특별기고

Trends in the United States for Protecting Intellectual Property for Application Service Providers

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목 차

1. Introduction

This article covers the current legal trends in the United States for protecting intellectual property assets for Application Service Providers (ASP). It provides an overview of how ASP uses (i) a business method patent to protect its software, (ii) a non-compete agreement to protect the human intellectual property assets of its key-employees, and (iii) a membership or user agreement to control and protect its intellectual property from users and potential competitors.

2. Business Model : Application Service Provider

Outsourcing is an effective method to develop a company's computer system[1]. This is also an effective tool to manage the company's business operation[2]. Outsourcing access service to use a computer application is also effective business method, which is known as ASP. With the advancement of the interactive Internet tech nology, ASP began offering interactive outsourced data service to users to allow them to perform data processing functions that the users might otherwise have performed themselves.

3. Software Protection : Business Method Patent

Companies generally seek copyright protection for their computer software systems. Copyright law, however, has proved ineffective for e-commerce companies to protect such software systems against competitors.

Under the Copyright Act, software is protectable only for its original expression[3]. Hence, so long as a competitor avoids infringing on the "original expression"of a copyrighted software or develops a system without access to the copyrighted work, the competitor may effectively develop a competing software -- all without infringing on the copyrighted work. Consequently, copyright protection is considered

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ineffective to prevent a competitor from developing a competing product.

The United States Patent and Trademark Office (USPTO) rejected computer programs as patentable inventions on the basis that computer programs were nothing more than an abstract expression of a mathematical algorithm or formula[4]. However, the State Street Bank & Trust Co. v. Signature Financial Group, Inc. decision changed how the USPTO and the courts interpret patentability of computer programs[5]. The State Street Bank[6] court recognized the validity of business method patent in e-commerce applications. Since then, virtually every dot.com companies or web-based businesses "sought business method applications to secure their business methods and to keep their competitors from using their 'proprietary'business methods for creating and using Internet shopping cart, cyber cash, on-line promotions, data processing, and other processes[7]." To attract the attention and support of venture capital firms, a start-up company must demonstrate that it not only has a business model that make sense, but that there is adequate protection of its intellectual properties [8].

4. Key-Employee Protection : Non-Competition Agreement

If the golden-apple of an ASP is its software patent, then the key-engineers and managers are its golden-tree. Protecting the software patent is important, but protecting the intellectual knowledge and the know-how of these key-employees is also paramount because they have the skills and the knowledge to develop the software patent, improve the same and invent better technologies for their current employer -- or for its competitors. Their intellectual knowledge and skills relating to the research and development of the software require legal protection using a non-compete agreement[9].

State law governs a non-compete agreement. Hence, enforcement and interpretation of such agreements may vary depending on which state law applies[10]. There are subtle differences in interpretation and enforcement of agreements among states. Nonetheless, most state laws require (i) acknowledgement of sufficient consideration by an employee for agreeing to a non-compete agreement, (ii) that the scope of the restriction be reasonable in relation to the employer's business activities and the employee's job responsibilities, (iii) that the term of the restriction be reasonable to protect the employer's business interests, and (iv) that the agreement not violate the public policy of freedom of trade to allow the individual to make livelihood for himself and his family. While the requirements appear simple, the application of these requirements requires fact-intensive analysis for each case based on the law of the state in which the agreement would be governed.

5. Distribution Protection : Membership or User Agreement

In the past, a software company sold or licensed its software to customers as a packaged product or as a customized installation. In both of these situations, federal and state laws provide certain

legal rights to customers that are prone to abuse and violate the company's copyright interests in the software.

Among other federal laws, the Copyright Act[11] provides customers certain statutory rights with respect to the copy of the software the customer has purchased or licensed. Under the Section 109(a) of the Copyright Act, known as the First Sale Doctrine, the customer acquires certain inalienable rights with respect to that copy of the software in or with which the company may not interfere. Under the First Sale Doctrine, the customer has the right to sell or otherwise dispose of possession of that copy of the software without authorization from the company. Once there is a sale or license of software, the company's right to control the transfer, either by sale or distribution, of that copy is consider to be terminated. In addition, under the Section 117 of the Copyright Act, a customer who purchases or licenses software has the right to make an archival copy as a backup, and to adapt the software to allow the customer to essentially use the program all without the authorization of the company. Thus, thee company has no effective means to control or supervise the either copying or disposing of the archival copy of the software, or the adapting or altering of the program by the customer.

Among many state laws, the Uniform Commercial Code (UCC) of the applicable state governs rights of a customer to the software that he/she purchased. The UCC provides for certain statutory protections for consumers of consumer products regarding warranties and disclaimers, regardless of the terms of the warranty and disclaimers that the company may have required in its license agreement as a part of the sale of the software package.

The new distribution method of ASP potentially removes most of the problems associated with the traditional distribution of the software because it provides access services to its users or members in lieu of providing copies of the software to the same customers. Hence, by eliminating the physical distribution of the software to customers, ASP effectively eliminates the many of the risks and concerns that a software company used to face arising from the First Sale Doctrine, or from the making of an archival copy or from adapting the software essentially to use the program. Naturally, eliminating or reducing the distribution of the physical copies of software to customers minimizes the risk of unauthorized use, distribution, and reverse engineering by competitors. Moreover, an ASP's access service to its customers potentially eliminates the warranty and disclaimer issues associated with the sale or licensing of software as a consumer product.

Consequently, ASP is better able to control the sublicensing of its software by establishing user or membership agreement with its users or its members. As a general rule, the company has more freedom to establish more stringent require ments to protect its intellectual properties in ASP licensing (user agreement or membership agree ment), than the "traditional"software license agreement. In short, the major benefit of ASP licensing is that it allows the users to use the

program, while completely retaining the intellectual property rights and the physical ownership of the program. The effect of licensing users through APS on the Internet avoids and resolves various problems and legal issues that troubled software industry:

6. Legal Problems for ASP

ASP licensing is not without potential legal problems, however. By making the application available via the Internet, the company may be exposed to new kinds of legal problems. Some of the potential problems for an ASP are exposure to lawsuits, taxes, privacy issues, advertising regulations, or other forms of consumer protection statutes of various states. Moreover, an ASP may be exposed to infringement actions arising from the users'misuse or abuse of the application, including copyright infringement arising from users' contents or use, compromise to ASP's and other users' data integrity arising from a virus infection by one of the users, and criminal liabilities arising from one of the users abuse of the application in connection with the users'criminal or terrorist activities. The benefit of instantaneous worldwide market exposure also brings an instantaneous worldwide exposure to would-be infringers all without the benefit of the legal protections set-up in other countries.

Reference

[1] Outsourcing is defined as "hiring another company to provide data processing services that an organization might otherwise have performed itself, e.g., software develop ment."Internet and Technology Law Desk Reference (2002 Edition)

[2] Many companies now hire third party companies to assist them in managing payroll processing, data entries, collection, shipping, and much more

[3] 17 U.S.C. ㎜102, et seq. (1996 & Supp. 2003)

[4] Diamond v. Diehr, 450 U.S. 175, 101 S. Ct. 1048 (1981)

[5] State Street Bank & Trust Co. v. Signature Financial Group, Inc., 149 F.3d 1368 (Fed. Cir. 1998) (upholding the validity of Signature Financial Group's business method patent known as "Data Processing System for Hub and Spoke Financial Services Configuration")

[6] Id.

[7] 28 WMLR 1187, 1207.

[8] See, Hoffman, Turning Our Intellectual Property Assets Into Cash, 635 PLI/Pat 427, 437 (2001)

[9] The term a non-compete agreement is also sometimes referred to as a covenant not to compete or a restrictive covenant

[10] Jurisdiction of the state depends on where the company is located, where the employee may be employed and/or which state jurisdiction the parties may have agreed to

[11] 17 U.S.C. ㎜101, et seq. (1996 & Supp. 2003)

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