

Selected Issues in the Lifecycle of a Tech Company

Warren Nimchuk, Don Furney and Peter van Bodegom

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“Top 10 Tax Tips You Need to Succeed”

or
“The Tax Act is Your Friend”

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Top 10 Tax Tips You Need to Succeed

1. Scientific Research & Experimental Development Tax Credits
 - Refundable tax credits = available cash
 - Refundable to BC CCPC corporations at 41.5%
 - Rules allow for credits to be based at 165% of labour expenditures
 - Limitations on specified shareholders salaries

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Top 10 Tax Tips You Need to Succeed

2. Stock Options
 - Tax deferred incentive to employees
 - Pay tax when the gain is realized
 - 50% deduction available on income from option
 - Planning required

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Top 10 Tax Tips You Need to Succeed

3. \$500,000 Tax Free from Capital Gains
 - Limit one claim per lifetime
 - Planning required

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Top 10 Tax Tips You Need to Succeed

4. Venture Capital Investment Tax Credits
 - Tax credit of 30% of investment
 - Provincial credit / refundable
 - Maximum \$60,000 credit
 - Provincial employee investment plans as well

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Top 10 Tax Tips You Need to Succeed

5. Invest with RRSP Funds

- Early financing can use friends and family available funds
- Limitations on size and nature of investment
- Plan ahead

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Top 10 Tax Tips You Need to Succeed

6. Defer Millions \$\$ in Capital Gains

- Based on certain reinvestment rules
- \$2,000,000 investment maximum
- Investment in eligible small businesses (less than \$50 million in assets in active business)
- Deferral as long as funds are reinvested

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Top 10 Tax Tips You Need to Succeed

7. Don't Pay BC Sales Tax (Please !!)

- New rules effective July 1, 2001
- Rules apply to manufacturing and prototypes

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Top 10 Tax Tips You Need to Succeed

8. File Tax Returns on Time

- GST refunds monthly
- SR&ED cash refunds – 18 month limitation
- Federal / Provincial tax returns
- Provincial sales tax returns

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Top 10 Tax Tips You Need to Succeed

9. Canadian Tax Rates

- Corporate rates from 17.62% - 39.62%
- Personal rates
 - Income – 43.7%
 - Capital Gains – 21.85%
 - Dividends – 31.58%

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Top 10 Tax Tips You Need to Succeed

10. Migrate I.P. Outside Canada

- Not a do-it-yourself project
- Not a U.S. option
- Significant planning = significant longterm savings
- Earlier is better
- Cost / Benefit analysis

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Strategies for using Professional services by experienced entrepreneurs

Peter van Bodegom
Tice
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Agenda

- Entrepreneur Objectives
- Role of Professional Advisors

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Entrepreneur Objectives



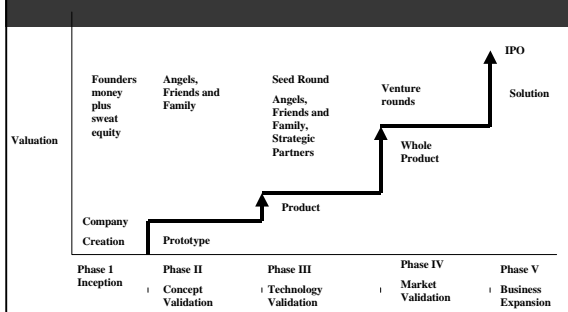
Entrepreneur Objectives

Experienced entrepreneurs that have taken a company through the whole cycle from inception to IPO or sale will focus at the inception of the project on structure, systems and process in order to make sure that the business will scale properly.

As a consequence, professional advisors are involved in various capacities to assist the early stage technology companies

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Value Staircase



Timeline and Phases

Pre-Product	Pre-Product	Post Product	Post Product	Expansion
Concept/Planning stage	Concept Validation	Technology Validation	Market Validation	Business Expansion
Research/Concept	Commercial Idea	Seed	Start-up	Expansion
Can be many years or a few months	3 months to a year	3 months to 2 years	1-2 years	3- 5 years
Evaluate using a process to determine where to seek opportunity	Seek Market feedback on concept directly from customers and influencers	Develop Prototype that meets customers and market needs	Build market presence in niche with strategic partners etc	Expand and grow market applications for product

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Timeline and Phases (Cont'd)

Pre-Product Concept/Plan ing stage	Pre-Product Concept Validation	Post Product Technology Validation	Post Product Market Validation	Expansion Business Expansion
Build Management Team and Board of Directors	Beta Clients	Beta Trials	Sales to early stage customers	Expand and grow sales funnel
Founders put up initial funds and form company	Seek Friends and family rounds	Private Placement rounds	Venture capital, private placement or self funded	Venture Capital round Banking, IPO, Acquisition

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Liquidity Events

Liquidity Event needed to permit early investors to exit their investment.

Need to build into process the types of liquidity events that are suitable for the business

Liquidity event can be anyone one or all of:

- buyback shares
- IPO
- Sale of business
- Merger or acquisition
- Dissolution

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Liquidity Events Funding Process – The Facts in the US

- VC's fund, on average, 5 out of every 1,000 plans
 - 50% of funded companies go bankrupt
 - 25% of funded companies merge/sell-out
 - 25% of funded companies go IPO
 - 50-60% held by investors
 - 15-25% held by Founder(s)
 - 10-25% held by Executive Team Member(s)

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Entrepreneur Objectives

Personal Planning

- This is one of the major failings of first time entrepreneurs is not planning for personal success versus business success
- Need to plan to take advantage of the tax act
- Structure to take advantage of the \$500,000 capital gain exemption

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Role of Professional Advisors



Types of Professional Advisors

- Legal Corporate and Securities
- Intellectual Property
- Accounting and tax
- Valuation
- Banking and Investment Banking
- Human Resources
- Communication and Investor Relations
- Marketing and Sales, Strategy and Market Analysis
- Merger and Acquisition, Strategic Partnerships

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Professional advisors

- Look for industry expertise
- Look for experience with similar types of companies
- Look at the team that they can bring to the table
- Look at access into your key markets
- Help through each phase of the value staircase
- Help you develop an understanding of the key business financial, legal and investment issues as you go through the phases.

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Professional advisors

What should you be looking to achieve?

- Sounding board for your new idea or concept
- Steps needed to protect your idea- develop an IP strategy
- Leverage knowledge of the tax and securities acts to help finance the business
- Challenge your assumptions
- Build a credible business plan and set of financials
- Build a credible team including board of directors
- Open doors to key customers and key strategic partners
- Help build credibility- stamp of approval

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Professional advisors

What are the Professional Advisors looking for?

- Value proposition that makes sense
- Build a long-term relationship at an early stage with integrity and honesty (Enron)
- Credible companies with management and an opportunity
- Knowledge and expertise in the market niche
- Listen to advice and help anticipate problems rather than react.
- Understanding of the role of professional services and ability to pay

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Conclusion - Remember the value of free advice



• Peter van Bodegom CA, CPA,
MBA ph. 604-806-7673

• Don Furney CA
ph. 604-806-7045

• Warren Nimchuk, CA
ph. 604-806-7019

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Value Proposition

There are three sources of must-have value propositions:

- It enables a previously unavailable strategic capability that provides a dramatic competitive advantage in an area of prime operational focus
- It radically improves productivity on an already well-understood critical success factor
- It visibly, verifiably and significantly reduces current total overall operating costs

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