Intellectual property issues for start-ups[1]

Ioannis Iglezakis, Associate Professor, Aristotle University

A. Introduction

At present there is a growing number of start-ups, and some of them in the high technology sector are valued at 1 billion dollars or more. [1]

In a startup, Intellectual Property (IP) or intangible assets are often more than 90% of the value of the company and that is not limited to patents, of course.[2] A company that does not develop any IP will find it hard to attract investors, since IP provides them security and leverage. IP also helps companies to secure financing, using IP as collateral.[3]

As it is evident, the legal protection of IP rights is of paramount importance for a start-up, to protect its assets and maintain a competitive advantage. It needs, therefore, to be ensured that the company has exclusive rights to its IP and is not using technology or other assets (e.g. trademarks) belonging to competitors. It should

1 http://informaticslaw.blogspot.gr/2014/09/intellectual-property-issues-for-start_14.html

also be confirmed that the company's IP rights are legally protected with appropriate licenses.

B. Intellectual Property

Intellectual Property protects applications of ideas and information that are of commercial value.[4] There are various types of rights which are included in IP, but the main categories of this branch of law are two: copyright and industrial property. Certainly, the most important types of IP used by start-ups are patents, copyrights, trademarks, and trade secrets. National laws protecting IPR vary among different countries, so we will describe the laws of Greece and the EU in this area.

1. Patents

Patents are granted in respect of inventions which are new, which involve an inventive step and which are susceptible of industrial application (article 5 of Law 1733/87 as amended). In Europe, patents are issued by the state or a national patent office after a substantial examination of their validity, the duration of the validity of the patent is twenty years from application; and the invention should be publicly described in the patent specification.[5]

Patents afford a right to their owner to prevent others from using the invention for the duration of the patent. Thus, it is the strongest means of protection of all IP and may lead competitors in peril, if they use an invention for which a patent was granted. Therefore, a start-up should proceed to a clearance search in the patent office and to see whether a product that it develops is not already patented.

Patent protection is particularly important for a start-up to protect its business and its invention from competitors and simultaneously, and to avoid the risk of facing claims of patent infringement by competitors and third parties.[6]

Software may not benefit from the rigid protection of patent law under Greek law, which provides that computer programs shall not be regarded as inventions (Article 5 (2)(c) of Law 1733/87). This is line with Article 52 of the European Patent Convention which excludes from patentability programs for computers as such. However, this wording gave grounds to grant a patent for software

However, the European Patent Office grants patents for computer programs, if they provide a technical contribution to prior, that is, a further technical effect that goes beyond the normal physical interaction between the program and the computer. Examples include a reduced memory access time, a better control of a robotic arm, etc.

2. Copyright

Copyright grants protection to authors, artists and other creators for their literary and artistic creations, commonly referred to as works. The requirement for granting protecting is that a work is original. In case of computer software the standard for originality is very low. According to Article 1 (3) of Directive 2009/24, a computer program shall be protected if it is original in the sense that it is the author's own intellectual creation.

In contrast to patents, copyright-protected works are not required to be registered with a state authority. Copyright is afforded when a work is created, but it is hard to prove authorship. Copyright gives the owner or licensee the exclusive right to reproduce, distribute, modify, publicly perform and publicly display a work.

In contrast to patents, copyright protects the expressions of an idea, not the idea or a concept. Thus, the source code of a computer program is eligible of copyright protection, but not the algorithm or the abstract idea or mathematical method on which it is based.

3. Trademarks

Trademarks are distinctive signs, i.e. words, names, symbols, slogans, etc., that identify certain goods or services produced or provided by a company. A trademark when associated with a successful product or service it becomes an asset or prime value to a company.[7] An outstanding example is the word 'Google' for Internet searching, the bitten apple logo for computers, etc. Their protection stands as long

as they are used and they may continue to be used forever, as there is no limit on the duration of this right.

Under Greek Law, protection is afforded to registered trademarks and also to non-registered trademarks, i.e. to distinctive signs.

Trademark law prevents third parties from using a trademark which is confusingly similar to the trademark of a start-up.

4. Trade secrets

The law also affords protection to trade secrets, i.e., secret business information, technological know-how, ideas for new products and markets, information about customers, finance, etc.[8]Examples of trade secrets in the high tech area include customer lists, source code, semiconductor manufacturing processes, etc.[9]

Protection of trade secrets is granted by provisions of unfair competition law in Greece, while in common law countries it takes the form of sui generis protection. The said protection is rather limited, since it prohibits the misappropriation of trade secrets, which leaves certain acts, such as reverse engineering, unpunished.

C. Specific Issues

Something that happens very often is that IPR are developed by the founders before the establishment of a start-up or contractors after its establishment. Generally, in such cases a license should be granted, otherwise rights are not transferred to the start-up, with the exception of software or an invention developed by an employee, which under Greek law are owned by the employer. The failure of a license may lead to legal disputes.

Another problem which may occur is the lack of a strategy for patent protection of products or services. Many start-ups do not file for patent registration due to ignorance of the advantages offered by such protection or simply, because of indifference. Under Greek law (Article 5 of Act 1733/1987) and law in most countries patent protection is not granted for an invention that has been public disclosed, e.g. when a technical paper has been published or the

invention was demonstrated at a trade show, with the exception of recognized exhibitions. Disclosing an idea to the public should be carefully planned, because the risk is eminent that rights to file a patent and to protect trade secret may not be enforceable, since patent law requires that an invention is new and not made public, while to claim right on trade secrets requires that the start-up has taken appropriate measures to keep business information secret.

Trademarks may be valuable for start-ups, so their selection should be carefully planned. A generic trademark, e.g. eshop.gr, may be 'catchy', but could also turn out to be descriptive and lose the ability for protection.

The use of an infringing trademark could lead to a costly litigation that may worsen the financial situation of the start-up. The cost of changing a logo may also be very high and inhibiting development. Therefore, a search in the trademark office and in a search engine should be carried out, to ensure that a trademark used by the start-up does not infringe third parties rights.

Errors in licensing may prove devastating. An IP license from a third party with a narrow field of use may require renegotiation as the start-up's products evolve. In that case, the third party can charge a premium for the expansion of the field of use. So, e.g. in copyright law the rule is that a license is not valid for future methods of exploitation.

Similarly, the license to use a third party's IP should foresee or not preclude the case of a merger; otherwise the merger may fail, as it will miss important assets.

The licensing of a start-up's own IP should be carefully reviewed, so that the start-up may tie-up fields of use not exploited by the license in order to exploit its technology; and also to grant non-exclusive licenses so that it would not be prevented from using its own technology.

A big risk for a start-up is the use of trade secrets or other confidential information or IP by the founders of the start-up from a prior employer. A lawsuit against the start-up will hinder the functioning of the company, which may be liable to pay compensation and their founders be subject to criminal liability.

Software development is increasingly based on open software products and many start-ups owe their success to its use. However, open source licenses such as the General Public License require that companies using open source software licensed under the GPL must make available source code of the start-up's software to its licensees and to permit such licensees to modify and redistribute the start-up's software without charge to third parties. This viral effect of open software has its price: a start-up may find it hard to find investors or sell assets, since investors and acquiring companies demand that no such software is included in the relevant agreements.

Conclusion

To sum up, I would like to stress the following points:

- A start-up should exercise due diligence with regard to choosing a trademark or brand name, because this can come to be a valuable asset of the company. Therefore, before adopting a trademark or a brand name one needs to conduct a search in a trademark database, such as the TMview[10], and a search for a brand name in a database, such as the geminet.gr in Greece.[11]

- To ensure that the IP rights of the start-up are protected, contractual agreements should be signed with all contributors to the creation of an invention or software, excluding employees. These agreements should provide for the transfer of IP rights to the company. In addition, non-disclosure agreements should be agreed upon with co-founders of the start-up, employees, consultants and others, to establish trade secrets protection.
- To avoid losing patentability an invention should not be publicly disclosed. According to patent law, an application for a patent may be dismissed if there has been prior use or public disclosure of the invention.

- To protect trade secrets do not disclose essential details of developed technologies and innovations.

REFERENCES:

Cornish & Llwelyn, Intellectual Property: Patents, Copyright, Trade Marks and Allied rights, 2007

DLA Piper, Intellectual Property: Critical issues, http://www.nvca.org/index.php?option=com_docman&task=doc_download&gid=367&

Johnson, A., Intellectual Property for Startups in the Real World,http://gust.com/blog/2012/01/04/ip-startups-real-world/

Juetten, M., Protect Your Intellectual Property -- Before It's Too Latehttp://www.forbes.com/sites/groupthink/2014/06/03/protect-your-intellectual-property-before-its-too-late/

Kasdan, M. J., Esq. and Zemsky, R. P., Esq., Intellectual property for startups,http://www.ey.com/GL/en/Services/Strategic-Growth-Markets/Center-for-Entrepreneurship-and-Innovation---Intellectual-property-for-startups

Kaviar, E. G. J., Five Intellectual Property "Landmines" Startups Face,http://www.wolfgreenfield.com/files/kaviar__5_intellectual_property_landmines_startups_face_copy1.pdf

Rajabali, A., Three Intellectual Property Issues that Startup Founders Can Avoid, online available at: http://startupcalgary.ca/2014/01/three-intellectual-property-issues-that-startup-founders-can-avoid/

---

[1] A Billion-Dollar Club, and Not So Exclusive, The New York Times,**http://www.nytimes.com/2013/02/05/technology/growing-numbers-of-start-ups-are-worth-a-billion-dollars.html**

[2]. M. Juetten, Protect Your Intellectual Property -- Before It's Too Late**http://www.forbes.com/sites/groupthink/2014/06/03/protect-your-intellectual-property-before-its-too-late/**

[3] E. G. J. Kaviar, Five Intellectual Property “Landmines” Startups Face,http://www.wolfgreenfield.com/files/kaviar__5_intellectual_property_landmines_startups_face_copy1.pdf
[4] Cornish & Llwelyn, Intellectual Property: Patents, Copyright, Trade Marks and Allied rights, 2007, at 6.
[5] Cornish & Llwelyn, at 7.
[6] Kasdan et al, Intellectual property for startups.
[7] Cornish & Llwelyn, at 9.
[8] Cornish & Llwelyn, at 10.
[9] DLA Piper, Intellectual Property: Critical issues.
[10] For Greece see https://www.tmdn.org/tmview/welcome.html?lang=el
[11] See http://geminet.gr/ossutility/