

# John B. Dilworth's Commentary on "Who Can Change Proprietary Source Code"

Commentary On  
Who Can Change Proprietary Source Code

This is one of the few cases where the specific legal provisions governing the matters at issue are of primary importance in clarifying and resolving the problems. In the case of software, some basic points about copyright law, and some related matters concerning software licensing, are vital to understanding the case, and to distinguishing it from other cases of ownership or rights as they apply to employees. Therefore these legal provisions will be spelled out as an integral part of this commentary.

## 1

Copyright in software is treated under current U.S. law as being essentially similar to copyright in any literary or creative work. In all these cases, one acquires initial ownership of the copyright simply by being the author of the work in question. (Several persons may jointly author a work and so jointly hold copyright to it.) The government (through the Copyright Office, Library of Congress) does provide a Registration of Copyright mechanism. This does not create ownership, but instead officially acknowledges that it already exists. Typically one submits a manuscript, whether of a novel, movie script or source code for a program, as evidence of one's authorship/copyright.

Authorship as discussed above is subject to the following important qualification. The author of a work might prepare it as a "Work Made for Hire" (defined as a work prepared by an employee within the scope of his/her employment), and explicitly state this on the Copyright Registration form. In this case, the copyright statute provides that the employer rather than the employee is considered as the author (and hence as the copyright holder). However, it is important to note that, in the absence of any such explicit acknowledgement by an author that the work was

"Made for Hire", the normal assumption would be that the actual author/s hold copyright to the work, unless other substantive evidence could be produced to prove that it was "Work Made for Hire".

In the current case, we are explicitly told that Derek was never asked by the small computer firm to sign an agreement that software designed during his employment there becomes the property of the company. If he signed no such agreement, nor (as we may consequently assume) specified that his work was a "Work Made for Hire" in any copyright registration application, then legally he would have a strong presumptive case that he was (and still is) the copyright owner of the software in question. (The possible complication that he was the primary, but not the only, contributor to the software will be considered later.)

It might be objected that in most cases of employer-employee relations, if one works for someone then they own the products of one's labor. This is broadly true, but creative works falling under the copyright laws work differently. A familiar example in higher education is the fact that professors retain copyright in their books or papers even if they were hired to carry out such creative research.

In the present case, the fact that Derek was indeed working for a computer firm while preparing the program etc. is not sufficient to establish copyright ownership by the firm. For in the case of software copyrights, there are other rights or permissions to use the software which the firm will have acquired as a result of Derek's activities, which are fully adequate for their business purposes and which justify their hiring and compensating of Derek for his work. They get broadly what they want, but it is rights and permissions to use the software which they get, rather than ownership of it. (Recall that they could have had ownership too, but neglected or elected not to take the necessary legal steps to secure it.) Here is a brief discussion of rights and licensing in relation to copyright, to help clarify these matters.

## 2

Everyone is familiar to some degree with literary and movie rights, for example that a producer may have to pay a novelist a large sum to get the movie rights to a book. These rights give the movie producer the right to produce a film version of the novel, but do not in any way transfer the copyright (or ownership) of the novel to the producer. Similar considerations apply to software too: acquiring the right to make

certain uses of software does not transfer its ownership. Derek's firm acquired rights to use his software system for customer services in virtue of his being employed by them to produce the software, but the firm does not thereby acquire property rights in the software.

More distant still from ownership considerations are issues about licensing. Almost all actual software contracts involve some kind of software licensing, in which the copyright owner gives permission to one or more licensees to make certain kinds of use of the software. Though an exclusive license is possible, most licenses are of a non-exclusive kind, so that many different licensees could make similar uses of the software without violation of their contracts. Clearly in such cases there is no question of any transference of ownership in the legal arrangements.

### 3

In the present case we are given no specific information about what rights or licensing arrangements were in force between Derek and his original small computer firm, but these can be reasonably inferred from the conduct of the parties. Minimally his firm needed from Derek a perpetual, non-exclusive license to use and modify his source code for the software. Then they could use the software indefinitely, and modify it at any time in the future as changes became desirable. However, unless there was a written contract in existence (signed by the firm and Derek) in which Derek granted the firm an exclusive license to use the software, Derek is free at any time to license the same software (whether or not he chooses to make changes in it) to anyone else, and under any terms he wishes.

The implications for the present case are clear. Derek as the copyright holder can use or modify his software for use in his new larger computer firm in any way he pleases, with or without discussing it with his former employer. What is more, his new employer cannot claim ownership of the software, because it was developed prior to Derek's current employment rather than as part of his current design work.

However, Derek would certainly be wise to come to some explicit agreement with his new firm about how he would allow them to use the software. In effect, the new firm wants Derek to produce a customized version of the software for them, and he could agree to do this as part of his regular compensation, while also negotiating a

monthly or yearly licensing fee in return for granting them appropriate rights to use the software. Or to simplify things, Derek might be tempted to sell them the package outright for a suitable compensation, in which case there would be an actual transference of ownership of the package.

## 4

We are told that Derek was a "primary contributor" in the original development of the software. This suggests the possibility that he may jointly hold the copyright to the software with one or more other designers. How would this affect the case? Generally, joint ownership allows each owner to exercise all rights of ownership, except for those whose exercise would materially affect the rights of the remaining owners. (Commonplace examples include such matters as joint ownership of a home or bank account.) In the present case, this means that Derek is free to grant non-exclusive licenses to use the software to anyone (but not to everyone), since other joint owners would not be thereby prevented from exercising similar rights. On the other hand, Derek should refrain from attempting to grant an exclusive license, or from attempting to sell the software outright, because both of these actions would materially affect the interests of any other joint owners.

Does Derek have any moral obligation to contact his former employer, or his co-workers there, before exercising his legal rights as detailed above? First, it is prudent for anyone in business to stay on good terms with both present and former associates. In the interests both of common courtesy and of safeguarding his own career, Derek would be well advised to explain his actions and his view of the case to anyone who might otherwise resent or be annoyed by them, including his former associates and friends.

Second, if there are indeed co-authors from his previous firm whom Derek could contact, he should do so. A basic principle of legal ethics, assumed in contract law, is that parties who enter into a contract or agreement are thereby obligated to make a good-faith effort to carry out the terms of the contract, both explicit and implicit. Co-authorship, as with other forms of joint ownership, could appropriately be viewed as requiring that one should keep co-authors informed of one's actions with respect to the joint property, even if this is not explicitly spelled out in a written agreement between the co-authors.