

# TE 250: Week 11

## IP, Building Teams & Business Formation

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# Technology Entrepreneur Center

GRAINGER ENGINEERING



**Tues | Nov 7**  
**[go.illinois.edu/isew](https://go.illinois.edu/isew)**



**Fri | Nov 10**  
**Nominations Open**  
**[go.illinois.edu/iaa](https://go.illinois.edu/iaa)**



**Tues | Nov 7**  
**Application Deadline**  
**[go.illinois.edu/scs](https://go.illinois.edu/scs)**



**Wed | Nov 15**  
**Application Deadline for Spring**  
**[go.illinois.edu/ilee](https://go.illinois.edu/ilee)**

# Agenda

- Review rest of semester
- Team formation
- Business formation

## Example from previous semester

- [https://mediaspace.illinois.edu/media/t/1\\_6q6xzykw](https://mediaspace.illinois.edu/media/t/1_6q6xzykw)
- 31:00 – 41:00
- 48:00 – 1:00:00

# 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 11: Venture formation, IP, etc with breakout (10pts)
  - Week 12: IP and finance with breakout (10pts)
  - Week 13: Making a pitch with breakout (10pts)
  - Week 14/15: Final Pitching
- Final Presentations (2): 11/29 & 12/6
- 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

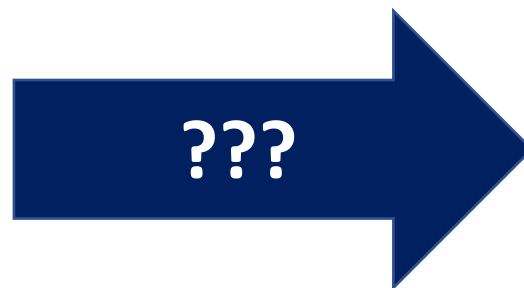
## Legacy

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

# NOKIA



**I** ILLINOIS





## 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*



	<b>Sole Proprietorship</b>	<b>General Partnership</b>	<b>S Corporation</b>	<b>C Corporation</b>	<b>Limited Liability Company</b>	<b>Single Member Limited Liability Company</b>
<b>Liability (Limited v. Personal)</b>	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.				
<b>Tax Implications</b>	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.					

	<b>Sole Proprietorship</b>	<b>General Partnership</b>	<b>S Corporation</b>	<b>C Corporation</b>	<b>Limited Liability Company</b>	<b>Single Member Limited Liability Company</b>
<b>Complexity of Formation and Management</b>	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
<b>Capital - Effect on Ability to Raise Capital through Angel Investment, VC or IPO</b>	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 several thin, curved lines in shades of gray, some solid and some dashed, creating a sense of motion and depth. A blue speech bubble shape is positioned on the left side, containing the title text.

# 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

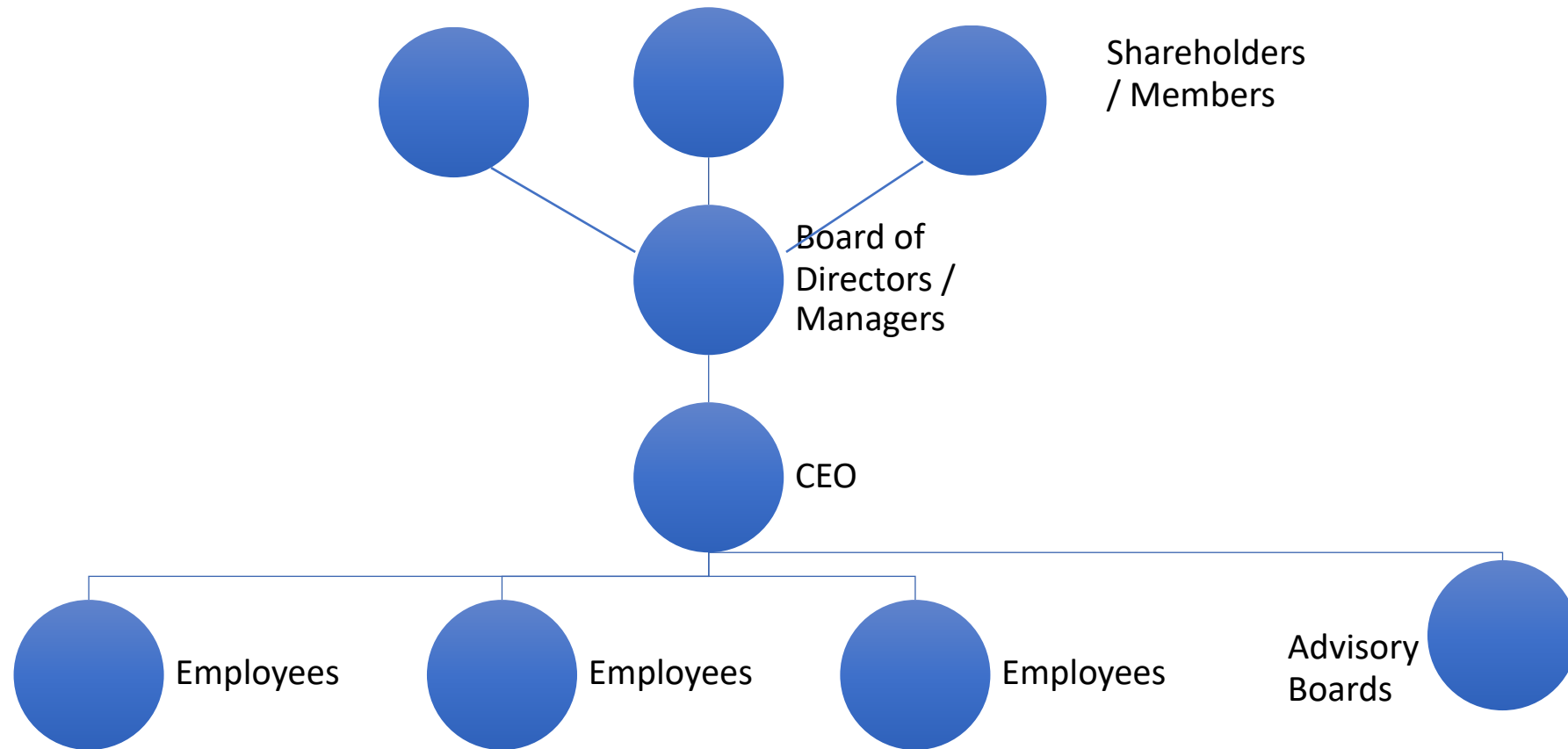
Provide value and leverage for founders.



## 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.

# Getting ready for Week 12

- Topics for next week: IP, Venture Financing
- Team Assignment: Needs Assessments
- Complete your interviews
- Start thinking about your pitch deck

# Team Breakout

Use the template on Canvas Week 11 to identify the skill sets your team would need to add to pursue the PetsRUs case.