

Good Advice Isn't Expensive. Bad Advice Is.

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If you're in the early stages of forming a company, keeping costs down is a top priority. Any entrepreneur with common sense will avoid buying a fancy company car or having the new company's name engraved in granite over the front door. But what about hiring professional help for legal, tax and accounting matters? This is, unfortunately, where too many entrepreneurs confuse saving with skimping, and fail to invest in the very foundation of their business.

An entrepreneur has a number of important questions to answer, and systems to set up, in the early stages of company formation. Issues like what business structure to select, what tax elections should be made, how to protect the new entity's intellectual property and how to track costs must all be addressed.

A number of do-it-yourself options that purport to offer help with these very issues are available to new businesses. If used wisely, some of these can in fact save you some money up front, and possibly help your business over the long term. But that assumes that you know what to look for in these products, and that you understand how to deploy them.

Consider, for example, a company that uses a do-it-yourself product to register in the states where it thinks it will do business. The registrations themselves go smoothly. But as the business grows, it turns out the founders did not accurately anticipate how many states it would establish a business nexus (physical presence) in, and therefore did not register (much less pay taxes) in all the appropriate states. With cash-hungry state governments looking to out-of-state businesses for additional sources of revenue, the company finds itself the target of enforcement efforts. A tax professional could have helped such a company either register in the proper states from the get-go or take steps to avoid establishing nexus there.

Let's look at other examples of business matters that would benefit from professional attention early on, and then consider how best to bring in quality professional help that doesn't swamp your startup budget.

- **Entity formation.** The type of entity you choose (for example, corporation, sole proprietorship, or LLC) and the manner in which you create it can have implications down the road. An attorney can help you make the best choices as to entity selection, with an eye towards the type of investor who would invest in your company and what type of entity structure they would expect. A tax advisor should also be consulted prior to entity formation as your choice of entity has major significance related to its taxation.
- **Tax accounting.** There are various tax elections a business can make early on that may affect its ability to claim credits in the future. Once made, some elections cannot be reversed. An experienced tax accountant can advise you on the implications of these elections. For example, you may want help with the decision of whether to capitalize R&D expense into credits to benefit future years, or to take the expense now.
- **Intellectual Property.** If your vision is based on an invention, design or process that is key to your success, an IP attorney should be consulted on what the best way to protect this asset is. Depending on how it will be used, you may want to file for patent protection, but in some circumstances that might not be the best option.
- **Accounting systems.** You will want to ensure that your company's accounting infrastructure is set up correctly and that the bookkeeping is done properly from the start. One cost-effective approach for a fledgling business is to hire professional help with creating such an infrastructure, allowing you to avoid paying the overhead for, and managing, an in-house accounting staff. This may include setting up QuickBooks or some other accounting system and providing basic training to the person who will be keeping the books so that important information is captured and recorded correctly.

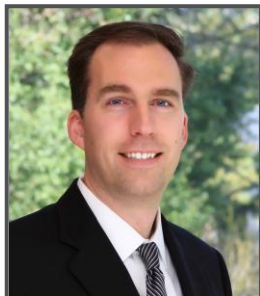
- **Cash control.** An accounting professional can suggest cash controls to help ensure that funds are used appropriately. Someone who has worked with start-up companies will know from experience what costs can be avoided or deferred, versus what needs to be done now. By using a professional, you can leverage off of their experience and avoid unnecessary expenditures.
- **Choice of financial institution.** An accounting pro can help you elect not only the right bank for your company's needs, but the right business unit within that bank, so as to ensure that your company will receive the best service, given the stage your company is at.
- **Product pricing and revenue recognition.** After you've developed your product or service and determined a likely price for it, it's worth speaking with a professional about how the revenue earned will be recognized. For certain kinds of revenue, particularly revenue derived from software or from hardware products containing software, proper revenue recognition may result in some revenue being deferred and recognized later. Properly forecasting this revenue will be critical when presenting this information to third parties, particularly existing and potential investors. A professional can also help you prepare a forecast that demonstrates the difference between bookings and revenue, and provide guidance on what investors will consider when deciding whether to invest in your company.

That's just a short list of potential issues. Legal, tax, and accounting professionals can help a new business with other critical matters, sometimes with just a few hours of consulting time. Other key topics might include registering according to applicable government regulations, dealing with payroll, sales/use and property tax issues, and handling basic business operations. The expert's input will allow you to focus on building your vision, not your back office.

But where do you find good professional help? For an early-stage company, it can be challenging to find service providers who are experienced with the issues you face and will likely face later on, and who are willing to assist you on a limited basis and perhaps guide you through a largely do-it-yourself process.

Getting recommendations from companies like yours can be a good start. Don't just go to the guy who did your personal tax returns for the last ten years. You want someone who has actual experience helping companies like yours go from where you are to where you want to be. Otherwise, you may find that the people you hire are learning on your dime!

Be up-front about your need to keep fees low. If you simply explain, "I want to get these matters handled correctly but can't afford to pay \$500 an hour for many hours of work," some service providers will offer ways to provide you the critical guidance, but let you handle the actual work. This way you get the expert advice, but avoid some of the cost. After all, they know that, by helping your vision succeed now, they may be fostering a valuable, long-term client relationship.



Nathan Curtis joined Frank, Rimerman + Co. LLP in 1998 and is currently a senior manager in our Assurance and Advisory Department. He has extensive experience working with privately held, pre-IPO software and high-technology companies. He is experienced in revenue recognition, equity accounting and mergers and acquisition transactions. Nathan graduated from The George Washington University in 1998 with a Master of Accountancy and in 1997 with a Bachelor of Arts, with a major in journalism. Nathan is a member of the American Institute of Certified Public Accountants and the California Society of Certified Public Accountants.

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