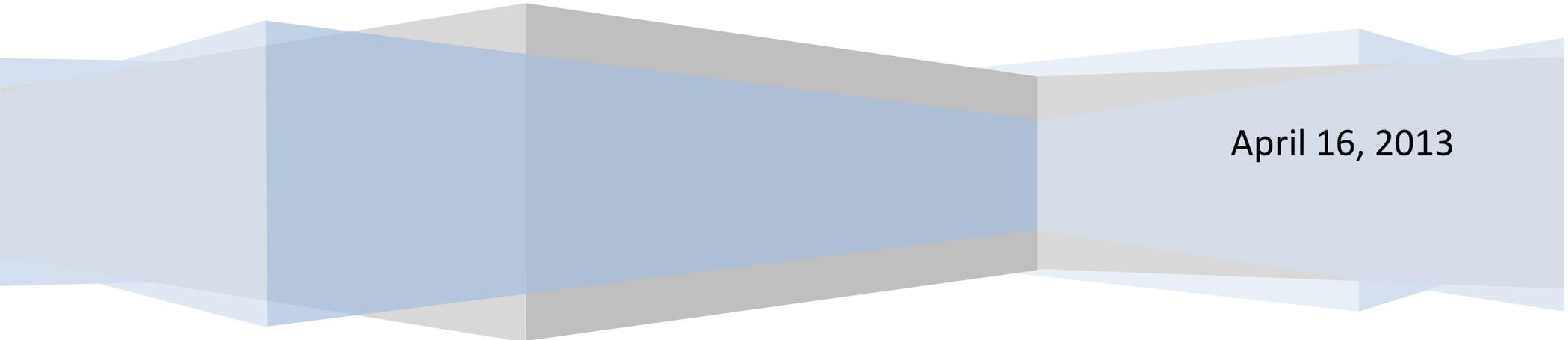


Washington State Bar Association  
A New Lawyer Education Online Course

# Viewer's Guide

## Advising the New Tech Startup

Unit 1: Business Basics & Social Purpose Corporations



April 16, 2013

# Advising the New Tech Startup, Unit 1 | Viewer's Guide

## "Copyright" page

Establish conventions for template:

- Capture date
- Online course release date
- WSBA#
- Credits
- Estimated time to complete
- Copyright date

# Advising the New Tech Startup, Unit 1 | Viewer's Guide

## WSBA-CLE intro

(DRAFT)

The WSBA-CLE mission is to provide the highest quality continuing legal education programs and products that promote learning, enhance skills, and inspire high standards of practice

### **New Lawyer Education at WSBA**

New Lawyer Education (NLE) is a program through the WSBA designed to guide new lawyers in the first years of their career. NLE seminars and materials emphasize building a strong foundation in practice management, relationship building, interpersonal communications, work-life balance, ethics, and professionalism.

NLE also seeks to provide a solid framework for career specialization, such as business law or estate planning. NLE products are offered at a reduced rate for attorneys who have been admitted to any state's bar for less than four years, who are also members of the Washington State Bar.

For more about New Lawyer Education at WSBA, visit \_\_\_\_\_

# Advising the New Tech Startup, Unit 1 | Viewer's Guide

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# Advising the New Tech Startup, Unit 1 | Viewer's Guide

## Learning Schedule

### A. Business Basics

The total time to complete this module is: **77 – 92 minutes**

Time Required	Activity	Tools and Materials
5 mins	Participant prep and review of materials	Print or open Viewer's Guide Read Introduction, Challenges and Course Objectives Cue up Video
35 – 40 mins	Part I: Choosing a Business Entity	Viewer's Guide, Video and Course Book
25 – 35 mins	Part II: Operating an LLC	Viewer's Guide, Video and Course Book
7 mins	Part III: Avoiding Pitfalls When Forming a Business	Viewer's Guide, Video and Course Book

### B. Social Purpose Corporations

The total time to complete this module is: \_\_\_\_\_ minutes

Time Required	Activity	Tools and Materials
5 mins	Participant prep and review of materials	Cue up Video, Viewer's Guide
mins	Part I:	Viewer's Guide, Video and Course Book
mins	Part II:	Viewer's Guide, Video and Course Book
mins	Part III:	Viewer's Guide, Video and Course Book
5 mins	Unit 1 Evaluation	Survey Link <by Unit or 1 overall for Course?>

# Advising the New Tech Startup, Unit 1 | Viewer's Guide

## Introduction

Welcome to **Advising the New Tech Startup**, part of the WSBA's New Lawyer Education Curriculum. This online course provides you with tools and strategies to get you started in practicing business law with clients. The tools and strategies apply to small startup businesses, as well as small and closely-held business clients.

The **Advising the New Tech Startup** online course is comprised of three units, each with a Viewer's Guide and corresponding video:

### Unit 1:

- A) Business Basics
- B) Social Purpose Corporations

### Unit 2:

- A) Tax Basics
- B) Intellectual Property for Software

### Unit 3:

- A) Preparing to Hire New Employees
- B) Real Estate Transactions
- C) Practical Tips for Starting Your Practice

For additional online courses in WSBA's New Lawyer Education Curriculum, see the WSBA-CLE store at [www.wsba-cle.org](http://www.wsba-cle.org).

## Viewer's Guide Key

Follow the instructions in this guide as you watch the video. Read the materials and case studies included here, and examine the Course Book included in this program.

The following actions are signaled throughout the Viewer's Guide:



**Watch the video and refer to materials**



**Pause the video and write a response**

## Advising the New Tech Startup, Unit 1 | Viewer's Guide



**Check to see if you understand correctly**



**Examine the information and apply it to your real client issues**



**Gather information from a case study or conduct other research**

# Advising the New Tech Startup, Unit 1 | Viewer's Guide

## Challenges to Effective Counseling of New Tech Startups

The WSBA's discussions with new lawyers about the skills needed for effective counseling of small businesses point to the following challenges for new practitioners:

- Not knowing the range of entities that exist
- Inexperience with responding to initial requests of small businesses with multiple needs
- Interpreting the jurisdictional issues for filing

## How this Course Will Assist You

This course is designed around the objectives listed below in order to address the challenges that new lawyers face in effective counseling of small businesses.

### Online Course Objectives:

Upon completion of this course, you will be able to:

- List five or more types of business entities
- Compare different entities in order to recommend the correct entity to the client
- Identify two main legal considerations for maintaining operation of an LLC
- Identify the best place for your client to file for a license
- Apply appropriate tools and techniques to use in the client interviewing process

# Advising the New Tech Startup, Unit 1 | Viewer's Guide

## Online Course, Unit 1

### A. Business Basics

#### Part I: Choosing a Business Entity

##### A. Read the Client Story below

**Approximate Time: 2-5 minutes**

Your friends, Paul and Laura, are starting a new business. Paul has developed a new technology for a mobile “app”. This technology allows a user to interact with Google Maps (using open source APIs ) and local landmarks in an adventure-style learning game, where users see data about landmarks as they walk around the city. They call it “MapMark”. Laura intends to respond to a Request for Proposal from King County School districts to license use of the MapMark to schools for interactive and engaging field trips. After trying unsuccessfully to use Legal Zoom, they send you the following email:

Hey there New Lawyer!

Remember that app I was telling you about last month? Well, things are starting to take off, so we need your legal expertise. We are interviewing a few other attorneys right now, but here's what we're worried about:

- How do we form our business? Which entity should we choose? And, where should we file?
- Everyone is telling me Delaware, but I would like to file in Washington if it makes no difference.

Thanks for your help on this. Oh wait, I take it you're not going to answer all of this pro bono :)

What are your fees/rates? Can you do all of this work at a flat fee? We have about \$1,000 allocated for legal expenses right now. Is that enough?

Sincerely, Laura

# Advising the New Tech Startup, Unit 1 | Viewer's Guide

## B. Watch the Video

**Approximate Time: 14 minutes**

Overview:

- Watch the video for “Part I: Choosing an Entity” and refer to the instructor’s slides below.
- Pause the video to write a response to the client’s needs.
- Refer to Chapter 1 of the Course Book for additional information on this topic.



Start the video now and watch the “Part I: Choosing an Entity” segment <timestamp bookmarks: 00:00:00 to 00:14:29>

## Instructor's Slides

2

### I. Choosing an Entity

- General Partnership
- Proprietorship
- Limited Partnership
- Limited Liability Company
- Corporation
- Other Types

3

### II. Differences Between Entities

- Limited Liability
- Taxation
- Centralized Management
- Continuity of Life
- Free Transferability of Interest
- Simplicity of Operation
- Costs of Creation and Operation

## C. Write a Response to the Client

**Approximate Time: 5- 8 minutes**



Pause the video. Write a short response to the client based on the questions below. <timestamp bookmark: 00:14:29>

# Advising the New Tech Startup, Unit 1 | Viewer's Guide

## Response to Client

### Guiding Questions:

- Which entity should Paul and Laura use?
- Where do they form their business?
- And what are other key issues you will address in your response?

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## D. Check Your Understanding

**Approximate Time: 14 minutes**

Overview:

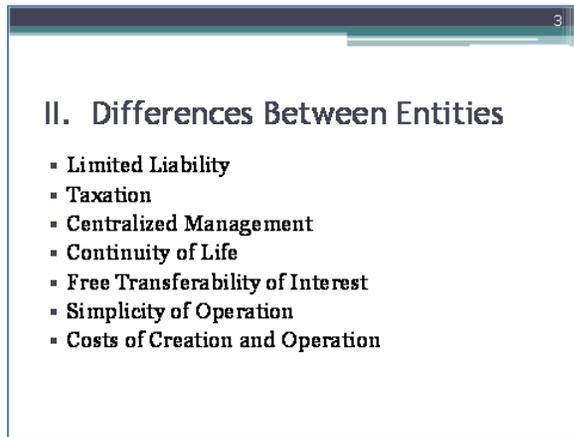
- Watch the video for the “Hypo Debrief & Final Points on Choosing an Entity” and refer to the instructor’s slides below to check your answers.



Restart the video now for the “Hypo Debrief & Final Points on Choosing an Entity” segment <timestamp bookmarks: 00:14:29 to 00:28:35>

# Advising the New Tech Startup, Unit 1 | Viewer's Guide

## Instructor's Slides



3

### II. Differences Between Entities

- Limited Liability
- Taxation
- Centralized Management
- Continuity of Life
- Free Transferability of Interest
- Simplicity of Operation
- Costs of Creation and Operation



4

### III. Direct Comparisons

- Transferability of Interest
- Capitalization Issues



Pause the video. Review the instructor remarks below. <timestamp bookmark: 00:28:35>

## Part I: Conclusion

### **Instructor Remarks:**

*Most business entities are formed by a filing with the Secretary of State. The most common form of entity is now the limited liability company. Most small businesses begin as LLCs. The next most common form of entity is a corporation. Both LLCs and corporations offer the founder liability protection and a single level of taxation. For a start up business we recommend that you form in Washington. If investors require it, you can later incorporate in Delaware.*

*There is very little difference between the Washington and Delaware corporate/LLC Statutes. The real benefit of Delaware is the Delaware court system. Judges understand business law and decisions are fast. For a startup business, there is no need to form in Delaware because you have to qualify to do business in Washington anyway, i.e., pay twice.*

*In Washington, nearly all businesses need a Master Business Application and some cities require a city business license too. Even if you are operating as a sole proprietor, you need to have a business license.*

# Advising the New Tech Startup, Unit 1 | Viewer's Guide

## Part II: Operating an LLC

### A. Read the Client Story below

**Approximate Time: 2-5 minutes**

After your first conversation, Laura emails you back to ask about the following items:

Hi again,

A few more questions for you:

- Do we need any sort of business licenses?
- What about setting the responsibilities between Paul and I? We want to split things 50/50, but I'm worried that Paul will take the technology he invented and run!
- Do we need to put any money into the business? (I heard some attorney in California talking about "capitalizing" a business). Can we issue stock if we don't put any money into the business?

Thanks!!

### B. Watch the Video

**Approximate Time: 6 minutes**

Overview:

- Watch the video for "Part II: Operating an LLC" and refer to the instructor's slides below.
- Pause the video to write a response to the client's needs.
- Refer to Chapter 1 of the Course Book for additional information on this topic.

Advising the New Tech Startup, Unit 1: Business Basics & Social Purpose Corporations

[www.wsba.org/nle](http://www.wsba.org/nle) WSBA New Lawyer Education Online Library

# Advising the New Tech Startup, Unit 1 | Viewer's Guide



Restart the video now for the "Part II: Operating an LLC" segment <timestamp bookmarks: 00:28:49 to 00:34:50>

## Instructor's Slides

<p>5</p> <h3>IV. Conflict of Interest</h3> <ul style="list-style-type: none"><li>• Duties of Management</li><li>• Other Planning Considerations</li><li>• Quick Reference Table</li></ul>	<p>6</p> <h3>Duties of Management</h3> <ul style="list-style-type: none"><li>• Corporate Statutes create a duty of loyalty and a duty of due care.</li><li>• For partnerships and LLCs not always express in the statute but in common law.</li><li>• Can't run your business like your personal piggy bank</li><li>• Keep separate checking account</li><li>• Refer to "Ethical Consideration" in course book</li></ul>	<p>7</p> <h3>Other Planning Considerations</h3> <ul style="list-style-type: none"><li>• Cost of Formation. How big do you plan to be? Do you need Perkins Coie or can you live with Solo Sam?</li><li>• Do I incorporate in Delaware, Nevada or Washington?</li><li>• What is a business license?</li><li>• Investor Expectations</li><li>• Exit Strategy (sale, double taxation...)</li></ul>
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## C. Write a Response to the Client

Approximate Time: 5- 8 minutes



Pause the video. Write a short response to Paul and Laura based on the questions below. <timestamp bookmark: 00:34:50>

### Response to the client

#### Guiding Questions:

How would you respond to Paul and Laura's additional questions?

- Do we need any sort of business licenses?
- What about setting the responsibilities between Paul and I? We want to split things 50/50, but I'm worried that Paul will take the technology he invented and run!
- Do we need to put any money into the business? (I heard some attorney in California talking about "capitalizing" a business). Can we issue stock if we don't put any money into the business?

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# Advising the New Tech Startup, Unit 1 | Viewer's Guide

## D. Check Your Understanding

**Approximate Time: 8 minutes**

Overview:

- Watch the video for the “Hypo Debrief & Final Points on Operating an LLC”.
- Refer to Appendix A “Sample Letter” at the end of this Viewer’s Guide



Restart the video now for the “Hypo Debrief & Final Points on Operating an LLC” segment. <timestamp bookmarks: 00:35:00 to 00:43:10>



Pause the video. Review the Instructor Remarks below. <timestamp bookmark: 00:43:10>

## Part II: Conclusion

### **Instructor Remarks:**

*Assign the current technology into the company in exchange for stock or LLC Units. Also have Paul and you sign invention assignment agreements for all new technology.*

*You must put something into the company for your stock/LLC Units. It can be nominal, i.e., a “peppercorn.” It can be cash, or technology or a business plan. This amount is your “basis” in the stock/Units.*

*Corporations have a requirement to hold an annual shareholders meeting (but failure to hold the meeting does not invalidate the corporation or its actions). LLCs are not required to hold an annual meeting. Both LLCs and Corporations are required to file an annual report with the Secretary of State along with an annual \$69 filing fee. Corporations are required to maintain at their principal office, a shareholder list, copies of the articles, bylaws and minutes of directors and shareholder meetings. LLCs are required to have certificate of formation, LLC Agreement and list of Members available.]*

*Hire a real attorney. Do not try to save money and do it on your own, or buy a kit or pay a lot of money to some guy who will set up an elaborate asset protection scheme for you. Find an attorney who understands forming business entities.*

# Advising the New Tech Startup, Unit 1 | Viewer's Guide

## Part III: Avoiding Pitfalls of Forming a Business

### A. Watch the Video

**Approximate Time: 7 minutes**

Overview:

- Watch the video for “Part III: Avoiding Pitfalls of Forming a Business”.
- Refer to the written list below for supplemental content.
- Prepare to transition to the next part of Unit 1: Social Purpose Corporations



Restart the video now for the “Part III: Avoiding Pitfalls of Forming a Business” segment. <timestamp bookmarks: 00:43:10 to 00:50:10>



Pause the video. Review the Instructor Remarks below for the content: Top 10 Mistakes in Forming a Business. <timestamp bookmark: 00:50:10>

### ***Instructor Remarks -- Supplemental Content:***

#### **Top 10 Mistakes in Forming a Business**

10. I'm not licensed to practice in Delaware or Nevada
9. Oops, I forgot to file the S election
8. You're telling me that the sec. of state and DOL websites aren't sync'd?
7. Delaware's annual fee is based on AUTHORIZED shares and par value?
6. “Why do we need a shareholder’s agreement? We are best friends.”

## Advising the New Tech Startup, Unit 1 | Viewer's Guide

5. "What is a deadlock provision?"
4. "What do you mean we have to qualify as a foreign corporation? We're Americans!"
3. "I thought you were going to check on the domain name availability."
2. "My paralegal did it."
1. "I didn't know that LLC units were securities."

# Advising the New Tech Startup, Unit 1 | Viewer's Guide

## Transition to Social Purpose Corporations

### Overview

- This completes the video and activities for Business Basics, the first part of Unit 1 of the Advising the New Tech Startup online course.
- Social Purpose Corporations, the second part of Unit 1, will begin in a moment on the video. This portion is estimated to take \_\_\_\_\_ to complete.



To go on to Social Purpose Corporations, turn to the next section in your Viewer's Guide and restart the video **<insert duration bookmark/timestamp for next phase of the video>** *<timestamp bookmark: 00:50:10>*

# Advising the New Tech Startup, Unit 1 | Viewer's Guide

## B. Social Purpose Corporations

Part I:

Part II:

Part III:

# Advising the New Tech Startup, Unit 1 | Viewer's Guide

## Evaluation

Congratulations! You have completed Unit 1 of the Advising the New Tech Startup online course.

As a final step, please complete the student evaluation of Unit 1 found at the link below. We appreciate your feedback!

# Advising the New Tech Startup, Unit 1 | Viewer's Guide

## Appendix

### A. Sample Letter and Summary of the Offering for MapMark

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BUSINESS ENTITIES R US  
999 CORPORATE TOWER  
BLAHVIEW, WA  
98000

April 17, 2013

Paul and Laura  
[garage in Redmond]

Re: MapMark  
Our File No. 100.1001

Dear Paul and Laura:

In connection with the incorporation of MapMark, Inc., we have prepared and enclose the following documents for your review and execution:

- A. Bylaws;
- B. Waiver and Consent for Organizational Meeting;
- C. Stock Subscription Agreement; and
- D. Stock Certificates No. 1 and No. 2.

Please sign all the documents where indicated and return the originals to us. The Stock Certificate needs to be signed by each of you, as resident and as Secretary. You may return the original Stock Certificate to us for safekeeping, or if you prefer to keep it, please return an executed copy to me for placement in the corporate minute book.

We have also prepared and enclose the following licensing documents:

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Paul & Laura  
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1. **Form 2553/S Election.** You have advised us that you wish to elect S corporation status. Election of S corporation status generally permits the corporation, for tax purposes only, to be treated in a manner similar to a partnership. Thus, most of the items of income, loss, deduction, credit, and so forth are reported on your individual tax return. If you desire to do business as an S corporation, the corporation must make an election by filing IRS Form 2553, along with the consent of all the shareholders, by the 15th day of the third month of the first taxable year of the new corporation. For purposes of this election, the first taxable year of your corporation does not begin until the corporation (a) has shareholders, (b) acquires assets, or (c) begins doing business, whichever occurs first. Therefore, we have prepared and enclosed Form 2553, Election by a Small Business Corporation, for your review and signature.

The application must be signed and dated by you, as President on Page 1, and in Section K, Page 2 where indicated by highlight.

**Please return the form to us as soon as possible for filing with the Internal Revenue Service. For your information, we must mail the form to the IRS by March 15, 2013.**

2. **Initial Report.** Enclosed is the Initial Report for your review and signature. Please sign and date the report where indicated, and return it to us for filing with the Secretary of State.

Please note that failure to file the Initial Report with the Secretary of State within 120 days from the date the Articles of Incorporation were filed (or **August 16, 2013**) will result in a delinquency fee and will lead to the dissolution of the corporation.

3. **Master Business Application.** The Master Application is filed with the Department of Licensing to register the corporation with the Washington State Department of Licensing, Labor and Industries, Department of Revenue and Employment Security Department. Please review the application for accuracy, complete Section 4c and 4k, and sign and date the application where indicated. You may return the executed Application to us, for filing with the Department of Licensing.

Each year the corporation must file a Corporate License Renewal/Annual Report with the Department of Licensing (as Renewal Agent for the Secretary of State) setting forth the name and address of the registered agent, the address and phone number of the corporation's principal place of business, the business purpose of the corporation, and the names and addresses of each officer and director. Your corporation's Annual Report must be filed by the last day of February of each year.

As your corporation's registered agent and office, the annual report will be sent to us by the Department of Licensing. Because we act as the statutory registered agent for MapMark, Inc. we offer our business clients a flat fee of \$295.00 per year for the annual maintenance of a corporation. Our routine maintenance services typically will include:

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1. Acting as statutory registered agent through our statutory agent, UR Corp. Services, Inc., which will receive any service of process, or similar papers, which may be served on the corporation;
2. Paying your corporate license annual fees billed by the State (these are presently \$69.00);
3. Assisting in the completion of annual reports to the State;
4. Preparing annual consent resolutions and minutes;
5. Responding, from time to time, to routine inquiries regarding corporate records and compliance issues; and
6. Maintaining original corporate records (e.g., minute book, stock ledger, member list, etc.).

Proper maintenance of MapMark, Inc. helps to insure that you will continue to receive the limited liability benefits and tax treatment that prompted the creation of the corporation. Conversely, the failure to maintain the legal integrity of the corporation may create personal liability or the loss of tax advantages.

You will receive a single statement for the annual maintenance service, usually in November for the ensuing calendar year (November, 2013 for services performed in 2014). Please check the appropriate box at the foot of this letter, and return it in the envelope provided.

Now that the legal existence of the corporation has been established, we offer the following information as a convenient source of future reference and information in areas that are often of interest to a closely-held corporation and its shareholders.

1. Articles of Incorporation. The Articles of Incorporation were filed with the Secretary of State on April 17, 2013, and the Secretary of State has issued a certificate confirming the filing. Any future amendments to the Articles must also be filed with the Secretary of State. The Articles contain a statement of corporate purpose and provisions with respect to certain basic corporate structural matters such as the nature and amount of authorized shares, rights of existing shareholders to purchase any additional shares issued by the corporation in the future, cumulative voting, and the like.

2. Bylaws. The Bylaws contain most of the rules for governance of the corporation and its meetings. The adoption of these Bylaws will be complete upon their signature and return with the consent resolution regarding the organizational meeting. If you have any questions as to the meaning of any of the Bylaw provisions, please let me know.

3. Waiver and Consent to Actions in Lieu of Organizational Meeting of Incorporator and Directors. In the consent resolution, the Incorporator and Board of Directors approve various organizational and other actions, including your election as the sole member of the initial Board of Directors. In addition, the consent resolution reflects your election as the President, Secretary and Treasurer of the corporation.

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4. Issuance of Stock. The following shares of stock are being issued:

<u>Name</u>	<u>Number of Shares</u>	<u>Consideration</u>
Paul	350,000	assignment of software code
Laura	350,000	business plan and other assets

The following items require your immediate attention. I am assuming that most of the withholding, reporting and other tax matters briefly discussed below will be handled by your accountant. This discussion is merely an attempt to give you a general knowledge of what may be required of your corporation and should not be relied upon as complete information regarding any of the matters discussed.

A. Election of Accounting Period; Selection of Accounting Method. A new tax payer may elect in its initial federal income tax return to be taxed on a calendar or fiscal year basis. The books should be kept in accordance with this time period. The initial adoption of a taxable year does not require the consent of the IRS. Prior approval from the IRS is required, however, for any subsequent change in the accounting period used. If an S corporation election is made (discussed in the following section), the corporation's accounting period must generally be the calendar year.

Selection of a method of accounting (i.e., cash or accrual) is made in the corporation's first federal income tax return. No prior approval of the initial choice of method is required, but a change of accounting method generally requires the prior consent of the IRS. A taxpayer which has inventory must use the accrual method. In addition, there are certain restrictions on the use of the cash method by some corporations.

B. Income Tax Returns. The first federal income tax return (Form 1120S) must be filed on or before the 15th day of the third month following the close of the first taxable year (March 15 in the case of a calendar year corporation). Federal income tax payments are deposited along with Form 8109 in an authorized commercial bank depository or Federal Reserve Bank.

C. Federal Withholding, Social Security and Unemployment Taxes. IRS Circular E, Employer's Tax Guide (Publication 15), will be mailed to you by the IRS after the Application for Employer Identification Number is filed. This publication provides you with a summary of your responsibility for withholding, depositing, paying and reporting federal income, social security (FICA) and unemployment (FUTA) taxes relative to your employees. Payment is required quarterly by April 30, July 31, October 31, and January 31, together with a report on Form 941. Failure to pay withholding taxes can lead to personal liability for corporate officers. You should review the Employer's Tax Guide carefully.

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D. Washington Business Tax. The State of Washington does not have a net income tax. Instead, it has a Business and Occupation tax (B&O tax) on the gross receipts of a business. Most businesses are required to file monthly B&O tax returns and pay the tax on a monthly basis. The return and the tax are due by the 21st day following the end of the month in question.

E. County Personal Property Taxes. The corporation may be subject to county personal property taxes if corporate assets are kept in counties, such as King County, which assess such a tax. For more information, you should contact the appropriate county assessors' offices.

F. Workers' Compensation. All Washington employers are subject to the Washington workers' compensation laws. These laws impose liability upon the employer for industrial accidents regardless of the employer's negligence. The Master Business Application contains further information regarding this.

G. Unemployment Insurance. All corporations must participate in the Washington Unemployment Insurance Program. After you register with the Department of Licensing, you will receive further information regarding the program from the Employment Security Department.

H. Labor Laws. Employers are generally required to comply with a variety of federal and state laws dealing with the employment relationship, covering such items as equal employment opportunity, minimum wage, overtime pay and safety. Employers are also often required to keep records, post notices and submit reports with respect to the above. A detailed description of these requirements is far beyond the scope of this brief discussion. You can get more information from the U.S. Department of Labor, the Washington State Employment Security Department and the Washington State Department of Labor and Industries.

I. Employment Eligibility Verification. All employees, including any who are directors, officers or shareholders, must complete Form I-9 (Employment Eligibility Verification Form). The corporation then must verify identity and employment eligibility and retain the form in its files. Further information and copies of Form I-9 can be obtained from the U.S. Citizenship and Immigration Service of the U.S. Department of Homeland Security.

J. Procurement of Local Business Licenses. Many cities require that persons doing business within city limits must obtain a local business license. You should contact the Lynnwood City Hall to for information as to specific requirements, if any. If you would like us to obtain any city business licenses for you, please let us know.

K. Corporate Names, Trade Names and Trademarks. Now that you have incorporated your business, if you have not done so already, you must decide whether or not you will use your corporate name to identify your business to your customers. If you choose to transact your corporate business under another name (i.e., the use of an "assumed" or "trade" name), Washington law requires that you register the name under

# Advising the New Tech Startup, Unit 1 | Viewer's Guide

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the Trade Name Statute. Registration is made on the Master Business Application previously discussed. However, this registration is for identification purposes only, and does not establish rights in your business name.

Please be aware that if you do not use your corporate name to transact business, another business could use your corporate name and eventually establish exclusive rights in the name, regardless of your incorporation. In addition, if you use your corporate name or trade name as a trademark or service mark, we typically recommend that you register the name under Washington's Trademark Statute. There are numerous other issues concerning your business name and trademarks that you should consider. We would be eager to discuss these issues with you at your request.

L. Foreign Qualification. If you conduct corporate business in states other than Washington, the corporation may be required to register as a foreign corporation in those states, depending on the facts and applicable state laws.

M. Maintaining the Corporation. It is extremely important to maintain proper corporate form, to avoid losing limited liability protection and other benefits offered by using a corporate structure, and to avoid acquiring personal liability for corporate obligations.

1. Corporate Meetings. Annual meetings of the shareholders and directors should be held each year on the date specified in the Bylaws, Article III, Section 3.1. These meetings are necessary to review the company's progress, as well as to re-elect or replace the directors and officers. The meetings can, of course, be held on another date if the date set is inconvenient. However, meetings should be held at least annually, and written minutes of these meetings should be kept in the corporate minute book. As an alternative to in-person meetings, a properly drafted consent resolution signed by all appropriate parties may be used.

2. Corporate Approval for Significant Business Transactions and Changes in Policy. The Board of Directors should adopt resolutions authorizing the officers to carry out significant corporate transactions and changes in methods of doing business, such as substantial borrowings, sales, purchases or leases of assets, real estate transactions, union and/or employment agreements, and so forth. These significant transactions should be noted in minutes of your annual or special meetings, or they can be set forth in a written consent resolution signed by each director and/or shareholder, depending upon the transaction. At your request, we will review such significant agreements or contracts, and/or prepare such consent resolutions.

3. Corporate Signatures/Personal Liability. In order to avail you and any other or future directors/officers of the protection afforded by the corporation, it is imperative that you use the following format when executing any documents on behalf of the corporation:  
MapMark, Inc.

By: Example

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Paul, President

It is important to make sure that anyone dealing with the corporation understands that they are dealing with a corporation and not with you individually. It is also important for you to understand that if you sign a personal guaranty for an obligation of the corporation, to that extent you will lose the protection of the corporate entity. It is also important for you to keep in mind that claims involving actual or alleged errors or omissions by officers and directors themselves may sometimes result in personal liability. However, the corporation often may or must defend or indemnify the individual. Insurance can be purchased to protect against some such claims. We can review the matter of personal versus corporate liability in more detail in response to specific inquiries.

4. Keeping Proper Corporate Books of Account. In order to preserve the separate legal existence of the corporation, it is important that corporate books of account be kept completely separate from the personal financial records of each individual director, officer and shareholder. The separate books of account should be set up by someone knowledgeable in the bookkeeping area, and should clearly distinguish between personal receipts, revenues and expenses and corporate receipts, revenues and expenses. It is desirable that the corporate books of account be kept in separate files from personal financial records. This can be important both from a tax standpoint and from a personal liability standpoint.

5. Corporate Records. We will retain the corporation's original minute book containing the Articles of Incorporation, Bylaws, Minutes, stock certificates, stock ledger and other corporate documents. A list of stockholders and a copy of each share certificate should be maintained in the minute book, and any transfer of stock should be recorded in the stock records. Should you have need of the minute book at any time, please let us know and we will forward it to you. Each Washington corporation is required to maintain, at its principal office identified in its most recent annual report, copies of the following records:

- a. Articles of Incorporation or Restated Articles of Incorporation and all amendments to them currently in effect;
- b. Bylaws or Restated Bylaws and all amendments to them currently in effect;
- c. Minutes of all shareholders meetings, and records of all actions taken by shareholders without a meeting, in the prior three years;
- d. Financial statements for the past three years;
- e. All written communications to shareholders generally within the past three years;
- f. A list of the names and business addresses of its current directors and officers; and

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- g. Its most recent annual report to the Secretary of State.

The records noted above are subject to inspection and copying by a shareholder at the corporation's principal office upon five-business-days written notice. If a shareholder is improperly denied access to the records, the shareholder has a statutory right to attorneys' fees incurred in obtaining the records, unless the corporation can show that it had a good faith reasonable basis for doubting the shareholder's right to inspect the records. As we previously discussed, we will maintain your corporation's original minute book. Should you receive a statutory five-business-day notice from a shareholder to inspect your corporate records, we will have the original records delivered to you within 23 hours of your request.

N. Compliance With Securities Laws. The stock in the company is a security as defined in both state and federal securities laws. While there are exemptions from such laws for most truly private, isolated sales of stock in closely-held corporations by one individual to another individual, such exceptions remove only the need for formal registration of stock offerings and distributions and do not diminish the "full disclosure" requirements of securities laws that usually apply to all transfers of ownership in securities. Furthermore, even where relatively limited numbers of investors are involved, compliance with exemptions from registration of stock offerings under state and federal securities laws often requires careful review and planning in order to avoid formal registration.

If you contemplate investment in your company by other persons, you should bear in mind the requirements of state and federal securities laws. The term "securities" is a term of art which may include debt arrangements as well as the conventional offer and sale of stock. The law requires registration of an offering of securities, licensing of persons selling securities, and provides personal liability for failure to comply. There are exemptions from these requirements, but each offer or sale of securities should be reviewed by qualified counsel to avoid subsequent problems or claims.

This brief mention of securities laws cannot substitute for specific legal assistance that may become necessary in the event of specific future transactions, but is intended to advise you of the securities laws and their application (in whole or in part) to virtually any transfer of stock from one person or entity to another.

O. Pension and Retirement Plans. At this time, you have no pension or other retirement plans. As time goes on, you may wish to consider adding such plans to the corporate structure. Such plans come in a wide variety of formats with varying legal and tax implications. At such time as you wish to pursue the matter, we would be happy to provide assistance.

P. Personal Estate Planning of Shareholders, Officers and Directors. As a practical matter, the estate and tax planning of shareholders, officers and directors often requires careful review of their specific relationships to the corporation. It is not practical here to explore all of the

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potential ramifications of the corporation in the personal estate and tax planning for the various individuals that might be involved, but we do stress the need for consideration of the corporate structure in connection with such planning by or on behalf of those individuals.

Q. Conclusion. This letter is intended to summarize briefly some of the important legal requirements facing you as you begin your business. It is not the purpose of this letter to answer all possible questions concerning these matters. We urge you to go over the various tax issues closely with your accountant. Also, it would be advisable for you to review your insurance needs with a qualified agent who has had experience dealing with businesses. In addition, you should not overlook trade associations, local chambers of commerce, economic development groups and governmental agencies at all levels as sources of business information and advice. Many of these organizations publish helpful pamphlets and provide free advice in addition to those previously mentioned in this letter.

We, of course, would be pleased to assist you in the matters discussed above or in any other legal matters involving your business. If we can help, please give me a call.

Very truly yours,

BUSINESS ENTITIES R US

L.L. Carlson

Enclosures

MapMark, Inc. \$295.00

Check either box, sign below, and return this page to Business Entities R Us by May 5, 2013 in the enclosed, self-addressed envelope:

- Yes, commence flat fee service for annual maintenance of business entity listed above.
- No, do not commence flat fee service for annual maintenance of business entity listed above.

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Paul, President