

**Start-Ups** Skolkovo assists up-and-coming I.T. company

# Russian Innovators Pursue Prototype to Prevent Piracy

**The creators of Pirate Pay, a Perm-based start-up, say they can stop files from being illegally downloaded from torrent networks**ELENA SHILOVA  
SPECIAL TO RBTH

In 2009, brothers Andrei and Alexei Klimenko and their friend Dmitry Shuvaev created a file-sharing traffic management solution for an internet service provider (I.S.P.) network. Shortly thereafter, the three 20-something colleagues realized that the application they created had some unintended but potentially significant opportunities for intellectual property protection.

"After creating the prototype, we realized we could more generally prevent files from being downloaded, which meant that the program had great promise in combating the spread of pirated content," said Andrei Klimenko, now the C.E.O. of the company the founders named Pirate Pay.

The technology prevents file sharing in torrent networks. These peer-to-peer (p2p) file sharing solutions allow large amounts of data to be transferred between individuals. After the first user uploads a file to an accessible network, the file does not live in any central location, but is accessible only from people who have already accessed it. In order to download a file, however, these secondary users must know the I.P. address of a computer that has the file. Without the information, the connection terminates and the file cannot be downloaded. Shuvaev and the Klimenko brothers found a way to prevent these secondary downloads from taking place even when the I.P. address is known.

"It was not so hard to do from inside an I.S.P.'s network. But to

turn the technology into global service, we had to convince all I.S.P.s to acquire our solution. This is, what someone could call, mission impossible. So to create a global service, we had to find the way to do it from the cloud," Andrei Klimenko said, "So we needed money for development."

The partners quickly found that obtaining the financial support needed to refine the technology into a successful venture was not a simple task, but after taking part in many grant competitions, their efforts have begun to pay off. The Microsoft Seed Finance

"We realized we could prevent files from being downloaded," said Andrei Klimenko, founder and C.E.O.

Pirate Pay's successful defense of a major film released in Russia brought in its first big payday.

The fund has invested \$100,000 dollars, the Bortnik Fund, which assists small innovative enterprises, contributed approximately \$34,000. And, perhaps most significantly, the Skolkovo Innovation Center accepted the company as a resident, which will result in certain tax benefits as well as interaction with other innovators. The newly minted businessmen have been able to recruit four programmers, expanding their staff to seven people.

"The underlying technology of Pirate Pay has no analogues in the world," said Alexander Turkot, executive director of the Skolkovo Information Technologies Cluster, explaining the decision

to accept the company as a resident. Potential residents at Skolkovo, Russia's government-supported answer to Silicon Valley, are assessed according to several criteria, including scientific innovation and the prospect of commercialization.

**A solution for a pressing problem**

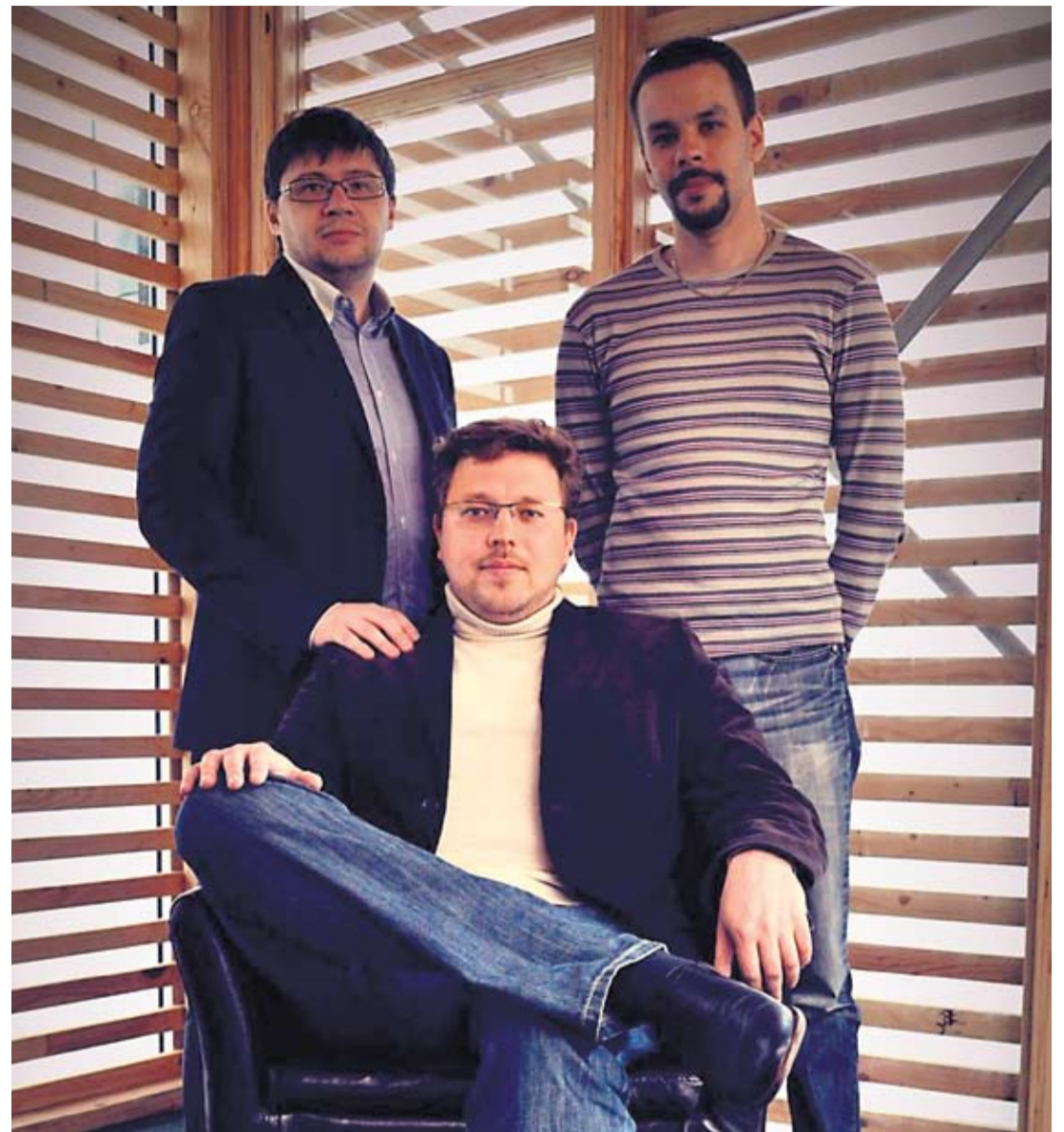
The problem of copyright infringement in Russia is extremely serious, and there is significant international pressure on the government to crack down on what is seen to be rampant piracy. Foreigners in Russia find they can obtain foreign films before their release dates in the United States. According to various estimates, filmmakers lose about \$500 million a year to piracy. Hundreds of thousands of gigabytes of illegal content are downloaded every day through file sharing services, including computer software, music and films.

Threatening Internet users with legal liability or appealing to their conscience has largely failed. And that is why the company has begun to attract attention outside Russia as well as at home.

In December 2011 the film "Vysotsky. Thanks to God I'm Alive" came out in movie theaters, and for a month after its opening, Pirate Pay protected the film on torrent networks.

"We used a number of servers to make a connection to each and every p2p client that distributed this film. Then Pirate Pay sent specific traffic to confuse these clients about the real I.P. addresses of other clients and to make them disconnect from each other," Andrei Klimenko said. "Not all the goals were reached. But nearly 50,000 users did not complete their downloads."

This company's successful defense of the film brought in its first big payday. Company offi-

**THEIR STORIES****Dmitry Shuvaev**

> **TITLE:** DEVELOPMENT DIRECTOR  
> **AGE:** 27  
> **STUDIED:** MANAGEMENT

Dmitry completed his studies at the Perm branch of Moscow's Higher School of Economics in 2004, specializing in developing I.T. startups with an intention to sell them to major companies later. He later worked with a commercial design studio and a telecom company.

**Andrei Klimenko**

> **TITLE:** FOUNDER, C.E.O.  
> **AGE:** 29  
> **STUDIED:** PHYSICS

Andrei was a physics teacher before joining a Perm-based telecom company as a sales manager in 2002. Three years later, he launched Perm's first network of Wi-Fi hotspots. He also founded another local successful start-up before launching Pirate Pay.

**Alexei Klimenko**

> **TITLE:** FOUNDER, C.T.O.  
> **AGE:** 28  
> **STUDIED:** PHYSICS

After earning a degree in physics at Perm State University, Alexei worked as an engineer before working in sales and management in the local telecom sector. Before Pirate Pay, he was involved with implementing over-the-top services for telecom clients.

cialists will not discuss exact earnings, but said that projects will cost clients between approximately \$12,000 and \$50,000 depending on the resources needed to mount a defense.

"We try to conduct deals with

a profit margin," said Andrei Klimenko. "However, significantly more is currently being spent on development than what we are earning, and thus there is not yet an opportunity to recoup our expenses from revenue."

In the next two years, the company plans to consolidate its place in the Russian market and gain a foothold internationally. They also hope that their presence at Skolkovo will assist in that growth.

**Legislation** Amendments to Russia's Civil Code will force companies to disclose beneficiaries

# Reforms to Promote Transparency and Bolster Medvedev's Legacy

**A draft law will simplify business procedures and improve legal protection — but it could also make starting a small business more difficult.**TAIADELAJA  
RUSSIA PROFILE

President Dmitry Medvedev took further steps in April to improve Russia's business climate in an attempt to create a legacy of lasting change and protect his business-friendly policies after he leaves the Kremlin. Medvedev said he had submitted amendments to the Civil Code to the State Duma to "help strengthen the foundations of our economic life and improve our country's investment climate."

The policy thrust of the Kremlin's draft bill is to improve good governance practices and the transparency of legal entities operating in the country. "It [the draft law] concerns practically every aspect of property relations in our country," Medvedev told an ad hoc meeting of senior administration officials at his Gorky residence outside Moscow.

Through the raft of amendments, the Kremlin has tried to streamline and simplify procedures for the registration of legal entities and to set new rules for economic activities, such as bankruptcy and mortgage lending, Justice Minister Alexander Kononov told reporters. Some familiar forms of legal structure, such as additional liability companies and closed joint-stock companies, will cease to exist in Russia, according to Kononov.

"The novelty of this draft law is that it systematizes the organization of legal entities and, first of all, that of commercial organizations and N.G.O.s," Kononov said, adding that legal entities in Russia would be

**Dmitry Medvedev (left) and Alexander Kononov hope to improve Russia's investment climate.**

divided into public companies and private companies, while every legal entity would be expected to prepare its financial statements and share issues in line with the new regulations.

**Better legal protection**

The Kremlin hopes that certain business-friendly provisions in the draft bill may also persuade Russian companies not to register their businesses abroad. "It's common knowledge that big Russian businesses are increasingly moving to foreign jurisdictions these days," Kononov said. "We must create adequate legislation and enforcement in our country that would prevent businesses from going abroad to sue each other or resolve conflicts, but enable them to do this in our country."

Many businesses that operate solely or primarily in Russia are actually owned by holding companies registered abroad, which means that the company can use foreign jurisdictions in legal disputes. The Associated Press has reported that Russian businesspeople often prefer to use European courts because the Russian legal system is seen as arbitrary and Russian laws as outdated and vague.

"Interests of investors and creditors will be protected in Russia in a substantially more reliable, modern and more correct way than they are now," said Kononov, describing the new amendments, adding that they "offer new judicial and legal opportunities for the benefit of those who are investing and are engaged in business in Russia. A considerable effort has

The draft law includes some controversial provisions, including requirements for offshore companies operating in Russia to disclose their beneficiaries to authorities.

been made to ensure that contractual rights and liabilities, property transactions, deals and contracts — that is, everything that constitutes economic relationships in Russia today — are legally guaranteed."

The draft law includes some controversial provisions, including requirements for offshore companies operating in Russia to

disclose their beneficiaries. Kononov said the provision was necessary to increase the transparency of the Russian economy and to prevent tax evasion. In order to fight sham companies, the minimum share capital for limited liability companies has been increased to 300,000 rubles (\$10,000), and up to one million rubles (\$34,000) will now be required to form a joint-stock company.

**Concerns for businesses**

Analysts say the amendments are long overdue, but some legal experts have taken issue with several of the provisions in the draft law. The increase in the minimum amount of capital required to start a company will have a negative impact on entrepreneurs wanting to launch legitimate small and medium-sized businesses, according to the law firm Muranov, Chernyakov & Partners.

"Businesses will have to seek additional funds to increase their share capital. And the only way they can do this is by increasing the cost of goods, services or works," a firm spokesman said, adding "it is also likely that small businesses that cannot find affordable financing to raise the minimum amount of capital may decide not to do business in Russia at all."

The spokesman also said the requirement that offshore companies operating in Russia disclose information about their beneficiaries is no less controversial. "First of all," he said, "it is unclear how this measure can affect the transparency of business in Russia."

"Second, asking offshore companies to reveal beneficiaries, while information about property or assets of government officials is hidden from society, is, to put it mildly, unfair."

## GLOBAL RUSSIA BUSINESS CALENDAR

**VISIT RUSSIA 2012 INTERNATIONAL TOURISM FORUM**MAY 25-26, 2012  
YAROSLAVL, RUSSIA

The forum offers an opportunity for global experts, practitioners and tourism industry leaders to speak about the challenges facing Russia's tourism industry during plenary and section meetings, expert panels and discussion clubs. It is organized by the Yaroslavl regional government.

> visitrussia-yar.ru/en/register/

**2012 ATOMEXPO INTERNATIONAL FORUM**JUNE 4-6, 2012  
MOSCOW, RUSSIA

The forum promotes international cooperation for the peaceful uses of nuclear power in the global energy market. The organizing committee is headed by Rosatom General Director Sergei Kirienko.

> 2012.atomexpo.ru/en

**EURA MEDIA SUMMIT**JUNE 13-16, 2012  
BOSTON, MASS.

This year's summit will bring together top media and journalism professionals from Russia and the United States.

> ideaconconsultinginc.com/Euramedia

**16TH SEMIANNUAL RUSSIAN-AMERICAN INNOVATION TECHNOLOGY WEEKS (RANIT-BIO)**JUNE 14-21, 2012  
PHILADELPHIA, PA. - BOSTON, MASS.

This event — which will highlight biotechnology, nanotechnology, the pharmaceutical industry and the life sciences — will open with a welcoming ceremony in Philadelphia City Hall and continue with meetings in Boston.

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