

LEGAL ISSUES IN BECOMING AN INDEPENDENT SOFTWARE DEVELOPER—PART 1

DALLAS CODE CAMP
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LEGAL ISSUES IN BECOMING AN INDEPENDENT SOFTWARE DEVELOPER

Four Steps

 **Choose your form of business organization**

 **Protect your intellectual property**

 **Properly structure your software development contracts**

 **Hire an attorney to assist you in the above steps**

LEGAL ISSUES IN BECOMING AN INDEPENDENT SOFTWARE DEVELOPER

Business Organization

 **Sole proprietorship**

 **General Partnership**

 **Limited Partnership**

 **Limited Liability Company**

 **Corporation**

LEGAL ISSUES IN BECOMING AN INDEPENDENT SOFTWARE DEVELOPER

Intellectual Property

 **Software patents - processes**

 **Trademarks – Service marks SM / Registered ®**

 **Copyrights**

 **Trade Secrets**

LEGAL ISSUES IN BECOMING AN INDEPENDENT SOFTWARE DEVELOPER

Sole Proprietorship-

 **Unincorporated individual “doing business as”**

Advantages-

1. **Simple organization-only need file assumed name certificate**
2. **No legal organizational structure needed**
3. **No business franchise tax**
4. **Federal income tax only on individual income**

Disadvantages-

1. **Inability to raise capital**
2. **No personal liability protection**

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General Partnership-

 **Association of two or more persons for profit**

Advantages-

1. **Partnership agreement is a private contract-no filing required**
2. **Very few restrictions on content of agreement**
3. **Ability to attract capital**
4. **No business franchise/federal income tax on entity**

Disadvantages-

1. **Investors are partners and therefore have management say**
2. **No personal liability protection**
3. **Can be cumbersome to manage**

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Limited Partnership-

 **Partnership consisting of general and limited partners**

Advantages-

1. **Partnership agreement is a private contract**
2. **Ability to attract capital-limited partner liability only for capital**
3. **Limited partners have no management powers**

Disadvantages-

1. **Registration (certificate of formation) and report filing requirements**
2. **No general partner personal liability protection (unless limited liability limited partnership)**
3. **Business franchise/federal income tax on entity**

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Limited Liability Company-

 **Registered legal entity consisting of members**

Advantages-

1. **Management flexibility-can be member or manager managed**
2. **No personal liability for members**
3. **Creditors of members can only be assignees of member's interest**
4. **Can be taxed at federal level as either partnership or corporation**

Disadvantages-

1. **Registration filing requirements**
2. **Inability to have passive investors or to have IPOs**
3. **Business franchise tax on entity and federal income tax if elected**

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Corporation-

 **Registered legal entity consisting of shareholders**

Advantages-

1. **Flexibility as to passive investors' ownership classification**
2. **No personal liability for shareholders**
3. **Can do IPOs**

Disadvantages-

1. **Registration filing requirements**
2. **Corporate formalities requirements**
3. **Creditors of shareholders can obtain shares**
4. **Business franchise/federal income tax on entity (S Corp exception)**

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Intellectual Property

 **Software patents - processes**

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LEGAL ISSUES IN BECOMING AN INDEPENDENT SOFTWARE DEVELOPER

Patents

- **A patent is a monopoly granted by government to an individual only giving them exclusive rights to the subject matter patented for a specified, non-renewable period of time (currently 17 years in the U.S.).**
- **Under the U.S. Constitution, the federal government (specifically, the U.S. Patent and Trademark Office) has the exclusive authority within the U.S. to issue patents.**

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- **Patents can be granted for the following subject matter-**
 1. **Products**
 2. **Processes**
- **Ideas or concepts are not patentable. Only tangible subject matter is patentable. A process has to be connected to an actual tangible product. For example, while a product's chemical formula is patentable, a mathematical formula such as $e=mc^2$ is not.**

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- **In order to receive a patent, the patentee (applicant) must show that the product or process to be patented is-**
 - 1. New (Invention)**
 - 2. Novel (non-obvious)**
 - 3. Useful**

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Trademarks

- Trademarks are a means for an individual or corporation to identify their products in the marketplace and to create and maintain goodwill associated with such products.
- Trademarks are created when a person claims that a combination of words, symbols, colors and/or sounds are exclusively identified with their product(s) (goods or services)

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- **The law will recognize a trademark claim as valid provided that the mark-**
 1. **Has not already been claimed or registered by another person, and**
 2. **Is suggestive of the value of the product or is arbitrary in nature.**
- **Claims for marks that are merely descriptive of a product or are generic in nature will not receive legal recognition**

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- **While registration of a trademark is not necessary for a mark to be legally recognized, registration serves to perfect a claim to a trademark.**
- **Trademarks may be registered with both the federal government and state governments, although as a practical matter federal registration (with the the U.S. Patent and Trademark Office) is far more preferable as it results in exclusive right to use the registered mark within the U.S.**

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- **The two most common types of trademarks are trademarks for goods and service marks for services.**
- **The symbol TM is used to establish a claim to a trademark. The symbol SM is used for a claim to a service mark.**
- **The symbol ® may only be used once a mark has been registered with the federal government.**

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Copyrights

- **Copyrights are an exclusive right granted to an individual or corporation for original expressions that are creative (original) in nature.**
- **Ideas or concepts and/or theories are not copyrightable, but rather only *creative expressions*.**

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- **Only the person who is the originator of the expression can claim a copyright to the expression**
- **Copyrights are established by a person's claim to such copyright ©**
- **Examples of copyrightable material are software programs, writings, music, etc.**

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- **Under the U.S. Constitution, the federal government has the exclusive authority in the U.S. to legally recognize copyright claims.**
- **While a copyright claim does not have to be registered with the U.S. Copyright Office to be legally recognized, such registration amounts to a *prima facie* showing that the copyright claim is valid.**
- **Registration is also necessary to bring a lawsuit for copyright infringement**

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Trade Secrets

- Trade secrets are proprietary rights held by an individual or corporation covering the same subject matter as patents.
- They are created not created by government action but rather by declaration by the person claiming the subject matter to be a secret.

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- **In order for the declaration of a trade secret to be effective, it must be accompanied by a contractual arrangement.**
- **While the existence of a trade secret is not dependent upon any governmental action, the law does specify what types of subject matter is qualified to be a trade secret**

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Licensing/Assignment

- **Patents, trade secrets, trademarks and copyrights may be licensed or assigned through contractual arrangements.**
- **License and assignment agreements are governed by state law and generally are unregulated.**

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Recent Legislation-

- **Anticybersquatting Consumer Protection Act (ACPA)**
- **Digital Millennium Copyright Act (DMCA)**
- **Uniform Computer Information Transaction Act (UCITA)**

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Anticybersquatting Consumer Protection Act (ACPA)

- **Is an amendment to the federal trademark statute**
- **Provides a cause of action to a holder of an established trademark where another person has registered a domain name that is either identical or so similar to the mark that mistake, confusion or deception as to the origin of the mark is likely to occur**

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- **Examples of Cybersquatting**

- ✍ **micr0soft.com**

- ✍ **worldwrestlingfederation.com**

- **“Bad faith” is the key test used to determine whether cybersquatting has occurred**
- **Metatags- Often include other’s trademarks; law is uncertain as to legality**

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- **Cybersquatting Dispute Resolution Procedure**
 - ✍ **Procedure adopted by the Internet Corporation for Assigned Names and Numbers (ICANN)**
 - ✍ **Provides for submission of domain name disputes to an arbitrator**
 - ✍ **Cost- \$1000**
 - ✍ **Decision- within 45 days**

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Digital Millennium Copyright Act (DCMA)

- Federal statute designed to bring copyright law into the “digital” age
- Originally supported by the software and entertainment industries, and opposed by scientists, librarians, and academics. At the last minute, certain controversial provisions were deleted, including a provision that would have provided copyright protection for databases even when the material in the databases was in the public domain.

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- **The DCMA Covers the following matters**
 - ✍ **Makes it a crime to circumvent anti-piracy measures built into most commercial software**
 - ✍ **Outlaws the manufacture, sale, or distribution of code-cracking devices used to illegally copy software**
 - ✍ **Does permit the cracking of copyright protection devices, however, to conduct encryption research, assess product interoperability, and test computer security systems**

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- ✍ **Provides exemptions from anti-circumvention provisions for nonprofit libraries, archives, and educational institutions under certain circumstances**
- ✍ **In general, limits Internet service providers from copyright infringement liability for simply transmitting information over the Internet**
- ✍ **Service providers, however, are expected to remove material from users' web sites that appears to constitute copyright infringement**

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- ✍ **Limits liability of nonprofit institutions of higher education - when they serve as online service providers and under certain circumstances - for copyright infringement by faculty members or graduate students**
- ✍ **Requires that "webcasters" pay licensing fees to record companies**
- ✍ **States explicitly that "nothing in this section shall affect rights, remedies, limitations, or defenses to copyright infringement, including fair use..."**

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- **The DCMA also covers such matters as**
 - ✍ **Framing- present 3rd party content in the frame of a web site without permission of 3rd party; has been held to violate copyright law**
 - ✍ **Caching- Maintaining a temporary content on an Internet server**
 - ✍ **Deep Linking- Linking to another web site that bypasses that site's home page; legal status is uncertain**

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Uniform Computer Information Transaction Act (UCITA)

- **Is a “model” statute adopted by the National Conference of Commissioners on Uniform State Laws**
- **Does not codify existing law but rather creates new law**
- **Is extremely controversial**

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- **In general, UCITA governs any contracts in “computer information” including any agreement to create, modify, transfer, or license computer information**
- **UCITA will govern such contracts unless the parties “opt out” of its coverage**
- **UCITA will only govern such contracts, however, in those states that have enacted it into law**

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- **Some of the more controversial measures in UCITA include**
 - ✍ **“Self-help” ISV software repossession**
 - ✍ **Warranty provisions**
 - ✍ **Transferability restrictions**
 - ✍ **Mass market licenses**

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- **Texas has not yet considered UCITA**
- **For more information on UCITA, go to the Computer Law Section of the State Bar of Texas web site- <http://www.sbot.org/>**

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Software and Internet Patents

- **Software patents are being increasingly used as alternatives to copyright protection; are often controversial**
- **Number has risen from around 1600 in 1992 to around 22,500 in 1999**
- **“Business methods” are now also patentable- this has major implications for e-commerce**

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- **Business methods implemented by software are patentable as long as they are new (i.e. the code is new)**
- **Examples of e-commerce business methods-**
 - ✍ **The use of a “basket” for online purchases**
 - ✍ **“One click” method for online purchases (amazon.com vs. barnesandnoble.com)**
 - ✍ **“Priceline.com” method**