

Contents

Chapter 1	Starting a New Business.....	1
1.01	Preliminary Considerations	5
	A. Joint Ventures.....	7
	B. Sole Proprietor.....	7
	C. Employment.....	8
1.02	Hiring Professionals.....	9
	A. Attorney	9
	1. <i>Selection Factors</i>	9
	2. <i>Ethical Issues</i>	11
	3. <i>Engagement Agreements</i>	13
	B. Accountant.....	13
1.03	Initial Client Interview	15
1.04	Planning for Control and Management	17
	A. Control Structure	17
	1. <i>Allocation of Financial Interests</i>	17
	2. <i>Allocation of Control</i>	18
	3. <i>Typical Structure</i>	19
	4. <i>Retaining Control</i>	20
	B. Management.....	20
1.05	Arrangements Prior to Forming Entity.....	22
	A. Formation Expenses.....	22
	B. Pre-Formation Subscription Agreements.....	22
	C. Pre-Formation Transactions by Promoters.....	23
1.06	Intellectual Property and Business Names.....	24
	A. Business or Trade Name	24
	B. Fictitious Business Name.....	25
	C. Identifying and Protecting Names and Marks	25
	D. Identifying, Protecting, and Owning Intellectual Property	26
1.07	Selecting the Form of Business Entity.....	29
	A. Choices in Forms of Entity for Emerging Companies.....	30
	1. <i>General Partnership</i>	30
	2. <i>Limited Partnership</i>	31
	3. <i>Corporation</i>	32
	4. <i>Limited Liability Company</i>	34

B.	Principal Non-Tax Considerations in Selecting the Form of Business Entity	35
1.	<i>Management and Control of the Business</i>	35
2.	<i>Liability of Owners for Business Obligations</i>	37
3.	<i>Transferability of Interests and Liquidity for Business Owners</i>	40
4.	<i>Ability to Raise Capital</i>	42
5.	<i>Administrative Requirements and Costs</i>	43
6.	<i>Continuity of Business</i>	46
7.	<i>Tax Considerations</i>	48
1.08	Choosing the Business Entity's Jurisdiction	48
A.	General Considerations in Choosing the State of Formation for the Business Entity	49
1.	<i>Formation of Business Entity in the State Where Operation Is Located</i>	49
2.	<i>Model and Uniform Laws Adopted by States</i>	50
3.	<i>Tax and Corporate Law Considerations</i>	50
B.	Advantages and Disadvantages of Some Popular Jurisdictions	51
1.	<i>Delaware</i>	51
2.	<i>Nevada</i>	52
3.	<i>California</i>	52
4.	<i>New York</i>	54
1.09	Forming and Organizing Corporations	55
A.	Preliminary Considerations	55
B.	State of Incorporation	55
C.	Articles of Incorporation and Organization	56
D.	Bylaws	56
E.	Filing of Articles of Incorporation	58
F.	First Meeting of Directors	58
G.	Miscellaneous	58
1.10	Owners' Agreements	59
A.	Background	59
B.	Future Issuances of Securities	60
C.	Directors and Officers	61
D.	Shareholders	63
E.	Terms of Employment and Buy-Sell Procedures	64
1.11	Corporate Directors' Responsibilities	65
A.	Oversight Responsibilities	65
B.	Fiduciary Duties	66
C.	Board Composition and Compensation	67
D.	Effect of Sarbanes-Oxley Act	68

1.12	Forming LLCs	69
A.	Introduction	69
B.	Types of LLCs	69
C.	Articles of Organization.....	71
D.	Operating Agreements	71
E.	Management and Control.....	73
F.	Members' Rights and Duties	74
G.	Buy-Sell, Admission, and Employment Agreements.....	76
H.	Licenses and Permits	77
I.	Post-Formation Matters	78
J.	Conversions	78
1.13	Facilities.....	79
A.	Preliminary Considerations	79
B.	Real Estate Lease Agreements.....	80
1.	<i>Term</i>	80
2.	<i>Rent and Other Assessments</i>	81
3.	<i>Security Deposit</i>	81
4.	<i>Space and Improvements</i>	81
5.	<i>Other Terms and Conditions</i>	82
1.14	Personal Property	82
1.15	Record Retention Policy.....	84
Chapter 2	Preparing a Business Plan	87
2.01	Preliminary Considerations	89
2.02	Purposes of a Business Plan.....	91
A.	Introduction	91
B.	Management Tool	92
C.	Capital Request	93
D.	Strategic Plan	93
E.	Private Placement Memorandum.....	94
2.03	Elements of Business Plan	96
A.	Executive Summary.....	99
B.	Table of Contents	100
C.	Business Description	100
D.	Identification of Opportunity/Target Market	102
E.	Offering	103
F.	Customers	104
G.	Assessment of Competition	105
H.	Management.....	106
I.	Risk	107
J.	Strategy	108

K.	Operations	109
L.	Financial.	109
M.	Appendix	110
2.04	Presentation of Business Plan	111
Chapter 3 Compensation.....		113
3.01	Stock Option Plans.	115
A.	Incentive Stock Options.	116
1.	<i>ISO Qualification Requirements</i>	116
2.	<i>Tax Treatment of ISOs</i>	118
3.	<i>Qualifying Dispositions of ISOs</i>	118
4.	<i>Disqualifying Dispositions of ISOs</i>	119
B.	Non-Qualified Stock Options.	120
1.	<i>Tax Treatment of Non-Qualified Stock Options</i>	120
2.	<i>Grant Date</i>	120
3.	<i>Exercise Date</i>	121
4.	<i>Sale or Other Disposition</i>	121
5.	<i>Employer Withholding and Reporting Obligations</i>	121
6.	<i>Employer Deduction</i>	123
C.	Key Considerations	123
1.	<i>Key Considerations—Stock Option Exercise Checklist</i>	125
2.	<i>Other Considerations</i>	127
3.	<i>TCJA and Section 83(i) of the Internal Revenue Code</i>	128
4.	<i>Potential Section 409A Pitfalls</i>	128
Chapter 4 Tax Aspects of Forming and Organizing a New Business.....		131
4.01	Preliminary Considerations	133
A.	Tax Planning Goals in Business Formation.	133
B.	Definitions	134
C.	Federal Income Tax Treatment of Businesses	134
D.	Scope of Discussion.	136
4.02	Tax Rates	136
4.03	Key Concepts	138
4.04	Electing Tax Treatment	139
4.05	Contributions to Capital	140
A.	C Corporations.	141
B.	S Corporations	143
C.	Partnership Contributions	144

4.06	Operations	147
A.	Gains, Losses, and Their Allocation	147
1.	<i>C Corporations</i>	147
2.	<i>S Corporations</i>	148
3.	<i>Partnerships</i>	149
B.	QBIs.....	151
C.	Research and Development	152
D.	Tax Accounting for Start-Ups	153
4.07	Distributions and Liquidations.....	155
A.	Corporations.....	156
B.	S Corporations	159
C.	Partnerships	161
4.08	Conclusion	162
Chapter 5 Tax Reporting and Compliance.....		163
5.01	Preliminary Considerations	165
A.	Tax Planning	166
B.	Tax Entity.....	167
C.	Tax Time Period.....	168
D.	Tax Accounting Method.....	169
5.02	Withholding and Estimated Tax Payments.....	171
A.	Withholding	171
1.	<i>Wage Withholding</i>	172
2.	<i>Social Security Taxes ("FICA")</i>	172
3.	<i>Federal Unemployment Tax ("FUTA")</i>	172
4.	<i>Federal Self-Employment Taxes</i>	172
5.	<i>Return and Deposit of Taxes</i>	173
B.	Estimated Tax Payments	173
5.03	Federal, State, and Local Tax Returns	175
A.	State and Local Taxes.....	175
B.	State and Local Property Taxes	175
C.	State and Local Sales Taxes.....	176
D.	State and Local Income Taxes	176
E.	Federal Income Taxes	178
F.	Corporations.....	178
G.	Individuals	179
Chapter 6 Accounting and Financial Reporting Issues.....		181
6.01	Preliminary Considerations	183
6.02	Accountant's Role in Assisting Emerging Companies.....	186

6.03	Accounting Elections	189
6.04	Financial Reporting	192
A.	Balance Sheet	192
1.	<i>Assets</i>	192
2.	<i>Liabilities</i>	194
3.	<i>Equity</i>	195
B.	Income Statement	196
1.	<i>Revenues</i>	196
2.	<i>Expenses</i>	197
3.	<i>Gains and Losses</i>	197
4.	<i>Articulation</i>	197
C.	Cash Flow Statement	198
1.	<i>Operating Activities</i>	198
2.	<i>Investing Activities</i>	199
3.	<i>Financing Activities</i>	199
D.	Quality of Financial Reporting	200
1.	<i>Sales</i>	200
2.	<i>Cost of Goods Sold</i>	201
3.	<i>Operating Expenses</i>	201
4.	<i>Nonoperating Revenue and Expenses</i>	201
5.	<i>Other Issues</i>	202
6.05	Financial Statement Analysis	202
A.	Horizontal Analysis	203
B.	Vertical Analysis	203
C.	Ratio Analysis	204
D.	Liquidity Ratios	204
E.	Cycle Ratios	205
F.	Solvency Ratios	205
G.	Profitability Ratios	206
H.	Equity Ratios	208
Chapter 7 Financing a Business		213
7.01	Introduction	215
A.	Overview of Financing	216
B.	Venture Capital	217
1.	<i>How the Venture Capital Model Works</i>	218
2.	<i>Fund Structure</i>	220
7.02	Financing Sources	222
A.	Categories of Financing Outside of VC	223
1.	<i>Friends and Family</i>	223
2.	<i>Angel Investors</i>	224
3.	<i>Accelerators and Incubators</i>	225

4.	<i>Government Funding</i>	225
5.	<i>Bank and SBA Loans</i>	226
6.	<i>Trade Credit</i>	226
7.	<i>Equity Crowdfunding and Rewards-Based Crowdfunding</i>	227
B.	Alternative Financing Models: Digital Asset Offerings	228
7.03	Choosing a Financing Structure	229
A.	Funding Rounds	229
B.	Basic Forms of Financing	229
1.	<i>Convertible Promissory Notes</i>	230
2.	<i>Simple Agreement for Future Equity (Safe)</i>	230
3.	<i>Common Stock</i>	231
4.	<i>Preferred Stock</i>	232
5.	<i>Warrants</i>	232
C.	The Most Important Terms	233
1.	<i>Convertible Securities</i>	233
2.	<i>Preferred Stock</i>	234
7.04	Securities Law Considerations	239
A.	Federal Securities Law	239
1.	<i>Private Offerings</i>	240
2.	<i>Equity Crowdfunding Offerings</i>	242
Chapter 8 Technology and Intellectual Property Rights.....		245
8.01	Preliminary Considerations	249
8.02	Patents	251
A.	Preliminary Considerations	251
B.	Governing Law	251
C.	Types of Patents	251
D.	Practice of Patent Law	253
E.	Patent Rights	253
F.	Requirements for Patentability	255
1.	<i>Utility Patents</i>	255
2.	<i>Design Patents</i>	258
3.	<i>Plant Patents</i>	258
G.	Who Can Obtain a Patent	259
H.	Patent Application	260
I.	How a Patent Is Obtained	262
J.	Types of Patent Applications	264
1.	<i>Provisional Patent Applications</i>	264
2.	<i>Continuing Applications</i>	265
3.	<i>Reissue Applications</i>	266
K.	Foreign Patents	266

L.	Miscellaneous Proceedings	267
1.	<i>Reexamination</i>	267
2.	<i>Post-Grant Review</i>	268
3.	<i>Inter-Partes Review</i>	268
4.	<i>Covered Business Method Reviews</i>	269
M.	Patent Infringement	269
8.03	Copyright	274
A.	Preliminary Considerations	274
B.	Copyright Protection	274
1.	<i>Original Works</i>	275
2.	<i>Work of Authorship</i>	275
3.	<i>Fixed in Any Tangible Medium</i>	275
4.	<i>Expression</i>	276
5.	<i>Subject Matter Not Capable of Copyright Protection</i> ..	277
C.	Owners' Rights	278
1.	<i>Exclusive Rights</i>	278
2.	<i>Limitations on Exclusive Rights</i>	279
D.	Ownership of Copyright and Transfer	284
1.	<i>Initial Ownership</i>	284
2.	<i>Works for Hire</i>	284
3.	<i>Collective Works</i>	285
4.	<i>Joint Works</i>	286
5.	<i>Community Property and Authorship</i>	287
E.	Transfer of Ownership and Recording Transfer	287
1.	<i>Transfer</i>	287
2.	<i>Recordation of Transfers</i>	287
3.	<i>Conflicting Transfers Involving Nonexclusive License</i> ..	288
F.	Duration of Copyright	288
1.	<i>Joint Works</i>	288
2.	<i>Works Made for Hire</i>	289
3.	<i>Termination of Copyrights</i>	289
G.	Copyright Notice	289
1.	<i>Generally</i>	289
2.	<i>Form of Notice</i>	290
H.	Copyright Registration	290
1.	<i>Preliminary Considerations</i>	290
2.	<i>Application for Registration</i>	291
I.	Copyright Infringement and Remedies	292
1.	<i>Infringement Basic Definition</i>	292
2.	<i>Registration as a Prerequisite</i>	294
3.	<i>Copyright Infringement and the Internet</i>	294
4.	<i>Civil Remedies for Infringement</i>	302
5.	<i>Criminal Remedies for Infringement</i>	304
6.	<i>Limitation on Actions</i>	304

7. <i>Limitation on Civil Remedies Due to Nonexisting Registration</i>	305
J. Client Interview Checklist	305
8.04 Trademarks	305
A. Preliminary Considerations	305
B. Identifying and Choosing Strong Trademarks	307
1. <i>What Is a Trademark</i>	307
2. <i>Types of Marks: Trademark, Service Marks, Certification Marks, Collective Marks, and Trade Dress</i>	309
3. <i>Selecting a Mark</i>	313
C. Protecting Trademarks	320
1. <i>Creating Trademark Rights</i>	320
2. <i>Trademark Search and Clearance</i>	320
3. <i>Federal Registration</i>	322
4. <i>Maintaining a Registration</i>	327
D. International Considerations	329
E. Protecting Against Infringement and Dilution	329
1. <i>Elements of Infringement</i>	330
2. <i>Protecting Against Dilution of Your Trademark</i>	332
3. <i>Trademark Infringement Remedies</i>	334
4. <i>Protecting Against Infringement on the Internet</i>	334
F. Trademark Law and Domain Names	336
1. <i>Generic Top-Level Domains</i>	336
2. <i>Registering a Domain Name</i>	337
3. <i>Domain Names and Trademark Disputes</i>	338
4. <i>Developing an Online Trademark Plan</i>	341
8.05 Trade Secrets	342
A. Trade Secret Legal Framework	342
B. The Uniform Trade Secrets Act	343
C. Defend Trade Secrets Act	346
D. Comparing Trade Secrets with Other Forms of Intellectual Property	349
E. <i>Reasonable Efforts to Keep Secret</i>	351
F. Practical Examples of Trade Secrets	353
1. <i>Formulas and Processes</i>	353
2. <i>Patterns, Programs, and Devices</i>	353
3. <i>Methods and Techniques</i>	353
4. <i>Competitive Pricing and Marketing Strategy</i>	354
5. <i>Customer Lists</i>	355
6. <i>Software Code and Algorithms</i>	357
G. Trade Secret Conflicts Involving Employers and Employees .	357
1. <i>Employment and Nondisclosure Agreements</i>	357
2. <i>Covenants Not to Compete</i>	358
3. <i>Statutory Protections of Trade Secrets</i>	358

H.	Inevitable Disclosure	359
1.	<i>PepsiCo Era</i>	360
2.	<i>Post-PepsiCo Era</i>	360
3.	<i>California</i>	361
4.	<i>The Great Debate</i>	363
5.	<i>Whistleblower Immunity</i>	363
I.	Remedies for Misappropriation	364
1.	<i>Damages</i>	364
2.	<i>Injunctive Relief</i>	367
3.	<i>Ex Parte Seizure</i>	369
Chapter 9 Product Development and Distribution.....		371
9.01	Preliminary Considerations	375
9.02	Development Agreements	375
A.	Founder	375
B.	Internal	375
C.	Research and Development	376
D.	R&D Partnership	377
E.	R&D Subsidiary	378
9.03	Manufacturing, Supply, and License Agreements	378
A.	Internal Manufacturing	378
B.	External Manufacturing	378
C.	License	379
1.	<i>Products</i>	379
2.	<i>Manufacturing Activities</i>	380
3.	<i>Scope</i>	381
4.	<i>Senior Party's Obligations</i>	381
5.	<i>Senior Party's Obligations</i>	382
D.	OEM	383
1.	<i>Product Specifications</i>	383
2.	<i>Product Manufacture and Acceptance</i>	384
3.	<i>Pricing and Ordering</i>	384
4.	<i>Spare Parts</i>	384
5.	<i>Product Warranties</i>	385
6.	<i>Confidentiality</i>	385
7.	<i>Termination</i>	386
9.04	Sales Contracts	386
A.	Commercial Laws Governing Sale of Goods	387
B.	Standard Contract Terms	388
1.	<i>Acceptance</i>	389
2.	<i>Change Orders</i>	389
3.	<i>Cancellation</i>	389
4.	<i>Pricing</i>	389
5.	<i>Terms of Payment</i>	389

6.	<i>Shipping Terms and Risk of Loss</i>	390
7.	<i>Nonconforming or Defective Shipments</i>	390
8.	<i>Warranties</i>	390
9.	<i>Indemnification</i>	390
10.	<i>Force Majeure and Excuse</i>	390
11.	<i>Default</i>	391
12.	<i>Choice of Law</i>	391
9.05	Distribution Agreements	391
A.	Employee and Salesperson	391
B.	Sales Representative	392
C.	Agent and Broker	392
D.	Consignment	392
E.	Distributor	393
1.	<i>Products</i>	393
2.	<i>Parts and Supplies</i>	393
3.	<i>Enhancements and Improvements</i>	394
4.	<i>Rights to New Products</i>	394
5.	<i>Scope of Appointment</i>	395
6.	<i>Pricing and Payment Terms</i>	396
7.	<i>Ordering and Shipping Procedures</i>	399
8.	<i>Resale Pricing</i>	401
9.	<i>Product Warranties</i>	401
10.	<i>Technical Support and Service</i>	404
11.	<i>Duties of the Distributor</i>	405
12.	<i>Promotional Activities</i>	407
13.	<i>Trademarks and Goodwill</i>	407
14.	<i>Distributor Review</i>	408
15.	<i>Term and Termination</i>	408
F.	Antitrust Laws	412
1.	<i>The Laws</i>	412
2.	<i>Application of Laws to Distribution Agreements</i>	413
3.	<i>Application to Accompanying Agreements</i>	416
Chapter 10 Human Resources		419
10.01	Preliminary Considerations	423
10.02	Hiring	423
A.	Recruiting	424
B.	Employment Applications	425
C.	Interviewing	426
D.	Testing	426
E.	Reference Checks	427
F.	Offers of Employment	427
1.	<i>Pre-Employment Physicals</i>	427
2.	<i>Immigration Reform and Control Act</i>	428

G.	Alternative Arrangements	429
1.	<i>Independent Contractor</i>	429
2.	<i>Telecommuting</i>	429
3.	<i>Temporary Employees</i>	431
10.03	Employment Contracts	431
A.	Description of Duties	431
B.	Compensation and Expenses	432
C.	Term	434
D.	Termination	435
E.	Additional Terms	437
F.	Changes	437
10.04	Personnel Policies and Strategies	438
A.	Employee Handbooks	438
B.	Standard Policies	439
C.	Intellectual Property	440
D.	Non-Competition	441
E.	Employee Use of Voice Mail, E-mail, and Internet	442
F.	Social Networking	445
G.	Arbitration	446
10.05	Firing	448
A.	Preliminary Considerations	448
B.	Training	449
C.	Progressive Discipline	449
1.	<i>System</i>	449
2.	<i>Employer Education</i>	449
D.	Peer Review System	450
E.	Pre-Termination	451
F.	Termination Conference	453
G.	Release and Severance Agreements	454
H.	Post-Termination	456
I.	Facility Closure	457
10.06	Employment Laws	457
A.	Age Discrimination in Employment Act of 1967	458
1.	<i>Enforcement</i>	458
2.	<i>Proof</i>	458
3.	<i>Employer Defenses</i>	459
4.	<i>Remedies</i>	459
5.	<i>Lilly Ledbetter Fair Pay Act</i>	459
6.	<i>Other Amendments</i>	460
B.	Americans with Disabilities Act	460
1.	<i>Examples</i>	461
2.	<i>Enforcement</i>	461
3.	<i>Remedies</i>	461

4. <i>Specific Employer Defenses</i>	461
5. <i>Recent Amendment</i>	462
C. Civil Rights Act of 1964, Title VII	462
1. <i>Enforcement</i>	463
2. <i>Proof</i>	463
3. <i>Disparate Impact</i>	463
4. <i>Disparate Treatment</i>	463
5. <i>Class-Wide Discrimination</i>	464
6. <i>Harassment</i>	464
7. <i>Remedies</i>	464
D. Employee Polygraph Protection Act of 1988	464
E. Employee Retirement Income Security Act of 1974	465
F. Equal Pay Act of 1963	465
1. <i>Enforcement</i>	465
2. <i>Proof of Discrimination</i>	466
3. <i>Remedies</i>	466
G. Fair Labor Standards Act of 1938	466
H. Family and Medical Leave Act of 1993	467
1. <i>Eligibility</i>	467
2. <i>Consecutive vs. Intermittent Leave</i>	467
3. <i>Protections</i>	468
4. <i>Enforcement</i>	468
5. <i>Remedies</i>	468
6. <i>Recent Amendments</i>	469
I. National Labor Relations Act	470
J. Occupational Safety and Health Act of 1970	470
K. Uniformed Services Employment and Re-Employment Rights Act	471
1. <i>Position to Which Employee Entitled upon Re-Employment</i>	471
2. <i>Rights and Benefits of Returning Employee</i>	472
3. <i>Enforcement</i>	472
4. <i>Remedies</i>	472
L. Worker Adjustment and Retraining Notification Act	473
M. Genetic Information Non-Discrimination Act	473
N. State Common Law	473
1. <i>Wrongful Discharge</i>	474
2. <i>Breach of Contract</i>	474
3. <i>Breach of the Covenant of Good Faith and Fair Dealing</i>	474
4. <i>Defamation</i>	474
5. <i>Invasion of Privacy</i>	475
6. <i>Negligent Hiring</i>	475
7. <i>Intentional Infliction of Emotional Distress</i>	476
8. <i>Promissory Estoppel</i>	476

Chapter 11 Internet and Online Business Activities.....	479
11.01 Preliminary Considerations	483
11.02 Online Business	484
A. Establishing an Online Presence	484
1. <i>Domain Names</i>	484
2. <i>Transferring Domain Names</i>	485
3. <i>Developing Site Content</i>	486
4. <i>Website Hosting</i>	490
5. <i>Electronic Commerce</i>	492
6. <i>Jurisdiction</i>	494
7. <i>SEO, Website Linking, Backlinking</i>	495
B. Conducting Business Online	496
1. <i>Advertising and Marketing</i>	496
2. <i>Sales</i>	496
3. <i>Procurement</i>	497
4. <i>Sweepstakes and Contests</i>	498
5. <i>Spam</i>	499
6. <i>Children</i>	499
7. <i>Online Contracts</i>	499
8. <i>Accessibility</i>	502
C. Online Storefronts	503
1. <i>Amazon</i>	503
2. <i>Drop Shipments</i>	503
D. Consumer Privacy	503
<i>Background—The Big Data Revolution</i>	503
1. <i>Privacy</i>	504
2. <i>Privacy Legislation</i>	505
3. <i>Cloud Services</i>	505
4. <i>Data Breach</i>	505
E. Future Developments	506
1. <i>Cryptocurrencies</i>	506
2. <i>Smart Contracts</i>	506
11.03 Document Retention Policies	507
A. Background	507
B. Purpose	507
C. Design	508
D. Implementation	508
E. Enforcement	508
F. Subject Matter	509
G. When Disaster Strikes	509
H. Recent Legal Developments	509
11.04 Taxation	511
A. Income Taxes	511

B.	Sales and Use Taxes.....	512
C.	Internet Access and E-commerce Taxes.....	512
11.05	Raising Money Online	512
A.	Investor Relations	512
B.	Cryptocurrencies and ICOs.....	513
11.06	Conclusion	514
Chapter 12 Marketing and Public Relations.....		515
12.01	Preliminary Considerations	517
A.	Marketing.....	518
B.	Public Relations	518
C.	Research.....	519
12.02	Marketing Strategy and Program	519
12.03	Defining the Niche	521
12.04	Market Intelligence and Research Sources	522
12.05	Managing Marketing Dollars.....	523
12.06	Web-Based Marketing and PR.....	524
12.07	Establishing Credibility and Expert Status.....	526
12.08	Evaluation Process and Smart Steps	527
12.09	Crisis Management.....	528
A.	Preliminary Considerations	528
B.	Approach	529
C.	Lessons from Enron and BP.....	529
12.10	Conclusion	530
Chapter 13 Growing a Business		531
13.01	Joint Ventures and Other Strategic Alliances	535
A.	What Are Joint Ventures?.....	535
B.	Types of Joint Ventures	536
C.	Key Components of Joint Ventures	536
D.	Taxation of Joint Ventures	538
E.	Potential Liabilities of Joint Ventures and Participants	538
F.	Strategic Alliances	538
G.	Advantages and Disadvantages of Joint Ventures and Strategic Alliances	539
1.	<i>Advantages</i>	539
2.	<i>Disadvantages</i>	539
13.02	Corporate Partnering	540

A.	Finding Corporate Partnering Opportunities	541
B.	Types of Investment Instruments	541
1.	<i>Common Stock</i>	542
2.	<i>Convertible Preferred Stock</i>	542
3.	<i>Convertible Debt Securities</i>	542
4.	<i>Nonconvertible Equity or Debt Securities</i>	543
C.	Documenting the Relationship	543
D.	Corporate Partnering Advantages	544
13.03	University Relationships	545
A.	Organization of University Technology	545
	Development Activities	545
B.	Government-Sponsored Research Activities and Funding	546
1.	<i>Federally Sponsored Research</i>	546
2.	<i>State-Sponsored Research</i>	546
C.	Licensing University Technology to Third Parties	547
D.	Research Agreements with Third Parties	547
E.	Individual Consulting Agreements with Research Sponsors	548
13.04	Going Global	548
A.	Globalization: Need for an International Outlook	548
1.	<i>Reasons for Going Global</i>	548
2.	<i>Where to Go Global</i>	549
B.	Exporting Successful Businesses	550
1.	<i>Challenges in Going Global</i>	550
2.	<i>Different Ways to Go Global</i>	551
3.	<i>Advantages and Disadvantages of Going Global</i>	553
C.	Operational and Corporate Complexity in an International Context	553
D.	Bridging Cultures	554
13.05	Preparing for IPO	554
A.	Reasons for Conducting IPO	555
B.	Due Diligence	555
C.	Level of Commitment	556
D.	Selection of Underwriters	556
E.	Alternatives to IPO	557
13.06	Distressed and Troubled Companies	557
A.	Pace of Growth	557
B.	Thinking Long Term	558
C.	Finding and Making Connections	559
D.	Financial Distress	559
1.	<i>Reasons for Financial Distress</i>	559
2.	<i>Out-of-Court Workouts</i>	561
3.	<i>Reconciling Various Creditors' Interests in Workout</i>	562

4. <i>Workout Agreements</i>	563
5. <i>Advantages and Disadvantages of Workout</i>	563
E. Duties of Board of Directors	564
1. <i>Fiduciary Duties of Board of Directors</i>	564
2. <i>Duties in Bankruptcy Proceedings</i>	564
F. Financial Strategies for Troubled Companies	565
1. <i>Down Round</i>	565
2. <i>Debt Financing vs. Equity Financing</i>	565
3. <i>Secured Debt Financings</i>	566
Chapter 14 Purchasing and Selling a Business	567
14.01 Preliminary Considerations	571
14.02 Confidentiality Agreement	572
14.03 Letter of Intent or Term Sheet	574
A. Contents	574
B. Binding Nature	575
C. Lock-Up	576
D. Remedies	577
1. <i>Breach</i>	577
2. <i>Tortious Interference</i>	577
3. <i>Break-Up Fees</i>	577
E. Disclosure Effect	577
14.04 Due Diligence	578
A. Purpose	578
B. Timing	579
1. <i>Confidentiality</i>	579
2. <i>Antitrust</i>	579
C. Checklist	580
14.05 Main Agreement	583
A. Deal Provisions	584
1. <i>Parties and Transaction</i>	584
2. <i>Price and Payment</i>	584
B. Representations and Warranties	586
1. <i>Seller</i>	587
2. <i>Buyer</i>	588
3. <i>Survival</i>	588
C. Covenants	588
1. <i>Conduct of Business</i>	588
2. <i>Facilitate Closing</i>	589
D. Conditions	589
E. Indemnification	589
F. Miscellaneous	590
1. <i>Choice of Law</i>	590

2. <i>Dispute Settlement and Consent to Jurisdiction</i>	591
3. <i>Fees</i>	591
G. Exhibits and Schedules	591
14.06 Approvals	592
A. Boards of Directors	592
B. Stockholders	593
C. Government	593
1. <i>Regulated Industries</i>	593
2. <i>Antitrust</i>	593
3. <i>Securities</i>	594
D. Third Parties	595
14.07 Broker Fees	595
14.08 Closing	596
A. Timing	596
B. Deliveries at Closing	596
1. <i>Transfer Documents</i>	596
2. <i>Payment</i>	597
3. <i>Certificates</i>	597
4. <i>Legal Opinion</i>	598
5. <i>Accountant Opinion</i>	599
6. <i>Investment Banker Opinion</i>	600
7. <i>Other Documents</i>	600
8. <i>Press Release</i>	600
Chapter 15 Estate Planning for the Business Owner	601
15.01 Preliminary Considerations	603
15.02 Use of Entities	605
A. Corporations	605
B. Limited Liability Companies	606
C. Use of Trusts with Transfers of Business Entities	608
15.03 Buy-Sell Agreements	611
15.04 Valuation	613
A. Fixed Price	614
B. Formula Price	614
C. Appraisal	614
15.05 Estate Freeze Transactions	615
A. Grantor Retained Annuity Trusts	616
B. Installment Sales	617
C. Income Tax Consequences	618

15.06	Sale of a Business Through a Trust	619
15.07	Benefits of Charitable Giving.....	620
15.08	Conclusion	622
About the Editors		623
About the Authors		625