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Practice Areas

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Good Company

Software Agreements And The Derivative Works Dilemma - What Do You Really Own?

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The federal copyright law states that a “derivative work” is a work based upon one or more preexisting works. A derivative work includes any form in which a work may be recast, transformed, or adapted. Moreover, derivative works may consist of editorial revisions, annotations, elaborations, or other modifications that, as a whole, represent an original work of authorship. Additionally, the modification or new matter must still have the requisite degree of originality and creativity to qualify for copyright protection.

Software license agreements often permit the licensee to create derivative works of the software being licensed. Sometimes the licensor retains ownership of the copyright in any derivative works created. Other times, however, the licensee is granted copyright ownership rights in derivative works that it creates. Where the licensee is the owner of the copyright in derivative works that it creates, what exactly does it own? A common misconception is that the licensee owns the copyright in the entire resulting work, including the licensed software incorporated into the new work. That, however, is not the case. As explained more fully below, absent agreement to the contrary, the licensee owns only the copyright in the new material contributed by it, but does not acquire any rights to the preexisting software. The licensee’s rights to the underlying preexisting work, as embedded in the derivative work, are generally determined by the terms of the license agreement that permits the licensee to make derivative works in the first place.

The federal copyright law provides that the copyright in a derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work, and does not imply any exclusive right in the preexisting material. The copyright in the derivative work exists independent of, and does not enlarge or otherwise affect the scope, duration, ownership, or subsistence of, any copyright protection in the preexisting material. The bottom line, then, is that a licensee granted ownership rights in a derivative work owns a copyright only in the new matter contributed, not in the preexisting materials upon which the derivative work is based. This distinction has significant ramifications for the licensee.

While the licensor may be willing to grant ownership rights to the licensee in derivative works, it typically retains all copyrights in preexisting works. So, upon termination of the license agreement, where does that leave the licensee? Because a derivative work is based upon, and typically incorporates some or all of, the licensed software, it is imperative that the licensee has the right to continue to use the underlying software in its

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derivative works during, and after termination of, any license agreement.

If the license agreement is silent on the issue, upon termination of the license agreement, the licensee would be left with ownership in and the right to use only the derivative work (*i.e.*, the new material it contributed). In reality, however, the new material alone might not have any utility apart from the underlying software. It is crucial, therefore, that the licensee make sure that it will have the right to use the preexisting software even after termination of the license agreement. Obviously the licensee would prefer to have ownership of the copyright in the preexisting software, but that is unlikely to happen. The licensee's next best option would be to have a perpetual and irrevocable license to use the preexisting software beyond the term of the license agreement. While an exclusive license would be preferable, the licensee most likely will have to settle for a non-exclusive license.

Negotiation of software license agreements often can be a complex and protracted process. A licensee has to make sure that it actually obtains the rights that it believes it is receiving. Careful attention to detail and knowledge of the pertinent laws are essential to ensuring that the licensee is getting what it paid for.

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