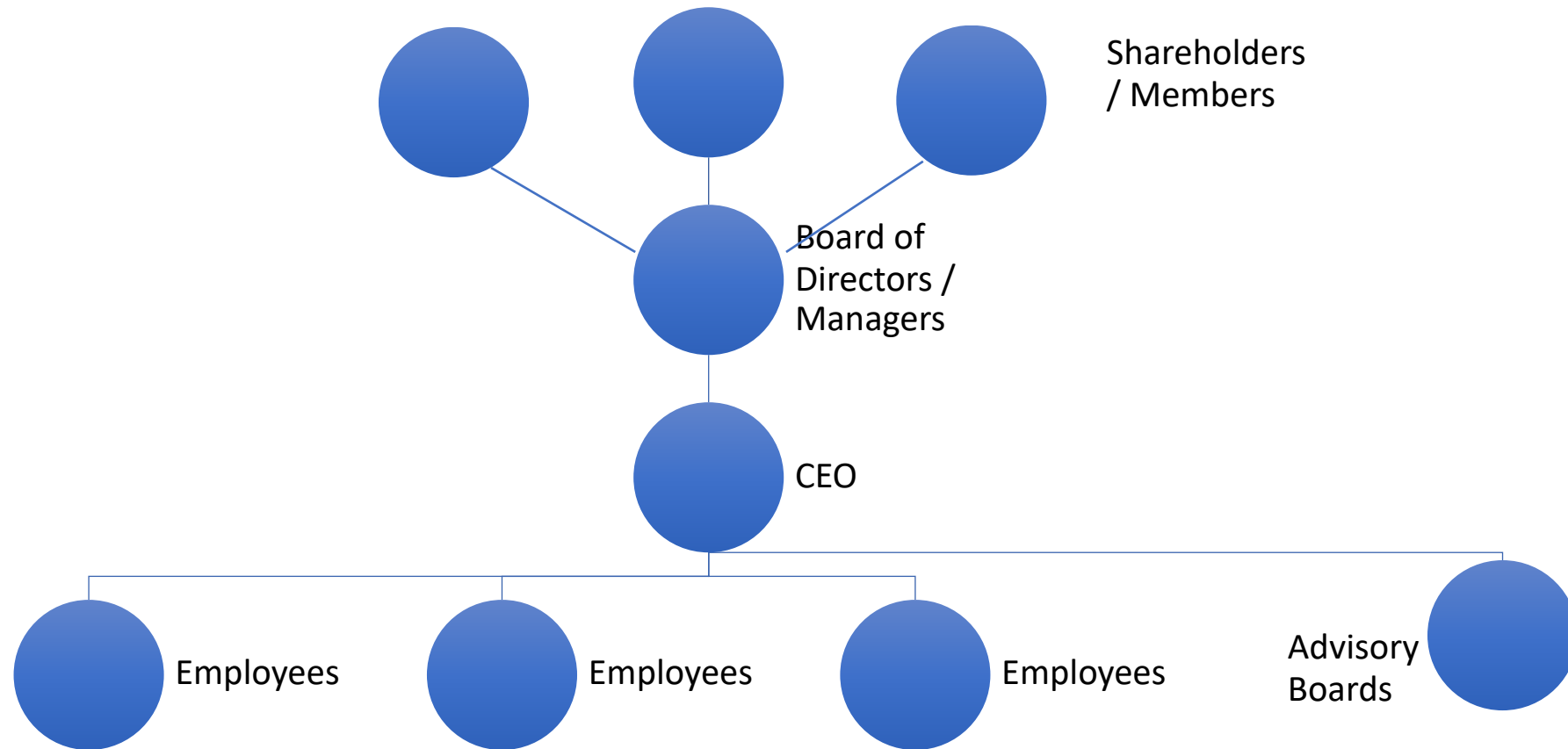
Provide value and leverage for founders.



4. Board of Directors / Advisors

- Concerned with the global view and direction of the company
 - Director is a fiduciary role and comes with certain legal obligations
 - Advisors provide expertise in a specific area, but have no legal role
 - Business Advisory Board
 - Scientific Advisory Board
 - Clinical Advisory Board
- Directors and Advisors are both part of building your brand
- Generally compensated in some way.

4. Board of Directors / Advisors





4. Filling Boards

- Investors will often require a seat on the Board of Directors
- Each member should bring specific expertise to the table
- Boards are part of building your brand ID
- Look for the ability and willingness to devote time
- Your Boards are more than just a formality – use them!



5. Mentors

- Most loosely defined, but often most influential component of your team
- Finding the right mentor involves chance
- Might be angel investors, successful entrepreneurs, faculty members... and not necessarily from your field
- Often motivated by passion or a sense of altruism, wanting to give back.



5. Mentors – defining the role

- Mentors act as a sounding board for all likes of issues and challenges
- There's a fine line between advising and running the show
 - Remember: it's still *your* company!




6. Investors

- Wide array of sources:
 - Friends, Family & Fools
 - Angels
 - Foundations, Specialty Funds
 - Government Initiatives (incl. non-dilutive)
 - Venture Capital
 - Strategics
 - Private Equity
- All money comes with strings attached
- Zero in on the “smart money.”



6. Investors: Smart Money

- Early round investors validate the concept and pave the way for later round investors
- Value can be found in the experience of early round investors
- Ability to support the company in future rounds
 - Syndicate
 - Contacts
- “Dumb” money that follows “smart” money is good



6. Investors: Points to Remember

- The earlier the investment, the greater the risk, therefore greater returns are expected
- \$\$\$ is the primary motivation
- Investors *always* look for the exit strategy.

Pitch Presentation Examples

Example from previous semester

- https://mediaspace.illinois.edu/media/t/1_6q6xzykw
- 31:00 – 41:00
- 48:00 – 1:00:00

Team Petal Diagram presentations

Getting ready for Week 12

- Topics for next week: IP, Venture Financing
- In-person Guest Speaker: Haven Allen, mHUB Chicago
- Team Assignment: Submit current customer interview tracker
- Complete your interviews
- Start thinking about your pitch deck

Guest Speaker:
Alex Ocampo,
Founder & CEO
Ganance

