

Top Three Mistakes Entrepreneurs Make, and How Not to Make Them [VIDEO]

Article By:

Frederick V Bryant

Venture Success Episode 2

When companies are just getting off the ground, there are many stressors and opportunities. This is an exciting time in the life of your company, and there are some common pitfalls that you can avoid.

Mistake #1: Issuing Equity to Founders, Fully Vested at Outset

Issuing equity to the founders, fully vested at the outset. You shouldn't do this because if someone leaves the company, they still get a piece of the pie without earning it. Instead, you should subject everyone's equity grant to vesting. What's vesting? Vesting is a contractual obligation to continue to provide services in order to earn your award. Typical vesting schedules are between 2-4 years, and we can help you design something tailored for you and your team.

Mistake #2: Not Using Invention Assignment Provisions

Entering into contracts or other relationships with service providers without invention assignment provisions. Invention assignment provisions ensure that the company owns the intellectual property developed, rather than simply having the right to use it. You may think, because you paid that programmer or that developer, you own the IP. Only if you have an adequate invention assignment clause.

Mistake #3: Selling Stock or Other Equity Interests to Non-Accredited Investors

In the venture capital and private placement context, investors need to be accredited under SEC rules. So the mistake would be selling stock or other equity interests to non-accredited investors. This frequently happens with entrepreneurs accepting money from their family or friends. If they're not accredited investors, they generally cannot buy stock in your company. Accredited investors meet a financial test under SEC rules. You either have a net worth of \$1 million or more, excluding the value of your primary residence; or you have a recurring income of \$200,000 a year individually, or \$300,000 a year with a spouse or partner, to meet this requirement. If investors are accredited, that will allow the company to avail itself of certain securities laws exemptions to conduct its offering. So make sure to contact your lawyer before selling any stock to anyone, because this is a regulated

industry, and you need good advice.

© 2025 Foley & Lardner LLP

National Law Review, Volume XIII, Number 45

Source URL: <https://natlawreview.com/article/top-three-mistakes-entrepreneurs-make-and-how-not-to-make-them-video>