IS YOUR BUSINESS AT RISK?
10 TIPS TO MANAGE RISK AND MAXIMIZE VALUE

Entity

Entrepreneurs can get distracted by the overwhelming number of daily tasks they have to do to keep their business going, or get impatient and want to jump immediately to the exciting work of developing and selling a product or service. Many choose to wait to create a business entity simply because they don't have customers yet or simply don't want to bother with it yet. But as our CEO Mary points out, not doing so can put your personal assets at risk. One of the first things any entrepreneur should do when starting a business is form a business entity.

Co-Inventors

Too many inventors make mistakes at the outset that cause them to lose money and time to market before even thinking of going to see an attorney. When it comes to patents, it's best for inventors and entrepreneurs to not try to go it alone, as patent litigation can be incredibly costly. When filing for a patent with a co-inventor, you need to assign that patent to your business entity, lest one party decide they want to go rogue and sell the patent to a third party.

Co-Founders

When starting a business with others, make sure that you have a written, signed agreement to avoid future headaches. Like assigning a patent to your business entity, a co-founder agreement allows you and any co-founders to avoid an ownership mess should you both decide to part ways. Don't leave something that could threaten the future of your company to a handshake or verbal agreement.

Employee vs Contractor

One factor that can possibly sink your early-stage business is whether you were working for another company as an employee or contractor at the time you came up with the idea for your business. Many companies have language in employment agreements that state that any ideas you think of while in their employ belong to them. Make sure that you read your employee agreement before you start working on your business ideas. Likewise, if you are hiring someone to do work for you, be aware that paying for that work does not necessarily mean you own the work produced. Your agreements with contractors should have language stating that you own the work they create.

Disclosure

There is an ever-growing number of crowdfunding sites on the internet, and more and more early-stage businesses are turning to crowdfunding as a way to fund projects. But showing a product or invention on a crowdfunding site puts you at risk of an enabling public disclosure. An enabling public disclosure is displaying or demonstrating your product in such a way that it could be replicated by someone else from that industry. And putting that information on the internet is international disclosure. Before you put any information online, make sure you have your patents or provisional patents in place.

Fundraising

While there are provisions in place that allows startups to accept some funding from non-accredited investors, it's best to practice caution if you pursue this route. Before putting out a campaign, pitch or business plan, seek legal advice to ensure that they are vetted and that you have an intellectual property strategy in place. You also want to be aware of who can see your pitch or campaign on a particular platform, whether it be just for accredited investors or open to the public.

Records

No one enjoys the tedium of bookkeeping (except bookkeepers, of course), but it is essential to file in order to satisfy investors, banks and the IRS. Filing with these entities and keeping good records may be difficult, but it is worthwhile considering the trouble it can keep you out of in the long run.

IP Strategy

Having an IP strategy is tremendously important for startups, as at least 80 percent of the value of an early-stage business is tied up in its IP. Having an IP strategy will help you ensure you have all of your IP protected and keep you from infringing on the IP of others. Owning all of your IP will allow your company to get a better valuation and gives you the opportunity to make money by licensing it. Take the time to know what trademarks, copyrights, and patent you might have, and be cautious of using anything not created by you without reading licensing agreements first.

Financial Projections

When putting together financial projections for you company, it's best to be realistic rather than wildly optimistic. And whatever projections you come up with, make sure you know them. There's nothing worse than standing in front of investors or creditors and stumbling over figures you should know by heart.

Pending Litigation

If you have a lawsuit or other legal action pending against your company, be upfront about it. While it would be nice to imagine a world in which our problems go away when we ignore them, that is unfortunately not the world we live in. Even if it's as simple as a cease and desist letter you received in the mail, disclose any ongoing or potential litigation to prospective investors. Ignorance isn't a valid excuse in the eyes of the law, and playing dumb with investors is a surefire way to lose potential funding.

Learn more.