Greener Ventures is an annual conference on entrepreneurship which is aimed at encouraging entrepreneurial activity among members of the Dartmouth community. Now in its third year, Greener Ventures 2004 was the most successful yet! The theme of this year’s conference was “Trends and Opportunities,” where attendees learned how leaders in information technology, life sciences, venture capital and academia identify trends and extract the opportunities they present.

In the days leading up to Saturday April 24th registration extended beyond capacity to 600 Dartmouth students, staff, alumni and family and friends—a 33% increase in participation from the previous year!

NH Governor, Craig Benson returned again this year to make brief opening remarks. He asserted that entrepreneurial skills apply in every sector. He used “New Hampshire Inc.” as a working example and highlighted some of the entrepreneurial initiatives that he has implemented throughout the state.

Following the Governor, Dartmouth President James Wright told the audience; “The need for people with entrepreneurial skills—creative, strategic, bold thinkers—is as evident today as it has ever been—in large companies and small, in governmental and non-profit organizations.” The president chronicled “Dartmouth’s own strong history of innovation” from the founding of Dartmouth by Eleazor Wheelock to the establishment of the first schools of engineering and business, the development of BASIC, time sharing, and being one of the first wireless campus.

Keynote speaker, Jeffrey Immelt ’78, chairman of the board and chief executive officer of General Electric, introduced his talk playfully as “Growing GE”, keeping attendees riveted for 40 minutes with sharing his vision of current and future trends. See page 2 for more on his Mr. Immelt’s address and his pre-lunch fireside chat.

For the rest of the conference participants had a choice of panel discussions within three main tracks addressing a variety of issues for entrepreneurs, including: Trends and Opportunities in Life Sciences, Team Formation, Bootstrapping, Exit Strategies, and Making Tough Decisions. More than 35 experts in business and entrepreneurship, many of them Dartmouth graduates, generously donated their time to share their wide-ranging perspectives as panelists. Additionally Devine Millimet hosted a workshop on intellectual property as a contemporary with a fireside chat with Jeff Immelt.

Greener Ventures 2004 included the annual business plan competition where Artemis Woman, Dynamic Clinical Systems and Woomera Therapeutics were grilled by a panel of three venture capitalists and competed for the grand prize of $4,000. Woomera Therapeutics took home the 1st place prize. (more on Page 4) A full schedule of the day’s events is available on the GV website at:

www.greenerventures.org

The organizers would like to thank the sponsors and speakers for their support of this event and commitment to strengthening entrepreneurial activity at Dartmouth.

Premier sponsors for Greener Ventures 2004 were Advanced Technology Ventures, Bain Capital, Borealis Ventures, and Prism Ventures. Workshop and Conference sponsors included Devine Millimet and McDermott, Will & Emery. Mike Gonnerman, Inc. was a supporting sponsor of Greener Ventures.
GE’s Immelt D’78 Keynote

Greener Ventures was indeed fortunate this year to have D ’78 Jeffrey Immelt participate as keynote speaker, and in a fireside chat with students at midday, Immelt was appointed Chairman of the Board and CEO of General Electric Company on September 7, 2001, succeeding Jack Welch to become only the ninth chairman in the company’s 126 year history. Recently the Financial Times named him 2003 Man of the Year, and just the week before Greener Ventures, BusinessWeek described Jeff as “obsessed with rebuilding a culture of innovation within GE.”

At the opening of his talk, Immelt noted that he really only had one speech, so he hoped it applied. Seemingly it did, as he started with his view of the trends GE sees today, and why they offer opportunity to the technically smart and disciplined. “These are the good days” he said, “It’s the best economy we’ve had in four years” - low interest rates, consumer purchasing and stimulus in the economy. “China is on fire” he continued, but he noted there are also troubling factors such as oil prices, nagging unemployment and low capital expenditure. He described himself as optimistic but he warned that the easy days in the 90′s where the economy grew by 100 percent are long gone and business people should expect a “profoundly slower growth period” with GDP of 2-3 percent. Immelt listed increase global competitiveness, consolidation of distribution networks, and demographics as other trends to watch. The impact of these will be an increase in price competition and clear “winners and losers” in a profoundly more volatile environment both culturally and financially.

Immelt stressed five things that will help lead to business success. First, he advised having a robust business model that focuses on productivity, cash flow and customer relationships, controlling costs and generating cash. “Cash flow is the foundation of the business,” he said. “I can tell you how well a business is doing by looking at how it generates cash.”

Second, he advised “understanding what you do well,” to be true to a strategy that is technically based, has multiple revenue streams, and owns the customer interface.

Third, Immelt insisted that every initiative should be focused on growth, while still controlling costs. He said generating growth, or controlling costs can each be done fairly easily, but that in a competitive environment successful businesses will have to do both simultaneously. He stressed that there is going to be a need for a greater focus on technical excellence and services, saying that GE increased R & D spending from $3.5 billion to $5 billion as an example of their commitment to this. He continued that great sales and marketing are going to be important, but that the critical focus should be to make the customer more profitable.

Fourth, Immelt said that a business needs to build a culture of innovation, place bets, and drive change through innovative projects. “Make size an advantage,” he said, “and know how to monetize and grow core competencies.”

Finally, he recommended that a business invest in people. He described good leaders as people who know how to learn and how to teach both passion and process. He said GE invests a billion dollars a year in training to produce passionate growth leaders. “Change has a constituency of one - you! Good entrepreneurs are the ones that keep swimming” he said.

In closing, Immelt said “The entrepreneurial class failed badly in the late 90′s when money became more important than innovation, technology, and building things that last. And we feel the resonance - part of our national lack of confidence today stems from that and I would subscribe to you that rebuilding this self-confidence that we can compete on a global basis rests in this room. Rests with venture capitalists, rests with entrepreneurs. Rests with wakening the innovative and entrepreneurial spirit in this country.”

At the end of his speech, Gregg Fairbrothers commented to the Cook Auditorium audience, “If you are only going to have one speech, that’s a good one to have.”

Fireside Chat

At midday, students were treated to an open forum question-and-answer session with Jeffrey Immelt at the “fireside chat” at Greener Ventures. Bill Achtmeyer TU ’81, Co-founder, Chairman, and Managing Partner of the Parthenon Group and the Chairman of the Tuck Board of Overseers, briefly introduced the session and then quickly opened it up to the floor.

Immelt answered questions from “what keeps you awake at night” to “the role of golf at GE” openly and enthusiastically while providing sage advice to the avid audience that packed into Stell Hall. He said that GE avoids the bureaucratic pitfalls of a large company by placing leaders that will drive growth. He personally drives 40 growth ideas and teaches twice a month to stay in touch with the people at GE who can drive growth. He also does what he terms ‘deep dives’ where he takes one facet of the company right though all its stages. He said that leaders need to be externally focused, ‘have your antenna up all the time’, and be ‘a student of life’. He advised that students should pick what they want to do and then get on a linear path and do it. “Build robust careers by being aligned with some good leaders” he urged, “Do each and every job like you are going to have it forever”. He believes that in the near future depth of experience will be more important than breadth.

When asked what was the most valuable part of his Dartmouth experience, he passionately answered that he made an unbelievable set of friends that have supported him through difficult times. “There is no success without friendship” Immelt said.

He also reiterated a point made in his keynote address that China holds the biggest market opportunity and sitting on the sidelines is not an option. GE is a “contributor to global citizenship” where 20 years from now there will be a “great melting pot of management talent”. “You have to believe in centers of excellence and you have to have good people” he said. “Business is a force for good.”
Spring Workshop

On Tuesday, 18th May 2004, DEN and the Tuck Center for Private Equity and Entrepreneurship will host their Spring term entrepreneurship workshop,

"CORPORATE VENTURE CAPITAL AND STRATEGIC PARTNERSHIPS"
7:00 to 8:30pm
Byrne Rosenwald Room at Tuck

Roger J. Guidi, Vice President of Johnson & Johnson Development Corporation will talk about strategic venture investing – how the investor thinks, how to approach one, and pros and cons with working with a major industry player.

Two DEN start-ups win at the $250K “Start-up New Hampshire” Business Plan Competition

On May 3, 2004, Woomera Therapeutics, Inc., a DEN start-up and biopharmaceutical company took a $40,000 first prize in the Biomedical/Life Sciences section as well as the Grand Prize of $130,000 at the Start-up New Hampshire Business Plan competition. "Our win confirms the potential of Professor North's thirty years of research effort in developing drugs to treat small cell lung cancer and breast cancer," said Dr. Roy Pang, Woomera CEO and CSO. "We intend to use the prize money to further strengthen our technology platform and to move forward with the clinical development of our products."

"Woomera is a prime example of a company developing technology which could benefit not only the state of New Hampshire, but people worldwide," Governor Craig Benson said. "If Start Up New Hampshire has provided the jump start that this company needs to conduct their initial testing process, I'm thrilled that we were able to play our part."

A total of 212 plans were received in the inaugural year of the competition so it was good news for DEN teams when three of the twelve finalists announced on April 23rd were from Dartmouth.

Dr. Justin D. Pearlman, MD, ME, PhD, (Director of the Dartmouth Advanced Imaging Center at Dartmouth Medical School /Dartmouth Hitchcock Medical Center and a Professor of Radiology and of Medicine, with joint appointments at the Thayer School of Engineering, Massachusetts Institute of Technology, and the Dartmouth Graduate School of Computer Science), presented MISSIVE© in the Financial Services category. Dr. Pearlman has developed a database-driven, intelligent document generator, primarily for medical applications. Unlike competitors’ products, Dr. Pearlman’s MISSIVE© generates highly detailed reports encompassing billing rules, prognosticators, and just-in-time information prompted to assure thoroughness and efficiency of the data gathering and interpretation.

Accentus LLC won a $40,000 first prize in the Financial Services Category. This DEN start-up has developed the first audiotory display solution currently being marketed to leading sales and trading firms on Wall Street. James Perkins (CEO), Graham Brooks (Director of Marketing) and Ed Childs (Founder) were on hand to accept the $40,000 cash. "It was an honor to receive the top prize for the financial services category! We have always been confident that our business plan and product have been on target when it comes to improving the way today's traders do business, and this award helps validate our model." said Perkins. Accentus was a contestant in the Greener Ventures 2003 business plan competition.

Other winners on the day included:
DataInquiry of Windham which offers electronic evidence discovery and computer forensics to public agencies, lawyers, businesses and individuals won a $40,000 cash prize in the North Country Category.
ActiveShock Inc. of Manchester, a start-up company designed to develop, manufacture and sell microprocessor-controlled shock absorbers to high performance suspension markets worldwide, earned the top spot in the "All Other Industries" category, which didn’t offer a cash prize.

Other Category Finalists were:
Financial Services - Piggy Banc Corp
Biotech Life Sciences - Hestion Corp,
Securesmart Biometric
North Country—Precision Health Services, E.V.B. Corp

Delighted to accept the winning check from NH Governor Craig Benson: (from left) Dr. Roy Pang, Dr. Brendan Keegan, and Howie Young TU’03
EntrepreNews

Business Plan Competition

Artemis Woman

The first team to present at the third annual Greener Ventures Business Plan competition was Artemis Woman, (AW) LLC. The company was founded in April 2002, by Ann Buivid and Lisa Kable '90. The company manufactures and sells home spa systems including Healing Gems Microdermabrasion, Professional Facial Center, and a full line of complementary health skin care products for the high-end mass retail market. "What an incredible opportunity to share our new company with such a large and enthusiastic audience" Kable commented.

The founders have over 35 years combined marketing and general management experience in top consumer products companies, most recently working at Remington Products, LLC. The two have teamed-up to create a more relevant wellness brand specifically targeted to female baby boomers, to broadly brand 'Wellness for Women', and to capitalize on the explosive growth in this market.

AW's line of health skin care products with home spa appliances ('wellness') taps into two large and explosive markets: skin care products ($26 billion), and Wellness ($30 billion). The total health-related cosmetic segment alone is estimated at $2.2 billion and growing at a rate of 10.3% per year. AW products target aging female baby boomers (26% US population) and is or will be available at Ulta, QVC, JC Penney, Bed Bath & Beyond, Hecht's, Fry's, Bloomingdale's and dozens of spas and wellness centers across the country. AW will also launch a 30-minute Direct Response TV campaign late August with the new Professional Facial Center.

AW raised $350,000 in friends and family financing in March 2003, shipped its first line of products to retail in May 2003, raised an additional $760,000 of angel financing this spring, and is currently selling-in the 2004 product line with expected appointments at Filene's, Foley's, Kohl's, Marshall Field's, Target, Boscos, and Shop NBC. In its first 6 months in market, AW generated revenues in excess of $300,000 and is expecting to generate well over $1MM in sales in 2004.

Dynamic Clinical Systems (DCS)

Chris Weiss '82, President and CEO of Dartmouth Clinical Systems (DCS) presented to the Greener Ventures judging panel of three venture capitalists: David Morse TU'67, (Managing Director, MS Capital), Amanda Reed '86 (Partner, Palomar Ventures) and Dana Callow TU'79 (Managing General Partner, Boston Millen- nia Partners).

DCS employs software and clinical processes to collect, manage, and analyze patient-reported health status information using statistically valid, condition-specific surveys. DCS is among the first to combine a series of patient-reported subjective data with clinical diagnosis and treatment data over a large patient population. Beyond its value for research and quality initiatives, patient-reported information and clinician observations are combined and used to make adjustments in patient care at the point of need.

The core software, the Integrated Survey System (ISS)™, is deployed for spine conditions – where Americans spend $26 billion a year, or 2.5 percent of their total healthcare bill – and is being extended rapidly to cover other important areas of healthcare, including chronic diseases, pain, hip & knee conditions.

DCS enables access to the ISS via the Web from its own professionally managed servers; no significant hardware investment is required by DCS customers. At the same time, the ISS has a powerful ability to interface with other clinical systems.

A close relationship with Dartmouth-Hitchcock Medical Center, and development activities with leaders like Cleveland Clinic and UMDNJ, give the company a unique advantage in product research and development, pilot testing, and data collection.

Of the 640,000 practicing clinicians in the U.S., over 60% practice in large group or institutional settings. DCS estimates the addressable market at $1.5B. Already, leaders like Cleveland Clinic, Marshfield Clinic, Mayo Clinic, UMDNJ, and Dartmouth-Hitchcock itself have approached DCS to implement ISS for spine and other conditions. Blue Cross of Idaho is integrally involved in a groundbreaking implementation in Boise.

To date, the founding team of Chris Weiss, Bob Annis (Chief Technology Officer), Dave Christopher (Chief Financial Officer) and Lisa Torrey Weiss (VP Product Development) have contributed more than 1,500 days of effort and over $300K in cash to DCS. In February 2004, DCS closed a friends & family debt financing of $300K.
Woomera Therapeutics, Inc., is a biopharmaceutical company dedicated to developing novel immuno-products targeting unique markers for the treatment of cancers. Their technology platform is based on over 30 years of research by Dr. William G. North, Professor of Physiology at Dartmouth Medical School and co-founder and president of Woomera. Dr. Roy H.L. Pang (Chief Executive Officer & Chief Scientific Officer), Howard S. Young, III, TU '03 (Director, Business Development) and Dr. Brendan P. Keegan, (Co-founder) round out the team.

The addressable market for new small-cell lung cancer (SCLC) patients is over $1 billion per year while that for new breast cancer patients is over $5.4 billion per year. In the U.S., there are about 42,000 new cases of SCLC per year with 6% survival after 5 years. There are 217,440 new cases of breast cancer per year with an 86% survival rate after 5 years. Current treatments for SCLC provide little hope and negatively impact quality of life. Current breast cancer treatments are more effective, but often require radical procedures and debilitating chemotherapy.

The Company’s technology platform is based on the discovery of unique cancer markers: provasopressin (the precursor of vasopressin) and the associated abnormal vasopressin V2 receptor. Small-cell lung cancer and breast cancer cells produce the provasopressin and the abnormal V2 receptor as part of the cell membranes. In nature, these markers are not found on normal human cell membranes. The platform provides multiple avenues for product development. These products are intended to specifically kill the cancer cells with little or no harm to the normal tissues.

The most advanced product is MAG-1, a monoclonal antibody against provasopressin to treat SCLC and breast cancer. In human tissue and a patient study, the company’s products have:
- Detected all breast cancer cell lines and tissue samples
- Detected small cell lung cancer cell lines and tissue samples
- Detected tumors in all SCLC patients tested with active disease
- Showed no tumor for a patient in remission
- Did not image normal tissues of all organs
- Did not affect the normal vasopressin physiology during the study

Studies to date confirm the antibodies under development bind only to the cancer and not to normal tissues. Unlike conventional treatments, this specificity means that MAG-1-based products will specifically target and kill cancer cells while minimizing drug toxicity to patients. The Company is further testing MAG-1 to image tumors in SCLC and breast cancer patients at the Royal Victoria Hospital, Montreal. The Company is also conducting safety and efficacy studies in animal models to define the product formulation.

**Woomera Therapeutics took 1st place in the Greener Ventures business plan competition and was awarded $4000**

**GREENER VENTURES BUSINESS PLAN COMPETITION WINNERS 2002-2004**

2004: Woomera Therapeutics

**From left:**
Business Plan Judges:
- David Morse TU’67, Amanda Reed ’86 and Dana Callow TU’79

Woomera Therapeutics:
- Howie Young TU’03, Dr. Brendan Keegan, and Dr. Roy Pang

2003: ThermalVision

[Phil Ferneau ’84, TU’96, presents prize to Ned Coletta TU’03 and Preble Jaques TU’03]

2002: EnerNOC

[Tim Healy D’91, Tu’02 and David Brewster Tu’02]
2002 Greener Ventures Business Plan Winner Update—two years later

2002 winner: EnerNOC

- Raised $2.6M in June 2003 from Draper Fisher Jurvetson and Braemar Energy Ventures
- Now has over a dozen customers from seven verticals including Hannaford Supermarkets, Fairfield University, Town of Fairfield, CT, Pathmark Stores, Lowell Wastewater, IBM, SBC, Pitney Bowes, and Millennium Hotels.
- Employs just under 20 people in its Boston, MA headquarters
- *Recently expanded into a second geographic region – New York
- Won a $10.4 Million contract from ISO-NE in April, 2004
- Is managing over 50MW of customer electricity capacity
- Was nominated for a Small Business Association of New England Innovation Award, and was selected by Ernst & Young’s Innovation & Growth Exchange Advisory Board and VentureOne as one of the East Coast’s most promising venture-backed companies

Also:

- EnerNOC and its management team have appeared in articles in the Wall Street Journal, Boston Globe, MSNBC, the CT Post, the Hartford Courant, the Boston Business Journal, and The Manchester Union Leader, and have appeared live on National Public Radio as well as in taped interviews on New England Cable News, Fox 25 Boston, and Boston's Channel 7 CBS Affiliate
- EnerNOC’s management team includes co-founders David Brewster Tu’02 (President/COO) and Tim Healy D’91, Tu’02 (CEO), as well as Phil Giudice Tu’85 (Managing Director). EnerNOC also has three investors with ties to Tuck.
- EnerNOC recently agreed to acquire its largest competitor who will bring the company an estimated $28 million in revenues over the next four years
- EnerNOC is currently one of the largest aggregators of distributed generation resources and is emerging as the top Demand Response Service Provider in the World

2003 Greener Ventures 2003 Business Plan Competitors—one year later

2003 winner: ThermalVision

- Demonstrated MTK safety in laboratory testing
- Raised $650,000 in seed funding from Borealis Ventures, Village Ventures, Echelon Ventures and White Mtn. Investors
- $867,000 fast-track SBIR from the National Eye Institute
- Recruited ophthalmic industry veteran as CEO, leading ophthalmic device engineer as VP of Engineering
- Recruited nationally recognized refractive surgeon to Advisory Board
- Recruited leading ophthalmic consultant to guide regulatory strategy
- Series-A capital commitments from 2 institutional investors, in discussions for remainder toward $4.0MM

Accentus

- Launched Version 1.0 - Accentus Auditory Display Solution
- Committed 7 of top 10 Wall Street firms as partners/customers
- Filled remaining key team slots
- Scheduled May 21st closing on first funding event
- Awarded “Rookie of the Year - Most Promising New NH Software Company” by the Software Association of NH
- Media pieces in Fortune Small Business, Mass High Tech and Manchester Union Leader
- IP estate: patent filing 5/03, exclusive patent license 10/03, additional provisional patent 3/04

Jet Boil (formerly White Mountain Stove)

- Raised $1 million in series A funding, Mar and Dec ‘04
- Launched first product on schedule, Jan ‘04
- Currently employs 12 people in its Guild plant and over 30 sales reps
- Achieved profitability in March 2004
- Forecasting sales above $1 million in 2004
- Widespread distribution to over 300 customers comprising 600 brick and mortar, online, and mail order companies
- Customers include the largest outdoor chains: EMS, REI, Cabela’s, Galyan’s, Sports Chalet
- Several industry honors, including Backpacker Magazine Editor’s “Choice Award” and Outside Magazine’s “Gear of the Year Award”
- Featured in many magazines and e-zines, including Rock & Ice, Popular Mechanics, and Vanity Fair
‘Supporting Entrepreneurs’ by Devin Morgan ’96

A Dartmouth Alum attends the NBIA Conference, 2004.

More than 600 professionals from 48 U.S. states and territories and 37 countries attended the 18th International Conference on Business Incubation, April 25-28, in Atlanta. The conference was organized by the National Business Incubator Association (NBIA) and was themed, “The Power of Supporting Entrepreneurs.” It was a subject particularly relevant this year to the DEN’s work in developing the Dartmouth Regional Technology Center (DRTC), a business incubation facility at Centerra Resource Park, scheduled to break ground in Spring 2005.

For more than 20 years the NBIA has provided business incubation professionals with information, education, advocacy, and networking resources to bring excellence to the process of assisting early-stage companies. Business incubation programs such as the DEN and the DRTC catalyze the process of starting and growing companies by providing entrepreneurs with the expertise, networks, and tools they need to make their ventures successful. In 2001 alone, North American incubators assisted more than 35,000 startup companies that provided full-time employment for nearly 82,000 workers and generated earnings of more than $7 billion. Approximately 4,000 business incubation programs operate worldwide.

Business incubation professionals are energetic, optimistic, open, and genuinely enjoyable to be around. They have dedicated themselves to helping others build ventures, realize dreams, and impact their communities. The knowledge and experience wandering around the conference center at the Atlanta Sheraton represented some of the best, brightest, and most innovative practitioners in the business incubation industry. The power of the conference is derived from the approachability of every attendee and the sense of community that drives the sharing of challenges, solutions, and evolving best practices. There is a frenzy of exchange. As one incubator manager who has been attending for many years put it, “I usually talk myself hoarse by the time I head home—always a sign of a good conference.”

The conference included a combination of educational sessions, roundtable discussions, inspirational speakers, tours of local incubator facilities, and, of course, lots of networking. An awards luncheon to recognize innovative incubators, incubator programs, and client companies highlighted industry success stories. A venture capital showcase demonstrated the important interplay between business incubators and the investment community. There was also a Pre-Conference Institute that offered in-depth one or two day courses on a variety of business incubation topics. All of these events supported the main function of the conference, which was to facilitate practitioner-to-practitioner exchange.

Inside and outside of sessions, attendees discussed incubator operations, development of community partnerships, tenant selection, graduation policies, success metrics, and myriad other topics critical to business incubation. Sessions particularly relevant to the DEN’s activities were incubating university startups, encouraging faculty entrepreneurship, and leveraging student involvement. A Pre-Conference Institute on incubating bioscience companies offered valuable ideas for the development of the DRTC. The DRTC will support efforts to commercialize bioscience and other technology opportunities from the Dartmouth community and the greater northern New England area. This course provided interesting case studies and best practices for addressing the challenges facing biotech startups, such as laboratory needs, multi-stage funding, and navigating complex intellectual property and regulatory regimes.

The facility design sessions and tours of incubator facilities provided a great deal of helpful information. There are a issues in incubator design that are not present in general commercial real estate. Common areas are critical and facility designers consider how space will fuel interactions with incubator staff and among client companies. Spaces also need to start smaller and be far more flexible than normal commercial space to accommodate rapid growth and turnover of client companies as they grow. Incremental build-out and the ability to expand the facility are also worthwhile considerations for a new incubator that is unsure of regional demand and growth potential. Considering how the layout, material choices, decoration, furniture, security, and mechanical systems will effect construction, facility operations, and the professional/entrepreneurial tone of the space is not a trivial task. The DRTC, which is currently in design phase, will incorporate some of these important considerations.

The Dartmouth community is known for building strong relationships, providing a supportive environment, and encouraging excellence. By leveraging the knowledge and experience of the international business incubator community, the DEN and the DRTC can become effective and supportive business incubation programs.

Devin S. Morgan, D ’96, is an intellectual property consultant focusing on venture facilitation, technology transfer, and management strategy. He majored in Engineering Science and Asian Studies at Dartmouth and holds JD and Master of Intellectual Property degrees from Pierce Law in Concord, NH. He worked in Washington, DC as a patent attorney in two prominent law firms before starting his own consulting practice in 2003. He supports the DEN as an IP coach and liaison to the business incubator community.

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(443) 306-6268
Ask Mike

QUESTION

"I'm hoping to raise a few million dollars in venture money, and I'd like to give my CFO an incentive—say, a 2% commission on whatever he brings in. Is this ethical?"

ANSWER

Is it ethical? Probably. But the real question is whether your approach is a good idea. Typically, CFOs aren't paid a commission on any kind of corporate financing, debt or equity, even when they're very actively involved in negotiating the deal. If you think a financial incentive will motivate your CFO to work harder on the transaction, I'd suggest stock options instead. That way, he'll be rewarded along with the investors he helps bring into the company. Also, you should be mindful that most investors will specifically prohibit you from paying finder's fees or commissions out of the money they contribute. They want their cash to be spent on developing and selling products, not on giving bonuses to the executive team.

QUESTION

"I was planning to give three of my senior managers stock in my company, but one of them says he'd have to pay income taxes on the market value of the stock if he accepts. That seems crazy. Your advice?"

ANSWER

He's right. If you give your managers stock, they'll wind up paying taxes on the fair market value of the stock as of the day they receive it—which could create a staggering tax bill for them. There are several ways to avoid the tax problem if you intend the stock to be a kind of bonus. You can give them "qualified options" to buy the stock some time in the future at its current price, so they'll only be taxed on the gain (and only when they have the cash). Or you can give them "phantom stock," which entitles them to a percentage of the eventual sale price of the business. But if your plan is to give your managers real long-term equity in the business—well, the IRS considers that equity a form of income and will eventually expect to collect taxes on the whatever the equity is worth.

QUESTION

"My investors put money into the company mostly in the form of interest-bearing loans, supposedly as a way to minimize capital gains taxes when the company is sold. However, I feel the loans are really an investment, so they shouldn't show up on our balance sheet as debt. Is this correct?"

ANSWER

Nope. If your investors expect the company to repay their contributions, then you must carry the loans on your balance sheet as debt, not equity. However, your investors probably don't expect to see any cash in the current year, so you're entitled to classify the loans as long-term debt and you can describe the obligation to lenders as "near equity," to use a common banking term. Just be sure to explain this item to a potential acquirer early in the negotiations, so there are no last-minute surprises. Incidentally, you should alert your investors that their loans might not qualify for long-term capital gains treatment. If their intent is to convert the debt to equity immediately before the sale of the company, and the company is sold for cash, their portion of their gain related to the converted debt would not qualify for long-term capital gains treatment since they didn't hold the stock for more than one year.

Dartmouth Entrepreneurial Network

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