

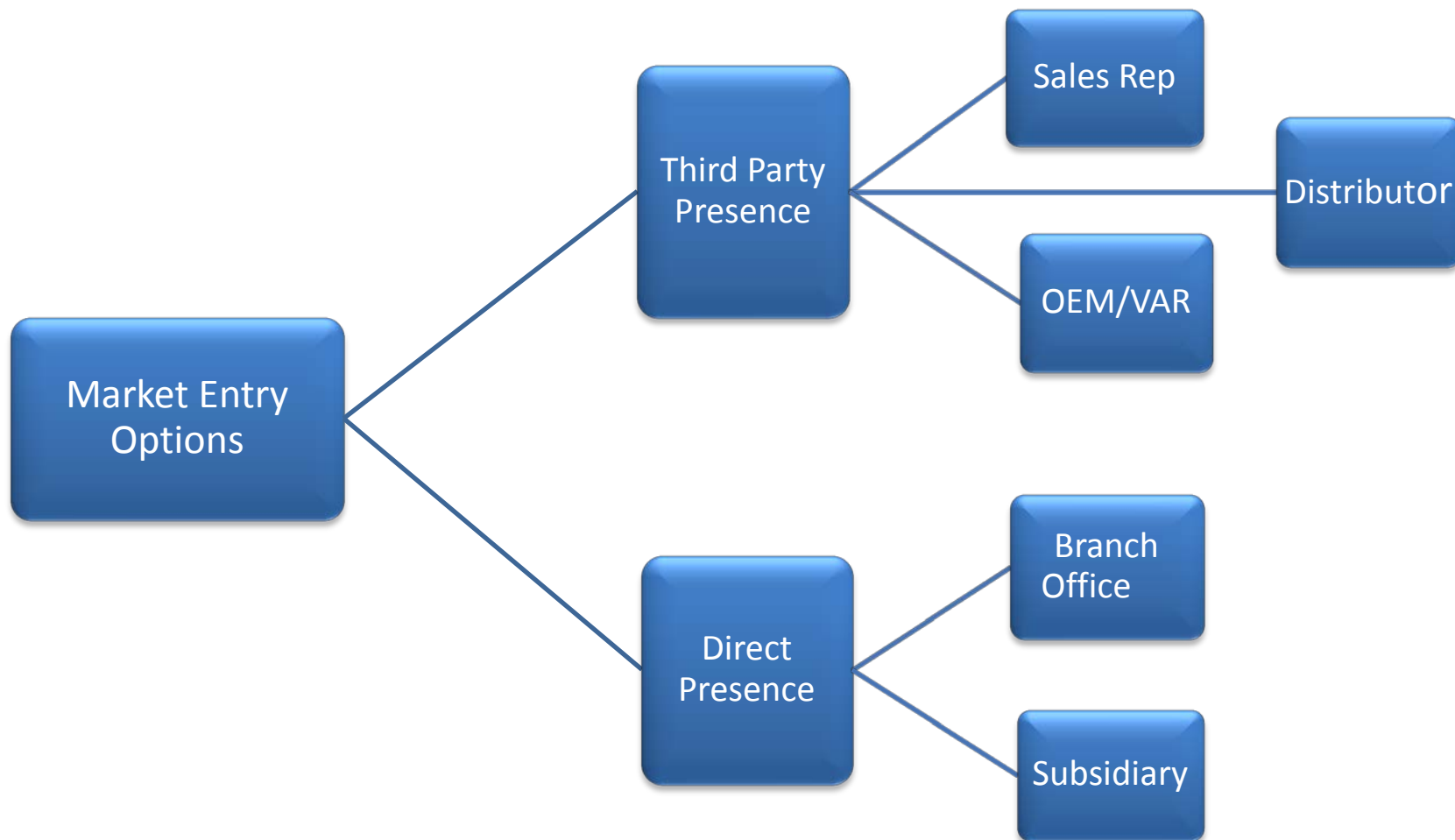
TOP 10 LEGAL MISTAKES STARTUPS MAKE

Royse Law Firm, PC

www.RroyseLaw.com



10. Failing to identify the right market-entry strategy



9. Choosing the wrong entity structure

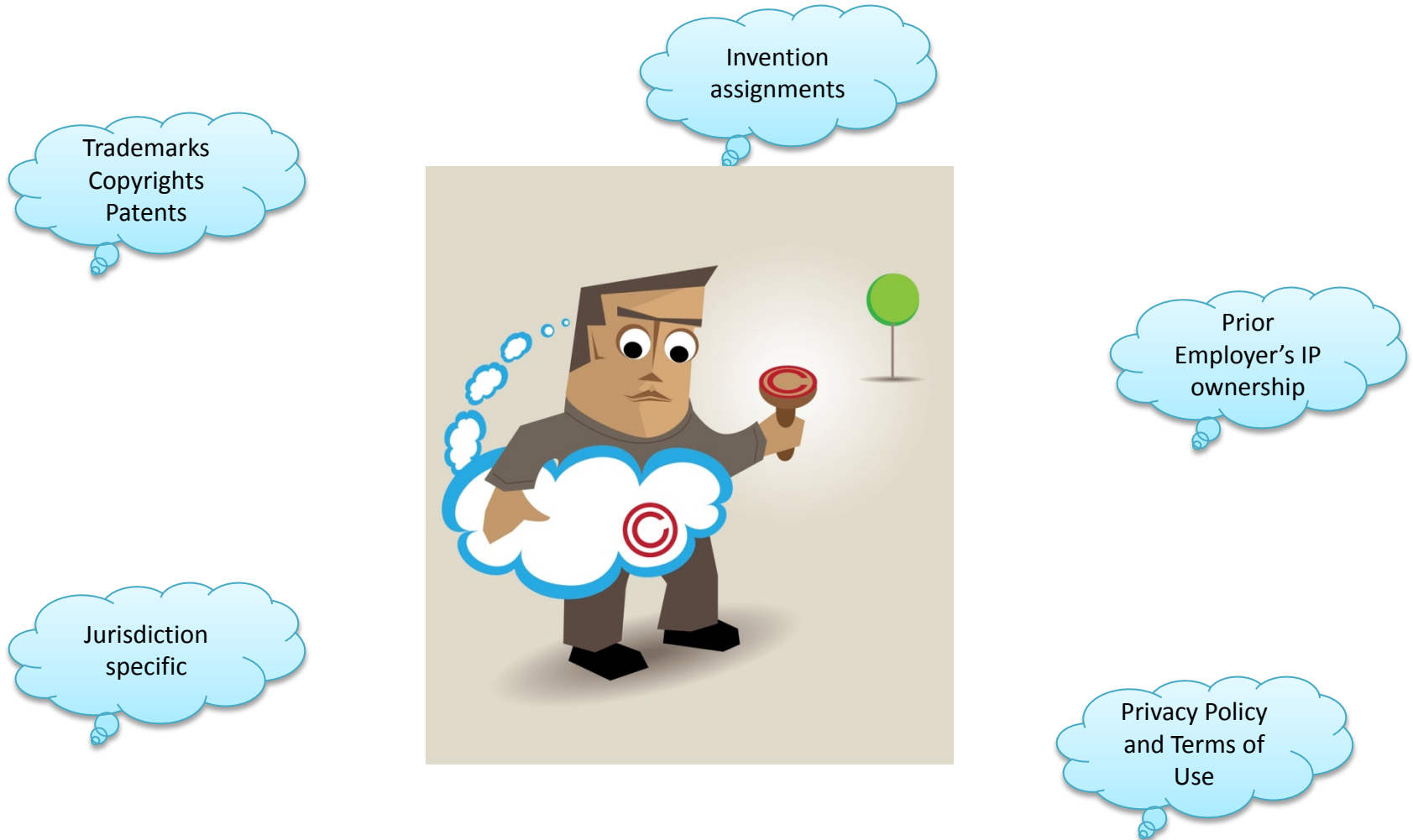
Liability shield

Credibility

Entity Form	Liability	Flexibility	Taxation
S Corporation	Limited Liability	Formal but flexible capital structure	Pass through
C Corporation	Limited Liability	Formal but flexible capital structure	Double taxation
LLC	Limited Liability	Very flexible	Pass through
Partnerships	General Partners – unlimited liability	Can be flexible	One level of tax

Delaware is not right for everyone

8. Failure to establish intellectual property strategy



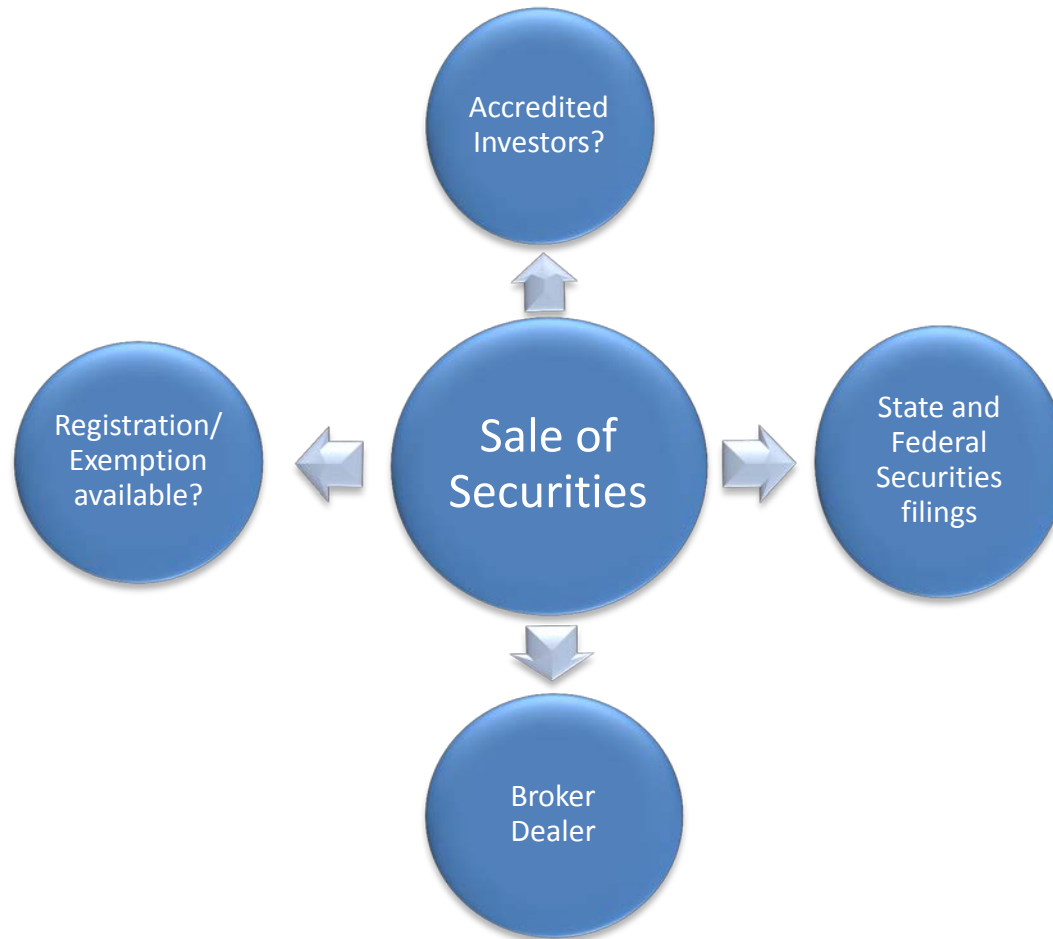
7. Violating Employment/Labor Laws

Minimum Wage
Laws apply to
startups

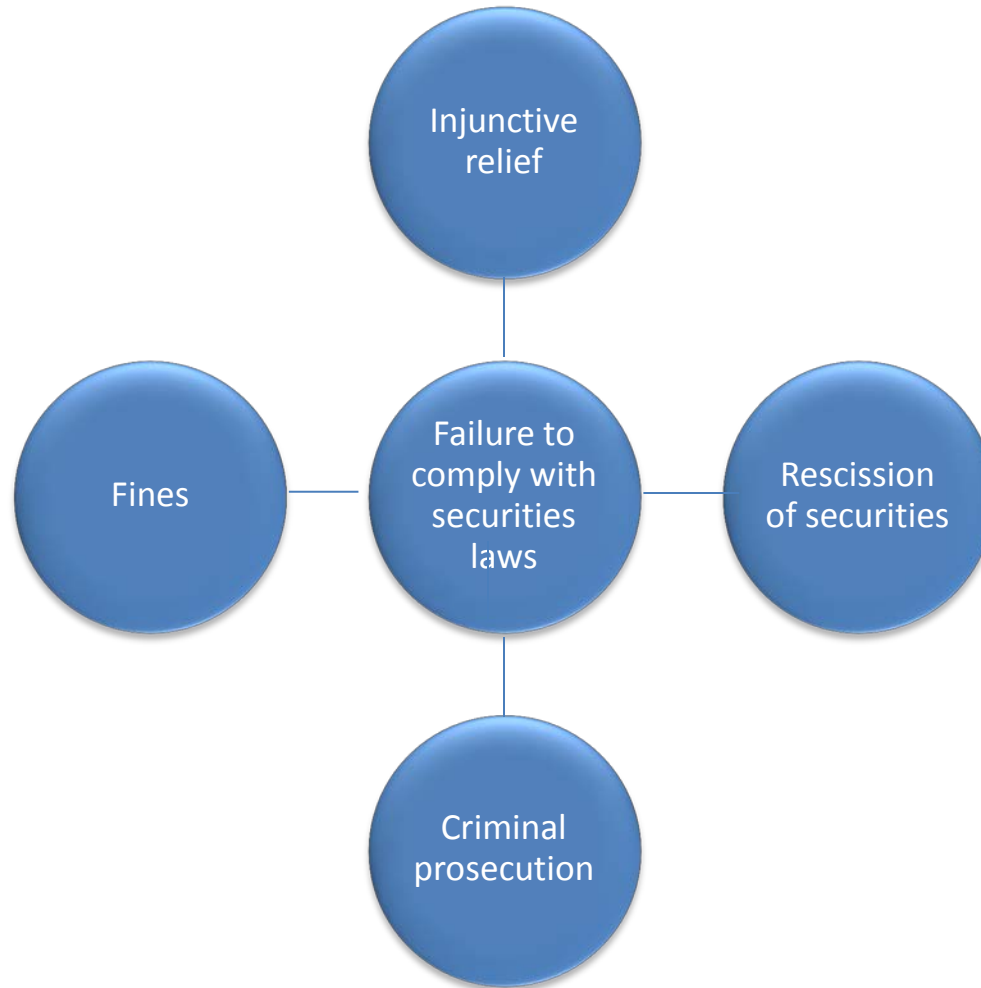
Employee
v. Independent
Contractor
classification

Post-termination
restrictive
covenants

6. Not complying with Securities Law



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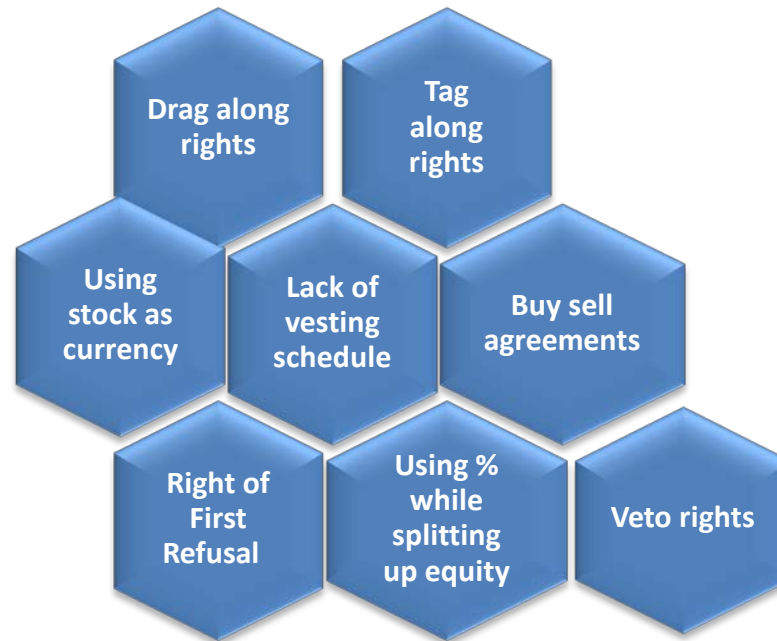
5. Lack of tax planning

409A

83(b)

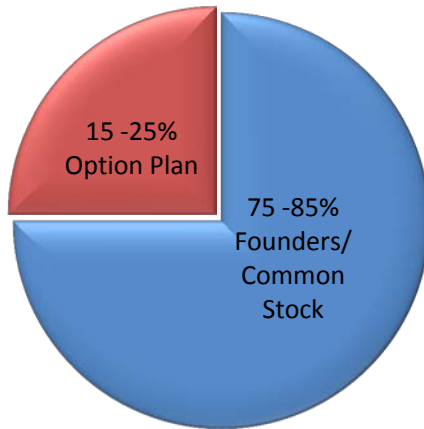
**Deferred
Compensation
Plan**

4. *Lack of adequate corporate structure resulting in entrenched management*



3. Not using the right equity compensation structure

Typical Equity Structure



Issue options when valuation is low to realize a return on investment

Options are securities, and have to comply with securities laws
409A compliance - mandatory for option plans
Establish vesting schedules for option grants



2. Failure to ensure compliance with FCPA and immigration laws



Anti-bribery laws apply to all U.S. persons and certain foreign issuers of securities

Also applies to foreign firms and persons who cause a corrupt payment to take place within the United States.

Check the immigration status of all founders: if sponsorship is required by the startup, you need good immigration counsel.



1. *Substituting legal counsel with online incorporation services*



Additional Resources



<http://royselawincorporator.com/>

Royse Law Incorporator: Designed to help you incorporate and structure your company in Delaware or California.



www.RoyseUniversity.com

Royse University: Providing business, tax, and legal content to founders and executives.



www.RoyseLink.com

RoyseLink: Connecting founders with investors and service partners.



www.rroyselaw.com/ijuris_login_jp.html

Royse Law Legal Wizard: Offering legal document templates and more.

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