

Overview of Fellow Law Firm

- Fellow is a California-based advocacy office in San Francisco specializing in foreign startups expanding to the US
- Team consists of four people: three lawyers and one developer in SF, plus one lawyer in Prague
- Strong expertise in helping CEE (Central and Eastern European) region companies expand to the US

Common Expansion Mistakes

- Many startups underestimate the difficulty of raising venture capital outside Silicon Valley
- Companies seeking external capital often get less money for larger equity stakes when fundraising outside Silicon Valley
- The majority of AI-driven venture capital is concentrated in Silicon Valley

LLC vs C-Corp: Entity Structure Considerations

Problems with LLC for Foreign Startups:

- LLC is often mistakenly perceived as equivalent to an SRO (European structure), but functions more like a pass-through entity in the US
- Creates significant issues for companies with US employees or consultants
- ECI (Effectively Connected Income) is taxed quarterly at 21% or 37% from revenue, not profit
- US investors typically won't invest in LLCs because they lack QSBS (Qualified Small Business Stock) benefits
- LLCs are treated as transparent for tax purposes, causing foreign residents to face higher tax obligations

Advantages of C-Corp:

- QSBS benefits available for investors (potential tax exemption on up to \$15 million)
- Foreign founders don't have to pay personal taxes since C-Corp is a separate tax entity
- Preferred structure for venture capital investment

Disadvantages of C-Corp:

- Double taxation similar to SRO structure
- Administrative overhead including board meetings, officer appointments, and shareholder decisions
- VC investors will often require these formalities

Important Note on S-Corp

- S-Corp is **not available** for foreign founders
- Only available to US residents who are physical persons
- Many resources about US company formation are written for Americans, not foreign founders

Tax and Transfer Pricing Considerations

- Services between Czech company and US entity must be conducted at arm's length (transfer pricing requirements)
- Both companies must be profitable under this arrangement
- IP generated typically stays in the original (Czech) company to avoid taxable transfers
- IP transfer during US Flip usually remains in original company since transfers are typically taxable and not cost-effective

Startup Costs and Service Providers

- Average startup costs approximately \$2,000
- Services like Stripe Atlas or Clerky are available but designed for American tax residents
- Foreign shareholders have additional compliance requirements beyond standard online formation services
- State and federal government filings require extra attention for foreign-owned companies

Recommended Roadmap for US Expansion

Timing and Strategy:

- Don't rush to open a US company without good reason
- You can sell to America from Czech Republic initially
- Open US entity when:
 - You have an investor requiring Delaware C-Corp structure

- You have a major client requiring American company as contract counterpart
- The first client will pay enough to cover market entry costs

Proper Sequence:

1. Establish product-market fit
2. Determine the right US location (San Francisco, Austin, New York, etc.)
3. Calculate funding needs and evaluate fundraising potential in chosen ecosystem
4. Execute US Flip when ready to raise capital
5. Build proper go-to-market strategy

Key Success Factors:

- Americans tend to oversell capabilities while Europeans undersell - adjust approach accordingly
- Need American team member or partner for effective US sales
- Proper legal structure prevents friction with investors during fundraising
- Doing go-to-market from Prague is extremely difficult, if not impossible

Visa Considerations

- Visa planning depends on multiple factors: entry strategy, whether spouse accompanies, spouse's work plans
- Approximately 150 visa types exist in the US
- Visa process requires significant advance planning - ideally start a year before planned entry
- Don't wait until last minute to address visa requirements

State-Specific Compliance

- America is not a monolith - it's 50 different states with different rules
- Companies must pay state taxes where they generate revenue
- Federal taxes are paid separately from all states combined
- Large corporations must file 51 tax returns annually (50 states plus federal)
- Each state has its own economic nexus rules for B2C taxation
- Important to focus on one state initially when entering US market

Go-to-Market Strategy

- Focus on being where customers are, not where investors are
- Can fly to Bay Area for investor meetings as needed
- Each ecosystem has its own relevant communities (e.g., Cerebral Valley for Bay Area)

Q&A Highlights

- South by Southwest is appropriate for healthcare-focused startups
- Each city/ecosystem has specific communities and networks