



5 Mistakes Start-ups Make When Forming Their Business

It seems that everywhere you look, a new start-up is trying to make it big with a game-changing idea. But it's only the ones that can turn that idea into reality that reach business success. Too many start-ups fail to make the transition from idea to execution or encounter major setbacks along the way. In the midst of developing your growing start-up, don't make the common mistake of disregarding tedious, but vital tasks such as making sure all your legal, insurance, financial, and tax ducks are in a row.

Establishing a solid legal system can help you avoid costly mistakes and save time and stress down the road. Many entrepreneurs struggle with developing such systems because they don't foresee the most common mistakes start-ups make. Avoiding these only takes a little self-awareness and planning, so read on to learn how to sidestep the five biggest legal mistakes a start-up can make.

1. Be strategic when creating your entity. Think about your long-term goals, and choose an entity that matches up. Have your eye on major growth and raising capital? Consider a Delaware C-Corporation, which could set you up for venture capital. Looking for tax advantages? Look into the advantages of an S-Corporation structure that will allow you to minimize your payroll taxes by splitting your personal pay between salary and distributions.

And, while you can always convert your entity later on, doing it right the first time will save you time and money. When you talk with a lawyer about the best form of entity, make sure your lawyer doesn't just suggest a one-size fits all solution, but actually understands the details of your business now and how you want to grow in the future.

2. Be clear with co-founders. Don't wait until your business begins to make a profit to begin discussing what each founder is worth. Confront the elephant in the room (i.e. money and position) and be clear on rights, decision-making authority, and equity from the get-go. A well-drafted operating agreement or shareholder agreement is key here. The agreement process itself can surface potential conflicts in advance, and confirm whether you and your co-founders are truly in alignment before big investments of time and money are made.

3. Protect your intellectual property. It's essential to establish ironclad protections for the intellectual property that impacts your business's future value. Think beyond just patents and trademarks; consider having founders, employees and third-party developers sign intellectual property rights agreements so you retain the value they may create while working for you.



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4. Develop a robust set of contract templates. You will thank yourself later for establishing clear guidelines and minimizing your liabilities in writing. Online legal document drafting services are one size fits all; your business will be best served by developing a set of templates that meets your business's unique needs.

5. Don't overlook the importance of working with a lawyer. Working with a trusted lawyer can help you avoid all the mistakes above plus countless others you will likely make as you grow your start-up. A lawyer who also works as a creative strategic advisor, as we do, will guide you to not just avoid legal mistakes, but set your business up with the right legal, insurance, financial, and tax systems for a lifetime of business success.

Just because you're a start-up doesn't mean you have to be naive. If you are serious about developing a solid legal foundation for your start-up, begin by sitting down with us. As your Family Business Lawyer®, we can help you identify your liabilities, mitigate any legal risks and get you on the right track for success. This will allow you the freedom and energy to focus on growing your business. Schedule your LIFT Strategy Session with me today to get started.

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