# IP Strategy Pitfalls for Startups (Part 1)

It goes without saying that a company's founders and investors are driven do everything possible for the new enterprise to succeed. Success is most often measured by the company's eventual return on investment (ROI). Asset valuations, including that of the company's intellectual property (IP), significantly impact that ROI. The ability to secure funding, establish beneficial partnerships with the best partners, develop a strong market position, or find an acquisition partner, all depend to some extent on having a well-developed IP strategy.

This two-part series will explore common strategy mistakes including (1) underestimating the importance of IP; (2) placing low value on confidentiality; (3) failure to establish ownership rights; (4) neglecting third party rights; and (5) poorly negotiated agreements with outside contractors, development partners, vendors, and customers.

**(1) Underestimating the Importance of IP**

Startups should conscientiously determine and plan the role of IP in their business. Intangibles may often be the only assets for many years. A conscientious plan will identify existing and future IP assets and their relationship to the business' goals; provide a strategy for maintaining and protecting those assets; outline a scope and timing for freedom-to-operate (FTO) searches; establish procedures for handling agreements with employees, consultants, contractors, customers and vendors; and provide a budget for funding these activities.

If the IP assets include patents, the plan should have processes in place for routinely capturing and documenting any ideas for new products or product features.

If the IP assets include trade secrets, the plan should adopt written policies to protect the secrets. Procedures should be in place to protect secrets from unwanted disclosure; limit access to them; specify when and how to mark documents and to whom they can be disclosed; and how to secure store the information.

A strategically thought out IP plan may include a decision not to pursue registered IP rights. However, the failure to do so can result in loss of the company's most valuable assets.

The IP strategy should also include procedures for reviewing agreements to ensure the proper legal safeguards are in place for new and departing employees, consultants, contractors, development partners, suppliers and customers.

**(2) Not Appreciating the Value of Trade Secrets**

Startups should consider the long term risk versus potential short term reward when disclosing sensitive IP. In a rush to please potential investors and customers, they publicly disclose patentable subject matter or trade secrets at investor meetings, customer pitch events, on websites, and on social media. Unfortunately, public disclosure of an invention prior to filing a patent application can limit or destroy patent rights. Disclosure without restriction will also destroy any trade secret rights. Indeed, even casual conversations with those not under a legal obligation to maintain confidentiality can lead to loss of patent or trade secret rights.

The best approach is to give careful consideration as to what should and should not be shared. When disclosure of sensitive IP is absolutely necessary, the startup should either (a) have third parties sign a non-disclosure agreement (NDA); (b) file a patent application; or (c) be prepared to lose all proprietary rights in that IP.

Keep in mind that potential investors generally avoid signing NDAs because they deal with many companies and believe confidentiality obligations limit their opportunities. Also, for planned public disclosures at pitches or tradeshows, or on websites or social media, securing an NDA may be impossible. In such instances, to avoid disclosing and losing valuable IP, revealed information should be limited to generalities. Alternatively, a precautionary filing of a provisional patent application can be considered.

**(3) Failure to Clearly Establish Your Own and Respect Others' Rights**

Other common mistakes include a failure to establish ownership rights in your own IP or to respect other's rights. The next post in this series will explore these in more depth.