



CROWDFUNDING: A GREAT WAY TO... JEOPARDIZE YOUR INTELLECTUAL PROPERTY

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This article is the second in a three-part series on participatory financing or crowdfunding, a social phenomenon that has wind in its sails.

Even though this financing solution appears to be simple and user friendly, the hasty sharing of information on a Crowdfunding platform carries two major yet rarely discussed risks: having one's ideas copied by a third party and jeopardizing the criteria for patentability of those ideas. Indeed, it is rare, at the initial stage of development of a company or a project, for the company's IP or projects to be adequately protected, especially when it comes to small businesses or start-ups (see preceding article : <http://newsletter.robic.ca/nouvelle.aspx?lg=EN&id=311>).

Consideration 1: What information should you disclose publicly?

Before addressing the legal analysis, it is important to understand the reality of the company or the individual behind a project financed by crowdfunding. Even though protecting the various IP elements is an asset for all projects, the person or company must often operate with a strict management of their financial resources. All too often, the project initiator will tend to place more of an emphasis on the development of the product or service rather than on its protection, which, in some cases, can turn out to be a serious strategic mistake.

Compared to a private and conventional financing mode, crowdfunding is not really made for confidentiality agreements because its purpose is to share your project or idea with people. So, whatever the IP strategy contemplated, one should bear in mind that the sharing of sensitive information concerning the products and services or the commercial strategy of a company is likely to attract the attention of competitors wishing to enter the same segment of a coveted market. As such, it is essential to carefully select the information disclosed publicly in order to prevent third parties from copying one's business model or product.

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^{*} From ROBIC, LLP, a multidisciplinary firm of Lawyers, and Patent and Trade-mark Agents. Published in the Spring 2015 (Vol. 18, no. 4) Newsletter of the firm. Publication 068.193E.

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The person or company using Crowdfunding must therefore find the right balance between protecting their IP assets and disclosing an adequate amount of details to create the kind of public excitement that raises sufficient funds.

Consideration 2: The inherent risks related to disclosing an invention that may be patentable

The Canadian Patent Act stipulates that following the invention's public disclosure by the inventor, the latter has one year to file a formal patent application, failing which he will see potentially patentable subject-matter become prior art and the invention could lose its novelty value, which is a condition for its patentability. Although this one-year grace period is allowed in Canada and in the United States, this is not the case in most other legal systems. The public disclosure of an invention by an inventor will therefore render it unpatentable in most countries throughout the world, except in Canada and in the United States.

Unfortunately, this can create a catch-22 for the inventors: on the one hand, they must disclose their invention to raise funds to finance the project, and on the other, they risk losing patent application protection if they publicly disclose the invention. One possible solution is to file a patent application prior to the invention's public disclosure. Then, after filing the patent application, the invention can be publicly disclosed and sponsors can be told that they are helping to finance a patent-pending product.

It should also be noted that our comments on the public disclosure of a potentially patentable invention also apply, with the required adjustments, to the public disclosure of the product's visual features, which may be protected by industrial design.

Consideration 3: Whose Trade-Mark is it?

In Canada, it is not necessary to register a trade-mark in order to benefit from some protection, albeit a minimal and geographically limited one. That being said, only registration can grant an owner exclusive rights to use a trade-mark throughout the entire country in association with its products or services. It is recommended to register a trade-mark quickly so as to avoid issues with an identical trade-mark or confusingly similar trade-mark subsequently adopted.

Another important point to consider is whether the trade-mark that was chosen by the company can be confused with a trade-mark that is already in use or registered by a third party. In such a case, the company could be subject to a legal action for trade-mark infringement. Preliminary searches can be done in order to determine whether a particular trade-mark can be validly registered or used on the market. The publicity

generated by Crowdfunding allows for the visibility and influence of a company's trade-mark to be greatly amplified. Better safe than sorry!

Conclusion

One cannot deny that a new era is upon us, an era in which it will soon be possible – with the availability of 3D printers, for example – to easily and inexpensively copy ideas that are publicly available. It is therefore important to develop a strategy to manage one's IP assets by ensuring their protection as well as their profitability. When, at the beginning of a project, the financial limitations prevent the implementation of an IP protection strategy, it is nevertheless important to ensure a modicum of protection and to be especially vigilant with regards to the information that is made public.

Bottom line: Crowdfunding is a great way to raise capital for small businesses, but it must be done carefully in order to avoid being copied or losing potential IP protection!

In the next edition of our newsletter, we will discuss the revised legislation proposed by the Autorité des marchés financiers and the manner in which it could impact participatory equity financing, for instance with the creation and operation of equity crowdfunding portals.



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