Epic Sprint Answers

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Question 1

	Ownership	Working Capital	Liability	Tax
sole entrepreneur	The only owner is the entrepreneur. Sharing of ownership is not possible.	Can be created without capital.	The owner has full liability.	Is taxed at individual level together with all other personal income
Stock-Ownership Company (AG)	Capital gets divided into stocks, e.g.10'000 stocks for nominal price of 10. If somebody owns 1000 shares, then he owns 10%. Shares can be sold easily.	An AG requires a minimum capital of 100K CHF. 50K must be delivered in cash or as assets.	Only the AG with its assets. If the assets are insufficient, then the AG would file for bankruptcy.	Profit of the company is taxed separately from owner's tax declarations. First the AG pays taxes on its profit, then then owners on their total income including dividends from the AG. Hence if the company pays out dividends to the owners, then those must pay taxes again. Hence taxes at two places, some call it *double-taxation.* Still the AG has the option to avoid dividend pay-outs. In my case, I could avoid payouts until my retirement, when my normal income is lower. Certainly this situation changes when more shares holders come into play with a liquidity event. They might want pay-outs.Taxes on the profit must be paid on three levels: Swiss confederation, canton and single towns. They vary depending on the town and canton, between 12 and 21%. Cantons also require also a tax on the capital. between 0.01 and 7 per thousand.

Question2:

A capital increase is one form of equity increase.
When you or another shareholder invests cash in your corporation, you will issue additional shares.
This will reduce the value of the existing shares.

Example:
Existing situation 100'000 CHF working capital with 10'000 shares at (nominal value) 10 CHF.

Liquidity Event: Ordinary Capital increase of 200'000 CHF; for example because an investor wants to provide funds.

In an **capital increase** , the company will issue new shares.
The price and quantity of the shares depends on which stake the investor wants to obtain in the company. Let's imagine 10%.
If the investor obtains 2000 new shares, then the original shareholder(s) should possess 18000 shares, 9 times more.
Hence they obtain 8000 new shares.

Share price after capital increase: 15 CHF

Dilution:
If there is another capital increase with the emission of new shares, then the value of the 2000 shares of the first investor might change/fall.

Investors often provide clauses to prevent such dilution.

Common stock: They have voting rights.
Preferred stocks: Owners of preferred stocks obtain their "preferred dividends" before common stock holders and are often also preferred vs. common stock holders (but **not** versus bond holders) when the company files for bankruptcy. Using preferred stocks for investors, might be a solution for my personal tax problem in the previous question.

Question 3:

A **call option** is a contract giving the buyer the right, but not the obligation, to buy the underlying asset at a specific price on or before a certain date.
Underlying: In the case of a company (e.g. a startup), the underlying are the shares of the company.
Moreover the option must specify the **quantity** of shares that the option buyer will obtain when he executes the call option and **when** this **event** occurs.

Quantity:
There are some possibilities:
1) Either as a number of shares at a pre-determined price for the share (the **strike price**).
2) or as a percentage of the total owners' equity
Event:
For traded options the buyer can freely exercise the option in several ways.

European Style Options: can be exercised only at expiration.

American Style Options: can be exercised at any time prior to expiration.
Options can be exercised also in **other, free definable ways**. More below under the FI warrant.

Question 4:

Please see previous question:
Warrant = Option to buy shares from my company at a predetermined price (the strike price).
Event: when my company receives its first equity investment of $100'000 or more.
The investors will set the price of the shares including the shares that go to the Founders' Institute.

Using the **example from above:**
Ordinary Capital increase of 200'000 CHF thanks to a new investor. The new investor wants 10% stake in the company. Instead of 90%, the

original shareholders will finally obtain 86% of the shares and 4% of the shares go to the Founders' Institute.

Hence new investors: 2000 shares
Old investors: total 18000 shares (90%) - 800 (4%) = 17200 shares (86%)
Founders' Institute = 800 shares (4%). Important to state the FI does not need to buy the shares at this moment, but it is only about setting the strike price.

Strike price: 300'000 CHF / 20'000 shares = 15 CHF per share

The Founders Institute usually waits until a later stage, e.g. when the company goes public or finds more investors or when selling the company.
Then FI executes the warrant / call option at the strike price.
There is usually a difference between the share price at the moment of execution and the strike price

Question 5:

This difference results in cash/proceeds that are distributed the FI bonus pool, i.e. to mentors, local directors, to the FI graduates (distributed equally) and to the FI headquarters. Therefore anybody in the FI network has a financial interest that the startups are successful and they are ready to support the new founders.