Avoid the eight great mistakes that entrepreneurs make

By David V. Cappillo Partner, Goodwin Procter LLP

There are eight missteps that entrepreneurs commonly make in the early stages of a company's life cycle. Avoiding these eight "great" mistakes will save an entrepreneur time, money and angst when raising money or seeking liquidity.

1.Failing to pay attention to corporate formalities. To benefit from the most important feature of forming an entity for your business — protection against personal liability — an entrepreneur must respect certain formalities. Failure to appropriately form and maintain that entity can impair the liability shield that a limited liability entity provides, and can put your personal assets at risk. Other formalities include board approvals of equity issuances and other key actions, payment of adequate consideration for equity, maintenance of separate bank accounts, and signing agreements on behalf of the entity.

2. Complicating the formation process. When choosing a form of entity and where to incorporate, adhere to the "Keep It Simple" principle.

There are many entity forms available, including "C" corporations, "S" corporations, limited liability companies and partnerships. If you plan to raise capital, starting off as a "S" corporation, which provides "pass through" tax treatment, and then converting to a "C" corporation at the time of funding is often an optimal structure. Limited liability companies are more flexible, but are often complex and costly to administer. Sophisticated investors prefer a Delaware entity for its well-developed case law and protection for directors, officers and stockholders.

3. Failing to appropriately address founder equity. Before divvying up founder equity, co-founders should have detailed discussions about contributions and the commitment going forward. Also, consider subjecting founder equity to a vesting schedule so that if a co-founder leaves, the company can repurchase the equity. This will prevent a co-founder from keeping an equity stake after a premature departure.

4. Dwelling on valuation. If you need to raise equity capital, valuation is a critical term. However, because it is often difficult to determine a fair and appropriate valuation for a startup, entrepreneurs often get bogged down in the analysis and lose sight of the fact that companies don't go out of business as a result of dilution. Try to reach a fair deal as quickly as possible (which is often accomplished by having more than one interested investor at the table), so you can return your focus to growing the business.

5. Failure to raise enough money. Keep in mind that things often cost twice as much and take twice as long as anticipated. If capital is available on reasonable terms, take it and return to running the business.

6. Spending money too quickly. It's an obvious but important point: Once money is raised, spend wisely. It is almost always better to play catch-up on hiring and building out infrastructure than spending in anticipation of a business need. When hiring, consider equity compensation (with vesting) as a significant part of compensation packages.

7. Failing to pick the right advisers. Carefully screen investors, board members, service providers and other advisers to determine the "assets" they bring to the table. Consider their experience within the industry, network, ability to provide strategic advice, track record and ability to contribute as the business scales up.

8. Failing to protect intellectual property assets. Carefully analyze agreements with former employers to determine whether they may have an ownership claim to relevant IP. Have employees enter into assignment of IP agreements to grant the company rights in relevant IP, and have consultants sign agreements that their work product is "work for hire" and owned by the company. Once the company owns IP, protect it with nondisclosure agreements and restrict physical and electronic access to those who have a need to know.

David V. Cappillo is a partner at Goodwin Procter. Associate Mulon Luo contributed to this article

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