

Unit 1: Principles of Finance
Lesson 3: Financing the Business

Name: _____ Class: _____ Date: _____

Student Resource 3

ECPak

The Beginning

Eduardo Cisneros was an engineer who loved music, all kinds of music. The problem was he was working in his first engineering job after graduating from college and money was a little tight. He really wanted an MP3 player but the best ones were very expensive. Eduardo also noticed that major changes were introduced in these units which caused older models to become obsolete. He did not want to pay a lot of money for a unit that would be obsolete in a few years. Out of both necessity and engineering curiosity he decided to create his own MP3 player.

What Eduardo came up with was a unit that:

- Was modular. It could receive a major upgrade by replacing just a small portion of the hardware.
- Was inexpensive to purchase.
- Could be upgraded inexpensively with more memory by the user.
- Had software that could be easily upgraded. The unit could have features added with the click of a computer mouse.

This MP3 player was designed to be the last one Eduardo would ever have to buy. To upgrade the features all he had to do was make an inexpensive change to the unit.

That was the start of a long, exciting, and incredibly profitable journey.

The first working unit was nothing more than a bunch of electronic parts installed in a full size plastic CD/DVD case held together with grey duct tape.

He started to use the player at work and it received a lot of attention from the other engineers because it was so different. Pretty soon they were asking him to build units for them, and Eduardo sold them at his cost plus a profit for his time.

The units owned by his friends attracted attention from their friends and Eduardo sold even more players. Pretty soon he was making almost as much money selling MP3 players as he made working as an engineer. He decided to establish a small company to manufacture and market the units.

Sole Proprietorship

Eduardo needed a name for the device and after some thought came up with the name ECPak. This is pronounced "easy pack." The letters E and C obviously stand for Eduardo Cisneros. He called his sole proprietorship The ECPak Company.

To be a commercial success the unit needed to have a sleek, very functional plastic case. Eduardo spent all of his profits to pay for a custom case design, and the special tools needed to

make it. He also paid a company to make the cases. The internal parts were standard components he could buy from suppliers so he did not have to design and make his own.

He was still working as an engineer to pay his bills, and worked for himself nights and weekends. He quickly realized he needed a partner to help make his idea a market success. He also needed money to invest in the business. At this point all of the units were made in his apartment.

Partnership

Mary Ann Chang had been a close friend since high school. She was a marketing manager for a local company. Mary Ann had received a large inheritance when her parents passed away. She was fascinated with the commercial possibilities of the ECPak and owned one of the original units herself. (One of the units held together with duct tape.) Eduardo asked Mary Ann to become his partner and she accepted immediately.

Mary Ann invested most of her inheritance money in The ECPak Partnership. It grew and grew and pretty soon both of them quit their regular jobs to work on making the ECPak a commercial success.

For a while Eduardo and Mary Ann assembled the units in both of their apartments. They very quickly moved into a small building and started to hire employees. They could not seem to make units fast enough.

Limited Liability Company

Eduardo and Mary Ann quickly realized the business would continue to grow. They were earning some serious money and became uneasy that they might lose it if the partnership was sued for some reason. There were just too many people making too many decisions. Something would go wrong eventually and they needed to protect themselves. A Limited Liability Company (LLC) protects the non-business assets of business owners because of what is called limited liability. This means an investor can only lose what he has invested in the business and not his house or car.

The ECPak Partnership was restructured to become ECPak LLC. The business continued to grow and it was soon selling MP3 players throughout the United States. It seemed as if EVERYONE wanted one.

Corporation

ECPak LLC became ECPak Incorporated a year later. Why? An LLC is licensed to do business by the state it is formed in. Some states restrict the ability of owners to sell their personal interest in a business. Unfortunately the state they were registered in had this restriction.

Eduardo and Mary Ann wanted the ability to sell all or a portion of their ECPak stock for any reason. Becoming a corporation would make possible selling stock to raise funds to expand. It would also allow any investor to sell shares easily for any reason.