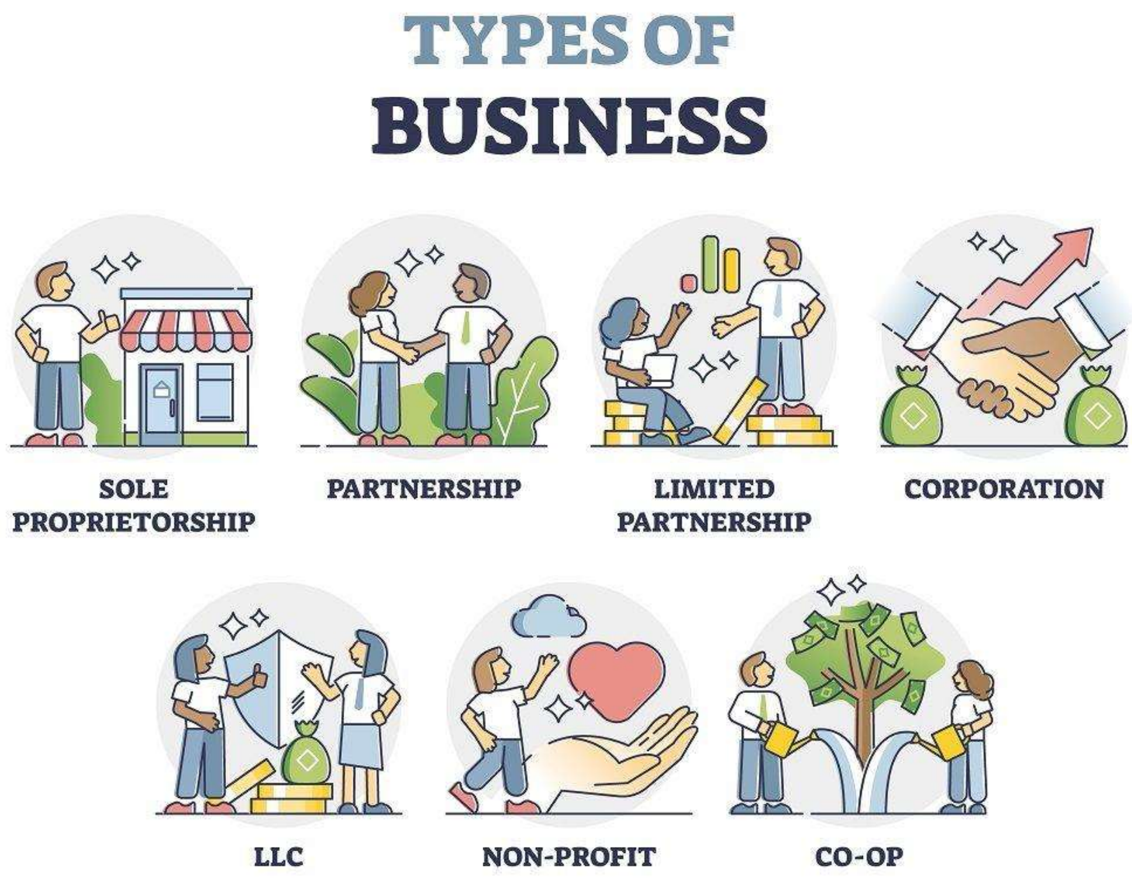


The rich see it as an opportunity, while the poor see it as a scam.

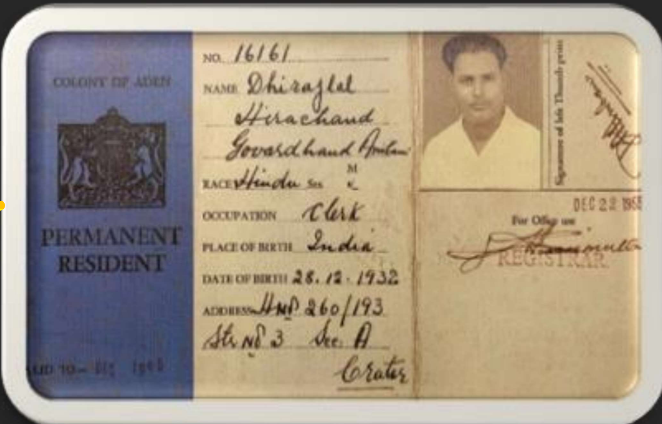
Choice of legal structure

Sagar Chhabriya

A legal structure defines how a business is organized and governed.

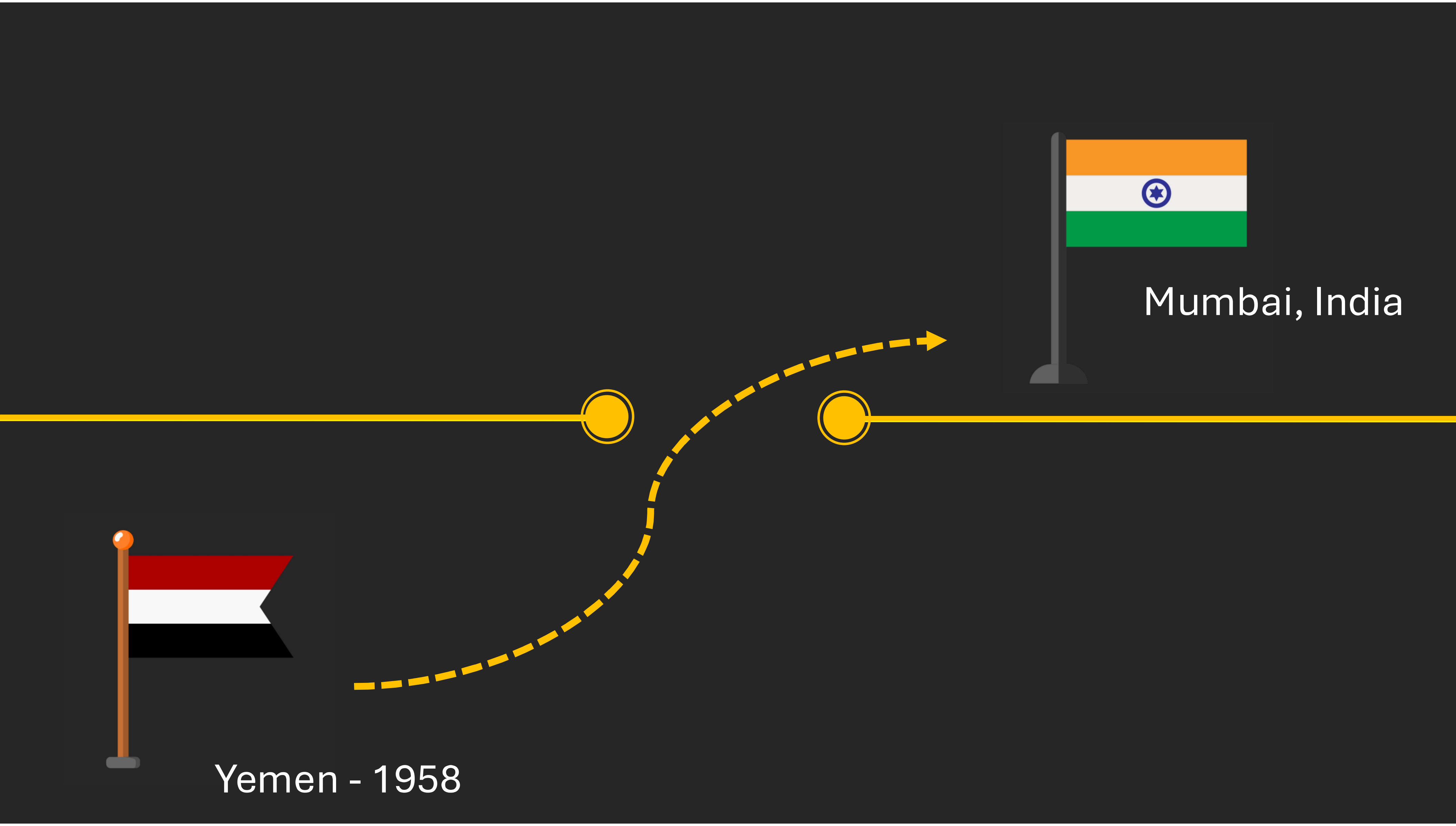
Renowned Indian Gujarati entrepreneur and founder of Reliance Industries.

Yemen Rial. World’s Largest Silver Coin.



1950-Yemen

Shell Petroleum


Mumbai, India
Yemen - 1958


Export
Green Cardamon
Clove
Ginger
Turmeric
Manjin
Import


Export
Green Cardamon
Clove
Ginger
Turmeric
Manjin
Sole Proprietorship
A sole proprietorship is a simple, one-person business, where the owner assumes full control, responsibility, and liability.
Liability: the state of being legally responsible.
Import

Sole Proprietorship

- A **sole proprietorship** is a simple, one-person business where the owner assumes full control, responsibility, and liability.

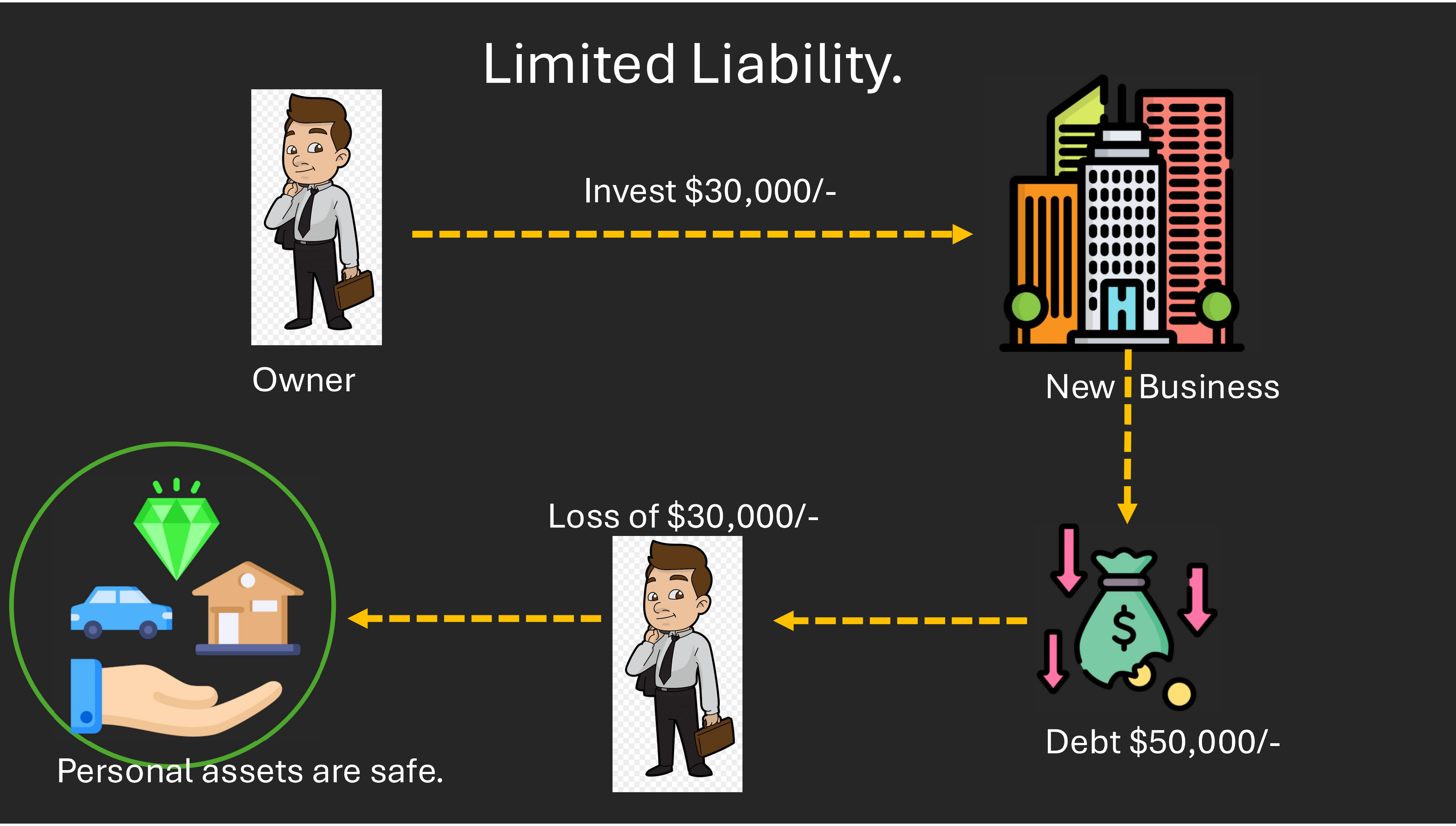
- Liability: the state of being legally responsible.

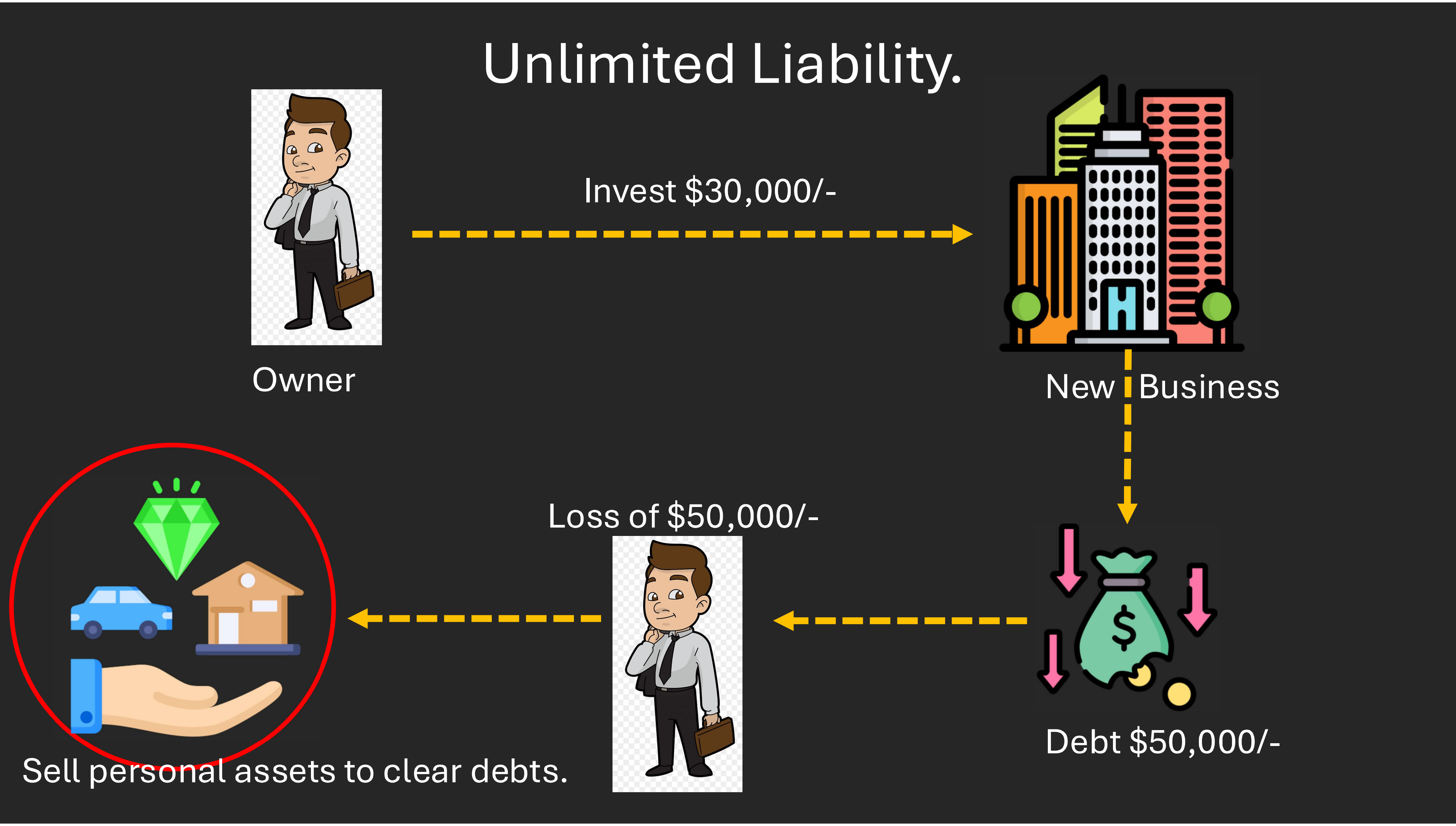
Sole Proprietorship

1 Single Ownership. One man's Capital.

2 No Sharing of profit and loss.
Unlimited Liability.

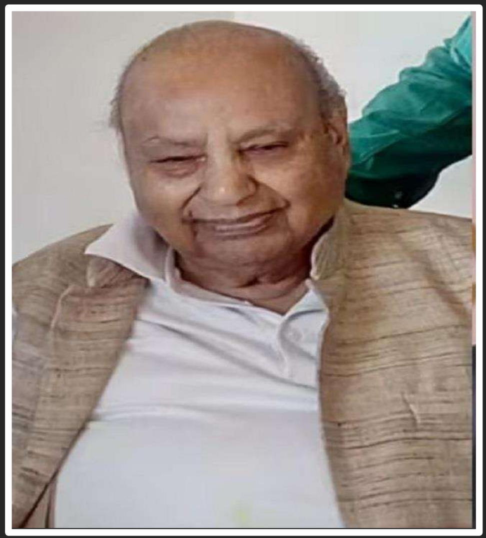
3 One man control. Less legal control.


Limited Liability.
Invest $30,000/-
Owner
New Business
Loss of $30,000/-
Debt $50,000/-
Personal assets are safe.



Unlimited Liability.
Invest $30,000/-
Owner
New Business
Loss of $50,000/-
Debt $50,000/-
Sell personal assets to clear debts.

+



=

Reliance

General Partnership.

Champak Lal. Reliance. Business Growth.

1965.
General Partner.

Structured
Company.

Share risk and bring new ideas
in expansion.

General Partnership.

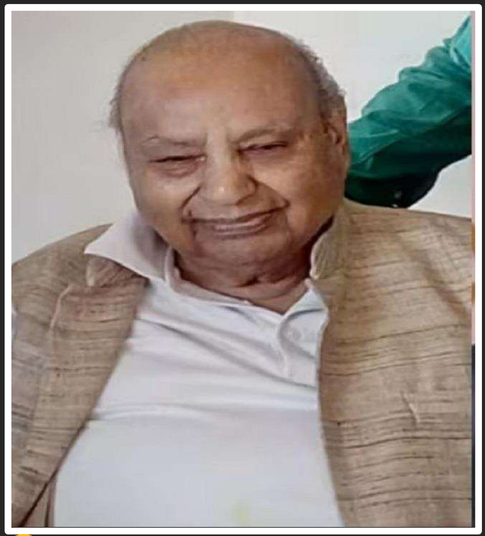
- A **general partnership** involves two or more partners who share the business's profits and liabilities.
- There is no legal distinction between the business and the owners, so both partners are liable for any debts or failures of the business.

General Partnership.

1 More than one owners. More Capital.

2 Sharing of profit and loss.
Unlimited Liability.

3 More man control. More legal control.

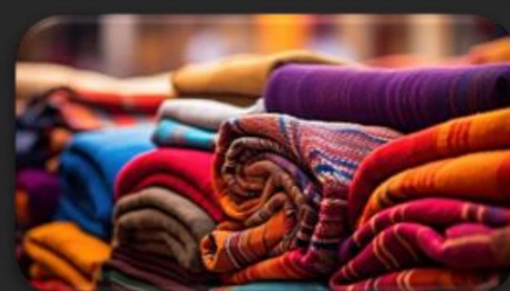


General Partnership.

Differences in their business approaches. Conflicting Visions.

Moved towards corporate structure.

Limited Partnership.

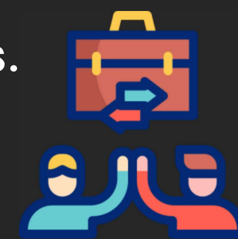


Limited Partnership.

Bringing in outside investment.

1

General Partners + Limited Partners.



2

1. General partners: Unlimited Liability + Runs business.
2. Limited Partner: Limited Liability + don’t run business.

3

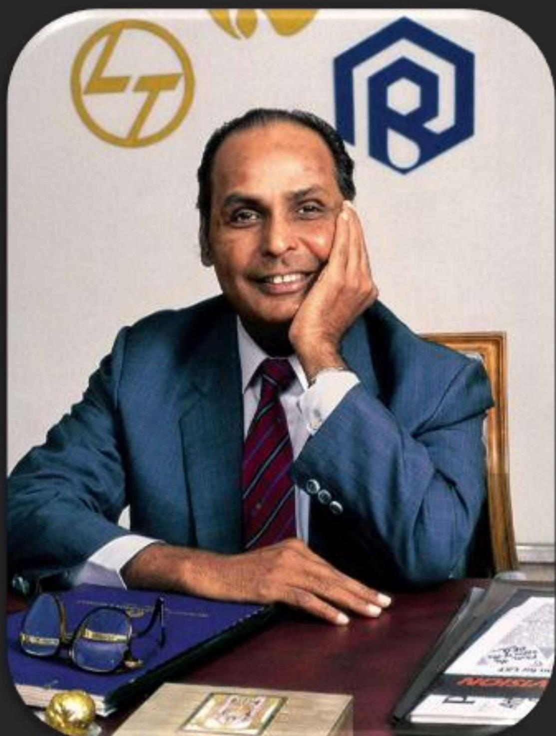
Involvement of limited partners reveals their net worth.

- What common problem owners face in sole proprietorships, general partnerships, and limited partnerships?
- Answer: The responsibility for losses.

Corporation.

Transitioning to a publicly traded business.

A **corporation** is a legal entity separate from its owners, where ownership is divided into **shares**. It can raise capital by issuing stock and has a **board of directors** overseeing its management.



Management

Decision Maker

Corporation

Reliance

Corporation

Transitioning to publicly traded business.

1

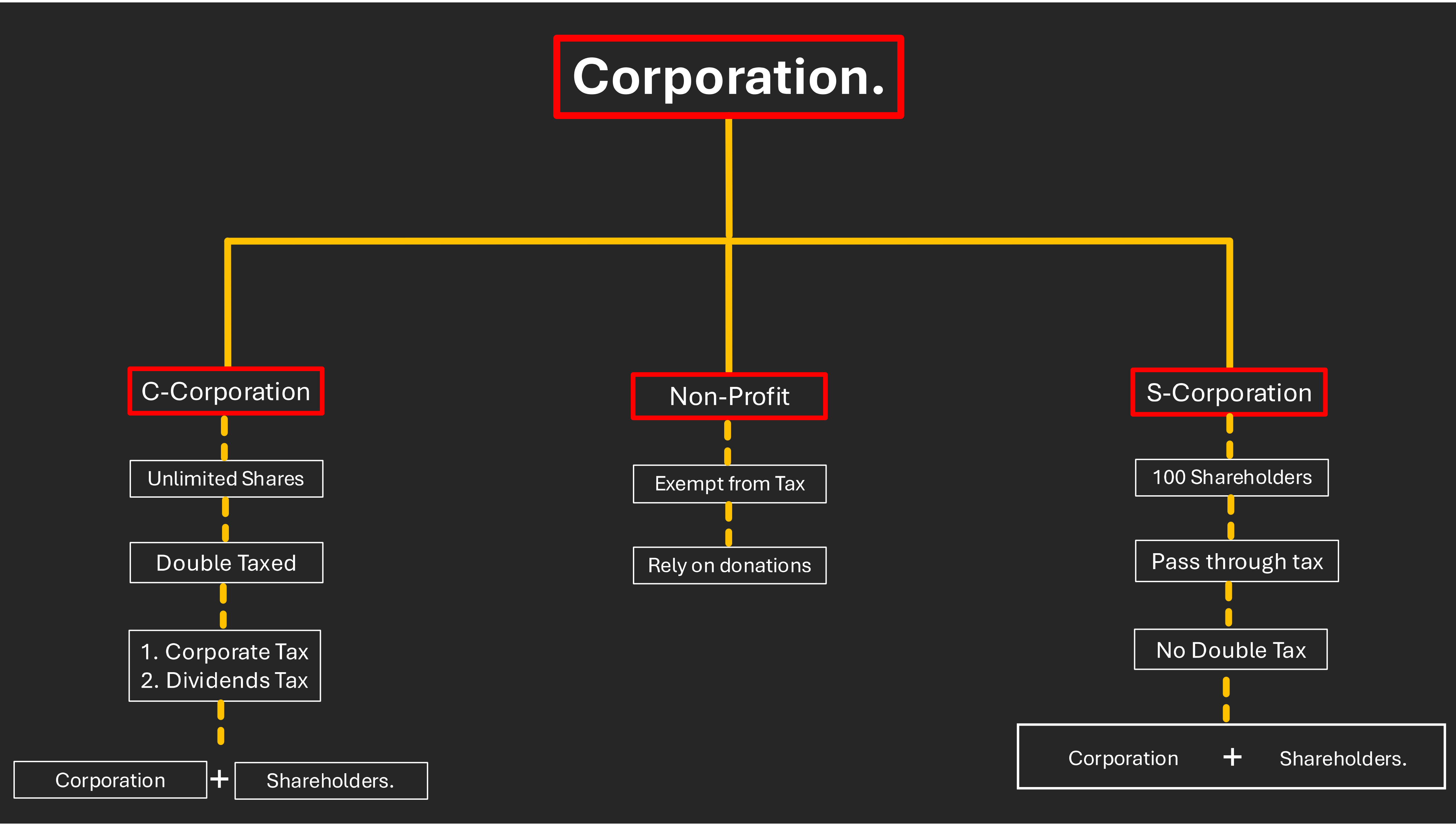
- A separate legal entity from its owners.
- Founders have limited liability.
- Stockholders have limited liability.

2

- Stock issuance
- Self-employment
- Board of Directors

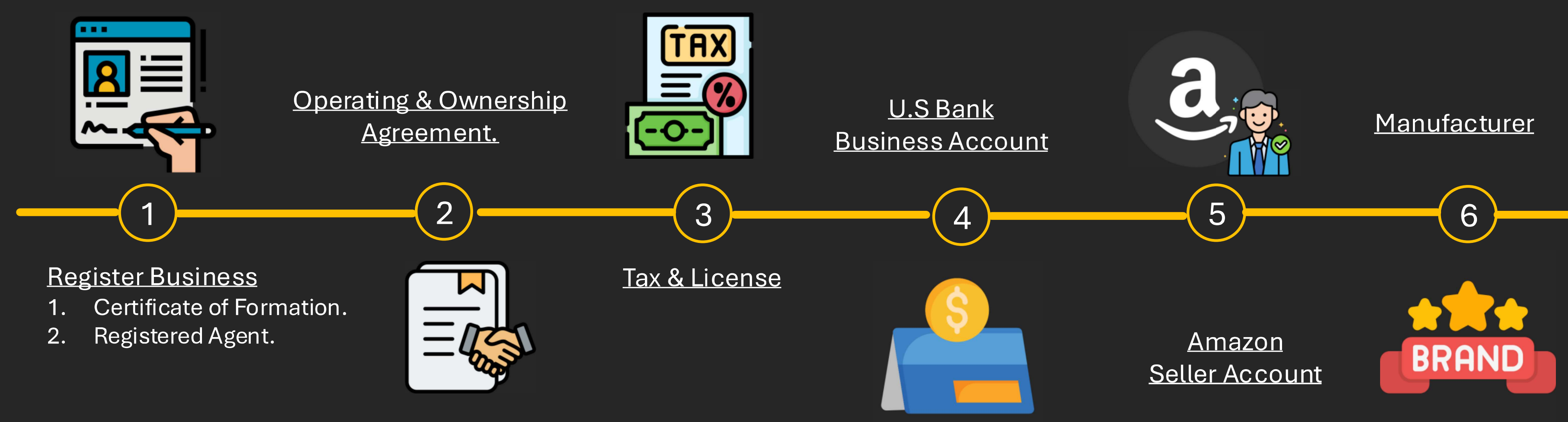
3

Vulnerable to external forces, such as stock market crashes.


Corporation.
C-Corporation
Unlimited Shares
Double Taxed
1. Corporate Tax
2. Dividends Tax
Corporation
+
Shareholders.
Non-Profit
Exempt from Tax
Rely on donations
S-Corporation
100 Shareholders
Pass through tax
No Double Tax
Corporation
+
Shareholders.

Limited Liability Company.

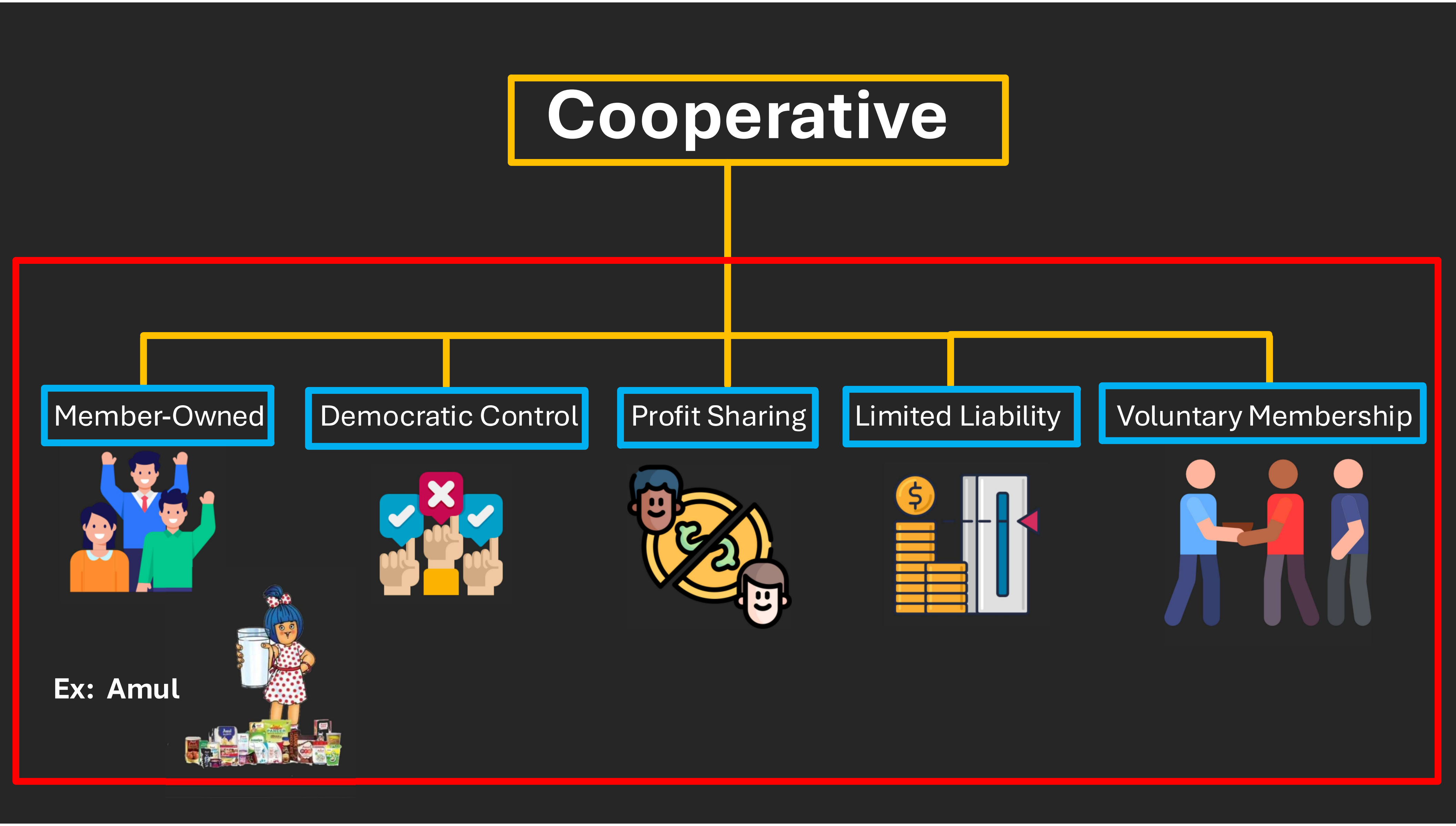
It offers flexible tax options and can have multiple owners (members).



Selling other brands' products as an Amazon wholesaler.

Cooperative

A **cooperative** is a business model where a group of individuals come together to meet common needs and goals, with profits and decision-making shared equally among members.


Cooperative
Member-Owned
Democratic Control
Profit Sharing
Limited Liability
Voluntary Membership
Ex: Amul

01 Solo Proprietorship.
- Manjin

02 General Partnership.
- Reliance + Champak Lal.

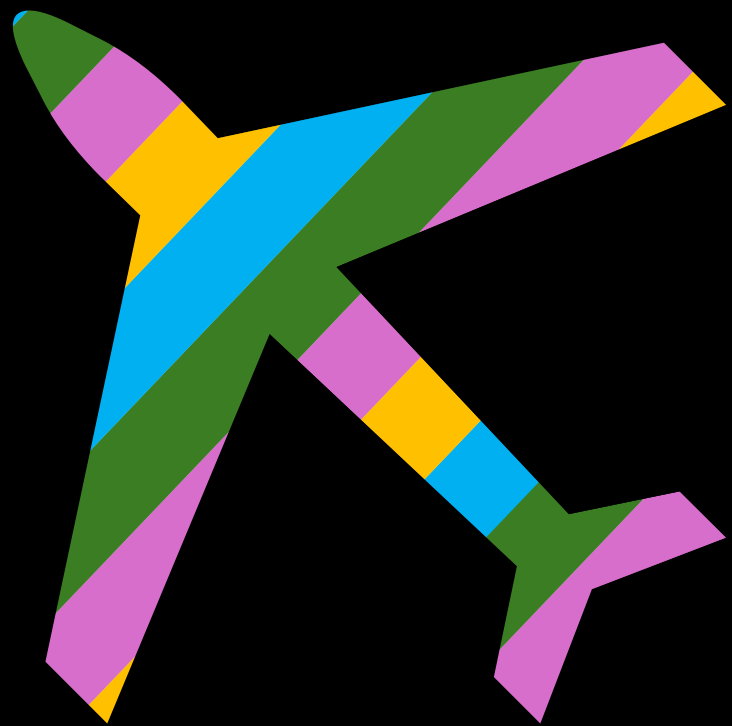
03 Limited Partnership.
- Reliance

04 Corporation.
- Initial Public Offering (IPO)

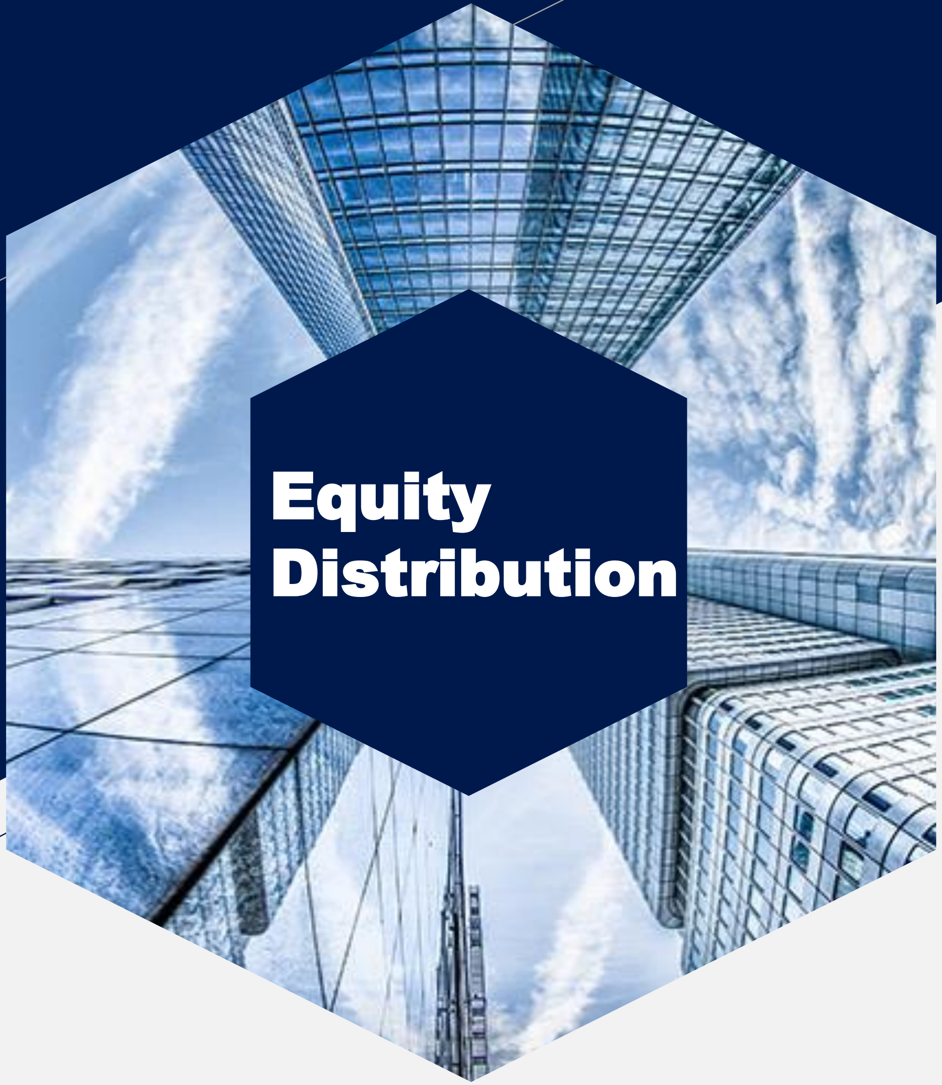
05 C-Corporation
S-Corporation
Non-Profit

06 Limited Liability Company (LLC)
- Amazon Seller

07 Cooperative.
- Amul



Thank You...



Equity Distribution

Equity and Equity Types

Presented By:- Prena Mandhan and Marvi Brohi

- Equity represents an ownership interest or investment in a company, allowing shareholders to claim a portion of the company's assets and earnings.

FR

EQUITY

The particular terminology used to denominate equity varies depending upon the particular legal structure of the entity.

Exhibit 6.8 Terminology for Ownership Interests

Partnership	Corporation	LLC
Units or percentage	Stock or shares	Units or percentage

Equity Types

- Corporate Stock
- Common Stock
- Preferred Stock

Corporate Stock

Authorized Shares :

- The maximum number of shares a company is legally allowed to issue.
- The company doesn't have to issue all authorized shares immediately.
- The number of authorized shares can be increased or decreased if needed.
- The company decides whether and how to change the number of authorized shares.

Corporate Stock

Issued Shares:

- **Definition:** The number of shares that have been sold to investors.
- **Ownership:** Issued shares represent ownership in the company.
- **Treasury Stock:** Some issued shares can be repurchased by the company and held as treasury stock.

Common Stock

Common stock is the fundamental ownership in a corporation, granting shareholders a share of the profits.

- Voting Rights
- Highest potential for Profit but also at highest risk

Classes of Common Stock

Companies can create different classes of stock with different rights and features.

One class might have voting rights, while another might have higher dividends.

FR

Preferred Stock

- **Preferred Stock** is a type of stock that offers certain advantages over common stock.
- Preferred stockholders receive a fixed dividend payment, usually quarterly or annually.
- This dividend payment is typically higher than the dividends paid to common stockholders.
- Preferred stockholders are paid dividends before common stockholders.

Preferred Stock

- **Priority in Liquidation:**
- In the event of a company's liquidation, preferred stockholders have priority over common stockholders in receiving their claims.

- **Dividends May Not Be Paid:** In some cases, the dividends on preferred stock may not be paid in a given period. This can happen if the company is experiencing financial difficulties. The unpaid dividends will accumulate and must be paid before any dividends are paid to common stockholders.

Preferred Stock

FR

01
Preferred Stock Distribution

02
Convertibility

03
Participating Preferred

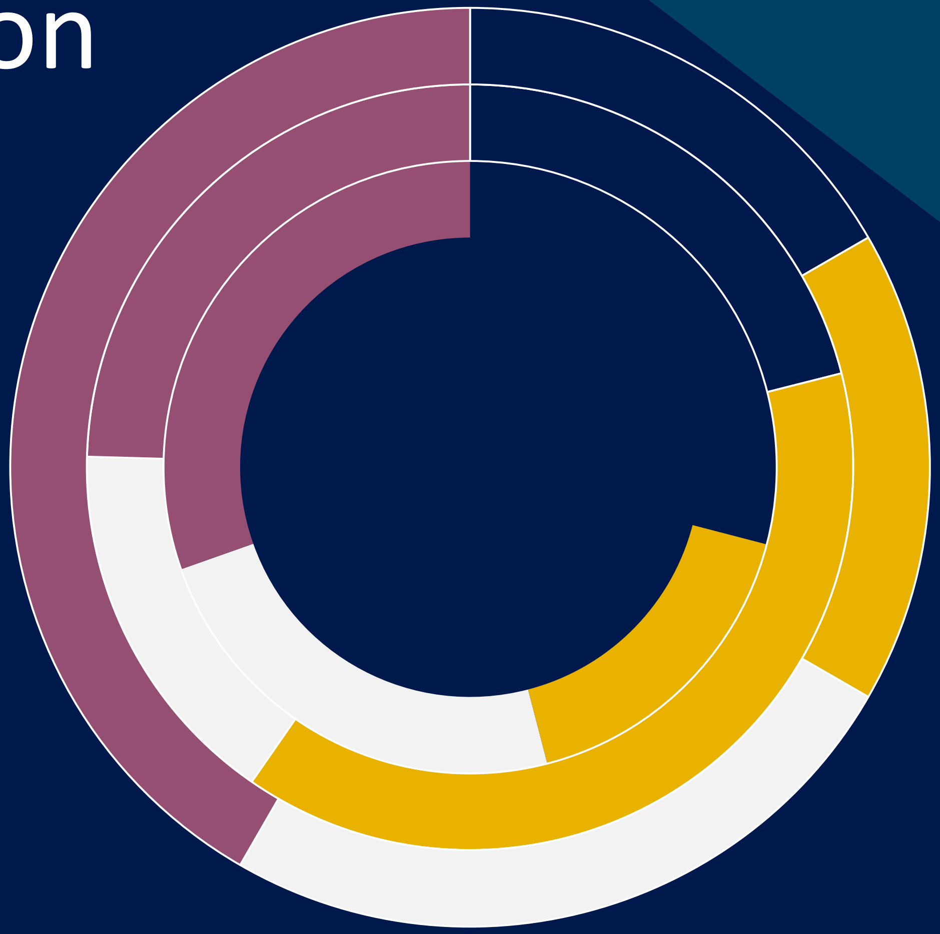
04
Voting Rights

05
Founder's Stock

Preferred Stock Distribution

Cumulative Dividends: If a company misses a dividend payment in a particular period, it accumulates and must be paid before any dividends are paid to common stockholders.

Non-Cumulative Dividends: If a company misses a dividend payment, it is not accumulated and does not have to be paid in the future.



Convertibility

Convertible preferred stock allows shareholders to exchange their preferred shares for common stock or cash, typically based on specific conditions.

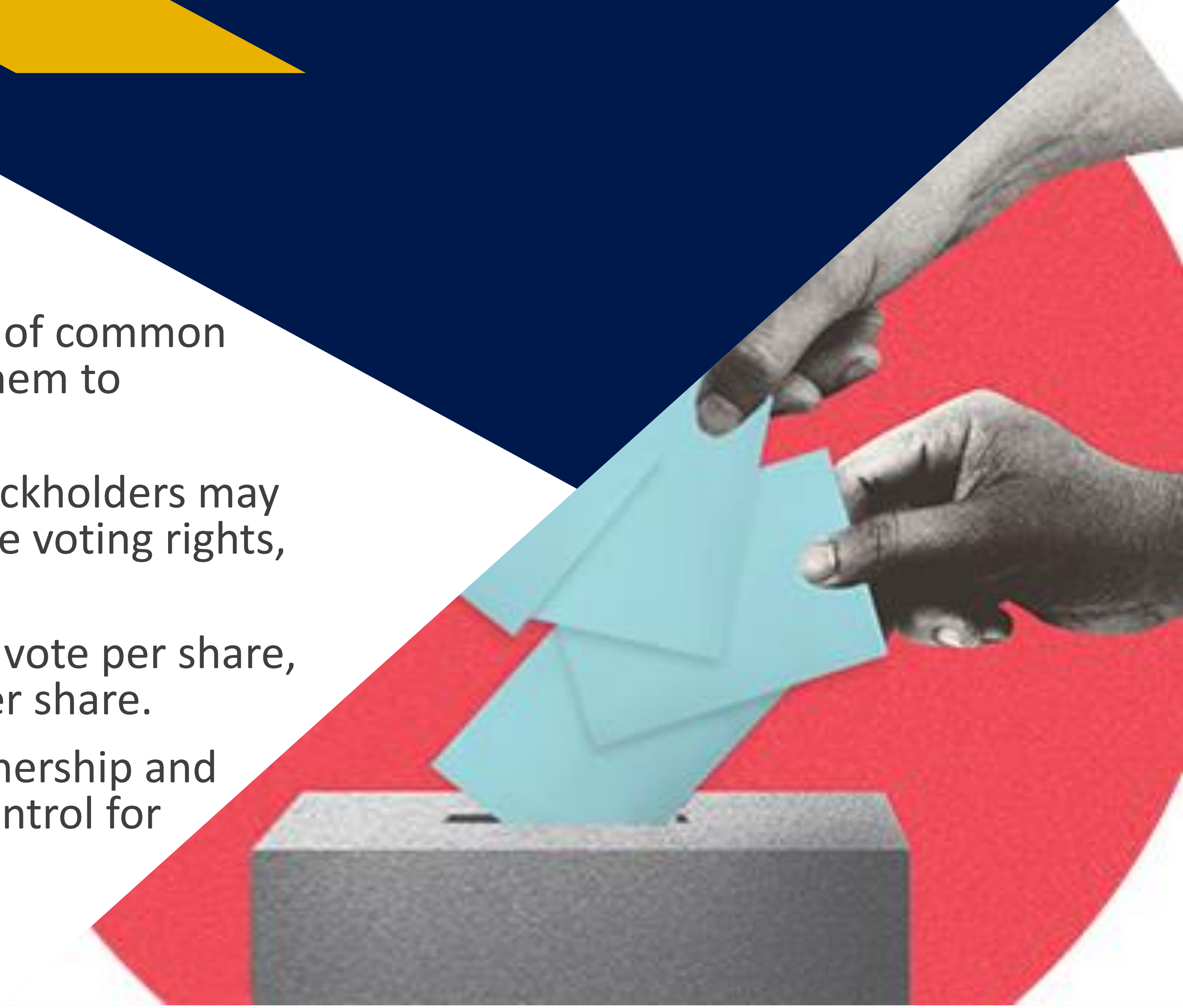
This feature provides flexibility, enabling shareholders to participate in the company's growth and capitalizing on favorable market conditions.

Participating Preferred

Non-Participating Preferred Stock:	Participating Preferred Stock:
• Shareholders receive a fixed dividend payment, but they are not entitled to any additional share of the company's profits. • Their dividend is limited to the fixed rate, regardless of the company's performance.	• Shareholders receive a fixed dividend payment, similar to non-participating preferred stock. • In addition to the fixed dividend, they are also entitled to a share of the company's profits after common stockholders have received their dividends. • This participation feature allows preferred stockholders to benefit from the company's success beyond the fixed dividend.

Voting Rights

- **Common Stock Voting Rights:** Shareholders of common stock typically have voting rights, allowing them to participate in important company decisions.
- **Preferred Stock Voting Rights:** Preferred stockholders may or may not have voting rights. If they do have voting rights, they are often limited to specific situations.
- **For example**, Class A shares might have one vote per share, while Class B shares might have ten votes per share.
- This allows companies to structure their ownership and control in various ways, often to maintain control for founders or key executives.



Founder’s Stock

Founder's stock is a class of stock typically allocated to individuals who start a company. Its purpose is to ensure that founders maintain a significant degree of control and influence over the company’s direction and operations.

Special Rights and Privileges

Founder's stock may have special voting rights, such as multiple votes per share.
It may also have other privileges, such as the right to sell shares back to the company or to convert them into other classes of stock.

Founder’s Stock

Founder’s stock contains other rights also

1. **Liquidation Preference** : Priority in receiving their investment back in the event of a company's liquidation or sale.

2. Preferred Participating : A type of preferred stock that gives the holder the right to receive both a fixed dividend and a share of the company's profits.

3. Vesting
Definition: A process by which founders or employees gradually earn ownership of their shares over time,.

Types of Vesting: There are various vesting schedules, such as time-based vesting and
Formula-based vesting

Founder’s Stock

FR

Vesting

Time-Based Vesting:

Definition: A method of gradually granting ownership of shares over a specific period, typically four years.
Process: A portion of the shares vests at regular intervals, often quarterly or annually.

Formula-Based Vesting:

Definition: A method of granting ownership of shares based on the achievement of specific milestones or performance targets.
Process: Shares are released as the company reaches predefined milestones, such as product launches, revenue targets, or fundraising rounds.
Purpose: To align the interests of employees with the company's strategic goals.

Raising Capital

- **Capital:** Money or resources needed for growth and operations. Businesses often look outside for capital to fund expansion, operations, or new projects.

- The Co-Venturing Paradigm The business and investors are separate entities. Each "co- venturer" (investor) brings value and receives something in return: Founder offers business idea, vision, and potential profits. Investor provides capital or assets.

Raising Capital

- What Investors Can Provide (Forms of Contribution)

  Money

- **Intangible Assets (like patents or brand value)**
- **Tangible Assets (like equipment or facilities)**
- **Services (like consulting or management)**

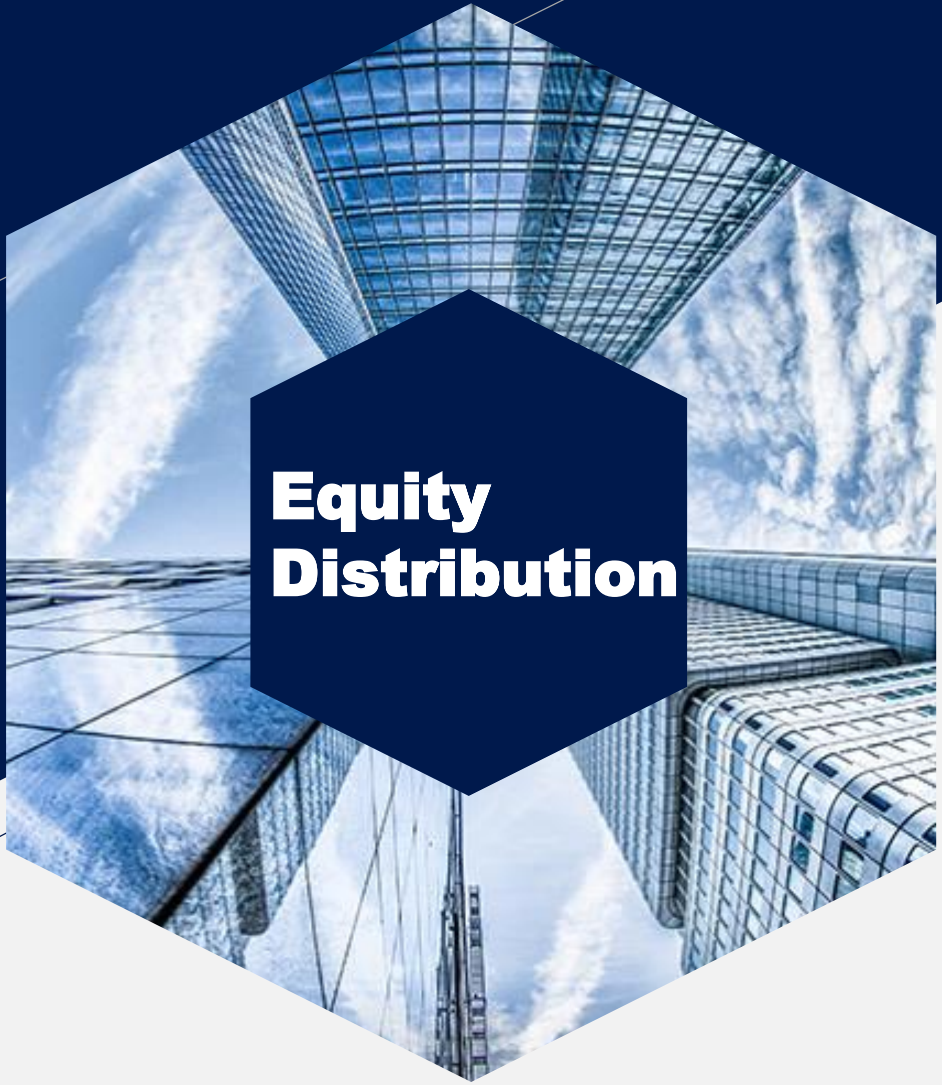
Raising Capital

What the Business Provides in Return (Forms of Consideration)

- **Equity:** Part ownership in the business.
- **Interest:** Return on a loan.
- **Profit Interest:** Share in the profits of the business.

Types of Financing

- **Debt Financing:** Borrowed money repaid with interest; no ownership given.
- **Equity Financing:** Investors get ownership, share profits, and possibly have voting rights.



Thankyou

Understanding The

Equity Distribution in Startup Ventures

Employee Stock Options, Vesting.

Presented by Muhammad Aaqib

What is The

Equity Distribution in Startups

- **Purpose:** Equity serves as an ownership stake for founders, employees, and investors.
- **Equity Distribution:** Reflects contributions and incentivizes stakeholders.

- **Key Considerations:**
- Determining the right split.
- Managing nonmonetary contributions
- Providing fair value for all inputs.

Let’s understand:

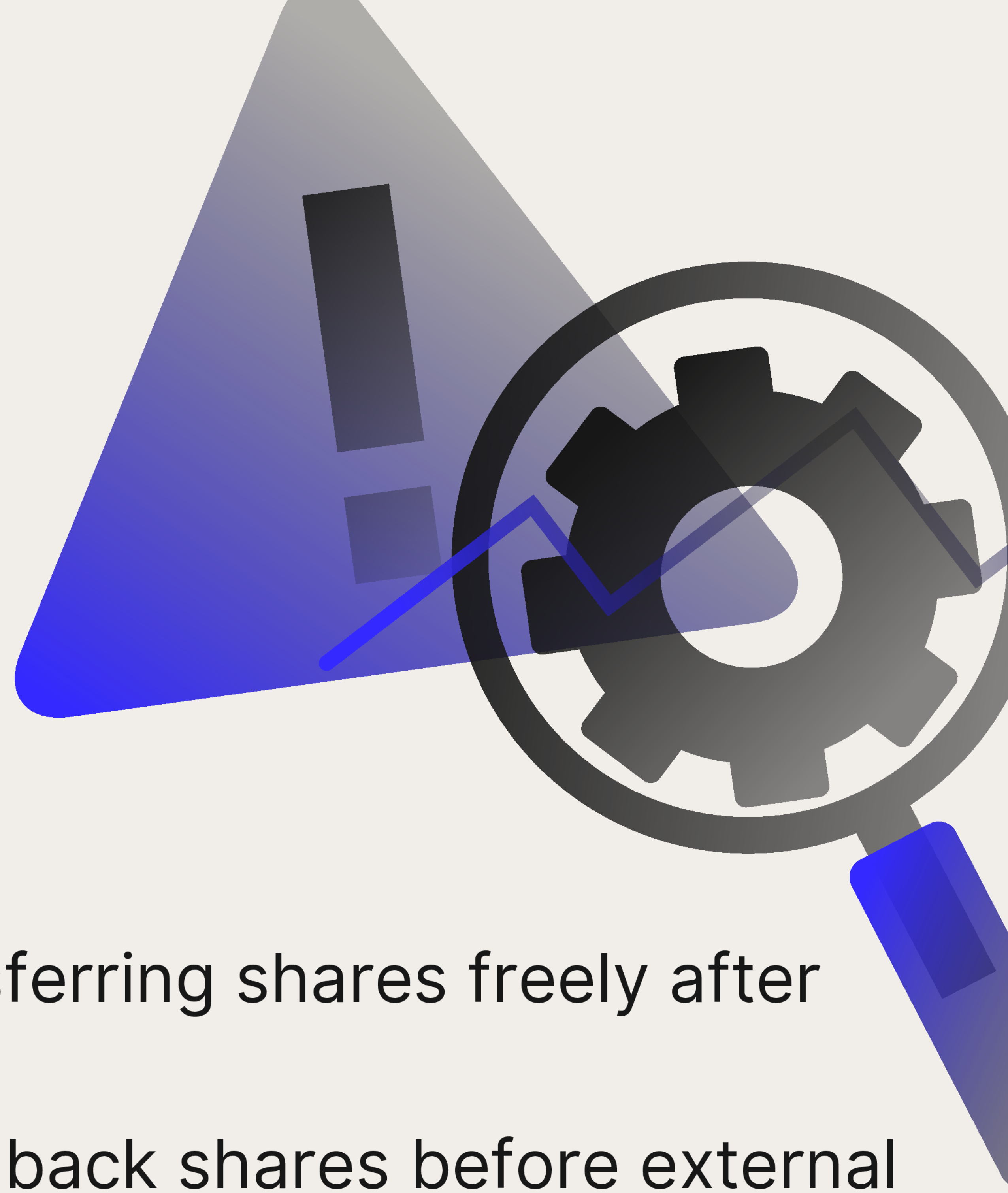
Employee Stock Options (ESO)

- **Definition:** ESO gives employees the right to purchase shares at a set price (strike price) within a defined period (exercise period).
- **Benefits of ESO:**
  - Aligns employee interests with company success.
  - Preserves cash flow in early stages.
- **Common Structure:** Shares offered at a discount for loyalty and performance.

Vesting in Employee Stock Options

- **Definition:** Vesting sets conditions for when employees can exercise their stock options.
- **Typical Vesting Schedule:** 4 years with a 1-year cliff (25% vests at 1 year, then monthly).
- **Purpose:** Encourages long-term commitment, helping retain talent.
- **Example:** An employee might gain access to options progressively, avoiding full rights until they meet a minimum service requirement.

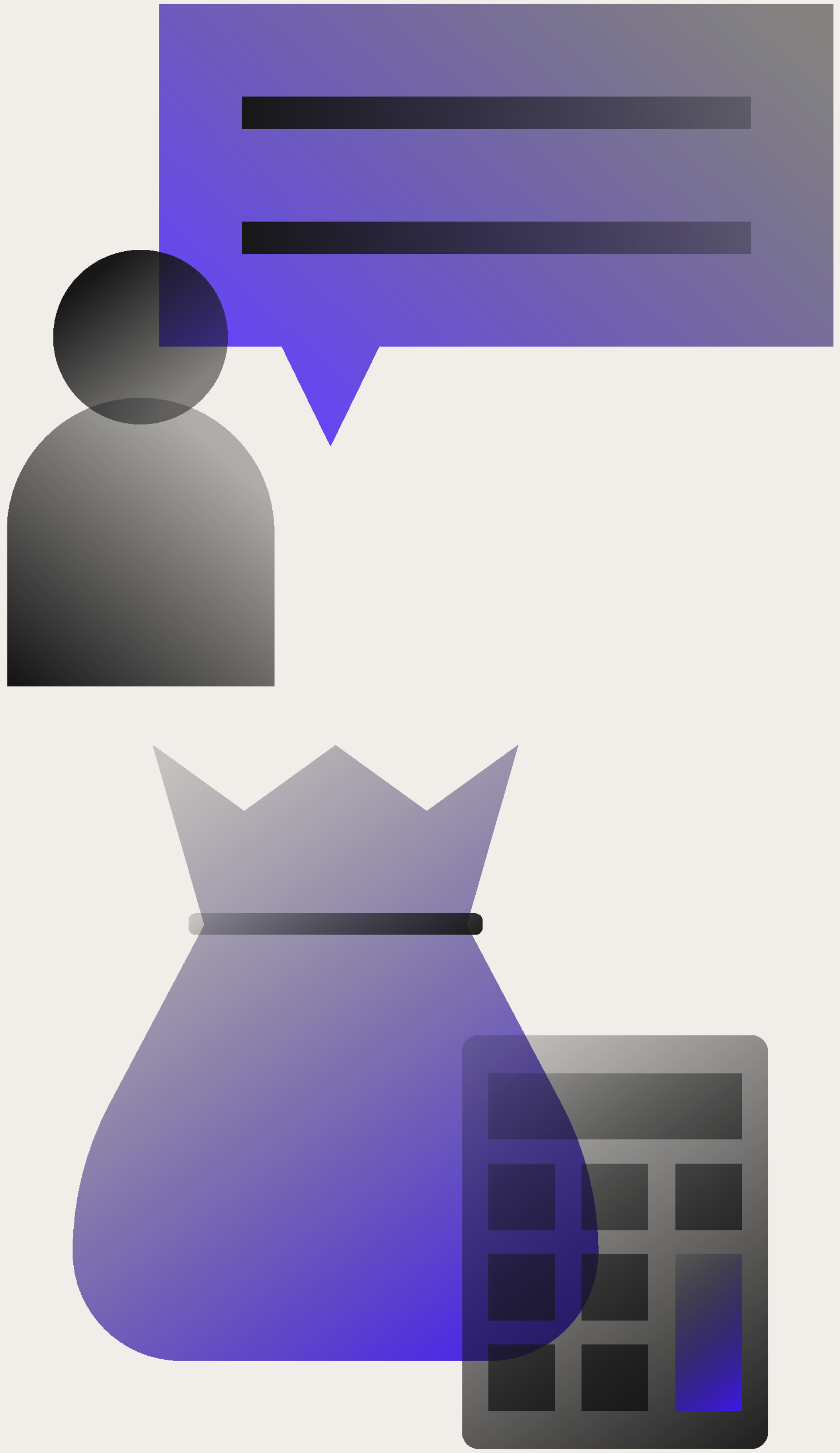
Restrictive Clauses in ESOs

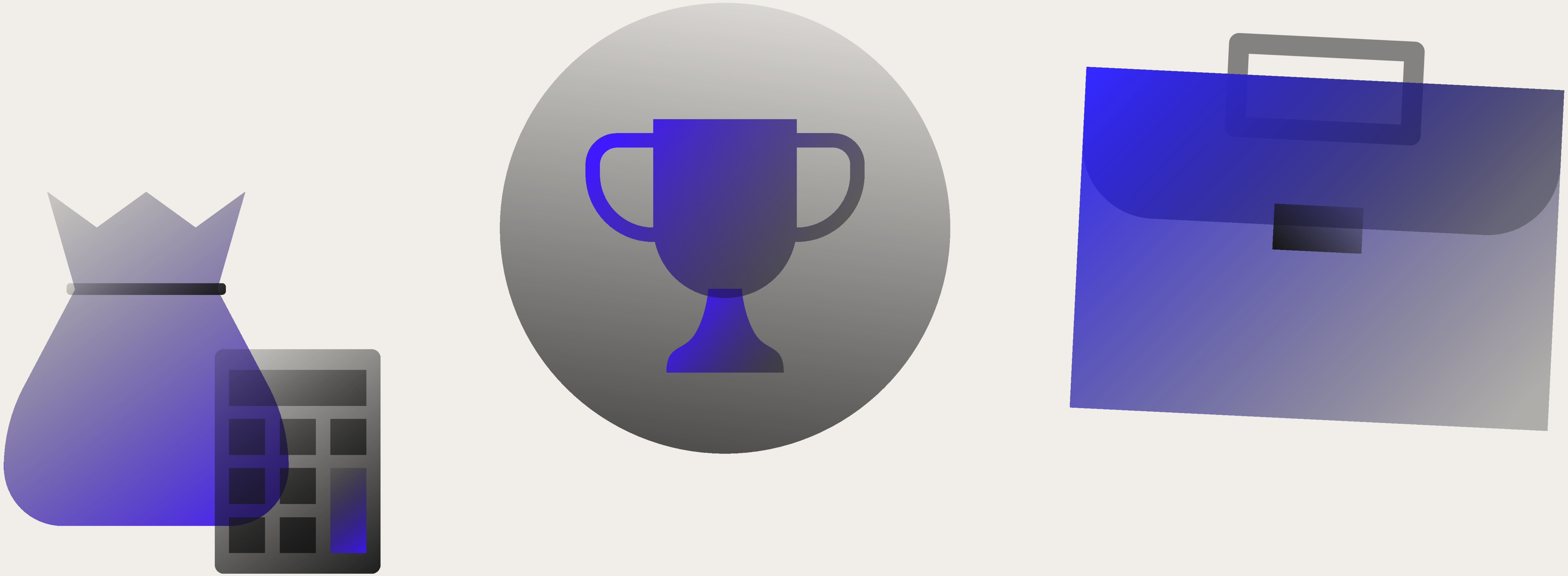


- **Transferability Limits:** Prevents employees from transferring shares freely after exercising options.
- **Right of First Refusal:** Company has the option to buy back shares before external sale.
- **Exit Clauses:** Employee may need to sell back stock if they leave the company.
- **Benefit:** Protects the company’s control and interest in its shares.

Tax Issues in Employee Stock Options

- **Types of Stock Options:**
  - **Incentive Stock Options (ISOs):** Qualify for favorable tax treatment if held for required periods.
  - **Nonqualified Stock Options (NSOs):** Taxed as ordinary income at exercise.
- **Tax Implications:**
  - **ISOs:** No tax at exercise but taxed as capital gain upon sale if held long enough.
  - **NSOs:** Taxable as ordinary income at exercise.
- **Example:** If an employee exercises NSOs and holds them, they may pay taxes on a "paper gain" which could later result in loss if the stock value drops.





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