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## Remember Boggle®?

This year has been a bellwether for deals – asset sales, mergers, whatever. Financial services companies and information technology service providers are among the trendsetters. In the fast-paced, and often hectic, world of mergers and acquisitions, it pays to mind details. And, problems do not surface until years later.

This is often true in connection with intellectual property that is acquired in a transaction. In 1995 Santa Cruz Operations, Inc. (later acquired by The SCO Group, Inc.) purchased

. . . all of [Novell, Inc.'s] right, title, and interest in and to the assets and properties of [Novell] relating to the [business of developing a line of software products currently known as Unix and UnixWare, the sale of binary and source code licenses to various versions of Unix and UnixWare, the support of such products and the sale of other products which are directly related to Unix and UnixWare] . . .<sup>1</sup>

The asset purchase agreement continued by limiting the purchased assets to those listed on a referenced schedule and to specifically exclude assets listed on another such schedule.

On January 20, 2004, almost ten years later, SCO sued Novell over the transaction. SCO claimed that in 1995 it had bought, through Santa Cruz, not only the source and executable code that was UNIX and UNIXWARE, but also the copyrights to UNIX® and UNIXWARE®. The case, originally filed in state court as a single slander of title claim, was removed to Federal court and came to join a number of other related issues, including claims to license royalties.

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<sup>1</sup> SCO Group, Inc. v. Novell, Inc., No. 2:04CV139DAK (D. Utah filed Aug. 10, 2007), slip op. at 3-4, <http://www.groklaw.net/pdf/Novell-377.pdf> (last visited Sep. 28, 2007) (quoting the asset purchase agreement between the parties) [hereinafter *SCO Group*].

***Boggle is a trademark of Hasbro, Inc.***

***UNIX and UNIXWARE are trademarks of The Open Group in the U.S. and other countries.***

## The Asset Purchase Agreement

The excluded assets schedule of the asset purchase agreement listed (and, thus, carved out of the sale) “[a]ll copyrights and trademarks, except for the trademarks UNIX and UnixWare . . . [and] [a]ll Patents.” The included assets schedule listed the “[t]rademarks UNIX and UnixWare [to the extent that Novell had a right to use them].”<sup>2</sup> Not surprisingly then, the Utah Federal District Court ruled that Novell, never having transferred the UNIX and UNIXWARE copyrights, still owns them.

### *SCO “Surprised”*

Of course you remember Boggle, the Parker Bros./Hasbro word game that challenges the mind to form words from jumbled letters. “Mind-boggling” describes SCO’s claim against Novell, particularly in light of the asset purchase agreement transfer provisions.



SCO’s CEO Darl McBride was certainly confused, at least by the results of his court case. McBride has complained: “The ruling was a pretty hard shot. It was unexpected, a surprise . . . a huge disappointment.”<sup>3</sup>

The Court’s decision should not have been a surprise. Why did SCO press the claim if the outcome was so obvious? The answer may lay in the curious nature of the copyright itself and the user’s rights with respect to a copyrighted work.

### *The Work vs. The Copyright*

Take a novel from the local bookstore. The buyer owns the book, a copyrighted work. But the copyright belongs to the author. The Buyer has limited use rights. U.S. copyright law insists:

Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied. Transfer of ownership of any material object, including the copy or phonorecord in which the work is first fixed, does not of itself convey any rights in the copyrighted work embodied in the object; nor, in the absence of an agreement, does transfer of ownership of a copyright or of any exclusive rights under a copyright convey property rights in any material object.<sup>4</sup>

Even buying the author’s first manuscript does not convey ownership of the content or transfer the right to reproduce and sell the work.

How does this work for software? When one purchases software, copyright law implies a limited license to use the software, and to copy, modify, distribute and sublicense it, in such

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<sup>2</sup> *SCO Group*, slip op. at 4 (quoting the asset purchase agreement between the parties).

<sup>3</sup> *SCO Chief Pipes Up*, INFO. WEEK, Aug. 27 – Sept. 3, 2007, at 26.

<sup>4</sup> 17 U.S.C. § 202 (2000).

manner that would effectuate the purpose of the purchase.<sup>5</sup> In other words, the implied, non-exclusive, limited license intends to further the purpose of the sale.

## Staying Focused

The intellectual property lesson in *SCO Group* is not simply about copyright law. It is also about good contract drafting.<sup>6</sup> If precision is not employed, one can end up owning only a single copy of the novel and not the rights to reproduce it for commercial purposes. In this case, SCO ended up with a substantially different asset than it claimed.

The opinion in *SCO Group* portrays the asset purchase agreement as primarily the effort of Novell. Novell's approach to drafting demonstrates the elements that were necessary to sustain its copyright ownership claim.

The Model Asset Purchase Agreement published by the American Bar Association's Committee on Negotiated Acquisitions (see sidebar) presents a very similar and effective model.

Regardless of the template from which a party begins its drafting, the importance of clearly and completely including the parties' intent, and never losing focus of it, is critical to the ultimate success of a transaction.

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### MODEL ASSET PURCHASE AGREEMENT

#### 2.1 ASSETS TO BE SOLD

... Seller shall sell, convey, assign, transfer and deliver to Buyer, and Buyer shall purchase and acquire from Seller, free and clear of any Encumbrances ... all of Seller's right, title and interest in and to all of Seller's property and assets, real, personal or mixed, tangible and intangible, of every kind and description, wherever located, including the following (but excluding the Excluded Assets):

...  
(h) all of the intangible rights and property of Seller, including Intellectual Property Assets, going concern value, goodwill, telephone, telecopy and e-mail addresses and listings and those items listed in Parts 3.25(d) [list of patents], (e) [list of trademarks], (f) [list of copyrights] and (h) [list of Internet domain names];

...  
All of the property and assets to be transferred to Buyer hereunder are herein referred to collectively as the "Assets."

#### 2.2 EXCLUDED ASSETS

Notwithstanding anything to the contrary contained in Section 2.1 or elsewhere in this Agreement, the following assets of Seller (collectively, the "Excluded Assets") are not part of the sale and purchase contemplated hereunder, are excluded from the Assets and shall remain the property of Seller after the Closing:

...  
(k) the property and assets expressly designated in Part 2.2(k) [the excluded assets schedule].

#### 3.25 INTELLECTUAL PROPERTY ASSETS

(a) The term "Intellectual Property Assets" means ...

...  
(iii) all registered and unregistered copyrights in both published works and unpublished works (collectively, "Copyrights");

Am. Bar Ass'n, MODEL ASSET PURCHASE AGREEMENT WITH COMMENTARY (2001).

<sup>5</sup> *SCO Group*; see also *Foad Consulting Group, Inc. v. Musil Govan Azalino*, 270 F.3d 821 (9th Cir. 2001); cf. 17 U.S.C. § 117(a)(1) (2000).

<sup>6</sup> For more on the importance of being clear, concise and complete in contract drafting, see *C<sup>3</sup> = The Right Word*, CARPENTER LAW OFFICE CLIENT NEWSLETTER (Robert H. Carpenter, Jr., Plano, Tex.), May 2005, [http://www.carpenterlaw.net/images/C3\\_The\\_Right\\_Word\\_May\\_2005\\_2007.pdf](http://www.carpenterlaw.net/images/C3_The_Right_Word_May_2005_2007.pdf).