

## **WPI Venture Forum**

Worcester Polytechnic Institute  
Alumni Association  
100 Institute Road  
Worcester, MA 01609  
(508) 831-5821

Non-Profit Org.  
U.S. POSTAGE  
PAID  
Permit No. 1654  
Worcester, MA

ADDRESS CORRECTION REQUESTED

### **WPI VENTURE FORUM CALENDAR OF EVENTS**

*Septmeber 16, 1997*

Starting a Successful Business

*October 21, 1997*

Identifying Your Distribution Channels

All meetings in Kinnicutt Hall, Salisbury Labs  
(our usual location).

For a recorded announcement of the next  
program or to receive future mailings, call  
(508) 831-5821.

#### **Directions to WPI Campus, Salisbury Labs, Room 115**

**From the East**—Take Massachusetts Turnpike (I-90) to Exit 11A (I-495). Proceed north to I-290, then west into Worcester. Take Exit 18, turn right at end of ramp, then take an immediate right before the next traffic light. At the next light, proceed straight through, bearing right onto Salisbury Street. At the WPI sign, turn left onto Boynton Street. Parking will be on your right, behind Gordon Library. Salisbury Labs is up the hill across from the Library.

**From the North**—Take I-495 south to I-290. Follow directions as from the east.

**From the South and West**—Take Massachusetts Turnpike (I-90) to Exit 10 (Auburn). Proceed east on I-290 into Worcester. Take Exit 17, turn left at end of ramp, follow Route 9 west through Lincoln Square, straight onto Highland Street. Turn right onto Boynton Street. After crossing Institute Road, parking will be on your left, behind Gordon Library. Salisbury Labs is up the hill across from the Library.



Promoting and serving technology-based entrepreneurial activity

Volume 7 No. 1  
September 1997

# Starting Your Business

*A look at the upcoming meeting*

September 16, 1997  
Dr. Norman E. Gaut  
Chairman and CEO  
PictureTel Corporation

**I**f you have ever thought of starting a business or growing your company to great success, you should not miss our first meeting of this year's WPI Venture Forum. Starting a business is the dream of many individuals who would like to be entrepreneurs. We may have a better idea, a new product, or even a new creative way to sell to a market. Every day, there are those that take the leap and start a business as a first step to attain their goals. A few of these companies grow to great success, setting the standards for the next generation of new companies. From time to time, a few of those who started these successful companies share their history with entrepreneurs that are just beginning. It is with great pleasure that the WPI Venture Forum welcomes such an individual, Dr. Norman E. Gaut, Chairman and CEO of PictureTel Corporation, as the first speaker for our 1997-1998 season.



*Dr. Norman E. Gaut*

Dr. Gaut will present not only his experiences in starting businesses, but also his perspective in making them successful. Originally a physicist from UCLA, Dr. Gaut earned a doctorate degree from MIT in planetary physics. Dr. Gaut co-founded Environmental Research and Technology Corporation where he served as president until 1985. At its inception in 1984, he joined PictureTel as director. He became CEO and president of PictureTel in 1986 and chairman of the board in 1987. Under Dr. Gaut's direction, PictureTel has become the world market leader in the videoconferencing industry. During this time, the company has developed and marketed a wide variety of group conferencing systems and related products and services.

PictureTel is the global leader in videoconferencing, capturing almost 60% of the worldwide market with its 50,000 installed systems. PictureTel differentiates itself from its competitors in several ways. The company has a global distribution network for its products and services. It has direct sales offices in major cities and distribution partners around the world. It has the widest product offering in its area covering a full range of videoconferencing systems. The company prides itself on its commitment to service. All

of these facts have contributed to making PictureTel a \$480 million company following many years of continual growth.

In 1994, PictureTel developed its first PC-based desktop videoconferencing systems and the company quickly became a leader in that segment of the industry as well. In addition to personal and group videoconferencing systems that serve visual communications needs from the desktop to the boardroom, PictureTel also markets network conferencing products and a comprehensive portfolio of enterprise-wide services.

### Case Presentation

*Tony Giroti, President and co-Founder  
MaxSol, Inc.  
403 Massachusetts Avenue  
Acton, Massachusetts 01720*

MaxSol, Inc., is a World Wide Web software company founded in 1995 that is developing a new type of decision support software for non-technical and business users. MaxSol's vision is to deliver the type of software that is low-cost, easy-to-use, learn and maintain and that will eliminate the need for technological knowledge by the end-user. Its initial product — ▶

*continued on page 8*

## Welcome Back!

September  
Meeting Sponsors—

**Ernest & Young**  
and  
**Fleet Bank**

### CONTENTS

Letter from the Chair . . . . .	2
Stock Options in a Nutshell. . . . .	3
Hiring a PR Firm. . . . .	4
Sales as a Science, Not an Art . . . . .	5
Past Meeting Summary . . . . .	6
How to Prepare a Press Release . . . . .	8
Calendar of Events, Directions . . . . .	12

## VENTURE

The mission of the WPI Venture Forum is to promote and serve technology-based entrepreneurial activity through education, networking, and recognition.

### EDITOR

Nancy McKenna (508) 793-7615

### ADVERTISING

Richard Gaudette (508) 752-5691

### SPONSORS

**BANNER & WITCOFF, LTD.**, patent law

**BOWDITCH & DEWEY**, general law

**COMMONWEALTH BIOVENTURES**, venture capital

**COOPERS & LYBRAND**, accounting

**ERNST & YOUNG**, accounting

**FLEET BANK**, banking

**IANDIORIO & TESKA**, patent law

**MASSACHUSETTS TECHNOLOGY DEVELOPMENT CORP.**,  
venture capital

**MIRICK O'CONNELL DEMALLIE & LOUGEE, LLP**,  
general law

**MOTTLE MCGRATH BRANEY & FLYNN, PC**, accounting

**PIXELVISION**, flat panel technology

**WEINGARTEN, SCHURGIN, GAGNEBIN & HAYES LLP**

**WORCESTER BUSINESS DEVELOPMENT CORP.**

**ZERO STAGE CAPITAL**

### EXECUTIVE BOARD

Brian Dingman, Chair

Shari Worthington, Vice Chair

Paul F. McGrath, Treasurer

Mark J. Conoby '83, Clerk

Norman T. Brust, Past Chair

McRae C. Banks

Robert J. Creeden

Sharon C. Davis

Stephen N. Davis

William P. Densmore '45

Jeffrey L. Donaldson

Martina Gorski-Strong '84

Robert E. Hokanson

Peter D. McDermott '73

Nancy McKenna

Mark Parish

Stephen C. Paulson

Richard H. Prince

Stephen M. Pytka '68

Linda Rammer

Pamela Sager

Jack Zimmanck

*(Year indicates WPI graduation date)*

### WPI VENTURE FORUM COMMITTEES

1997 Entrepreneurs' Workshop:

Stephen N. Davis (508) 528-6946

Business Plan Contest:

Pamela Sager (508) 435-8787

Marketing Committee:

Monthly Programs:

Mark Parish (508) 520-9586

New Program Committee:

William P. Densmore '45 (508) 753-2500

Online Services:

Shari Worthington (508) 755-5242

Radio Program:

Robert E. Hokanson (508) 869-2984

Sponsorship: Robert J. Creeden (617) 723-4920

WPI Venture Forum ©1997, A monthly publication of The WPI Venture Forum and the WPI Alumni Association, 100 Institute Rd., Worcester, MA 01609, (508) 831-5821. Volume 7, No. 1, September 1997.

## Letter from the Chair

# Welcome Back!

Brian Dingman, Chair

Welcome to the eighth season of the WPI Venture Forum! We look forward to continuing to present thoughtful, informative programs to our 3,000 members, and anyone else interested in entrepreneurial activity.

I am proud to be the recently-elected Chair of the Venture Forum. Through my years of involvement with the organization, I have become increasingly impressed with the quality of the programs presented by the Forum and the professionalism of the people associated with the Forum. I encourage each of you to attend our programs and seriously consider volunteering for one of the many committees making up the WPI Venture Forum.

For those readers unfamiliar with the WPI Venture Forum, I wanted to review who we are, what we do, and how we do it. This column will start the process, and I will plan on finishing next month. For readers who are familiar with the organization, please continue reading to learn more about the Forum and opportunities to join the large group of volunteers involved in the organization.

The WPI Venture Forum is a non-profit organization which operates under the auspices of the WPI Alumni Association. The Venture Forum is an all-volunteer effort, with the exception of a single, part-time paid staff person working at WPI. The organization is run by a twenty-two person Board of Directors which meets monthly. The Board oversees the operation of a number of active committees, each of which is chaired by a Board member and includes up to 10 to 15 additional volunteer committee members.

The mission of the WPI Venture Forum is to promote the spirit of entrepreneurship, and to bring advice, support and education to those who engage in technology-based entrepreneurial enterprises. This mission is accomplished primarily through programs planned and executed by the organization through the Committees.

The WPI Venture Forum sponsors ten monthly programs each season which are always held from 6:30 to 9:00 p.m. in Kinnicutt Lecture Hall, Room 115, in the Salisbury Labs building on the WPI campus. A map with directions to parking and the lecture hall is published on the last page of this newsletter. Anyone can attend a monthly



Ron Bouley

program. The cost is \$7.00, payable at the door. Registration begins at 6:00 p.m. There is no advance registration. Each program is typically attended by from 75 to 200 attendees.

Each monthly program addresses a business issue critical to successful technology businesses. A list of this year's topics is published in this newsletter. At most monthly program meetings, the first half of the program is devoted to a talk given by a successful business person with relevant experience in the topic area, followed by audience questions and answers. A 20 minute networking break follows the speaker. We consider networking to be of critical importance to entrepreneurial activity and thus actively foster networking at every Venture Forum event.

After the break, a company with issues deemed to be of interest to the audience presents its business case to the attendees, typically using slides or overheads to supplement a twenty-minute presentation. Before the presentation, the company has discussed with the Program Planning Committee a small number of critical issues with which it desires assistance. The Committee then secures a panel of two to three experts in such critical issues. Each expert reads the business plan, discusses it with the company, and prepares 5 to 10 minutes of comments on the company, its plan, and the particular issues. The panelists each present these comments to the company and audience after the case presentation. The meeting then closes with 15 to 30 minutes of Q & A between the audience and the case and/or panelists.

The monthly programs are planned and implemented by the Program Planning

# Stock Options in a Nutshell

by Kathryn Cook, Mary Walsh and Danielle Cobey, Entrepreneurial Services Group, Ernst & Young, LLP

Committee, which meets year-round to select program topics, quality speakers, case presentations and panelists for the case. All participants in each monthly program donate their time. The Committee is chaired by Mark Parish. If you are interested in volunteering for the Committee, or being a case presenter, please call Mark at (508) 520-9586.

The Venture Forum also sponsors an Annual Workshop, typically held on a Saturday in March in several venues on the WPI campus. This premier event typically draws about 250 attendees. In recent years, the Annual Workshop has run a full day. This season's Workshop is expected to be a half-day program focused on a single, critical issue of importance to entrepreneurs and businesses involved with or utilizing technology.

The format of the Annual Workshop varies. Typically, however, a number of topics concerning a common theme are addressed by panels of experts in the field. There may be four to six in-depth sessions, each running one to two hours.

The Annual Workshop is planned and executed by the Annual Workshop Committee which this year is chaired by Steve Davis. If you would like to join the Committee, please call Steve at (508) 528-6946.

As must be apparent by now, the WPI Venture Forum is a large, vital organization. I have run out of space for this month, so please look to the next newsletter for more on our organization and programs. I will see you at our September 16, 1997 monthly program. **VF**

In order to attract the best and brightest employees to your business, you must offer a competitive compensation package. This is difficult for a start-up company because you have little track record and (often) limited cash. You may have wonderful career and growth opportunities to offer prospective employees, but you must somehow lure them from their current stable paychecks or other, more immediately lucrative, offers from established companies. How can you, as a start-up company, compete for such employees? Consider incorporating stock options into your compensation packages.

## What are stock options?

Stock options are granted to an employee by an employer as compensation. Stock options give employees the right to purchase employer stock at a fixed price at a future date. Once the right to purchase the stock is vested in an employee, the option becomes legally enforceable by the employee. However, the employer has no corresponding legal right to force purchase of stock where the employee declines to exercise his option.

## Why use stock options?

There are numerous reasons for a start-up company to consider offering stock options as part of its compensation plan. First, stock options offer employee compensation without depleting precious cash. Thus, cash which otherwise would have paid salaries, will be available for other company needs such as marketing, research or equipment purchases.

Second, stock options tie employee compensation to the growth and performance of the company. In order for a stock option to be of any value to the employee, the company stock must increase over the exercise price. This gives the employee a personal stake, a strong incentive, to do all that he can to ensure that the company increases in value. Additionally, if a significant portion of an employee's compensation is tied to stock options, rather than a fixed salary, this may attract a more creative and motivated class of employee to the company.

Stock options are also a vehicle by which to retain employees. Stock option plans generally require that the employee become vested over time in her options in order to exercise them. If the employee leaves the company before her options vest, the employee loses the right to exercise those options. Thus, the employee has incentive to remain with the company in order to exercise her options, as well as the incentive to produce high quality work in order to increase the value of the company and its stock.

## What are the tax effects of stock options?

For Federal Income tax purposes, compensatory stock options are classified as either qualified (statutory) or non-qualified (non-statutory). Qualified stock options give preferential tax treatment under the Internal Revenue Code to the employees who receive those stock options. However, there are issues other than bestowing the greatest benefit on your employees to consider in deciding which type of plan to use.

## Qualified Stock Options.

The two principal types of qualified stock option plans are Incentive Stock Options ("ISOs") and options granted under employee stock purchase plans ("ESPPs"). ESPPs are more formalized stock purchase plans which must be non-discriminatory (that is, generally available to all company employees). ISOs are not bound by the non-discrimination rules, and thus may be offered to select employees. Because start-up companies are probably not going to immediately establish ESPP plans, this article will outline the tax considerations of ISOs only.

ISOs are defined, by statute, under Internal Revenue Code §422. In order to be considered an ISO, the plan must meet several requirements outlined as follows:

- The option must be granted under a shareholder-approved plan specifying the number of shares to be issued and the employees who will receive the options. ►

*continued on page 9*

# Hiring a PR Firm

by Keith F. Westerman, APR, Westerman Communications

Starting a small business in America today requires not only understanding the market that's being entered but also appreciating the need for attention from the media in order to reach the business' target prospects, be they the general public or niche businesses.

In order to effectively launch your new business and reach your market, you should consider the hiring of an outside public relations agency. To be competitive, companies must start competitively and that requires a well-orchestrated roll-out of your business.

## Evaluate A PR Firm

For many new business owners, going outside for public relations is a responsibility that they may never have carried out before. But the task of hiring a PR firm is not as difficult as it may appear. It requires only a basic understanding of communications and the possession of common sense. Having worked "both sides of the desk," I believe that the following suggestions may be of use to those who may one day have to hire outside PR counsel.

**Identify And Prioritize**—Develop and prioritize your new business' goals in terms of public relations. List what you want the PR firm to do for you, and how you see it fitting into your overall marketing strategy.

**Screen Agencies**—Ask other business professionals that you admire for recommendations of area agencies that they have used in the past. Go to the local chapters of professional organizations such as the Public Relations Society of America for names of agencies which belong to them. Contact members of the press who cover your field; ask them who they respect in the PR community.

**Select**—After the initial screening, a few agencies should top your list. Contact the top six and ask for information such as the firm's experience in your product or service area, the depth of its staff's professional qualifications, its specialized in-house skills, its current client list, including a list of customer references, and any printed materials about the firm.

**Review And Compare**—Review the information that you received and then pick three agencies to meet with that seem to meet your needs. During the meeting, look at the gen-

eral management capabilities of those who would manage your account. What are their personalities like? Are you comfortable with them? Do they know your industry well? Use some of your industry's "buzzwords" and watch their reaction.

**Get A Proposal**—Request a proposal from each. This should include: a PR situation analysis (the agency's understanding of your PR problem,) goals, strategies, tactics, a timetable and a budget.

**Costs**—Negotiate a billing system that you are comfortable with in terms of cost and which allows you to anticipate monthly agency fees.

**Review**—Review all proposals in-depth, looking for possible weaknesses. Once you have chosen the agency, inform the remaining contenders by mail or phone that you've made a decision and thank them for their interest.

**Finally**—Now that you've decided, utilize the agency! Give it all the information that you

can. Be honest with your account team. Meet with them as often as possible. Remember that they are there to help you.

If you follow the above suggestions, you should be able to find a competent PR agency that can meet your needs. As many new companies are now realizing, a pro-active PR campaign built around the start of your new venture can mean a strong start in terms of a customer base, more revenue and community recognition and support.

Starting a new business is tough. Telling those who need to know of your new venture is even tougher. Having the right PR agency makes it a lot easier and now that you know how to hire one, do so.

*Keith F. Westerman, APR, is a Principal of Westerman Communications, 1359 Hancock St., Suite D, Quincy, Massachusetts, 02169. He works with professional service firms, high-technology companies and other businesses and can be reached at 617-847-6000. VF*

# Sales as a Science, Not an Art

**Predictable Revenue Results Can Be Possible, If You Understand the Fundamentals**

by Barry Clapp, President, The Source Recovery Company, L.L.C.

Many managers of small to medium sized companies come from business disciplines other than sales and marketing, so managing the sales function can be a mysterious and frustrating experience. All we want is to be able to manage a sales forecast that has some predictability to it, and not always be bushwhacked at the end of the quarter with a missed revenue number. With a little understanding of the fundamentals of sales cycles and forecasting, surprises CAN be minimized.

## Know Your Sales Cycle

Most all sales transactions follow a somewhat predictable series of steps to closing. Prospects must be aware of us, must express an interest and need, we must present our product, prove its claims, justify its cost, answer any objections, and make sure that the buyer has the money and authority to make the purchase. Devices that we use to walk people through these steps might include things like mailings, trade shows, tele-marketing, ads, sales calls, home office visits, trials, proposals, presentations, etc.

The important thing is that you know your sales cycle, and that you understand how it satisfies the needs that your prospect has to come to a buying decision. You then should be able to determine how many prospects you need to have at each stage of the cycle in order to make the right revenue number pop out the back end. And, you should be able to figure out how much time each stage takes, on average, so that you can statistically figure out when they might pop out. If you know that 100 leads in September usually lead to

25 demos in October, 10 proposals in November, and 5 sales in December, then, if you don't have the 100 in September you had better start scrambling. Managing sales effectively means managing those interim measurement points.

As soon as you have a handle on your sales cycle, you can then try to streamline and improve it. If you can figure out what the prospect gains from each stage, you can work to find faster and simpler ways to get that decision point accomplished. You can also try to squeeze multiple decision points into single sales cycle stage events/materials, hence shortening the cycle and reducing costs.

## Forecasting

A good rule of thumb in forecasting is if you want to be 100% of quota have 200% of your number in the queue. One half of your prospects will never come through! A good trick is to ask yourself (or your sales manager) - what if our largest prospect (or two) falls out of the forecast? How will we make the number then? The nausea created by the question should inspire you to get more prospects into the queue.

Also, it is imperative that you understand whether the prospects are truly QUALIFIED. Questions like - do they have the money in the budget? Will they accept a proposal? Who else are they considering and what are their buying criteria? Have we spoken to the decision maker? etc., will help to determine whether you are deluding yourself by thinking that the prospect is ready, when, in fact, they are not.

## Conclusion

A wise sales manager once said, "The second best answer is no."

The key to sales success is to be working on the best leads. Be disciplined in managing the sales cycle, rigorously weed out unqualified prospects, and, always, FIND MORE PROSPECTS! Getting rid of bad prospects makes you more efficient and gives more time for the likely buyers.

That same manager said, "Surprises are for little kids at birthday parties." He could have added, "and unemployed former sales managers, and bankrupt entrepreneurs."

*Barry Clapp is a Principal in the firm of Business Developers, which helps early stage companies to set strategy, obtain capitalization and grow. He is also the president of one of Business Developers portfolio companies, The Source Recovery Company, L.L.C., located at 20 Speen St., Framingham, Massachusetts. He can be reached at 508-626-9955. VF*

## CALENDAR OF EVENTS

September 16, 1997

Starting a Successful Business

October 21, 1997

Identifying Your Distribution Channels

November 18, 1997

Networking for Success

December 16, 1997

The Reality of Virtual Companies

January 20, 1998

Structuring Your Team for Growth

February 17, 1998

Growth Forecasting—Not Just Smoke and Mirrors

March 17, 1998

Surviving the Crisis

April 21, 1998

Financing Your Company's Future

May 19, 1998

The Science of Sales

June 9, 1998

Writing a Successful Business Plan and the Contest Winner!

# International Sales for the Early-Stage Company

By Richard Wiggins, Principal, Emerging Growth Management

The May meeting of the WPI Venture Forum addressed selling internationally and examined issues in the biotechnology market. Nigel Harvey of the Empyrean Group discussed the concerns an entrepreneur should consider when pursuing export markets. This was followed with a case presentation by Morey Kraus of t. Breeders, a development stage bioengineering company. Natalie Rudolph moderated the meeting.

## Selling Internationally

Nigel Harvey opened with the assertion that the nuts and bolts issues (export licenses, getting customers and arranging to get paid) would quickly become the least important concerns for prospective exporters. He said the most important concerns would be product, product design considerations and marketing activities.

Nigel presented an itemized list of 7 questions that entrepreneurs should ask before they undertake to sell their products overseas.

**Which products to export?** To eliminate the added worries of dealing with new product issues, Nigel recommended selecting an existing product for the initial exporting initiative. Good candidates for export are products with excess manufacturing capacity, products with good profit margins and products with a good selling history in the U.S. Also, products which are late in their life cycles, as well as products in which the foreign markets are counter-cyclical to U.S. markets.

**Where to market them?** Start in countries where you will not experience a high degree of culture shock. English-speaking countries would be good choices. Canada has the added advantages of being next door and of being a market much like the U.S. By contrast, Mexico, our other North American export market, has many more complicating factors.

**What are the regulations?** Except for National Security concerns and trade sanctions, you have the right to export your product under a general export license (with no formalities).

However, it is your responsibility to find out whether or not U.S. export controls apply to your products. In the export country, you need investigate trade agreements, currency restrictions, product and safety standards and local customs.

Nigel elaborated on the importance of researching and understanding your export markets carefully. He listed a number of sources available. He suggested contacting the country specialist at the Department of Commerce or the commercial attache connected with the U.S. embassy in the targeted export country. Massport and the Massachusetts Office of Trade and Investment can also help, as can private consultants familiar with the information you seek.

**Whose products do they buy now in the export country?** Get to know the competitive environment. Who makes the current products and where do they originate?

**Who sells to the export market now?** Find out the channels used by the competitive products and plug your products into these channels. Pioneering new channels could lead to additional headaches.

**How do they know about them?** Understand the promotional vehicles currently used by the competition. Then present your product in ways that are easily accommodated by the local markets.

**Why might they choose yours?** Just as in domestic markets, your competitive position is determined by relative pricing, market needs and product advantage.

Nigel's two underlying themes were (1) that you should follow existing practices and thereby make the job easier by reducing complications, and (2) that once you get started, you should show commitment and keep the pressure on. Don't give up! No export initiative ever succeeded, he said, by "dabbling your toe in the water."



Ron Bouley

Morey Kraus of t. Breeders, Inc. explains his cell process to the audience and panel.

## Case Presentation

Morey Kraus  
t. Breeders, Inc.  
One Innovation Drive  
Worcester, Massachusetts

t. Breeders is a development stage bioengineering company that is developing a system to isolate human cells for use in cancer and gene therapy. The company has designed a bioreactor to selectively grow rare populations of blood cells, which may be valuable for reconstituting blood cell production after aggressive cancer treatments such as radiation or chemotherapy. t. Breeders' approach is to collect the patient's own normal cells before treatment begins, then grow them in the laboratory and return them to the patient later - a process called "autologous stem cell replacement." This would avoid many of the costs and problems associated with finding and accepting grafts from unrelated donors. The company is now establishing proof of principle and developing a strategy for growth and commercialization.

Morey Kraus, Founder and CEO, explained his company's product/service model which is designed to take advantage of his basic enabling technology as a platform for multiple commercial opportunities. He discussed his company's stage of development within the context of the unique challenges typical of start-up biotech companies.



*Nigel Harvey explains the issues involved in exporting.*

These include understanding the reality of the “way-in-the-future” commercial opportunity, raising enough money to survive a typically 12 year development cycle and all the issues associated with starting life as a virtual company.

### **Panelists Comments**

Gary du Moulin, Ph.D., from Genzyme Tissue Repair, addressed his remarks to getting the business model correct - to whether t. Breeders should be a product company or a service company. Is the economic opportunity to be found in offering a service or in selling a product? To distinguish between a proper service and a proper product business, he outlined a matrix of considerations, such as the complexity of the technology and the ease of reducing the technology into practice by the laboratory technician.

Sally Seaver, Ph.D., from Seaver Associates, discussed the advantages and disadvantages of a virtual company. The primary advantage of a virtual company is a controlled burn rate, which can be considerable for a biotech company (typically \$150,000 per employee and ranging up in \$10,000 to \$100,000 increments by the time a product gets into clinical trials.)

### **Cheaper Myth**

She called it a myth that “virtual is cheaper.” Actually, it may be more expensive. The advantage is that by contracting out the expense, you incur the expense only for the period of time that it is needed. She recommended looking for a “safe harbor” in the form of a small lab with which to strike a beneficial arrangement. She noted that during scale-up, long delays and huge costs caused by unforeseen problems are fairly typical. In biotechnology, more than any other field, even the simplest processes often go wrong when they get moved out of a carefully controlled laboratory setting.

### **Substantial Costs**

In addition, because many biotech processes have long development periods, a captive lab may not be needed constantly. The cost of keeping a lab in readiness for periodic use or during delay periods can be a substantial burden.

Additional costs associated with complying with FDA regulations need to be considered as well.

Ms. Amy Porter of BASF Bioresearch Corp., addressed several business issues to be considered. In addition to pricing and gross margin issues, she discussed the cost of prosecuting and protecting patents on a global basis, noting the

importance in this industry of having both global protection and a broad patent portfolio.

Amy commented on the myth of assuming that a better product is guaranteed to sell. Changing habits, advanced technology and the degree of improvement offered are all risk factors in the adoption of a new and better product. A company needs to ask itself how to leverage its technological advantage.

### **Patents And Cash Flow**

In biotechnology, overlapping technologies often lead to overlapping intellectual property rights. In order to generate what she called “freedom to operate,” it may be necessary to acquire certain additional intellectual property rights before a company can commercialize its technology.

Amy noted the extraordinarily long development periods for most biotech products - typically 12 years - and the importance of raising enough money to survive until the product can generate a positive cash flow.

Finally, she commented on the importance of getting the business model correct: What kind of business do you want to be in? What if you can't get there? Are other products built in? Can the technology be licensed? What is the nature of the value you want to build? Will the market opportunity still be viable 12 years downstream when the product is ready for market?

*Richard Wiggen is Principal of Emerging Growth Management, located in Lincoln, Massachusetts. He can be reached at 617-259-0489. VF*



# How To Prepare a Press Release

Many businesses get a lot of PR for their business by having the local newspaper, journal or other media cover an event that tells a story about the company. Here's how to write a press release with the proper format.

## Date

Above the title, flush left, indicate the release date. If you want the release to run as soon as possible, write "For immediate release:" and underneath that, also flush left, write the day you are mailing the release. If you want the release to run at a later time, use the words "For release:" and date the piece for when you would like it to run.

## Contact

All releases should have a contact name and telephone number in case the editor has questions about the story. Write "For more information, contact:", flush right, on the same line as "For release:". Place the contact name and telephone number underneath, on the same line as the release date, flush right.

## Title

The title should be catchy and relatively short. It should be centered. Bold-face the title, use a different font or underline it. Note: The title is positioned below the release date and the contact information.

## Body

The body of the story should be double spaced. If it fits on one page, type three "#"'s centered at the bottom to let the editor know that this is the end. If it runs onto a second page, type "-more-" centered at the bottom of the first page and use the three "#"'s at the bottom of the second.

The body of the report should answer the questions, who? what? where? when? and why? about the event. Often these answers are all contained, in brief form, in the first paragraph. The time and place of the event are usually repeated in the last paragraph.

The information should not merely report, but should pique the reader's interest. Make the event into a story. Include quotes and interesting facts. Be creative! **VF**

## Starting Your Business

*Continued from front page*

DbLive@Web™ — enables users to customize, access and publish information from databases by using any industry standard World Wide Web browser. Users do not have to learn details of HTML, CGI scripting, SQL, database schemes or location of databases. MaxSol's point-and-click web browser-based interface allows access to any database on the web and performs query and reporting functions. This is a full end-user product, not an engineering toolkit.

MaxSol has seven patents pending on its DbLive@Web™ product. It identifies its market as being 90% open since only 10% have the know-how or skill to use related current generation software tools. MaxSol estimates this market to be valued at \$1 billion and growing at an annual rate of 60%. Today, the company has a recently released beta version of the its software that operates on a Windows NT platform. MaxSol is testing its software among a group of Fortune 100 companies.

MaxSol is seeking to raise over \$2 million in initial outside funding to help bring DbLive@Web to market. The funding is to be used to support beta installations, engineering, and business development. The company wishes to explore technology licensing and sales and marketing options.

Mr. Giroti is a cofounder of MaxSol. Prior to becoming president and CEO of MaxSol, he pro-

vided consulting and product development services to Fortune 500 companies. He holds a BE in Electrical Engineering from Delhi, and a MS in Electrical and Computer Engineering from the University of Massachusetts. Mr. Giroti will present MaxSol's business plan to an advisory panel which will critique the plan, and to the Forum which can follow up with specific or general questions. The panel of three industry experts will include a venture capital partner, an internet software marketing leader, and a database specialist.

Please join us for our first gathering to meet Mr. Gaut and Mr. Giroti. It is an excellent way to share ideas with top industry-wide talent, learn from seasoned experts, and to voice your opinions. **VF**

## Stock Options in a Nutshell

Continued from page 3

- The option must be granted within 10 years of the date of plan adoption.
- The option granted must be exercisable within 10 years of the grant date.
- The option exercise price must be at least equal to the fair market of the stock at the time the option is granted.
- The option must be nontransferable (other than by death of the employee) and must be exercisable during the employee's lifetime only by the employee to whom it has been granted.
- Immediately before the grant, the employee must not own more than 10% of the stock of the company.
- The value of shares of employer stock which may be exercised for the first time by an employee in any one year cannot exceed \$100,000 (based on the fair market value of the stock on the date of the ISO's grant).
- In order for an employee to obtain preferential ISO tax treatment upon the sale of his stock, he must hold the stock until the later

of two years from the date of the grant of the ISO to the employee or one year from the date that the shares were transferred to the employee upon exercise ("statutory holding period"). Additionally, the employee must be employed by the company from the date of the grant until at least three months before the stock exercise date.

**ISO: Tax Consequences to the Employee.** Grant of Option: An employee does not recognize taxable income at the time of the ISO grant since there is no taxable transfer of property to the employee at the time of the grant. The grant of the option only gives the employee a contractual right to acquire the stock through exercise of the option. The employee's basis in the ISO itself is zero since the employee has not paid for the option nor recognized taxable income on the grant of the option.

**Exercise of Option:** The primary tax benefit of an ISO to the employee is that he does not recognize taxable income upon its exercise. However, the excess of fair market value of the option stock at the date of exercise over the exercise price is treated as income for Alternative Minimum Tax ("AMT") purposes. The AMT paid as a result of the exercise of an ISO is generally creditable against the employee's regular tax when he later sells his ISO stock.

**Disposition of Option Stock:** If the employee exercises his option, his basis in the stock purchased is the exercise price of the stock. As stated above, there are no regular tax consequences upon the employee's exercise of his option to purchase his employer's stock. The tax consequences upon his disposition of the stock acquired through the exercise of an ISO depends upon how long the stock was held by the employee.

If the employee holds the stock and the options for the statutory time period outlined above, the employee has capital gain or loss in the amount of the difference between the proceeds received from the disposition of the stock and his basis in the stock.

If the employee disposes of option stock before the expiration of the statutory holding period ( a "disqualifying disposition"), the employee must recognize as ordinary compensation income the gain on the disposition which

represents the bargain purchase of the stock. The bargain purchase element is equal to the difference between the option's exercise price and the stock's fair market value at the time of the option exercise. The amount recognized as compensation is reported by the company on the employee's W-2. The amount recognized as compensation by the employee is added to his basis in the stock in determining any additional capital gain on the disposition of the stock.

**ISO: Tax Consequences to the Employer.** There are virtually no tax consequences to the employer as regards ISO plans. Because the employee recognizes no compensation income upon grant or exercise, the employer has no corresponding deduction. Only if the employee recognizes ordinary income upon a disqualifying disposition will the employer have a corresponding salary deduction. Additionally, if the employee recognizes ordinary income as a result of a disqualifying disposition, the employer has the obligation to report such income on the employee's W-2, and may have the obligation to withhold and forward payroll taxes against such income.

**Non-Qualified Stock Options ("NQSOs")** Non-qualified stock options ("NQSOs") are stock options which are not qualified stock options (ISOs or ESPPs). These are stock options which, in comparison to ISOs, do not meet ISO requirements (e.g. the NQSO plan has no holding period requirement after the option stock is purchased). Because NQSO plans are not bound by statutory requirements, they allow the employer greater flexibility in plan design than ISO plans allow. However, ISOs (and other qualified stock option plans) offer preferential tax treatment to the employees who receive stock options.

**NQSO: Tax Consequences to the Employee.** Grant of Option: Whether or not an NQSO is taxable to the employee at its grant date depends upon whether or not the value of the option itself is readily ascertainable. If the option value is readily ascertainable (e.g. - listed on a publicly traded exchange), then the grant of the option is taxable as ordinary, compensation income to the employee in the amount of the fair market value of the option on the ►

continued on page 10

## Stock Options in a Nutshell

Continued from page 9

date of the grant. In most cases, the values of the NQSOs are not readily ascertainable at the date of the grant.

If the fair market value of the option is not readily ascertainable (the likely scenario), there is no tax consequence to the employee on the date of the grant of the option.

**Exercise of Option:** If the NQSO was taxed at the grant date, there is no tax consequence to the employee on the exercise date.

If the NQSO was not taxed at the grant date, the employee recognizes ordinary compensation income in the amount of the difference between the fair market value of the stock and the option price on the date of exercise.

**Disposition of Option Stock:** The employee's basis in the stock is the amount he paid for the stock plus any compensation recognized as a result of the grant or exercise of his option. Upon disposition of NQSO option stock,

the employee recognizes capital gain or loss in the difference between the amount received for the stock and his basis in the stock.

**NQSO: Tax Consequences to the Employer.** Employers claim salary deductions regarding NQSOs when its employees recognize compensation income. The employer must report this income on the employee's W-2. The company has the obligation to withhold payroll taxes from the employee's NQSO income reported.

The use of stock options may be a necessary part of any compensation package which you offer to your employees. As this article indicates, there are several issues to consider in connection with stock options. Be sure to contact your tax and/or legal advisor.

*Kathryn M. Cook, Senior Manager, Mary Walsh, Senior Manager and Danielle Cobey, Staff, work in the Entrepreneurial Services Group, Tax Department, Ernst & Young LLP, 200 Clarendon Street, Boston, MA 02116. They can be reached at 617-266-2000. VF*

### ADVERTISING OPTIONS

1/12 page (2 3/8" x 2 3/8")

1/6 page horizontal (4 7/8" x 2 3/8")

1/6 page vertical (2 3/8" x 4 3/4")

1/4 page horizontal (7 1/2" x 2 3/8")

1/4 page vertical (2 3/8" x 7 1/4")

1/3 page square (4 7/8" x 4 3/4")

1/3 page vertical (2 3/8" x 9 3/4")

1/2 page (7 1/2" x 4 3/4")

Full page (7 1/2" x 10 1/4")

Call for information on pricing and multi-issue discounts. Material is due the 1st day of the month preceding publication, e.g. October 1 for the November issue. For more information, contact Richard Gaudette at (508) 752-5691.

## Mentor's Dinner

The WPI Venture Forum

invites you to set aside the evening of  
Thursday, October 30, 1997,  
to attend the second in a series of special  
events

aimed at helping entrepreneurs meet successful corporate managers who can provide sound business advice.

We have arranged for eight successful, local business people to serve as mentors to small groups of entrepreneurs.

Spend dinner with one of these mentors; discuss the ups and downs of how to

