Startup Legal Foundations

SMU Big iDeas

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VELAWOODLAW.COM

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Entity Formation
Jurisdiction

- Delaware – Most Common
- Texas
- Other
Choice of Entity

• Corporation
  - Preferred vehicle if you plan to…
    • Scale
    • Grant stock options to employees
    • Raise capital from institutional investors
  - Disadvantages
    • Double Taxation

• LLC - Most common for small businesses
  - Advantages
    • Pass Through Taxation
    • Flexible Structure
    • Less Corporate Governance Requirements
  - Disadvantages
    • Venture Bias
Formation

• Certificate of Formation/Incorporation
• Unanimous Written Consent
• Company Agreement/Bylaws
Founders Agreements
Vesting

- 4 Years with a 1-Year Cliff
- Double Acceleration
IP Assignment

• Confidential Information and Invention Assignment Agreement
  ▪ Domain Names
Raising Capital
Friends & Family Round

- $50k – $100k
- Beware of:
  - Runaway Valuations
  - Cap Table Issues
- Executed Purchase Agreement
- SEC and Blue Sky Exemptions
Best Practices

• Get everything in writing
• Consider simple investor tools
  ▪ Convertible Note or SAFE
• Keep investors updated
Questions?