

**LEGAL ISSUES RELATING TO MOBILE
APPLICATIONS DEVELOPMENT
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SHULGA LAW FIRM, P.C.

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THE APP EXPLOSION

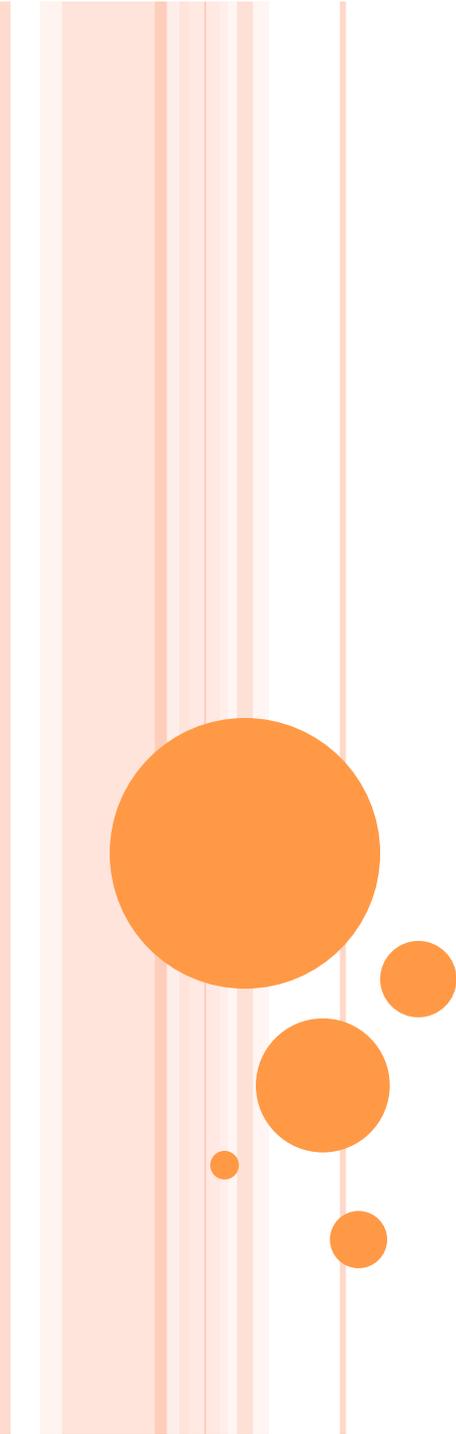
- Over 700,000 iOS apps and approximately 600,000 apps for Android
- 90% of App Store's apps are downloaded every month, and customers use >100 on average
- According to Markets and Markets, the global mobile applications market is expected to be worth \$25 billion in 2015, growing at a CAGR of 29.6% from 2010 to 2015



OVERVIEW

- Corporate law considerations:
 - Why incorporate
 - Structuring the company
 - Where to incorporate
- Employment law considerations:
 - Employee vs independent contractor; volunteers
 - Work-for-hire agreements
 - Outsourcing agreements
- Intellectual property considerations
 - Trade secrets
 - Trademarks
 - Copyrights
 - Use of copyrighted works
- FTC Regulations, Privacy concerns, Other applicable regulations
 - Endorsements Guidelines, COPPA





CORPORATE LAW CONSIDERATIONS

COMPANY FORMATION

- Why incorporate:
 - Personal asset protection
 - Credibility
 - Business name protection
 - Easier access to capital
 - Perpetual existence
 - Easier transferability of ownership



DUAL COMPANY STRUCTURE

- Advantages of putting IP into a separate company:
 - Business IP asset protection
 - Licensing revenue
 - Control strategy
 - Example: Skype
- One disadvantage: potential lack of interest from investors
- Where to incorporate: choice of jurisdiction

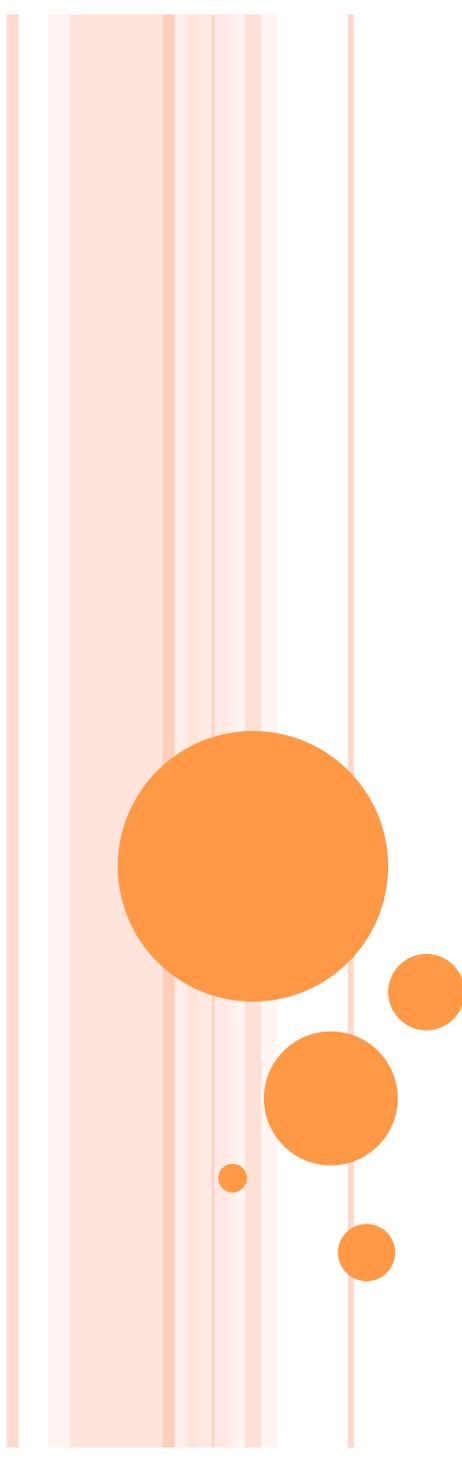


TECHNOLOGY ASSIGNMENT AGREEMENT

- Co-founders should assign IP assets created prior to the company formation to the company
 - Define all IP in an exhibit
 - Include confidentiality provisions
 - Ask the co-founder to make representations and warranties:
 - Developer was the sole owner of all IP rights and title
 - Developer has not assigned such rights to anybody else
 - Developer is not aware of any violation, infringement or misappropriation of any third party's rights by the IP
 - Developer was not acting within the scope of employment by any third party when conceiving or creating IP

RESTRICTED STOCK PURCHASE AGREEMENT

- Defines the rights and responsibilities of co-founders
- Vesting: it is unfair to the other founders if one of the founders were to quit but be permitted to keep the stock.
- The most common schedule vests 25% of the stock every year for 4 years on a monthly basis.
- There can be partial acceleration upon a change of control and/or termination without cause.
- Section 83(b) Election - allows founders to pay tax on the stock on the grant date instead of each vesting date.



EMPLOYMENT LAW CONSIDERATIONS

EMPLOYEES VS INDEPENDENT CONTRACTORS

- Look primarily at the **level of supervision, direction and control** exercised by the company.
- Who has control?
- Who sets the hours?
- What is the method of compensation?
- Who supplies the equipment?
- Is the project temporary or permanent?



INTERNS AND VOLUNTEERS

- General rule: a for-profit business cannot use unpaid volunteers.
- Any entity (for-profit or non-profit) can have unpaid interns. They have to be students.
- Internships must satisfy the federal six-criteria test (<http://bit.ly/bizintern>)
- Misclassifying employees/interns/volunteers can turn into a costly mistake that can even lead to bankruptcy.

OUTSOURCING THE APP: WORK-FOR-HIRE AGREEMENTS OR MSA AGREEMENTS

- One time agreement or a master services agreement with a statement of work as attachment
- Work-for-hire provision has to clearly identify the work and state that it is work made for hire under the US Copyright Act
 - Add a separate assignment provision, in case if for any reason the work is not deemed to be “work-for-hire”
 - Use language in present tense
 - Finally, if for any reason, the title to the Work cannot vest in the company, then the Contractor should grant it an unrestricted, irrevocable, exclusive, worldwide, fully paid, perpetual license in the Work

WORK-FOR-HIRE / MSA AGREEMENTS

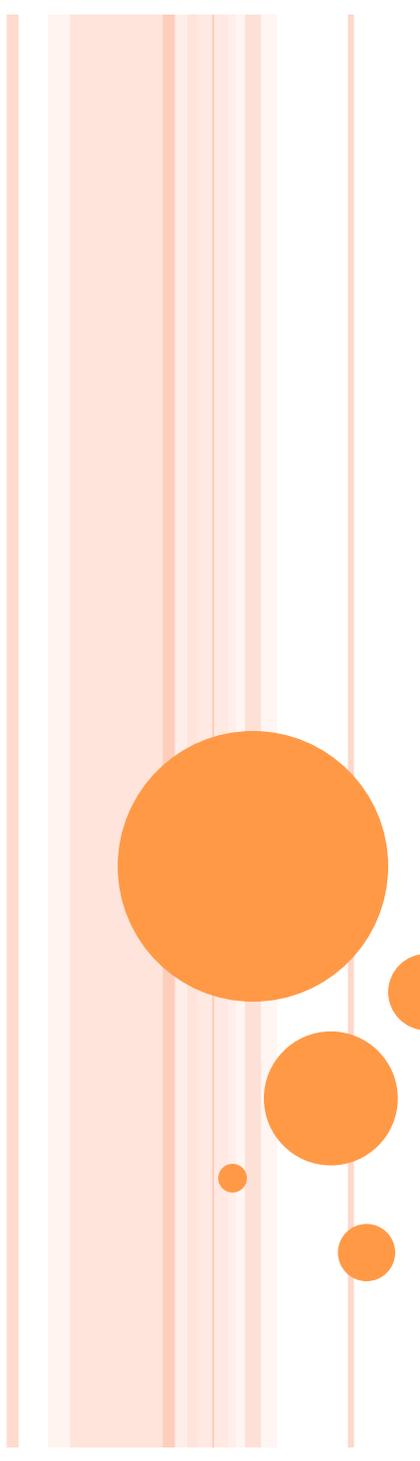
CONT'D

- Define the scope of work or services
- Fee arrangement: fixed or flexible or mixed
- Discuss when the work will be performed
- Who will perform the work/services?
- Use of open source software
- Representations and warranties
- Cross indemnification for IP infringement claims

WORK-FOR-HIRE / MSA AGREEMENTS

CONT'D

- Termination of the agreement at the project end, for cause and for any other reason (kill fee)
- Non-solicitation and non-compete clauses
- What if work is not performed or is not performed to your satisfaction? Can you get out of payments?
- Remedies for breach of agreement
- Post-termination support and maintenance
- Negotiate for a periodic deposit of source code



INTELLECTUAL PROPERTY LAW CONSIDERATIONS

TRADE SECRETS

- Trade secret is information that has economic value, that is not generally known or easily ascertainable and is reasonably protected.
- Measures for proper protection of trade secrets:
 - Computer and internet security
 - Corporate policies
 - Non-disclosure agreements
- NDAs:
 - Can be mutual or one-sided
 - Define confidential information broadly
 - Specify exceptions to the duty of confidentiality
 - Define the use of confidential information
 - May include a non-solicitation provision



TRADEMARKS

- What is a trademark?
 - Trademark identifies the source of origin of goods or services. It distinguishes the goods or services from all others.
 - Name, word, symbol, slogan, logo design, device shape, color, domain or sound can all be trademarks.
 - Trademark creates demand and value
- When is trademark created?
 - Common law TM: whoever can establish “First Use” in interstate commerce has superior rights.
 - What it means for App Developers

WHY FEDERAL REGISTRATION PREFERABLE?

- Exclusive nationwide ownership of the mark
- Official notice to other potential users
- Right to sue in federal courts (more likely to win an lawsuit and get larger damages)
- Presumption that the trademark owner is the rightful owner (can be rebutted with proof of prior use by another party)
- “Intent to use” application gives the owner priority of use provided the owner filed the application before another party used the mark and later puts the mark to actual use

TRADE NAME VS TRADEMARK

- Trade Name is the name of a business entity; it is used to open bank accounts, obtain credit cards, defend a claim in courts
- Not every trade name can be trademarked
 - only if used in commerce to advertise, promote or identify the source of goods or services the company produces
 - Examples of Google, Twitter, TJ Maxx
- Just having the name registered with the NY Department of State does not afford protection against someone using the same name as a trademark

HOW TO CREATE A STRONG MARK?

- Creative Process:
 - Distinctive / unique name vs descriptive name so users can easily recognize the app's functionality. Distinctive name is entitled to the strongest trademark protection.
 - Checking on the App Store and other app markets if the name is available; order trademark search reports
- Spectrum of Trademarks:
 - **Fanciful:** Aveeno, Exxon, Nubi Do
 - **Arbitrary:** Penguin books, Apple computers
 - **Suggestive**, but not descriptive: Caress (soap)
 - **Descriptive:** eBookReader (application for software for reading books was refused b/c merely descriptive)
 - **Generic:** Bleach

COPYRIGHTS

- Copyright protects app's source code, artwork, design, text
- The app automatically gets copyright once the work is done or there is at least a working version of the program
- Why file a copyright application with the US Copyright Office?
 - To establish a public record of copyright to this work
 - Registering the app within 5 years of release date creates a legal presumption that developer is its owner and that all facts in the copyright application are true
 - Registration is required in order to be able to bring a lawsuit in the federal court
- If the app is registered prior to an infringement or within 3 months of its release date, developer may be entitled to recover statutory damages and attorney fees from the person he/she sued.

COPYRIGHTS CONT'D

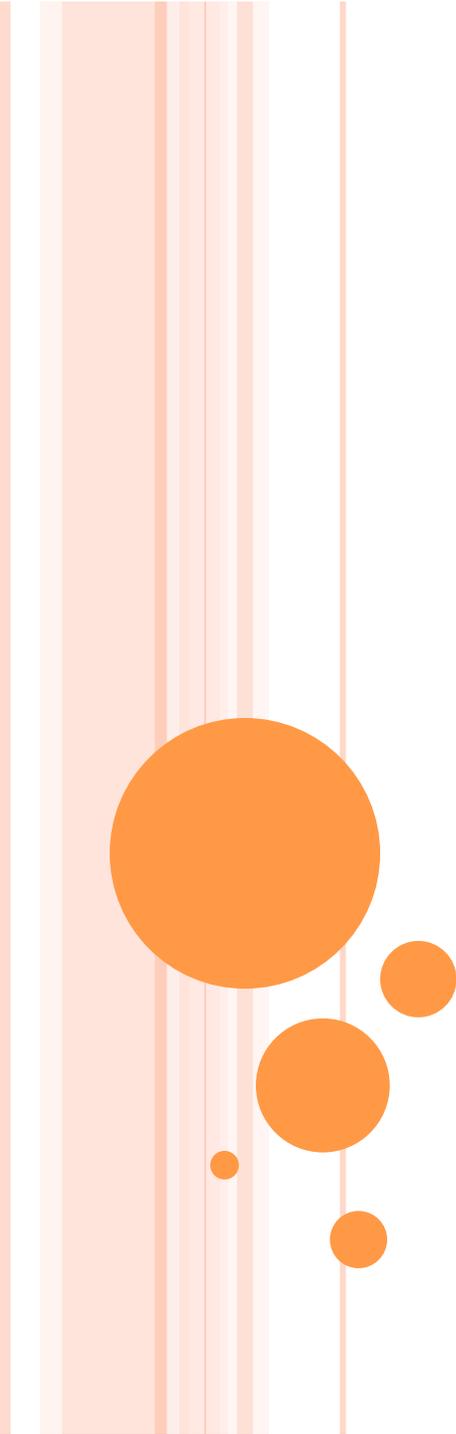
- A copyright application contains three elements:
 - (1) a completed application form,
 - (2) a fee, and
 - (3) a non-refundable deposit (a copy of the work being registered and “deposited” with the Copyright Office).
- What is a deposit?
 - Source code, screenshots
 - Confidentiality concerns – Circular 61
 - Note that developers cannot copyright parts of the code or other content that have been licensed from third parties.
- Copyright Notice is not required.

USE OF COPYRIGHTED WORKS

- It is illegal for anyone to violate the copyright law protections afforded to the owner.
 - Use of music in an app
 - Use of open source software
- Permitted uses of copyrighted works:
 - Public domain works
 - Fair use
 - Use of ideas, facts, methods or principles
 - Independent discovery

DMCA SAFE HARBOR

- App developers whose apps include user content can avail themselves of safe harbor protection of the Digital Millennium Copyright Act, 17 U.S.C. Sec. 512 (known as the Online Copyright Infringement Liability Limitation Act):
 - Register as a designated agent
 - Take expeditious action to remove infringing content upon receipt of notice
 - Develop policies relating to repeat offenders



**OTHER LEGAL CONSIDERATIONS
AFFECTING APPS DEVELOPERS**

FTC REGULATIONS

- FTC has general authority to police “unfair or deceptive acts affecting commerce”
- Truth-in-advertising laws: ads must be truthful, not misleading, and, when appropriate, backed by scientific evidence.
 - Sept. 2011 AcneApp and Acne Pwner FTC settlement
- Endorsements (app reviews):
 - Revised Endorsements and Testimonials Guide
<http://1.usa.gov/w1FYI>
 - Aug 2010 Reverb Communications FTC settlement
- Recent FTC guidance for mobile apps developers:
<http://1.usa.gov/OZarzx>

FEDERAL REGULATIONS

- Federal laws protect certain kinds of disclosures:
 - Fair Credit Reporting Act of 1970
 - Health Insurance Portability and Accountability Act of 1996
 - CAN-SPAM Act of 2003
 - Video Privacy Protection Act of 1988
 - Gramm–Leach–Bliley Act, aka Financial Services Modernization Act of 1999
 - Children’s Online Privacy Protection Act of 1998

PRIVACY REGULATIONS

- Contractual: iOS Developer Program License Agreement mandates disclosure of collection, use and disclosure of consumer data.
- Communicate with your developers as to what data they are collecting (setting cookies, security policies re: passwords, sign-ins, where and for how long they store data).
- Need to obey privacy policy or amend it if privacy practices have changed. Otherwise, this may lead to an action from the FTC.
- Examples: recent FTC settlement with MySpace, \$22 million Google settlement.

COPPA



- Website operators must comply with the Children's Online Privacy Protection Act of 1998 if they collect information from children under the age of 13.
 - <http://www.coppa.org/comply.htm>
- The FTC is in the process of updating COPPA
- First FTC action against an apps developer, W3 Innovations LLC and Justin Maples (Sept. 2011) for violating COPPA
- February 2012 FTC Report: Mobile Apps for Kids: Current Disclosure Practices are Disappointing. <http://1.usa.gov/AwLyKd>

USE OF OPEN SOURCE SOFTWARE

- Most open source software is under GNU GPL license (also called a “copyleft” license).
- If your product includes source code licensed under GPL or LGPL (Lesser GPL), then your code may become subject to the GNU terms: if you distribute your product, you then have to distribute the underlying source code.
- Other: MIT, Creative Commons.

USE OF COMPANY EMAIL

- Require freelancers and employees to use your corporate email account. Institute a policy that all communication happens within the Company's domain.
- This way, if people lose their computers or leave, the company retains all their documents and communication.
- Make sure that the company has backups and admin access to all such accounts.

QUESTIONS?



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