

FOCUS

Implement these 10 best practices to improve your business

Guidelines for operating a tight ship can cut across all industries and sectors

A particularly rewarding part of the work of a corporate lawyer is interacting with a wide range of business clients.

Our clients span many industries and range from small start-ups to international giants. Working with these businesses, we have observed a number of best practices that can improve your company.

Below are 10 such practices that will reduce unnecessary distractions and detours, preserve the health of your business and contribute to its continued growth and prosperity.

1. Attend to basic housekeeping. Make sure your corporate records are in order. Keep a minute book that includes your company's organizational documents, shareholder agreements, tax elections, minutes of board and shareholder meetings, and other key items.

Significant actions, such as electing board members, appointing officers and declaring bonuses and dividends should be documented as they occur.

You should adopt a document retention policy and maintain key plans, agreements and other important items in the company's permanent records in accordance with the policy.

Develop the habit of updating your minute book and records to include all amendments or changes made to documents over time. Good housekeeping demonstrates that a business has followed corporate formalities and may protect an owner against vicarious liability claims.

2. Maintain records of ownership. Be particularly careful when making offers of equity-based compensation or other equity interests in the business. Take appropriate measures to approve and document grants and agreements related to equity.

There are a number of technical requirements that should be observed, including tax, accounting and securities law compliance. Accurate records will reduce the likelihood of future ownership disputes and unanticipated tax consequences. Moreover, when your business later seeks to raise capital or enters into a sale transaction, well-maintained records save time and expense and may add value to your enterprise.

3. Preserve intellectual property rights. A significant portion of your company's value may consist of intellectual property assets, even if your business is not commonly regarded as a technology company.

**GUEST
COLUMN**

Annie
Lee

ownership issues develop, the cost of an ounce of early prevention is often well spent.

4. Develop sound employment practices. Adopt an employee handbook containing up-to-date employment policies and practices for your business. Put a system in place for recording problems with employees, including complaints and disciplinary issues. Sound employment practices can motivate continual performance improvement and may be beneficial in the event of a dispute arising in connection with termination.

5. Document important relationships. Document important business relationships and agreements. Be sure the final document is dated and fully signed. In the event of a dispute, a contract with clear terms and conditions often will narrow the range of issues.

Key provisions include payment terms, performance obligations, quality guaranties, timing commitments, risk of loss, indemnification and approval required to modify the agreement. On important agreements, work with a lawyer who understands your business and who can help you identify risks and opportunities.

6. Adopt financial controls. Work with your accountant to develop appropriate templates for your general ledger and financial statements. Make sure that your bookkeeper, controller or chief financial officer maintains discipline in tracking business operations monthly, quarterly and annually.

This will reflect where the business has been and provide insights as to where the business can and should go next. Good financial records are also essential to tracking and providing a basis for tax filing and compliance. It is also important to adopt sound internal controls, including systems to reduce the risk of employee theft and fraud.

Take steps to protect your intellectual property assets. Before publicly disseminating or otherwise disclosing intellectual property, have protection strategies in place covering your patents, trade secrets, copyrights and trademarks. Put written agreements in place that clearly articulate ownership and use of intellectual property prior to engaging employees or retaining contractors to develop technology. If intellectual property

7. Maintain good relationships with capital providers and banks. In the last few years, capital providers and banks have tightened the availability of funding. More than ever, it is important to make efforts to stay on their good side. Maintain positive relationships with your capital provider and bank contacts, keep them informed and be prepared to discuss and respond to concerns in a thoughtful and timely manner.

Pre-planning for an **eventual sale of your business** or significant capital raise may ensure a higher value for your business.

8. Keep small problems small. Make it a habit to take on problems as soon as they come to light. Whether the problem is an employee complaint, an infringement claim or an inventory quality issue, chances are the problem is easier to fix now than it will be to clean up later. Be proactive and recognize issues early.

9. Pre-plan for selling your company and raising capital. Pre-planning for an eventual sale of your business or significant capital raise may ensure a higher value for your business and enable you to avoid taking greater dilution.

Work with your lawyer and accountants to anticipate issues that may come up in due diligence. For example, if stock options have not been properly documented, you should develop a plan to resolve the problem and implement the cure, or at least be prepared to knowledgeably work through the issues in negotiations.

10. Work with good advisers. Take the time to find and develop relationships with quality advisers, including accountants, insurance brokers and attorneys as well as other entrepreneurs. Keep them informed as your business grows. Your advisers will be able to offer you valuable advice on a wide range of issues.

Annie L. Lee is a business attorney at law firm Lane Powell, where she focuses her practice on mergers and acquisitions, securities, corporate finance and corporate governance. She can be reached at 503-778-2176 or leea@lanepowell.com.