As we wrap up, we're going to spend the next two sections on some legal things that every entrepreneur should know. We'll have thing one and thing two.

Clint: When it comes to intellectual property, what are some mistakes that entrepreneurs make legally?

Brad: I think that the whole issue on intellectual property has become a rat's nest, both from the context of what intellectual property really is and how it really works. I think a lot of entrepreneurs immediately think about patents when they think about intellectual property but what they don't think about is they don't think about making sure that when you start your company, the definition of the company owning the intellectual property being worked on is there front and center.

You often hear stories of two entrepreneurs who start a company together but then have a falling out. One of the two entrepreneurs thinks that the other entrepreneur stole his intellectual property. Or two entrepreneurs work together but they never start the company but then one of them goes on to start the company and the other one feels like he has a claim to whatever that first one created.

These situations can be very contentious and oftentimes don't have to be because you can come up with a reasonable set of parameters when you start talking about something about who owns what. In addition, when you start the company, any investor is going to want to make sure that you have clear ownership of that intellectual property and one of the challenges that you have, especially when there are multiple partners, is that those multiple partners don't all agree that the company owns intellectual property.

My advice to entrepreneurs is to keep it as simple as you can and recognize that you're trying to create value in the company together and that the mere fact of having the idea has nothing to do with the ultimate long-term value of the company in many cases. Really, the journey of building the company is where the real value is as opposed to, "I had an idea that someone else has now implementing."

Clint: How about employment issues? Where do entrepreneurs make mistakes here?

Brad: In the same kind of way that you get hung up on who owns what, oftentimes, there are big mismatches and expectations around who is working for whom, what the roles and responsibilities are, whether it's full-time or part-time, whether there is actually an employment relationship or a consultant relationship.

Early on in the life of the company, talking about these things very openly with the other people in the company and making sure that when someone comes to work for your company, they are really working for your company and they don't have an entanglement with the previous company they are working for or that they're working part-time for you while they're working full-time for another company that might have a claim on their intellectual property.

This is true for you as well. If you're starting a company while you're working at a very large company, make sure that you're not using company property for your new business. Make sure that you're not doing it on company time. Make sure that you're not using any of the company's assets in any way so that when you go start your own company, there is no potential that the things that you've been working on somehow get linked back to the previous company and even if it doesn't relate in any way to what that company is doing, you just want to be in a situation where your hands are entirely clean when you go start your new business.

Clint: When you start the company, you incorporate in a state. Does it matter which state you use?

Brad: It does. The most common state that people incorporate in is Delaware. This has nothing to do with the size of the state or the way the state is spelled but it does have to do with the corporate law in that state. It turns out that Delaware has very well-defined corporate law that many different investors, entrepreneurs and companies understand. It's well codified, it's been tested over a long period of time. It's very balanced and very fair.

There are other states, especially states that have a lot of startup activity or entrepreneurial activity that you often see as the state of incorporation, California, Texas. If your company is started in a particular state, Colorado, that would be another place that you'd see the state of incorporation. However, if you're based in Colorado and your investors are in California, it might make sense to incorporate in Delaware, neutral territory where the rules of engagement around corporate law are very well defined.

Or if your company is based in, I don't know, Iowa, and Iowa corporate law is not as well known to investors, again, incorporating your company in Delaware makes a lot of sense because it helps everyone understand what the rules of engagement are if there are ever any issues that need to be dealt with at the corporate level.