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## **Legal Audit: What is it and Why Should We have One Done?**

### **The Entrepreneurial Dilemma**

Imagine your start-up at the verge of breaking through, just needing another round of capital infusion to make it over the top. Your product is top notch, well reviewed, and fills a market niche. Your marketing is set and is already producing sales. Visions of an IPO swirl amongst the founders and early investors: friends, family, and those few who had shared your vision.

Then the cease and desist letter arrives, claiming that your product or marketing violates the intellectual property rights of another: your logo interferes with their registered trademark; or your CTO has incorporated trade secrets from his prior job into your product. Oops, there goes the next round of financing ... at least until the mess is cleaned up. Meanwhile, others, with better funding, are attempting to fill that same market niche.

Is this a nightmare scenario or does it actually happen? The answer is that it occurs more often than you would think. There is a cottage industry of trolls searching for easy prey.

[https://en.wikipedia.org/wiki/Trademark\\_troll](https://en.wikipedia.org/wiki/Trademark_troll). There are also laws protecting whistle blowers, some of which provide rewards for reporting securities or tax violations to government agencies.

<https://www.irs.gov/compliance/whistleblower-informant-award>. What can be done?

### **The Answer is a Legal Audit.**

A legal audit can take many forms and can vary in depth and breadth. Its purpose is to establish the baseline for legal compliance and prevention, with the goal of optimizing the company's ongoing efforts towards obtaining its goals. The scope of an audit is in part determined by the size of the company, its industry, its history and its capital structure.

A comprehensive legal audit examines both basic issues such as: business registration, licensing, and entity records maintenance and complex issues such as: employment policies and practices; compensation and retirement plans; intellectual property protections; securities law compliance; environmental issues; anti-trust matters; taxation, as well as a host of other issues.

A legal audit can identify problems before they become a burden to the company. It also assists management in making informed decisions and in crafting solutions and devising strategies.

The process is time-consuming and not easy. A full legal audit can be expensive. However, in our litigious society, the effort is usually worth it to avoid lawsuits, governmental actions and penalties.

By Alan R. Seher

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