

How To Start-Up

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Introduction

- Worked in/with 5+ start-ups
 - Stellar Wind Development, Escient, OpenGlobe, Gracenote, RK Automation LLC, RK Aerospace LLC, Algaeon Inc./Stellarwind Bio Energy LLC.
- Started 4 of them
 - Two running, Sold one, Dissolved one
 - Algaeon Inc. <- from Stellarwind Bio Energy LLC
 - Biotechnology - growing Algae
 - Stellar Wind Development LLC - Consulting Company
- Started in 1998, Active in IEEE since 2004, Algaeon started in 2008.

First you need Advisors!

- Successful business leaders have advisors/mentors
- Find at least 3 advisors
 - At least one should be an older seasoned executive with entrepreneurial genes and experience
 - One should be near your age - maybe 5 years older - who can relate to your stage and personal trials
 - Look for accountants, lawyers, business leaders, someone with experience in things you are lacking
- Find times to meet for lunch to discuss your ideas and challenges, semi-regularly, meet at events, ... be willing to buy lunch.

S-Business or B-Business

- S-Business is a “Specialist” business that can only run with the specialist at work - “Dentists office”.
- B-Business is a machine that makes money
- Which one are you? Think about this deeply!
- **“DON’T create a Product, create a solution to a problem for a Customer!”**

What is your business?

- “Algaeon is an algae based ingredient supplier who works only with market leading companies with established sales and distribution.”
- Think about this deeply and then focus - work the plan and then evaluate the results!
- FOCUS GRASSHOPPER !
- Do not chase \$100 bills. You are not AFB Corp!

Organizing your B-Business

- If you need to raise money from investors, become a C-Corporation.
- Manage the business with transparency in the model of a public company
- The founders should be employees - no special treatment
- You may decide to reserve 1 or 2 seats on the Board Of Directors (BOD) for founders or their designates
- Aim for a clean balance sheet and audit-able financials
- Assign all IP to the company
- All employees sign a standard employee agreement with non-disclosure and assignment of IP

How much money needed?

- To Start?
 - To demo a product or show to a customer?
 - To reach profitability?
 - To reach cash flow positive operations?
 - Can you find enough money to get it done?
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- You may not be able to answer all these questions, but you better think this through - deeply!
 - A Start-up is frequently short of money? Make that your strength! Find a way to do it anyway! Be tight with your cash!

Understand your Financials!

- Develop the skills to read a financial statement
 - Learn how to analyze a public company
 - Learn how to do the book keeping
 - Learn how to budget
- Hire a book keeper after you understand the job!
- Control your money! Cash is king!
- Its far easier to save a dollar than to raise a dollar!

The Job of the CEO

- Are you the CEO?
 - Many founders start as the CEO, but are you a good one?
- CEO Responsibilities:
 - RAISING MONEY
 - CHIEF of Sales
 - Focusing the attention of the executive team and growing the business
- A good CEO will have demonstrated these abilities repeatedly. You need this! Be tough minded and make sure you have the right guy as CEO.

Do you have the right team?

- Building a team is challenging and fraught with danger!
- Be tough minded - Do you have the right people? This is key to your success?
- Recruit a strong management team and let them build their teams - otherwise the organization will have to adjust when each new executive is recruited, i.e. pushing down existing leaders and employees. This is painful.
- When you make a mistake, fix it quick. When you make a bad hire, you have to correct it and learn from it.
- Do not micromanage - but build a team of general officers who have your full delegation to do their job.
- Make sure the team has clearly defined roles and responsibilities.
- Guide, counsel, and push your team - honor their successes publicly, express concerns in private

FACTS of life

- Cash is worth more than sweat!
 - When you create an incentive stock option plan, sweat equity is not rewarded at the same rate as cash investors. (ISO value should be 2-3 years forward looking)
- Legal work is frighteningly expensive!
 - Solve this creatively - get a lawyer to work for warrants, talk an attorney firm into deferred billing
- Options = Warrants
 - Stock Options to insiders, Warrants to outsiders
- You - as leader - eat last!
- Its not about YOU!
 - Its about the company and shareholders

What NOT to do!

- **DO NOT CHASE GOVERNMENT GRANTS!**
 - Too many strings, un-accountable, takes too long, non-aligned interests, etc. Don't waste your time!
- **Do NOT establish any form of "Deferred Compensation"!**
- **Do NOT be arbitrary:**
 - Establish policies for - hiring practices, PTO, compensation guidelines, conflict of interest, etc.
- **DO NOT TRY TO STOP THE WIND OR THE TIDES!**
 - The only mistakes that will surely kill you are the ones you refuse to learn from. Learn quickly!

What TO DO!

- NEVER GIVE UP!
 - Nature loves the entrepreneur!
 - You can always fail, just quit! If you are still in the game, you can still win.
- Be Flexible - Let nature teach you
 - Let the world be your oyster!
 - The only mistake that will kill you is the one you refuse to let go of! And sink to the bottom of the sea with!
- Start raising money with convertible debt
 - 6-8% interest, non redeemable < 3 years, converts at a trigger event at then current valuation

What TO DO! con't

- When you sell shares - sell only common stock
 - you will be asked for preferred stock - do not give in. Preferred stock makes valuation difficult.
 - Angels > VC's - Angels and Angel groups are easier to work with than VC's and they will not insist on preferred stock
 - If you have to go for preferred - make sure its only once and the VC is fully committed with deep pockets
- Resist the temptation to over value the company!
 - If you have accomplished little and the company has no revenue nor contract - its probably not worth much. Pick a low value and raise only what you need and a little more.
 - Raise valuation incrementally with accomplishments. Build a track record.

What TO DO! con't

- Use a payroll service!
 - Its inexpensive, its easy, taxes taken care of!
 - Don't waste your precious time by doing this yourself!
- Celebrate your successes!
 - Build a culture that celebrates success, creates accountability, and builds a strong cooperative team.
 - Recognize accomplishments publicly
- How to be a great scientist or engineer!
 - Ala Richard Hamming

Round Table -- Questions!?

- Some possible topics -
 - How to manage your Board of Directors
 - How to manage your board of advisors
 - How long does it take? Should I do this?
 - Raising money -- how to get started. Routes to success. Paths to hell!