

No. 10-4122

**IN THE UNITED STATES COURT OF APPEALS
FOR THE TENTH CIRCUIT**

THE SCO GROUP, INC.,

Plaintiff-Appellant,

v.

NOVELL, INC.,

Defendant-Appellee.

On Appeal from the United States District Court for the District of Utah
Hon. Ted Stewart, Presiding
No. 2:04-CV-00139-TS

**BRIEF FOR APPELLANT, THE SCO GROUP, INC.
ORAL ARGUMENT REQUESTED**

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CORPORATE DISCLOSURE STATEMENT

Appellant, The SCO Group, Inc. (“SCO”), is not owned by a parent corporation. No publicly held corporation owns 10% or more of SCO’s stock. On September 14, 2007, SCO filed a petition for reorganization under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware. On August 25, 2009, that Bankruptcy Court appointed former United States District Judge Edward N. Cahn as Chapter 11 Trustee for SCO.

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The SCO Group, Inc. v. Novell, Inc.,
578 F.3d 1201 (10th Cir. 2009)

JURISDICTIONAL STATEMENT

Jurisdiction in the district court was grounded under 28 U.S.C. §§ 1331, 1338(a), 2201(a), and 2202. SCO timely filed its notice of appeal on July 7, 2010. Jurisdiction in this Court is grounded under 28 U.S.C. § 1291.

ISSUES ON APPEAL

1. Did the district court err in finding that SCO does not require any of the UNIX and UnixWare copyrights in connection with the UNIX and UnixWare technology and software business it acquired from Novell, and in thus denying SCO's Rule 50(b) motion for judgment as a matter of law?
2. Did the district court abuse its discretion in denying SCO's alternative motion for a new trial on copyright ownership, and err in denying SCO's alternative claim for specific performance?
3. Did the district court err in finding that under the Asset Purchase Agreement at issue Novell was entitled to waive SCO's claims with respect to IBM's alleged breaches of license agreements that SCO acquired?
4. Did the district court abuse its discretion by (i) changing course from its rulings in the first two weeks of trial, in which it found that such evidence was extremely prejudicial to SCO, and allowing Novell to inform the jury of judicial decisions in Novell's favor that this Court had reversed;

(ii) allowing Novell to confuse the jury by relying upon “exclusion of copyright” language that had been replaced by an amendment to the Asset Purchase Agreement; and (iii) admitting double-hearsay of SCO’s purported reputation as the “Most Hated Company” in the technology industry?

STATEMENT OF THE CASE

SCO owns the UNIX source code and licensing business, including the current versions of UNIX known as UnixWare. UNIX is a computer operating system originally developed by AT&T in the 1960s. This case arises from Novell’s public claims in 2003 and 2004 that it had retained the UNIX copyrights when it sold the UNIX business and technologies to SCO’s predecessor-in-investment under the APA, and Novell’s actions seeking to prevent SCO from pursuing legal claims against International Business Machines Corp. (“IBM”) for breaching contractual agreements acquired by SCO as part of the UNIX business.

This is an appeal from a jury verdict following a three-week trial, from Findings of Fact and Conclusions of Law that the district court (Stewart, J.) subsequently issued, and from the court’s Memorandum Decision and Order denying SCO’s renewed motion for judgment as a matter of law or, in the alternative, for a new trial, and the Final Judgment entered thereon, on remand

from this Court's decision in The SCO Group, Inc. v. Novell, Inc., 578 F.3d 1201 (10th Cir. 2009).

STATEMENT OF FACTS

I. DEVELOPMENT AND SALE OF UNIX

SCO is the successor-in-interest to all of the assets that The Santa Cruz Operation, Inc. (unless otherwise indicated, also "SCO") acquired under an amended Asset Purchase Agreement ("APA") with Novell in the mid-1990s, concerning the "UNIX" operating system and its derivatives.

UNIX is a computer operating system developed by AT&T in the late 1960s. Starting in the early 1980s, AT&T built a business on licensing the source code to releases of the then-current version of UNIX known as UNIX System V to all the major computer manufacturers. Source code is the human-readable form of a computer program, in contrast to binary code, which runs on computers but cannot be read by people. Manufacturers, such as IBM, Sun Microsystems, Hewlett-Packard, and others, used the System V source code to develop their own UNIX-derived "flavors" best suited for use on their respective computers. A licensee paid one-time fees for the rights to use the source code of a particular release to create and distribute its flavor, and continuing royalties for each binary copy of the flavor sold to end-users. While licensees could distribute their flavors to end-users in

binary form, the Software and Sublicensing Agreements licensees executed required licenses to keep the UNIX source code confidential. IBM was such a licensee and developed its own flavor of UNIX, which it named AIX. The SCO Group, Inc. v. Novell, Inc., 578 F.3d 1201, 1204-05 (10th Cir. 2009).

UNIX System Laboratories, the AT&T spin-off that owned the UNIX business, was sold to Novell in 1993 for over \$300 million. Id. at 1205. Only two years later, however, Novell decided to sell its UNIX business. In the summer of 1995, Novell started negotiations with Santa Cruz, a software company that was itself a UNIX licensee. Novell sought to sell everything it owned related to UNIX, but after initial negotiations, the parties realized that Santa Cruz could not afford to pay the full price in cash or stock. Santa Cruz paid Novell in stock, worth approximately \$50 million, plus two revenue streams. (A2187:106-07;A2206:183-84;A2351:735-36.) First, as a financing device, the parties agreed that although SCO would acquire legal title to the royalty stream, Novell would retain an interest in 95% of “SVRX Royalties,” defined as the per-copy fees that existing UNIX licensees paid to the UNIX business owner for distributions of certain pre-UnixWare versions of UNIX System V designated in the APA as “SVRX” for “System V Release ___.” This revenue stream was estimated to be \$50 million for the 1995 year alone. (A2224:248;A2235:292;A2350:730-32.) In addition, Novell

received a conditional interest of up to \$84 million in UnixWare sales through 2002 (A3168¶c;A2338) – an interest that expired without ever vesting.

A. The Sale of Assets Pursuant to the Amended APA.

The transfer of UNIX-related rights occurred as an asset sale, through the APA; an Amendment No. 1 signed by the parties at the actual closing of the APA on December 6, 1995; and Amendment No. 2 executed on October 16, 1996.

SCO, 578 F.3d at 1205.

Article 1.1(a) of the APA identifies “all of Seller’s right, title, and interest in and to the assets” listed in the Assets Schedule, and not listed in the Excluded Assets Schedule, as assets transferred in the transaction. (A3110.) Item I of the Assets Schedule summarizes the transferred “assets and properties of Seller” as “All rights and ownership of UNIX, UnixWare and Auxiliary Products, including but not limited to” the assets and properties listed in the Schedule, “without limitation.” (A3160;A3207¶k. (Emphasis added.) The schedule then lists all source code and binary code versions of UNIX, both old and new with no distinction drawn between SVRX and UnixWare, including all prior and existing versions of UNIX. (A3160-63.) Item V.A of the Excluded Assets Schedule, as amended by Amendment No. 2, identifies:

All copyrights and trademarks, except for the copyrights and trademarks owned by Novell as of the date of the

[APA] required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies. However, in no event shall Novell be liable to SCO for any claim brought by any third party pertaining to said copyrights and trademarks.

(A3219 (emphasis added).) Prior to Amendment No. 2, Item V.A had excluded: “All copyrights and trademarks, except for the trademarks UNIX and UnixWare,” without more. But Amendment No. 2 excised that language from the APA by stating that “Subsection A [of Item V] shall be revised to read” the language set forth in the Amendment. SCO, 578 F.3d at 1210-11;A3219.

There was no license provision to Santa Cruz to use the intellectual property associated with the assets it had acquired. In a section entitled “License Back of Assets,” however, the APA provided for a Technology License Agreement (the “TLA”) under which SCO granted Novell a restricted license to the “Licensed Technology” in connection with SCO’s concurrent purchase of the UNIX business under the APA. (A3114§1.6;A3381.) The APA and TLA define the Licensed Technology as “all of the technology included in the Assets” and “all derivatives” of that technology. (A3114§1.6;A3381¶I.) It is undisputed that the “technology included in the Assets” includes all UNIX and UnixWare source code, products, versions, and copies, and that Novell received a restricted license from Santa Cruz to use such UNIX and UnixWare source code after the closing of the APA.

In its prior decision, this Court held that the language of Amendment No. 2 indisputably replaced, as a matter of law, the old language in the Excluded Assets Schedule of the APA. SCO, 578 F.3d at 1210-11. The Court further explained that “any change to the set of Excluded Assets in Schedule 1.1(b) necessarily implicated those copyrights actually transferred under Schedule 1.1(a). . . . Whatever the Amendment means, it refers to the ownership of copyrights, not to licenses.” Id. at 1213-14, 1216 (emphasis added). The Court remanded for trial to determine whether the APA, as amended, transferred to SCO the UNIX and UnixWare copyrights either because those copyrights were “required” within the meaning of Amendment No. 2, or because Amendment No. 2 effectuated the intent of the parties to transfer the copyrights. Id. at 1217-19.

This Court found that ambiguity in the amended APA as to the transfer of copyrights compelled the consideration of extrinsic evidence of the parties’ intent and noted that under California law the parties’ course of performance is the “best evidence” of the parties’ contractual intent. Id. at 1217. Reversing the district court, this Court also held that the amended APA was sufficient, without a separate bill of sale, to satisfy Section 204(a) of the Copyright Act. Id. at 1213-14.¹ The

¹ Novell filed a petition for a writ of certiorari to the U.S. Supreme Court from this ruling. In August 2010, after prevailing at trial, Novell dismissed the petition.

Court also pointed to the importance of copyright ownership for SCO to protect the assets it had acquired under the amended APA. Id. at 1218 n.4.

B. Novell’s “Waiver Rights” Under the Amended APA.

Article 4.16(b) of the APA grants Novell rights to “amend, supplement, modify or waive any rights” under certain licenses called “SVRX Licenses” in the APA. The issues concerning the identity of the “SVRX Licenses” over which Novell had retained rights became meaningful when Novell purported in 2003 to waive SCO’s claims against IBM under its Software and Sublicensing Agreements. Those Agreements provided IBM access to the valuable UNIX source code but required IBM to keep that source code strictly confidential in order to maintain the value of the UNIX technology and licensing business.

Believing that IBM had violated those restrictions by releasing UNIX technology to the competing Linux operating system, SCO filed suit against IBM in March 2003. At IBM’s request (A2665;A2668), Novell then claimed that the “SVRX Licenses” over which it had retained rights under the APA included the Software and Sublicensing Agreements that SCO alleged IBM had violated, and Novell proceeded to direct SCO to waive its rights to pursue those claims against IBM (A3461-63;A3480-81;A3620-21;A3623-24). When SCO contested Novell’s position that it had retained authority over those agreements (see, e.g., A4382-86),

Novell purported to act on SCO's "behalf" in waiving IBM's violations (A3461-63;A3480-81;A3620-21;A3623-24).

In its prior decision, this Court reversed the district court's (Kimball, J.) summary judgment ruling that under Section 4.16 of the amended APA Novell possesses broad "waiver" rights over licenses that SCO owns. The Court found that the contract was ambiguous as to the scope of these rights, requiring the consideration of extrinsic evidence at trial. SCO, 578 F.3d at 1219-24. The Court also remanded SCO's alternative claim that even if Novell had the right to waive SCO's contract claims, Novell's exercise of its rights under Section 4.16 to waive SCO's claims against IBM violated the duty of good faith and fair dealing, and therefore is of no force and effect. Id. at 1224-25.

II. THE TRIAL ON REMAND

A. Evidentiary Rulings.

On remand from this Court, in March 2010, the district court held a three-week jury trial on SCO's claim for slander of title, in which was embedded the issue of copyright ownership.² There are three evidentiary rulings from that trial that are raised in this appeal.

² Novell's counterclaim for slander of title was also tried but dismissed as a matter of law following the close of the evidence. (A3055-56.)

First, over SCO's objections (A2548-49), the district court permitted Novell to tell the jury about the prior, reversed decisions the district court had issued in Novell's favor. (A2548-50.) Novell had repeatedly sought to have the decisions introduced, beginning with its motions in limine (A400-19) and continuing throughout the first half of trial (A1117-21;A1471-75;A1638-72;A1734-41). The court denied all of those requests on the grounds that informing the jury of the decision would be unduly confusing and prejudicial. (A1112-16;A1334-38;A1476-79;A2363:775-76.) In so doing, the court acknowledged that the prejudicial effect to SCO of such evidence was "extremely high." (A2628:1794.)

In the second week of trial, however, the court decided to permit Novell to quote from the prior decisions in cross-examining Dr. Christine Botosan, SCO's damages expert, on the theory that the decisions pertained to the "but for" world of Dr. Botosan's damages model. (A2549:1494-95.) Novell's counsel proceeded to read from the district court's June 2004 and August 2007 decisions, with respect to Novell's motion to dismiss and motion for summary judgment, respectively. Novell first read from the June 2004 decision, including the language stating that Amendment No. 2 "is not retroactive to the date of the APA" and that "although Amendment Number 2 states that its effective date is the date of the amendment,

the language of Amendment Number 2 does not state that a transfer of the copyrights is to occur as of the date of the amendment.” (A2549:1494-95.)

After the district court gave a further instruction in a futile attempt to cure the prejudice to SCO (A2550:1498), Novell continued with its cross-examination of Dr. Botosan and asked further questions about the August 2007 “grant to Novell [of] judgment as a matter of law that Novell did not under the Asset Purchase Agreement, including Amendment Number 1 and Amendment Number 2, transfer ownership of the UNIX copyrights to Santa Cruz Operation or its successor The SCO Group.” (A2553-2555:1511-18; see also A2555-2556:1521-22.) Dr. Botosan explained at length the irrelevance of those decisions to the but-for world on grounds that Novell never sought to contradict. (A2550;A2555.)

Second, over SCO’s objections (see e.g., A2192-3), the district court permitted Novell to focus extensively on the old, removed exclusion of copyright language. (See, e.g., A2236-38;A2866-67.) Given the potential for the jury to be misled into relying on language that no longer existed, SCO moved in limine to restrict Novell’s use of the prior language in accordance with this Court’s decision. (A2192-93.) This motion was denied. (A1092-94;A2186;A2192-93.) While permitting Novell to question witnesses extensively about the removed language, the district court also precluded SCO even from asking several witnesses –

including SCO's initial witnesses, Robert Frankenberg, Novell's CEO at the time of the APA transaction, and Duff Thompson, Novell's business development executive charged by the CEO to sell the UNIX business to SCO – whether they knew that the original copyright language in the APA had been amended. (See, e.g., A2186;A2227;A2249-59.) The court's rationale was that such witnesses were not involved in negotiating Amendment No. 2. (See, e.g., A2193.)

In light of these rulings, Novell came out of the gate seeking to convey the impression that the original copyright language of the APA was the only relevant language. (See, e.g., A2173-78;A2236-38;A2860-63;A2866-67;A2871.) Novell refused to use the admitted exhibit comprising the APA and the amendments thereto, insisting instead on using an exhibit that was just the text of the original APA. (See, e.g., A2216;A2234;A2236-37.) SCO's objections to that were overruled. (See, e.g., A2237:298.) Novell even pointed to the original copyright language in conjunction with the integration clause of the APA – as if the jury could consider only the original language. (A2202-03.) When the district court warned counsel for Novell that if he further pursued his questions about the integration clause, then SCO would be permitted to revisit the issue of the application of Amendment No. 2, Novell's counsel candidly stated: “Well, I don't want the answer that badly, Your Honor.” (A2736.)

Third, over SCO's objection, the district court allowed Novell to present the jury with a slide featuring the title to a Business Week article from 2004 describing SCO as the "Most Hated Company in Tech." (A5091;A2815-16.) This was permitted on the basis that it was relevant for Novell's expert, Terry Musika, to refute the testimony of Dr. Botosan that in a "but for" world in which Novell had not falsely claimed to own the UNIX and UnixWare copyrights, SCO would have made substantially greater revenues and profits. (A2510-61;A2829-36.)

B. The District Court's Rule 50(b) Decision.

SCO moved at the close of evidence for judgment pursuant to Rule 50(a) and renewed its motion under Rule 50(b) on the grounds that the evidence showed that the UNIX and UnixWare copyrights were required for SCO "to exercise its rights in the UNIX and UnixWare technologies" acquired under the APA, the standard set forth in the APA as amended by Amendment No. 2. The district court denied the initial motion as moot, misunderstanding it to be directed to Novell's counterclaim, which the court had dismissed at the close of the evidence pursuant to an ore tenus motion. (A1899-1910;A2591-95;A2602;A3006.)

The jury answered one question on the slander of title claim. In response to the first question on the verdict form: "Did the amended Asset Purchase

Agreement transfer the UNIX and UnixWare copyrights from Novell to SCO?”

The jury answered: “No.” (A1914.)

The district court subsequently denied SCO’s renewed Rule 50(b) motion on the grounds that the jury adopted Novell’s view that “Santa Cruz only acquired the UnixWare business” and that “Novell retained significant rights in the UNIX business,” including the copyrights. (A3008.) The court’s view was that “Amendment No. 2 was meant to address use rights, not ownership” (A3010), relying on testimony of Novell’s principal negotiator of Amendment No. 2, Alison Amadia, that “Amendment no. 2 was meant to affirm that SCO had the right to use, manufacture, and make modifications to the UNIX technology” – in other words, a license. (Id.)

The district court did not cite or even comment on Ms. Amadia’s admission that “if there are copyrights that are required for SCO to exercise its rights, like the UNIX and UnixWare trademarks, they were transferred.” (A2728:2177 (emphasis added); see also A2728-2729:2176-78;A2724:2160.) Similarly, the district court ignored her admission with respect to Amendment No. 2 that “it’s reasonable to interpret this language as saying that among the copyrights included in the transfer are those that SCO needs to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies.” (A2724:2160-61.)

The district court dismissed the testimony of SCO's negotiator of Amendment No. 2, in-house counsel Steven Sabbath, who testified that SCO "bought the UNIX business from Novell, all copyrights pertaining to that business came with the product. Amendment Number 2 was meant to confirm that."

(A2397:911.) The court did so because Mr. Sabbath had signed a conflicting declaration concerning Amendment No. 2, notwithstanding Ms. Amadia's testimony that Mr. Sabbath told her that the copyrights had been excluded as a result of a "typographical error in the original APA" that required correction. (A2730:2184-85.) Ms. Amadia further testified that she understood that Mr. Sabbath's understanding was that "the purpose of the Amendment was to clarify that the UNIX and UnixWare copyrights had transferred." (A2726-29:2169-79.)

The district court also cited testimony from SCO witnesses Darl McBride and Ryan Tibbitts for the proposition that SCO could run its UnixWare product business without the copyrights (A3010-11), although their testimony carefully and consistently pointed out that protecting the underlying technology from infringement – in contrast to simply licensing a software product – required the copyrights. (A2421:997(McBride);A2640-41:1844-46(Tibbitts);A2642:1850-51(Tibbitts).)

C. Denial of SCO's New Trial Motion.

SCO moved in the alternative for a new trial under Rule 59 on the grounds that the jury's verdict on copyright ownership was clearly against the manifest weight of the evidence. SCO argued that a new trial was justified not only because the copyrights were "required" under Amendment No. 2, but also because of the overwhelming evidence that both SCO and Novell had intended that copyrights be transferred as part of the UNIX and UnixWare business.

At trial SCO presented testimony from ten witnesses that such a transfer was intended. These included not only all of the witnesses from the Santa Cruz side of the transaction, but also five Novell executives, including then-CEO Robert Frankenburg; Novell's lead negotiator of the APA, Ed Chatlos; and in-house Novell lawyer Burton Levine, who went so far as to testify that it would have been "unethical" to sell the ownership rights to a software business and seek to withhold the copyrights. (A2183-84(Frankenberg);2204(Frankenberg);A22192(Thompson); 2251(Chatlos);2253(Chatlos);2336(Mattingly);2294-95(Levine);2280(Mohan); 2287(Michels);2290-91(Michels);2275-76(Wilt);2395-96(Sabbath);2364-65(Madsen). In denying SCO's motion, the district court acknowledged this testimony but discounted it because some of the witnesses dealt with high-level negotiations, while others had a financial interest in SCO in the form of stock or

stock options from having worked or served at the company. The court found more credible the testimony of Novell's witnesses who claimed Novell intended to withhold the copyrights because of concerns with SCO's financial condition and to protect the royalty-stream in which it had a continuing interest.

The district court also rejected as unpersuasive SCO's evidence that the parties' course of performance after the APA showed that both sides believed the copyrights had been transferred. That evidence included the undisputed facts that (i) Novell's own engineers replaced the "Novell" copyright notice with a "Santa Cruz" copyright notice on the source code and the CD for the current version of UnixWare transferred under the APA (A2609:1725-28;A2608:1723-36;A3281-88); (ii) Novell left the copyright registrations with SCO (A2319); and (iii) Novell wrote thousands of letters to key customers and partners shortly after the APA closed expressly informing them that it had transferred to SCO Novell's "existing ownership interest in UNIX System-based offerings and related products," which were identified as all versions and releases of UNIX and UnixWare (A2313:586; A3528-33).³ Until November 2003, Novell never claimed to own the copyrights.

³ The official press release that SCO issued on September 20, 1995, quoted Novell CEO Robert Frankenberg and stated: "According to the terms of the agreement, SCO will acquire Novell's UnixWare business and UNIX intellectual property." (A3507-09;A2188:110-11.) Mr. Frankenberg testified that, in

Indeed, a few weeks after the APA was signed, Novell submitted a premerger notification form under the Hart-Scott-Rodino Act representing that SCO would acquire “All rights and ownership of UNIX and UnixWare,” “All of Novell’s claims,” and “All copies of UNIX and UnixWare.” (A3327;A3308;A2791-92:2411-14.) Just months after Amendment No. 2 was signed, through the law firm that represented SCO in connection with the APA, SCO (Santa Cruz) took the position in public litigation against Microsoft Corporation in the European Union that SCO had acquired the UNIX copyrights and was the UNIX copyright holder. (A2371-2372;A3364§3.4; A3366§4.9.) In resolving that dispute, SCO entered into a settlement agreement with Microsoft stating: “SCO has acquired AT&T’s ownership of the copyright in the UNIX System V Operating System Program.” (A3439.)

D. Non-Jury Findings on Novell’s Waiver Rights.

After the trial, the district court entered its own findings on SCO’s alternative claim for specific performance for transfer of the copyrights and on Novell’s counterclaim that it had the authority under Section 4.16(b) of the APA to force SCO to waive its claims against IBM for alleged breach of the restrictions on disclosure of UNIX technology. The court found that Section 4.16’s language approving that press release for Novell, he understood the term “intellectual property” to include the copyrights. (A2188:112.)

regarding “SVRX Licenses” applied to any “contract” concerning SVRX and therefore applied to all software development agreements or licenses. The court did not address SCO’s argument that the “Software Agreement” and “Sublicensing Agreement” subject to which IBM obtained access to UNIX source code, and which imposed limitations on IBM’s disclosure of such code, are included among the “Software and Sublicensing Agreements” referenced in Item III.L of Schedule 1.1(a), and is not an “SVRX License” as to which Novell had unrestricted waiver rights.

The district court also did not expressly discuss witnesses, including former Novell employees, who testified that in order to make sense, Novell’s “waiver” rights under Section 4.16(b) of the APA extended only to the terms of the Product Schedule Licenses through which particular UNIX products were licensed. Those witnesses included Messrs. Broderick (A2331-2332), Frankenberg (A2188), Chatlos (A2254-56), Thompson (A2223-2224), Wilt (A2276), Mohan (A2282), Michels (A2288-90), Sabbath (A2396), and Ms. Madsen (A2382;A2392-93). The court also rejected SCO’s argument that such a broad waiver right would permit Novell to undermine the UNIX and UnixWare business SCO had acquired. (A2392-93:892-93;A2315:593-94;A2316:599-600.)

Finally, the district court did not find persuasive the parties' own conduct shortly after the APA, when SCO disputed Novell's effort to unilaterally grant IBM a buyout of its binary royalty obligations and expanded source code rights, and "began to institute a law suit" against Novell. (A3433-34;A2600-2601:1690-95.) The court found no significance in the fact that during the months of negotiations between Novell and SCO over this issue, Novell did not once assert ownership of the UNIX copyrights or the broad Section 4.16(b) rights it now claims.

SUMMARY OF ARGUMENT

The district court's denial of SCO's Rule 50(b) motion rests on the fiction that SCO obtained only some sort of unidentified license to develop and market a new UnixWare product when it purchased the UNIX and UnixWare business from Novell in the mid-1990s, and that SCO did not "require" any of the UNIX and UnixWare copyrights to exercise any of its rights. The term "license" is never mentioned in the APA with respect to SCO's rights to the UNIX and UnixWare technology. (The term "license" is mentioned, however, with respect to the contemporaneous agreement in which SCO licensed back to Novell a restricted right to use the UNIX and UnixWare technology – a license-back that is in itself irreconcilable with the decision below.) The language excluding copyrights in the

original APA was removed and replaced by Amendment No. 2 with language making clear that copyrights “required” for SCO to conduct the UNIX and UnixWare business it acquired were indeed part of the transferred assets. As this Court held: “Whatever the Amendment means, it refers to the ownership of copyrights, not to licenses.” SCO, 578 F.3d at 1213-14, 1216.

Novell presented no meaningful evidence that the copyrights are not “required.” SCO, by contrast, presented extensive evidence that confirmed the common-sense proposition that the UNIX and UnixWare copyrights are required to license certain rights to other users, and most importantly, to protect the valuable technology against infringement – a task which possession of an “implied license” indisputably does not allow. Given the language of the APA, as amended, and the record evidence, it was legal error for the district court to have denied SCO’s Rule 50(b) motion. On those same principal bases, it was error for the court to deny SCO’s alternative motion for a new trial and claim for specific performance.

The district court also erred in its non-jury findings that Novell had the authority under the APA to waive essentially any and all of SCO’s rights concerning license agreements that SCO unquestionably acquired. Novell’s waiver of SCO’s rights to enforce restrictions on the disclosure of UNIX technology by IBM goes to the heart of SCO’s business. Such broad waiver rights,

as this Court previously stated, “would enable Novell, at its sole discretion, to destroy a substantial part of the value of Santa Cruz’s acquisition of the UNIX business.” SCO, 578 F.3d at 1221. The district court’s construction ignored the fact that the IBM software development agreements were transferred to SCO under a different section of the APA, one that is not subject to the waiver rights Novell had preserved to protect its remaining royalty interest in UNIX licenses.

During the trial, moreover, the district court abused its discretion with respect to several evidentiary issues in ways that necessitate a new trial.

First, after steadfastly rejecting numerous efforts by Novell to inform the jury that it previously had secured a summary judgment (which this Court then reversed), the district court changed course midway through trial and allowed Novell to inform the jury of the previous ruling in its favor on the ownership of copyrights. The district court previously had recognized that “Plaintiff would be prejudiced if the jury was informed that this Court once entered judgment against it on those very claims that the jury will be asked to decide,” and this prejudice was not removed by an instruction that the district court’s summary judgment order had been reversed.

Second, the district court wrongly denied SCO’s motion in limine and objections related to Novell’s efforts to confuse the jury with respect to the

“exclusion of copyrights” language that Amendment No. 2 had removed. This Court made clear that the APA and Amendment No. 2 must be construed “together” as a unified instrument. SCO, 578 F.3d at 1211. The district court nevertheless allowed Novell to proceed to confuse the jury by lines of questioning predicated on the “exclusion of copyright” language that had been removed and replaced by Amendment No. 2. The prejudice to SCO was magnified by rulings that restricted SCO’s ability to elicit on its own examinations from certain witnesses that this language had been removed from and does not exist in the operative contract.

Third, the district court abused its discretion by allowing Novell to introduce a highly prejudicial, double-hearsay article in Business Week magazine labeling SCO the “Most Hated Company” in technology.

STANDARD OF REVIEW

The Court reviews de novo the denial of a post-trial motion for judgment as a matter of law under Rule 50. Wagner v. Live Nat’l Motor Sports, Inc., 586 F.3d 1237, 1243 (10th Cir. 2009). The Court reviews for abuse of discretion the denial of a motion for a new trial under Rule 59. Henning v. Union Pac. R.R. Co., 530 F.3d 1206, 1216-17 (10th Cir. 2008). The Court reviews the district court’s findings of fact for abuse of discretion and conclusions of law de novo. Lyons v.

Jefferson Bank & Trust, 994 F.2d 716, 727 (10th Cir. 1993). The Court reviews for abuse of discretion the district court's evidentiary rulings. Bryant v. Farmers Ins. Exch., 432 F.3d 1114, 1122 (10th Cir. 2005).

ARGUMENT

I. THE DISTRICT COURT ERRED IN DENYING SCO'S MOTION FOR JUDGMENT UNDER RULE 50(B).

A verdict must be set aside where the "evidence points but one way," Wagner v. Live Nat'l Motor Sports, Inc., 586 F.3d 1237, 1244 (10th Cir. 2009), or "so overwhelmingly favors the moving party as to permit no other rational conclusion," Shaw v. AAA Eng'g & Drafting, 213 F.3d 519, 529 (10th Cir. 2000). This Court has repeatedly seen fit to reverse the erroneous denials of motions under Rule 50(b). See, e.g., Burrell v. Armijo, 603 F.3d 825, 832-35 (10th Cir. 2010); Ward v. Siebel Living Trust, 365 Fed. Appx. 984, 986-88 (10th Cir. 2010); Wagner, 586 F.3d at 1244; Keylon v. City of Albuquerque, 535 F.3d 1210, 1215-16 (10th Cir. 2008); Milligan-Hitt v. Bd. of Trustees of Sheridan Cnty. Sch. Dist. No. 2, 523 F.3d 1219, 1230 (10th Cir. 2008); Shaw, 213 F.3d at 529; Vanmeveren v. Whirlpool Corp., 65 Fed. Appx. 698, 700-01 (10th Cir. 2003); J.I. Case Credit Corp. v. Crites, 851 F.2d 309, 311-16 (10th Cir. 1988).

The language of the amended APA, as interpreted by this Court, and the trial testimony concerning that provision, show that copyrights "required" for the

exercise of SCO's rights were transferred to SCO. The district court relied on testimony from several Novell witnesses – but notably not its CEO, chief negotiator on the deal, or in-house counsel working on the deal (not to mention the unanimous testimony of Santa Cruz witnesses) – to support its conclusion that the exclusion of copyrights in the original APA was intentional. But this testimony cannot be reconciled with the fact that Amendment No. 2 replaced the original exclusionary language. If the intent of the transaction was that no copyrights transfer, there would have been no reason for that part of Amendment No. 2 to exist, no reason for a change in language to have occurred at all. The proposition that Amendment No. 2 was meaningless and had no effect on the copyrights being transferred runs against the principles of contract interpretation and this Court's prior opinion. "A written instrument must be construed as a whole, and multiple writings must be considered together when part of the same contract." Nish Noroian Farms v. Agric. Labor Relations Bd., 35 Cal. 3d 726, 735 (1984). "A contract may not be interpreted in a manner which would render one of its terms meaningless." Kavruck v. Blue Cross of Cal., 108 Cal. App. 4th 773, 783 (2003).

SCO shows below that the amended language of the APA, combined with the schedule of assets being transferred, could only mean that the copyrights "required for SCO to exercise its rights with respect to the acquisition of UNIX

and UnixWare technologies” were transferred; and that ownership of UNIX and UnixWare copyrights were “required” to effectuate and enforce SCO’s rights.

A. The Amended APA Transferred Copyrights That SCO “Required.”

The only reasonable interpretation of the amended APA is that SCO acquired all copyrights “required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies.”

First, the amended APA provides for transfer of copyrights required for SCO to exercise its rights with respect to the UNIX and UnixWare technologies it acquired through the APA. Under settled precedent, the transfer of “all rights and ownership” in the UNIX and UnixWare source code, if there were no exclusion of copyrights, transfers the copyrights. SCO, 578 F.3d at 1213. Thus, as this Court held, “any change to the set of Excluded Assets in Schedule 1.1(b) necessarily implicated those copyrights actually transferred under Schedule 1.1(a).” Id. Amendment No. 2, which amends the list of assets excluded from the sale, replaced the exclusion of all copyrights with an exclusion of all copyrights and trademarks, except those “required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies.” The amended APA thus provides for a transfer of “all rights and ownership” in UNIX and UnixWare

source code and excludes from transfer only those copyrights not required for SCO to exercise its rights.

It should take compelling extrinsic evidence to avoid that straightforward interpretation. The district court pointed to testimony from two Novell attorneys, Tor Braham and David Bradford, regarding their intent in excluding copyrights, but the language Braham wrote and Bradford supported⁴ was removed and replaced by Amendment No. 2 – and neither of them was materially involved in Amendment No. 2. If Braham’s and Bradford’s testimony had reflected the intent of the parties to the APA, Amendment No. 2 would not exist.

Second, the district court referred to the testimony of Alison Amadia, Novell’s negotiator of Amendment No. 2. While contending on direct examination that she did not envision Amendment No. 2 as doing more than confirming a license to use technology (an untenable position itself), on cross-examination Amadia admitted that “if there are copyrights that are required for SCO to exercise its rights, like the UNIX and UnixWare trademarks, they were transferred.”

⁴ In addition, this “support” was highly equivocal. Bradford admitted that he did not have a recollection of what had occurred independent of his review of selected documents he was provided in meeting with Novell’s counsel. (A2797-2800:2434-35,2438,2441,2444,2446-47.) Bradford further acknowledged that his review of documents did not include Amendment No. 2. (A2804:2461.) The evidence showed that he authored a memo to the Novell Board at the time of the transaction that pointedly did not report on the exclusion of any UNIX or UnixWare copyrights. (A2800-01.)

(A2728:2177 (emphasis added).) The court made no mention of, much less sought to account for, this critical (and arguably dispositive) admission in favor of SCO.

In addition, to give Amendment No. 2 an interpretation contrary to its plain language, the district court also had to ignore the operation of the same language with respect to trademarks, which the parties unquestionably intended to transfer. (A2724:2160;A2727-29:2170-78.) Amendment No. 2 placed the trademarks and copyrights in the same boat – they both transferred to SCO where “required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies.” (A2728:2176;A2728-29:2177-78.) Because Amendment No. 2 changed the APA to make no distinction between trademarks and copyrights, and Novell admitted that the trademarks referenced in Amendment No. 2 were being transferred, the same language used to describe the copyrights could not reasonably mean something different.

Indeed, the language of Amendment No. 2 and Ms. Amadia’s admission are consistent with Novell’s own position before the lawsuit started, as expressed in its worldwide press release dated June 6, 2003, which it issued after SCO reminded Novell of the existence of Amendment No. 2, that ownership of copyrights “did transfer” to SCO under the amended APA. (A3352 (emphasis added).) While Novell then changed its position in a letter that Novell General Counsel Joseph

LaSala sent to SCO in August, 2003, even he admitted that Amendment No. 2 required Novell to transfer the “copyrights required for SCO to exercise its rights.” (A2208:192.) Only later did Novell “discover” that Amendment No. 2 simply confirmed a license to use – a position, it bears repeating, that this Court has already rejected. SCO, 578 F.3d at 1213, 16.

The testimony of the only other Novell witness on Amendment No. 2, James Tolonen, cannot support a contrary result. He expressed the view that Amendment No. 2 must have only confirmed a license (A2692;A2703), but that view cannot be squared with the fact that to “confirm” a license, the contract would have said “SCO has a license.” It would have been neither necessary nor appropriate to revise the schedule of assets excluded from transfer to confirm a license. As this Court stated: “[A]ny change to the set of Excluded Assets in Schedule 1.1(b) necessarily implicated those copyrights actually transferred under Schedule 1.1(a),” and that “[w]hatever the Amendment means, it refers to the ownership of copyrights, not to licenses.” SCO, 578 F.3d at 1213-14, 1216 (emphasis added).

There is no reference in the APA to SCO being “licensed” to use technology. On the contrary, the APA provided for a “license-back” by SCO to Novell of the technology SCO acquired and derivatives of that technology. The district court reasoned that “one of the purposes of that agreement was to allow

Novell the right to use post-APA SCO-developed code.” (A3005:14.) No one disputes that the TLA licensed to Novell post-APA UNIX derivatives. But the TLA also licensed back to Novell the pre-APA UNIX technologies that Novell sold to SCO in the same transaction. Those are technologies for which Novell would not have needed a license, much less accepted the restricted license as stated in the TLA, had it owned the copyrights at issue.

The district court also relied on testimony of former Novell executive Michael DeFazio for the proposition that Novell must have retained the copyrights to “bulletproof” Novell’s royalty stream. The testimony of DeFazio, who was uninvolved with Amendment No. 2, does not support this conclusion.

- He testified that he did intend under the APA for “Novell to transfer the intellectual property of the UNIX program to Santa Cruz through the asset purchase agreement.” (A2766:2321.)
- He says he directed his team to “bulletproof” Novell’s royalty stream, but he merely assumed, because the language “just appeared” in the text of the original APA, that the retention of copyrights implemented the directive he said he gave. (A2763-64:2308-10,2311-13.)
- He did not have any discussions one way or the other about Novell retaining any copyrights. (Id.)

The only rational conclusion from the evidence is that Amendment No. 2 transferred those copyrights required for SCO to exercise rights in the UNIX and

UnixWare business it acquired. We now turn to the evidence that the UNIX and UnixWare copyrights were in fact required.

In remanding, this Court pointed to the importance of copyright ownership for SCO to protect the assets it had acquired under the APA. SCO, 578 F.3d at 1218 n.4. The evidence at trial confirmed that ownership of the copyrights was required for SCO to protect its technology against third parties that “copied and attempted to resell the core UNIX assets Santa Cruz received in the deal.” Id.

B. The UNIX and UnixWare Copyrights are “Required” by SCO.

1. The Copyrights Are Required for SCO to Protect the Source Code Underlying Its Business.

If SCO does not own the copyrights, it cannot bring suit to protect the copyrighted source code. Davis v. Blige, 505 F.3d 90, 98 (2d Cir. 2007); Silvers v. Sony Pictures Entmt., Inc., 402 F.3d 881, 885 (9th Cir. 2005); 1 Copyright Throughout the World § 19:29 (2009); Copyrights and Copywrongs: The Rise of Intellectual Property and How It Threatens Creativity, 3 J. High Tech. L. 1 (2003); see also 3 Patry on Copyright § 7:2 (2010) (explaining that “copyright is not just a bundle of rights; it is also the ability to enforce those rights”).

Novell’s “license” theory of Amendment No. 2 does not give SCO the right to bring claims to enforce the copyrights. Novell’s former General Counsel took the position, for example, that SCO acquired only an “implied license.”

(A2675:1975.) Amadia acknowledged that with an implied license, SCO could not enforce the UNIX and UnixWare copyrights in court. (A2723:2157.) Whether implied or express, such a non-exclusive licensee did not provide SCO the ability to go into court to defend its rights by a copyright action. (A1951.)⁵

UNIX and early UnixWare technology lies at the heart of UnixWare at the time of the APA and today. UnixWare is just the name of the latest version or iteration of the SVRX technology. (A363;2610;2623-24;A2766.) The source code of the versions of UnixWare that SCO acquired in 1995 (and built its business around licensing in the ensuing years) consists almost entirely of prior “UNIX” source code (A2610:1732;A2623:1781), and the current version of UnixWare that SCO sells still consists in significant part of that “UNIX” source code (A2624:1784). UnixWare was a “version of UNIX – [that] was essentially

⁵ Under the Copyright Act, if SCO had obtained an “exclusive license,” then it necessarily had acquired ownership of the copyrights. (A3086-87.) See 17 U.S.C.A. § 101. At trial, Novell affirmed its view that SCO does not have any “exclusive license.” (A3082-85.) Only an exclusive licensee possesses all of the exclusive rights of copyright ownership, including the right to sue for infringement. 1 Copyright Throughout the World § 19:29 (2009); 1 Copyright Law in Business and Practice § 9:1 (2009); 2 Patry on Copyright § 5:1118 (2010). “[A]n implied license can only be non-exclusive.” Robinson v. Buy-Rite Costume Jewelry, Inc., No. 03 Civ. 3619(DC), 2004 WL 1878781, at *4 (S.D.N.Y. Aug. 24, 2004); accord Gillespie v. AST Sportswear, Inc., No. 97 Civ. 1911 (PKL), 2001 WL 180147, at *7 (S.D.N.Y. Feb. 22, 2001); SHL Imaging, Inc. v. Artisan House, Inc., 117 F. Supp. 2d 301, 316 (S.D.N.Y. 2000); 2 Patry, supra, § 5:1118; Copyright Litigation Handbook § 13:12 (2d ed. 2009).

rebranded and some cosmetic and a few minor features added to it to create UnixWare 2.0. UnixWare 2.0 is almost entirely UNIX System V release 4.2.” (A2610:1732.) Thus, “90, 95 percent” of UnixWare was older UNIX code that existed prior to the APA. (A2624:1782.) UnixWare is not a separate, stand-alone version or block of UNIX that can be detached from the UNIX code and run on its own; it is the latest release of UNIX. (A363.) Neither the early version of UnixWare nor the latest version of UnixWare would work if the “UNIX” source code were removed. (A2624:1784.) All of this testimony went un rebutted.⁶

Given the technological reality of UnixWare’s development and ancestry, without copyright ownership, SCO does not have the right to enforce in court the copyrights at issue in the UNIX and UnixWare technology, and thus to protect the core technology in UnixWare. The need for the copyrights to enforce SCO’s rights was supported by unequivocal testimony of witnesses who have been involved in the various aspects of the UNIX and UnixWare business, including former Novell and current SCO UNIX Contracts Manager William Broderick (A2333:666; A2334:667-68); Santa Cruz General Counsel Steven Sabbath (A2398:913-15); former SCO CEO Darl McBride (A2421:997); former Novell and current SCO

⁶ There was no issue at trial as to which specific UNIX or UnixWare copyrights were required; the parties and the witnesses addressed them as a whole as identified on the asset schedule attached to the amended APA.

UNIX Product Manager & OEM Relations Manager John Maciaszek (A2599:1686-87); and former Santa Cruz Manager of Law and Corporate Affairs Kimberlee Madsen (A2364:780;A2369:802-03;A2386:865,866;A2388:875; A2390-91:884-85).

SCO's need to bring copyright enforcement actions does not turn on the existence of the SCOSource program whose demise Novell focused on at trial, and which the district court cited. As SCO's General Counsel Ryan Tibbitts explained, if SCO "could not protect" the "core intellectual property" in UnixWare, then "this venerable UNIX business that has been around for many years that many customers around the world are using would simply die off, and we have got to have that intellectual property to protect those crown jewels." (A2641:1845-46.) SCOSource was simply the name given to the licensing program and division by which SCO sought to monetize, without the need for litigation, those parties who were, in SCO's view, infringing on its rights by using UNIX technology. Without the ability to sue or license such users, particularly of a "free" Linux product, SCO's UNIX business "would simply die off," as Tibbitts testified. (*Id.*) Thus, "the intellectual property in UNIX [was] an important part of the going forward UnixWare business" that SCO had purchased. (A2321:12-14.) The district court was simply wrong when it found that SCO did not acquire the rights to pursue

SCOsource (A2996-97¶125); even Novell’s General Counsel admitted that SCO obtained the right to protect its business (A2675), and that is what SCO was attempting to do through SCOsource.

The district court agreed with the proposition that the copyrights are required to protect SCO’s intellectual property. (A2996¶124.) The court then stated the following: “However, SCO was not the owner of the copyrights and, thus, had no right to enforce them.” (*Id.*) In this regard, respectfully, the district court’s reasoning was entirely circular. If the copyrights are required for SCO to exercise its rights in the technologies it acquired, it does own the copyrights under the APA as amended by Amendment No. 2. The copyrights are, in fact, required for SCO to protect its source code and business. Without the copyrights, SCO would be unable effectively to preclude others from using the code and running their own UNIX-based business based on it. SCO, 578 F.3d at 1218 n.4.

2. The Copyrights Are Required for SCO to Exercise Source-Code Licensing Rights.

In addition to requiring copyright ownership to protect UNIX and UnixWare, SCO requires the copyrights to facilitate source code licensing, which was an indisputable portion of the UNIX and UnixWare business SCO acquired. Such source code licensing was historically part of the UNIX and UnixWare business; SCO’s business included entering into new source code licenses, as

contemplated by the APA; and the copyrights were needed for such licensing to occur, as there was nothing in the APA which granted a license for such activity. (A2825:2543-44;A2222:241-42;A2333-34:666-68;A2290:503-04;A2275:442-43;A2397-98:912-15.) In its Order denying Rule 50(b) relief, the district court did not deal with this point or the testimony that supports it. (A2971-72¶¶65-69.)

The district court instead merely reiterated Novell's position that former SCO CEO Darl McBride and Tibbitts had acknowledged that, in the court's words, "SCO could operate its Unix Ware [sic] business without the copyrights." (A2971-73¶¶66-71.) Their testimony does not support that proposition.

McBride referred to only one part of SCO's business – its ability to sell UnixWare binary products directly to customers – as is evident from (1) his comparison of UnixWare to OpenServer and the products of "HP, IBM and all other UNIX licensees," and (2) the distinction he drew between the UnixWare business and "the licensing side" of SCO's overall business. (A2479:1225-26.) That SCO, like UNIX licensees, could continue to sell its UnixWare binary products without the copyrights did not mean that the copyrights were not required to exercise critical rights "on the licensing side" that SCO also acquired under the APA. Indeed, even selling binary products would be more tenuous if infringers could copy protected UNIX and UnixWare code with impunity.

Tibbitts testified about a proposed deal, in connection with SCO's Chapter 11 reorganization proceedings, where SCO would have sold certain aspects of the UNIX product business, but kept other aspects, including IP licensing rights and SCO's legal claims based on the unauthorized use of the UNIX and UnixWare technologies. (A2642:1850-51.) Because the law requires ownership of the UNIX and UnixWare copyrights to pursue the claims SCO would have kept, the proposed deal contemplated that the copyrights would remain with SCO until it completed prosecuting those claims. That proposed transaction was consistent with the reading of Amendment No. 2 that SCO, as the party who indisputably acquired those claims under the APA, required ownership of the UNIX and UnixWare copyrights.

3. The Copyrights Are Required for SCO to Pursue the Legal Claims It Acquired Under the APA.

Novell's former General Counsel Joseph LaSala admitted both generally that "the agreements speak to what copyrights SCO requires in order to exercise its rights under the agreement" and specifically that "SCO has the rights to bring claims to protect its business." (A2675:1976-77.)

Among the "rights and ownership" in UNIX and UnixWare that SCO acquired are all of Novell's claims relating to the UNIX and UnixWare source code. Item II of the Assets Schedule identifies "All of Seller's claims arising after

the Closing Date against any parties relating to any right, property or asset included in the Business” as having transferred. SCO thus acquired all of the claims, which otherwise Novell would have, relating to the UNIX and UnixWare source code.⁷ Ownership of the copyrights is required to prosecute such claims. A copyright owner cannot transfer its copyright claims without also transferring the copyrights. Silvers v. Sony Pictures Entmt., Inc., 402 F.3d 881, 885 (9th Cir. 2005). Novell presented no evidence at trial to the contrary.

The district court nevertheless concluded that SCO “provided no evidence of any such claims that it was entitled to pursue.” That is plainly incorrect. In addition to the reference in Item II of Schedule 1.1(a) to “All of Seller’s claims arising after the closing date against any parties relating to any right, property or asset included in the business” (emphasis added), former Novell senior executive Duff Thompson testified without contradiction “that the enumerated assets Novell actually sold to Santa Cruz included legal claims that it would have against parties that were connected with the business.” (A2224:249-50.) In addition, as noted, the evidence showed claims SCO pursued post-closing against Microsoft (A2371-72:807-11;A3364-66§§3.4,4.9; A3439), expressly referring to ownership of

⁷ The fact that SCO formed a new division in 2003 to protect its UNIX technology and intellectual property, and called it SCOSource, does not mean it did not acquire the right to pursue the SCOSource initiative as the court found.

copyrights. The copyright claims relating to alleged Linux infringement are another obvious example. (A3526-26.)

The district court's denial of SCO's Rule 50(b) motion that the UNIX and UnixWare copyrights are "required" and therefore were transferred by operation of the amended APA was error and should be reversed.

II. IN THE ALTERNATIVE, THE DISTRICT COURT ABUSED ITS DISCRETION IN DENYING SCO'S MOTION FOR A NEW TRIAL AND ITS ALTERNATIVE CLAIM FOR SPECIFIC PERFORMANCE.

At minimum, the district court should have ordered a new trial. With respect to the grounds for a new trial, "[t]he inquiry focuses on whether the verdict is clearly, decidedly or overwhelmingly against the weight of the evidence." Black v. Heib's Enters., Inc., 805 F.2d 360, 363 (10th Cir. 1986). After a long and complicated trial, a trial judge should be especially vigilant in examining the verdict. See, e.g., Siemens Med. Solutions USA, Inc. v. Saint-Gobain Ceramics & Plastics, Inc., 615 F. Supp. 2d 884, 899 (N.D. Iowa 2009). Where the copyrights were required for SCO's exercise of its rights in the UNIX and UnixWare technologies acquired, as set forth above, the verdict clearly was against the weight of the evidence.

Similarly, the court's non-jury findings rejecting SCO's alternative claim of specific performance were erroneous. Specific performance of a contract is

appropriate where “(1) its terms are sufficiently definite; (2) consideration is adequate; (3) there is substantial similarity of the requested performance to the contractual terms; (4) there is mutuality of remedies; and (5) plaintiff’s legal remedy is inadequate.” Blackburn v. Charnley, 117 Cal. App. 4th 758, 766 (2004).

“An order of specific performance or an injunction will be so drawn as best to effectuate the purposes for which the contract was made and on such terms as justice requires.” Restatement (Second) of Contracts § 358(1) (1981).

SCO asked the district court to order Novell to execute the documentation necessary to transfer the UNIX and UnixWare copyrights from Novell to SCO. The APA itself provided for such a procedure if the documents failed to effectuate the purposes of the Agreement. (See, e.g., A3115§1.7(c).) The performance that SCO seeks follows from Amendment No. 2 as interpreted with the APA as a whole and the overwhelming evidence of the parties’ intent. The copyrights, as shown, are “required.”⁸

⁸ The district court erred in concluding that the verdict resolved SCO’s claim. The Seventh Amendment so operates only where the verdict necessarily “resolves a factual issue.” Haynes Trane Serv. Agency, Inc. v. Am. Std., Inc., 573 F.3d 947, 959 (10th Cir. 2009). The principal question on this claim is whether the jury has already decided that there are no “required” copyrights. The verdict does not necessarily answer that question.

A court may order specific performance to account for some technical failure in the documentation of the parties' intent. See, e.g., Schuler v. Graf, 862 N.E.2d 708, 712-15 (Ind. Ct. App. 2007); O'Berry v. Gray, 510 So. 2d 1135, 1137-38 (Fla. Ct. App. 1987); Eliason v. Watts, 616 P.2d 427, 429-31 (Utah 1980). In assessing the intent of the parties, "a court will avail itself of all of the usual aids in determining the scope of the agreement." Restatement (Second) of Contracts § 362 (1981). Such extrinsic evidence includes the parties' course of performance. See, e.g., Okun v. Morton, 203 Cal. App. 3d 805, 819 (1988). SCO has shown that the overwhelming evidence demonstrates that the parties intended to transfer the UNIX and UnixWare copyrights, and that the grounds on which the district court reached the contrary conclusion are insufficient.

III. THE DISTRICT COURT ERRED IN CONCLUDING THAT NOVELL RETAINED BROAD WAIVER RIGHTS TO DIRECT SCO TO ABANDON LEGAL CLAIMS AGAINST IBM.

SCO contended that Novell's alleged waiver rights were limited to actions needed to protect its interest in its UNIX royalty revenue stream. Alternatively, SCO maintained that such waivers must be exercised in accordance with the implied obligation of good faith and fair dealing. Following trial, the district court found that Novell's waiver rights extended to the IBM software development

agreements, and also rejected SCO's alternative position regarding the implied covenant of good faith and fair dealing.

These findings were erroneous and should be reversed, because the waiver language of the APA does not apply by its terms to the agreements with IBM, and because an interpretation that allows one party to the contract to destroy the benefits received by the other party cannot be sustained. In addition, Novell's actions clearly violated the implied covenant of good faith and fair dealing.

A. Novell's Waiver Rights Did Not Extend to the IBM Software Development Agreement

Section 4.16 (b) of the APA provided Novell with the right to direct SCO's decisions pertaining to "SVRX Licenses." (A3134.) "SVRX Licenses" are defined in Section 4.16(a) as those Licenses listed under Item VI of Schedule 1.1(a). (Id.) As this Court recognized, and as the district court also recognized (A2978¶84), Item VI does not in fact list license agreements, but rather lists a series of products, leaving ambiguous the issue of what constituted the SVRX Licenses referred to in Section 4.16. (A3162.)

Source code agreements, like the licenses with IBM in question, are expressly listed in an entirely different Item of the Schedule of transferred assets. Item III.L provided for the transfer to SCO of all software development contracts, and it was undisputed at trial that the IBM Agreements were transferred under this

provision. (A3161-62;A2224;A2465.) The district court's interpretation of the meaning of "SVRX License" identifies the same extensive set of agreements twice, which runs against normal rules of contract interpretation. Boghos v. Certain Underwriters at Lloyd's of London, 36 Cal. 4th 495, 503 (2005); accord United States v. Gonzalez-Garcia, 85 Fed. Appx. 160, 164 (10th Cir. 2004).

The district court read the relevant contractual provisions as applying to "any SVRX License" (A2982¶92), but that begs the question of what constitutes an SVRX License. In finding support from the language that Item VI of Schedule 1.1(a) refers to "all contracts relating to the SVRX Licenses listed below," the court ignores that the definition of an SVRX License in Section 4.16 is not all of Item VI, but only the licenses supposedly listed within Item VI. The language of Item VI that "All contracts relating to the SVRX Licenses listed below" reflects that the term "all contracts" is separate from the term "SVRX Licenses," which are to be listed below. The reference to "all contracts" thus is not part of any definition of "SVRX License" as such. The SVRX Licenses to which the waiver rights apply are clearly a subset of "all contracts," SCO, 578 F.3d at 1223-24, and all contracts are not SVRX Licenses.

The district court also gave no weight to the extensive extrinsic evidence that Novell's waiver rights did not extend to such agreements. This evidence

included direct testimony not only from the SCO (Santa Cruz) executives and negotiators involved in the transaction, but also Novell executives, including its former CEO. Those executives included Frankenberg (A2188), Chatlos (A2254-56), Thompson (A2223-24), Wilt (A2276), Mohan (A2282), Michels (A2288-90), Broderick (A2331-32), Sabbath (A2396), and Madsen (A2382;A2392-93). These witnesses cogently testified that the waiver provision was intended to protect Novell's interest in the royalty stream in SVRX Licenses which it would continue to receive post-closing, and was no broader than that. The IBM Software Agreement was not the source of SVRX royalties (A3231-36;A2303-04); the product supplement schedules for specific binary products provided those royalties (A3409-10;A2314), and in addition, in 1996 IBM had completely paid-up the royalties even under those agreements and was no longer paying any SVRX royalties that were passed through to Novell. (A2668:1948-49.)

The district court discounted this testimony, saying that one SCO witness, William Broderick, was not involved in the negotiation or drafting of the APA, and that many other SCO witnesses acknowledged that the language of Section 4.16 of the APA was not limited to product supplement schedules. (A2980¶89.) Broderick, however, worked at Novell (and at USL before that) and offered evidence as to how Novell, and later Santa Cruz, actually interpreted these

provisions. (A2303-04;A2310-12.) The other SCO witnesses to which the court referred testified that whether or not Section 4.16's waiver rights were limited to product supplement schedules, they did not extend to software development agreements. (A2188(Frankenberg);A2254-56(Chatlos);A2223-24(Thompson); A2276 (Wilt);A2282(Mohan); A2288-90(Michels);A2331-32(Broderick); A2396(Sabbath);A2382;A2392-93(Madsen).) Further, the court said nothing about Novell's own witnesses who endorsed SCO's position. (A2764.)

Finally, the district court found essentially irrelevant that less than a year after the APA, the parties had a dispute (also involving IBM) over the scope of Novell's rights. This 1996 dispute over a licensee's rights to source code was "the precise issue in controversy today." SCO, 578 F.3d at 1222. Yet in 1996 Novell never asserted that its "waiver rights" gave it the authority to act unilaterally in dealing with IBM, and indeed, Novell agreed to language in Amendment No. 2, which followed from this dispute, that "Novell may not prevent SCO from exercising its rights with respect to SVRX source code in accordance with the agreement." As this Court stated: "If Novell already had the right under the APA itself to force SCO to increase any SVRX licensee's rights to SVRX code, then this provision would be pointless and ineffectual." Id. at 1223.

B. Novell's Interpretation Must Be Rejected Because It Would Give Novell the Ability to Destroy SCO's Benefits Under the APA.

Where a contract is susceptible to different interpretations, courts will adopt one which will give it validity, rather than one which renders it illusory. Lexington Ins. Co. v. Travelers Indem. Co. of Ill., No. 00-15407, 2001 WL 1132677, at *3 (9th Cir. 2001) (applying California law). The Court cannot endorse an interpretation that would permit Novell to destroy SCO's UNIX-based business. See, e.g., Leo F. Piazza Paving Co. v. Found Constr., Inc., 128 Cal. App. 3d 583, 591 (1981).

There can be no reasonable dispute that Novell's proposed definition of "SVRX Licenses" renders illusory the rights SCO acquired under the APA. Since the umbrella Software Agreement governs a licensee's use of any UNIX version the licensee has licenses including UnixWare, for example, then Novell would have the right to amend, modify, or waive SCO's rights with respect to UnixWare, a business that SCO indisputably acquired. In addition, if (as Novell contends) any contract relating to any of the SVRX releases identified in Item VI of the Assets Schedule is an "SVRX License," then Novell could amend, modify, or waive any of SCO's rights under the TLA, creating the non-sensical result that, pursuant to

Section 4.16(b), Novell was free to lift the restrictions on its use of the SVRX code set forth in the TLA.

It follows under the law that the only question was whether the APA was susceptible to SCO's interpretation. As shown above, it is. Indeed, with respect to the plain language, this Court has already found that Novell's interpretation of Section 4.16 is problematic. Amendment No. 2 states that the "Amendment does not give Novell the right to increase any SVRX licensee's rights to SVRX source code." This Court stated: "If Novell already had the right under the APA itself to force SCO to increase any SVRX licensee's rights to SVRX code, then this provision would be pointless and ineffectual." SCO, 578 F.3d at 1223. The exact same reasoning applies with respect to the further statement in Amendment No. 2 that "Novell may not prevent SCO from exercising its rights with respect to SVRX source code in accordance with the Agreement."

The district court failed even to address the foregoing law or most of the foregoing evidence. The court pointed instead to the singular rationale that Novell sought "to protect and maintain control" over the "SVRX royalty stream" and that "[i]t only makes sense for Novell to retain control over all components of the SVRX licensing agreements in order to protect this significant asset." (A2981-82¶91.) As this Court recognized, however, while "it is reasonable to think that the

parties would have covenanted in such a manner as to protect Novell's substantial pecuniary interest in the revenue stream that . . . financed the acquisition," "[i]t is less easy to accept that SCO would have consented to giving Novell the unilateral power to unravel its exclusive and undisputed ownership rights in the underlying source code of UNIX." SCO, 578 F.3d at 1224. The IBM Software Agreement was not a source of a royalty revenue stream to Novell. (A3231-36;A2303-04.) The product supplement schedules provided that revenue (A3409-10;A2314), and with respect to IBM, even that revenue stream was already bought out or "paid in full" by IBM many years earlier. (A2668:1948-49.) While Novell may have wanted to advance its relationship with IBM in 2003, or even its support of the open-source Linux community, there is no plausible rationale that Novell required (or secured) an unlimited waiver right that went beyond its right to protect its interest in legacy SVRX royalties.

C. Novell Breached the Implied Covenant of Good Faith and Fair Dealing in the Amended APA.

If Novell did have expansive waiver rights under Section 4.16(b), those rights should be constrained by the implied covenant of good faith and fair dealing. The district court concluded that application of the implied covenant was not required to constrain Novell's discretion or to avoid making the agreement's benefit illusory, circumstances that this Court had referred to as where the implied

obligation may apply even to a contractual provision that seemingly provided one party unrestricted discretion. These findings were erroneous.

1. The District Court’s Interpretation of Section 4.16 Makes the Amended APA Contradictory and Ambiguous, as Well as Illusory.

The district court acknowledged SCO’s argument that Novell’s interpretation would allow Novell to destroy “the UNIX-based business that Novell transferred,” but then reasoned that the “faulty premise” of SCO’s argument was “that Novell transferred the UNIX business to SCO.” (A3002-03¶144 (emphasis added).) This line of reasoning reflects a fiction. (See A3122§1.3(a)(i).)

The plain language of the APA transferred the UNIX source code, and all versions and copies of UNIX – not just UnixWare – to SCO. Novell’s retention of royalties does not negate that transfer. (A3160-62.) Amendment No. 2 clearly states that SCO acquired the UNIX and UnixWare technology, and the district court acknowledged this fact. (A2997¶126.) In addition, the SVRX source code that the “UNIX business” comprises, and whose use and distribution the SVRX Licenses govern, is a fundamental and crucial component of UnixWare. The “commercially valuable technology from the prior versions is included in UnixWare, and UnixWare would not operate without its System V components.

(A2624:1784.) The current version of UnixWare supports the newest industry-standard hardware.” (A363-64.) UnixWare is simply another name for the latest release of SVRX. (A363.) The first release of “UnixWare” was interchangeably referred to as an “SVRX” release. (A363.) How SVRX source code is used by third parties directly and critically affects the UnixWare business – “UNIX-based” business.

Under the district court’s interpretation of Section 4.16, as in April Enterprises v. KTTV, 147 Cal. App. 3d 805 (1983), there are contractual provisions that contradict one another, if Novell had unlimited waiver rights under Section 4.16. On the one hand, SCO has acquired and supposedly is free to operate a UnixWare business and protect the technology therein. On the other hand, by the court’s lights, Novell has retained the right to permit the free and unfettered use, by whomever Novell chooses, of the very technology on which the UnixWare business is based. Given that contradiction, application of the implied covenant is appropriate.

As shown, moreover, under its interpretation of Section 4.16 and “SVRX Licenses,” Novell retained the authority to impact even the UnixWare business that the district court conceded that SCO had bought, and retained the authority to

eliminate the restrictions in the license-back that Novell obtained in the TLA.

Such authority renders the amended APA illusory.

2. The District Court's Finding that Novell Acted in Its Economic Self-Interest Does Not Mean It Complied With the Implied Covenant.

The district court “finds that Novell’s actions were motivated to protect its own interests and those of the open source community and were not taken because of influence by IBM or any ill-will toward SCO.” (A3003-04¶146.) That conclusion is legally meaningless and factually erroneous. It is legally irrelevant because the implied covenant is not met simply when a party acts in its own economic interest; as shown below, it must act to further the objectives of the contract it entered. Moreover, Novell’s explanation that it was seeking to avoid having to return royalties to IBM does not withstand scrutiny.

In 1996 IBM secured a buy-out of the royalties it had been paying under its Product Schedule Licenses underlying AIX. (A2668:1948-49.) On the one hand, if SCO were not to prevail on its contract claims against IBM, there would be no arguable effect on IBM’s prior buyout. (A2668-69:1950-51.) On the other hand, if SCO were to prevail, there would be a finding or verdict that IBM has acted in breach of its Software and Sublicensing Agreements and that SCO had the right to terminate those Agreements, and thus IBM would have no basis to demand a

refund. (Cf. A2668-69:1950-51.) Novell cannot identify any legal basis where IBM, if in breach of the license, could nevertheless demand that Novell return to IBM the money IBM had paid for its buy-out. When confronted with this line of analysis on cross examination, Mr. LaSala responded “I don’t know” and ultimately admitted that IBM “would not have come and asked us for the \$10 million.” (A2668:1950.)⁹

Similarly, Novell’s waiver decision cannot be justified on the basis of Novell (or IBM) business interests in the success of the Linux operating system arising years later. “The fundamental purpose of the implied covenant of good faith and fair dealing is that neither party will do anything which will injure the right of the other to receive the benefits of the agreement.” Major v. W. Home Ins. Co., 169 Cal. App. 4th 1197, 1209 (2009) (citations and quotations omitted); Bosetti v. U.S. Life Ins. Co. in City of New York, 175 Cal. App. 4th 1208, 1235 (2009) (same). Accordingly, the covenant “imposes upon each party the obligation to do everything that the contract presupposes they will do to accomplish its purpose,” Bosetti, 175 Cal. App. 4th at 1235, and a party breaches the covenant if it engages “in a conscious and deliberate act, which unfairly frustrates the agreed

⁹ These same points apply with respect to Novell’s purported waiver of SCO’s rights to enforce restrictions in the license agreement with Sequent Computer Systems, which IBM had acquired in the late 1990s, as IBM also was not paying any royalties under the Sequent Schedules.

common purposes and disappoints the reasonable expectations of the other party thereby depriving the party of the benefits of the agreement.” Nieto v. Blue Shield of Cal. Life & Health Ins. Co., 181 Cal. App. 4th 60, 86 (2010) (citations and quotations omitted). That would be a meaningless restriction if a party’s own economic self-interest were sufficient justification for its action.

IV. THE DISTRICT ABUSED ITS DISCRETION IN MAKING CRITICAL EVIDENTIARY RULINGS THAT PREJUDICED SCO.

The reversal of a district court’s evidentiary decision is warranted where the Court “has a definite and firm conviction that the lower court made a clear error of judgment or exceeded the bounds of permissible choice in the circumstances.” Bryant v. Farmers Ins. Exch., 432 F.3d 1114, 1122 (10th Cir. 2005). “A district court would necessarily abuse its discretion if it based its ruling on an erroneous view of the law or on a clearly erroneous assessment of the evidence.” Lyons v. Jefferson Bank & Trust, 994 F.2d 716, 727 (10th Cir. 1993) (quotations omitted).

A. The District Court Wrongly Informed the Jury of Prior Judicial Decisions Rendered Against SCO.

After steadfastly rejecting numerous efforts by Novell to inform the jury that it previously had secured a summary judgment (which this Court then reversed) on the ownership of copyrights, the district court changed midway through trial and allowed Novell to inform the jury of the previous rulings.

It was extremely prejudicial to SCO for the jury to find out that the district court had previously dismissed SCO's claim for slander of title as a matter of law, and that the court had dismissed other of SCO's claims as well. Indeed, the basis on which the district court repeatedly refused to have the jury learn of the decision in the first half of trial was that the information would cause SCO undue prejudice. The court had concluded, correctly, that "Plaintiff would be prejudiced if the jury was informed that this Court once entered judgment against it on those very claims that the jury will be asked to decide." (A1094.2.) Inexplicably, the district court allowed this information to be used in cross-examination of SCO's damages expert, while noting that "as a general rule," it was both "unnecessary" and "highly prejudicial." (A2541:1465.)

The admission of such information not only was highly prejudicial but was erroneous. The reversed decisions of a court would, of course, be irrelevant and not made known to the jury charged with deciding those issues. The district court here permitted the jury to be told of the prior decisions on the grounds that they were relevant to Dr. Botosan's "conclusions about damages." (A2550:1498.) They were not. Dr. Botosan, as noted, based her analysis of the damages that SCO had suffered by calculating the revenues and profits that SCO would have made in the "but for" world – that world in which Novell had never claimed to own the

copyrights.¹⁰ In that world, of course, the court’s decision concerning SCO’s claim for slander of title against Novell would not have existed because the slander of title itself would not have occurred. Dr. Botosan expressly told Novell’s counsel – before he disclosed the ruling – that in her “but-for world ... none of those [rulings] would matter.” (A2548:1492.) SCO again objected to the introduction of the reversed rulings, but the objection was overruled. (A2548.)

Novell’s counsel then proceeded to read to the witness from prior district court rulings. He told her that “it is undisputed that the APA did not transfer any copyrights” (A2549:1494); that “there is no dispute that all copyrights were excluded on Schedule 1.1(b)” (referring to the replaced language of the original APA); that “Amendment Number 2 merely amends the schedule of excluded assets and does not constitute a transfer of copyrights on its own”, and that the amendment “is not retroactive to the date of the APA.” Having succeeded in putting before the jury these prejudicial statements, all of which were effectively reversed by this Court’s prior decision, Novell’s counsel again elicited from the witness what she had said before – that these decisions did not matter to her

¹⁰ Both Dr. Botosan and Novell’s expert, Mr. Musika, agreed that a “but-for world” analysis is commonly used and is acceptable for this type of analysis. (A2483:1239-40(Botosan);A2524:1399(Botosan);A2809:2479-80(Musika);A2819:2519(Musika).)

analysis because “nobody would be able to read this document because it wouldn’t exist.” (A2550:1499; see also A2555:1519.)

It is hard to imagine a more contrived basis upon which to secure the introduction of more highly prejudicial information before the jury. The jury was told flatly wrong statements about the ultimate issues they are to decide – all clothed with the imprimatur of a district judge’s decision; in fact, the jury was not even told it was a different district judge who had issued the decisions.

The instruction the jury received did not begin to cure the prejudice. The instruction simply said that the district court’s prior decision had been “reversed,” by a unanimous decision of the Tenth Circuit, and “those issues were to be decided by a jury.” (A2549:1495.) The court’s instruction did not state the basis for the reversal nor informed the jury that this Court had rejected the very statements that Novell’s counsel had quoted.

The district court abused its discretion by permitting Novell to introduce passages from a reversed judicial decision on the very issue of copyright ownership to be decided, and this error requires a new trial.

B. The District Court Improperly Permitted Novell to Rely on Language in the APA That Was Replaced.

SCO apprehended from the start that the jury could be confused if it were presented with the old, replaced language concerning the exclusion of all

copyrights without it being made clear that this language no longer existed in the APA and could be given no legal effect. SCO sought a motion in limine to this effect. The district court wrongly denied SCO's motion in limine, and wrongly denied subsequent objections related to Novell's seeking to confuse the jury with respect to the "exclusion of copyrights" language that had been removed from the APA by Amendment No. 2.

Under this Court's remand opinion, it was not a "permissible choice" for the district court to permit Novell to treat the original language of the APA in isolation. SCO, 578 F.3d at 1210-11. In its prior Order, this Court made clear that the APA and Amendment No. 2 must be construed together as a single instrument. Id. at 1211. Yet the district court allowed Novell to confuse the jury by lines of questioning predicated on the "exclusion of copyright" language that had been removed and replaced by Amendment No. 2. The prejudice to SCO was magnified by rulings that restricted SCO's ability to elicit on its own examinations from certain witnesses that this language had been replaced.

Starting with its opening statement, having secured the denial of SCO's motion in limine, Novell conveyed the misimpression that the original copyright language of the APA was the only relevant language. (See, e.g., A2173-82:56-60,62,65-73,75-67;A2236-38:296-301;A2860-63:2678-91;A2866-67:2703-

04;A2871:2722.) Holding a bound copy of only the original APA, Novell's counsel contended that having shown the jury only the original language, he had shown them the "black and white letter of the agreement" (A2178:73); he repeatedly referred to Amendment No. 1 without acknowledging Amendment No. 2 (A2175-77:62,65,68-69); he contended that Amendment No. 1 made "no change to exclusion of copyrights," (A2178:75-76). Although Novell's counsel ultimately did acknowledge Amendment No. 2, he did not say that it replaced the language in the APA, arguing rather that the amendment itself did not transfer copyright ownership (A2179:78-79) – a straw man that this Court had previously knocked down. SCO, 578 F.3d at 1213. Novell even pointed to the original copyright language in conjunction with the integration clause of the APA – as if the jury could consider only the original language. (A2202-03:168-70.) Novell also declined to use the admitted exhibit comprising the APA and the amendments thereto, insisting instead on using an exhibit that was just the text of the original APA. (See, e.g., A2216:217.)

There can be no reasonable dispute about Novell's intentions: During colloquy on the line of questioning concerning the integration clause, when the district court warned counsel for Novell that if he continued to pursue his questions about the integration clause, then SCO would be permitted to revisit the issue of

Amendment No. 2, Novell's counsel candidly, and transparently, stated: "Well, I don't want the answer that badly, Your Honor." (A2202-03:168-70.) The district court magnified the error by then precluding SCO from asking questions of two critical witnesses, Frankenberg and Thompson, to correct the misimpression Novell had created. (A2186;A2192;A2215-16;A2238.) The court did so on the basis that these witnesses, not having been involved in the negotiation or drafting of Amendment No. 2, lacked personal knowledge so as to testify concerning the Amendment. But that should not have precluded the witnesses from testifying that the old language had subsequently been replaced – a fact on which they could testify even if they were not involved in negotiating or drafting Amendment No. 2 and understandably could not testify to what was intended by the language selected. As an example, in cross-examining SCO's first witness, former Novell CEO Robert Frankenberg, Novell asked him to consider the old, replaced language "as you sit here today and look at the agreement." (A2192:130.) When SCO objected and asked if it could ask Frankenberg about the amendment to the original language, the court ruled that SCO could not, because he was not at the company at the time of Amendment No. 2. (A2193:132-33.)

These were not harmless errors. The "erroneous admission of evidence is harmless only if other competent evidence is sufficiently strong to permit the

conclusion that the improper evidence had no effect on the decision.” Dodge v. Cotter Corp., 328 F.3d 1212, 1229 (10th Cir. 2003) (quotations, citation and brackets omitted). In the crucial first part of the trial, in the first several days of evidence, Novell created the misimpression that the language excluding copyrights was still operative. The Court’s ruling created the impression that in all subsequent references to Amendment No. 2, SCO was scrambling to somehow make Amendment No. 2 relevant to the transaction in the face of the original exclusionary language – when, in fact, that language no longer existed and was not the language that the jury would be called upon to interpret.

C. The District Court Erred By Admitting Hearsay That SCO Was “The Most Hated Company in Tech.”

Over SCO’s objections, Novell’s expert witness was allowed to show the jury a slide of a Business Week magazine article describing SCO as the “Most Hated Company in Tech.” (A2815-16.) This article was hearsay. In addition, in describing SCO’s reputation, the article was purporting to describe what even further third parties – the participants in the industry – said and thought about SCO. The article’s title thus contained a second level of hearsay.

An expert witness is allowed to consider certain forms of hearsay (if reliable and of a type generally used by members of the profession), but that does not constitute a license to publish the hearsay before the jury. Estate of Parsons v. The

Palestinian Authority, Civil Action No. 07-1847 (JR), 2010 WL 2169617, at *3 (D.D.C. May 28, 2010); Malletier v. Dooney & Bourke, Inc., 525 F. Supp. 2d 558, 666 (S.D.N.Y. 2007); 30 C. Wright, et al., Fed. Prac. & Proc. Evid. § 6337 (2010). In other words, the ability of Novell's expert to rely on the Business Week article is not the issue; the problem is his serving as a conduit through which that hearsay is presented to the jury. To the extent Mr. Musika, Novell's expert, was seeking to criticize Dr. Botosan for not considering certain "real world" articles regarding SCO's reputation in connection with the effect of Novell's slander, it was unnecessary – and in any event, improper – to present the jury with the highly prejudicial hearsay article.¹¹ See, e.g., Malletier, 525 F. Supp. 2d at 666 (An expert is "precluded from disclosing the hearsay to the jury unless its probative value in illustrating the basis of the expert's opinion substantially outweighs the prejudicial effect of having the jury hear about the otherwise inadmissible hearsay.")

¹¹ In addition, the article did not tend to make it more likely that Dr. Botosan had failed to account adequately for perceptions of SCO in the market. The article, which was published after SCO filed its lawsuit against Novell – and which specifically referenced the "competing claims" of copyright ownership that SCO had made and quoted commentary regarding the substance of SCO's arguments against those claims – may not have published at all in the "but-for world" of Dr. Botosan's damages analysis.

CONCLUSION

SCO respectfully requests, for the foregoing reasons, that the Court reverse the district court's denial of SCO's motion for judgment as a matter of law on SCO's claim for slander of title, or, in the alternative, grant a new trial; and that the Court reverse the district court's findings of fact and conclusions of law as set forth herein.

ORAL ARGUMENT STATEMENT

SCO respectfully requests oral argument on the grounds that, given the size of the underlying record and the number and complexity of the issues involved in this appeal, such argument would help to frame the principal issues and arguments for the Panel after the appeal has been fully briefed.

Respectfully submitted on this 9th day of September, 2010.

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**CERTIFICATE OF COMPLIANCE WITH
FEDERAL RULE OF APPELLATE PROCEDURE 32(a)**

Certificate of Compliance with Type-Volume Limitation, Typeface Requirements
and Type Style Requirements

1. This brief complies with the type-volume limitation of Fed. R. App. P. 32(a)(7)(B) because this brief contains 13,822 words, excluding the parts of the brief exempted by Fed. R. App. P. 32(a)(7)(B)(iii).

2. This brief complies with the typeface requirement of Fed. R. App. P. 32(a)(5), and the type style requirements of Fed. R. App. P. 32(a)(6) because this brief has been prepared in a proportionally spaced typeface using Microsoft Word 2002 in 14-point Times New Roman.

Dated: September 9, 2010

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CERTIFICATE OF SERVICE

I, Edward Normand, hereby certify that on this 9th day of September, 2010, a true and correct copy of the foregoing **BRIEF OF APPELLANT, THE SCO GROUP, INC.**, was filed with the court and served via ECF and Federal Express to the following recipients:

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CERTIFICATE OF DIGITAL SUBMISSION

The undersigned certifies with respect to this filing that no privacy redactions were necessary. This **BRIEF FOR APPELLANT, THE SCO GROUP, INC.**, submitted in digital form is an exact copy of the written document filed with the Clerk. The digital submission has been scanned for viruses with the most recent version of a commercial virus scanning program (using Symantec Antivirus which is updated weekly) and, according to the program, is free of viruses.

Dated: September 9, 2010

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ATTACHMENT A

ORDERS ON APPEAL

IN THE UNITED STATES COURT FOR THE DISTRICT OF UTAH
CENTRAL DIVISION

THE SCO GROUP, Inc., a Delaware
corporation,

Plaintiff/Counterclaim Defendant,

MEMORANDUM DECISION AND
ORDER DENYING WITHOUT
PREJUDICE PLAINTIFF’S MOTION
IN LIMINE NO. 1 TO PRECLUDE
MISLEADING STATEMENTS OR
EVIDENCE CONCERNING
LANGUAGE IN THE APA
REMOVED BY AMENDMENT NO.
2

vs.

NOVELL, INC., a Delaware corporation,

Defendant/Counterclaim Plaintiff.

Case No. 2:04-CV-139 TS

This matter is before the Court on Plaintiff’s Motion in Limine No. 1. In that Motion, Plaintiff seeks to preclude misleading statements concerning language in the Asset Purchase Agreement (“APA”) that was changed by Amendment No. 2. For the reasons discussed below, the Court will deny Plaintiff’s Motion without prejudice.

The Asset Purchase Agreement (“APA”) provides that all copyrights and trademarks, except for the trademarks UNIX and UnixWare, were excluded from the deal between Novell

and SCO.¹ Less than a year later, the parties entered into Amendment No. 2, which amended the excluded assets portion of the APA. Amendment No. 2 excluded all copyrights and trademarks, except for the copyrights and trademarks owned by Novell as of the date of the APA required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies.²

The Tenth Circuit held that “Amendment No. 2 must be considered together with the APA as a unified document.”³ The court noted that “California law . . . dictates that we construe them together, following Amendment No. 2 wherever the language contradicts the APA.”⁴

Plaintiff argues that Defendant should be precluded from making an argument to the jury concerning the excluded asset portion of the APA because that provision was replaced by Amendment No. 2. While Plaintiff recognizes that it may be necessary to refer to the language of the APA that existed before Amendment No. 2 was adopted, Plaintiff argues that the parties should be clear that this is not the state of the contractual language that is to be considered by the jury.

It will be necessary for the parties to refer to both the APA and Amendment No. 2 to put this dispute into context for the jury. As Defendant correctly states “[t]his story cannot be told without reference to the language of the APA itself—this includes both the original language of the APA and Amendment No. 2.”⁵ Further, Defendant states that it and its witnesses will

¹*The SCO Group, Inc. v. Novell, Inc.*, 578 F.3d 1201, 1205 (10th Cir. 2009).

²*Id.*

³*Id.* at 1211.

⁴*Id.*

⁵Docket No. 675 at 2.

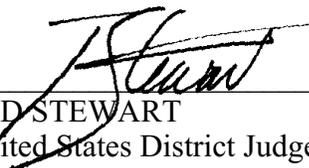
acknowledge at trial that the APA has been amended. Based on these consideration, the Court must deny Plaintiff's blanket request as set forth in its Motion. However, Plaintiff is free, during trial, to make any objections it deems necessary on this issue.

It is therefore

ORDERED that Plaintiff's Motion in Limine No. 1 (Docket No. 643) is DENIED WITHOUT PREJUDICE.

DATED February 22, 2010.

BY THE COURT:



TED STEWART
United States District Judge

IN THE UNITED STATES COURT FOR THE DISTRICT OF UTAH
CENTRAL DIVISION

THE SCO GROUP, INC., a Delaware corporation,
Plaintiff/Counterclaim Defendant,

MEMORANDUM DECISION AND ORDER GRANTING IN PART AND DENYING IN PART PLAINTIFF'S MOTION IN LIMINE NO. 5 TO EXCLUDE STATEMENTS MADE BY MICHAEL ANDERER AS AN INDEPENDENT CONTRACTOR FOR SCO

vs.

NOVELL, INC., a Delaware corporation,
Defendant/Counterclaim Plaintiff.

Case No. 2:04-CV-139 TS

This matter is before the Court on Plaintiff's Motion in Limine No. 5. In that Motion, Plaintiff seeks an order to exclude statements from Michael Anderer. Plaintiff argues that Mr. Anderer worked as an independent contractor, not an agent, therefore his statements are not admissible under Fed.R.Evid. 801(d)(2)(D).¹ Defendant counters that it will not be offering Mr. Anderer's statements to prove the truth of the matter asserted and are, therefore, not hearsay.

¹Fed.R.Evid. 801(d)(2)(D) provides that a statement is not hearsay if it is offered against a party and is "a statement by the party's agent or servant concerning a matter within the scope of the agency or employment, made during the existence of the relationship."

Defendant argues that Mr. Anderer's statements will be offered to show Darl McBride's state of mind when he contacted Defendant to request transfer of the UNIX copyrights. Defendant does not argue that Mr. Anderer was Plaintiff's agent. For the reasons discussed below, the Court will grant Plaintiff's motion in part and deny it in part.

I. DISCUSSION

In 2003, Plaintiff engaged Mr. Anderer as an outside consultant under an Independent Contractor Agreement with his firm S2 Strategic Consulting, LLC. His services were largely limited to acting as a liaison between Plaintiff and Microsoft concerning an SCOsource agreement.

At some point during this time, Mr. Anderer read the APA. Mr. Anderer emailed Darl McBride stating that the agreement "indicates Novell transferred substantially less than what was transferred to USL in the previous agreement."² Mr. Anderer noted that the APA excluded "all patents, copyrights and just about everything else."³ Mr. Anderer stated to Mr. McBride: "We really need to be clear on what we can license. It may be a lot less than we think."⁴ Mr. Anderer acknowledged that his position was based on his own reading of the APA and that he did not have access to Amendment No. 2.⁵

Subsequent to Mr. Anderer's email to Mr. McBride, Mr. McBride contacted Defendant seeking to amend the APA to give Plaintiff the copyrights to UNIX.

²Docket No. 679, Ex. A.

³*Id.*

⁴*Id.*

⁵Docket No. 649, Ex. 3 at 86-87, 91-92.

Plaintiff argues that Mr. Anderer was not an agent and, therefore, his statements are not admissible under Fed.R.Evid. 801(d)(2)(D). Defendant does not dispute this argument and the Court considers it waived. Therefore, to the extent that Defendant seeks to admit Mr. Anderer's statements as non-hearsay under Fed.R.Evid. 801(d)(2)(D), it will be precluded from doing so.

Defendant argues that the statements are not hearsay as they will not be offered for the truth of the matter asserted. The Court is unable to rule on this argument outside of trial. The Court notes that before any such statements can be admitted Defendant will have to show their relevance. The Court finds that Mr. Anderer's statements concerning his reading and interpretation of the APA, as someone who was not involved in the negotiations or drafting of that document, are of little, if any, relevance as they will not help the trier of fact. With this framework in mind, the Court will determine the admissibility of any such statements at trial.

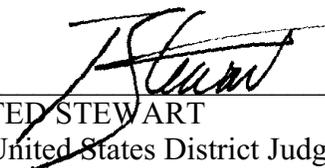
II. CONCLUSION

It is therefore

ORDERED that Plaintiff's Motion in Limine No. 5 to Exclude Statements Made by Michael Anderer as an Independent Contractor for SCO (Docket No. 649) is GRANTED IN PART AND DENIED IN PART as set forth above.

DATED February 22, 2010.

BY THE COURT:



TED STEWART
United States District Judge

IN THE UNITED STATES COURT FOR THE DISTRICT OF UTAH
CENTRAL DIVISION

<p>THE SCO GROUP, INC., a Delaware corporation, Plaintiff,</p> <p>vs.</p> <p>NOVELL, INC., a Delaware corporation, Defendant.</p>	<p>MEMORANDUM DECISION AND ORDER TAKING UNDER ADVISEMENT PLAINTIFF’S MOTION IN LIMINE NO. 4 TO EXCLUDE REFERENCE TO LITIGATION COMMENTARY</p> <p>Case No. 2:04-CV-139 TS</p>
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This matter is before the Court on Plaintiff’s Motion in Limine No. 4. In that Motion, Plaintiff seeks to exclude reference to various sources which have been providing publicly available commentary on this and other related litigation. Plaintiff argues that such evidence is irrelevant and unduly prejudicial. Defendant argues that this evidence is relevant to the issue of damages and that any potential prejudice can be prevented by instructing the jury not to investigate any external sources during trial.

Federal Rule of Evidence 402 provides that only relevant evidence is admissible. “Relevant evidence’ means evidence having any tendency to make the existence of any fact that

is of consequence to the determination of the action more probable or less probable than it would be without the evidence.”¹ Of course, “[t]he standard is not stringent; it is aimed at each ‘brick’ of evidence potentially making a wall and not every witness ‘mak[ing] a home run.’”² Rule 403 excludes otherwise relevant evidence

if its probative value is substantially outweighed by the danger of unfair prejudice, confusion of the issues, or misleading the jury, or by considerations of undue delay, waste of time, or needless presentation of cumulative evidence.

The Court agrees with Plaintiff’s general premise that sources of commentary on this and related SCO litigation has little, if any, relevance to this case. However, there may be some relevance as it relates to Defendant’s argument that Plaintiff’s SCOsource initiative failed for reasons other than Defendant’s statements concerning copyright ownership. As to Plaintiff’s concern regarding any prejudice from possible jury investigation, the Court will instruct the jury that it is not to do any investigation whatsoever on anything that could relate to this trial. Because of these considerations, the Court is unable to grant Plaintiff’s broad request for exclusion. Rather, the Court will rule on Plaintiff’s objections to specific exhibits as they arise during trial.

It is therefore

ORDERED that Plaintiff’s Motion in Limine No. 4 (Docket No. 647) is TAKEN UNDER ADVISEMENT.

¹Fed.R.Evid. 401.

²*United States v. Yazzie*, 188 F.3d 1178, 1189 (10th Cir. 1999) (quoting Fed.R.Evid. 401 advisory committee’s note).

DATED February 22, 2010.

BY THE COURT:



TED STEWART
United States District Judge

IN THE UNITED STATES COURT FOR THE DISTRICT OF UTAH
CENTRAL DIVISION

<p>THE SCO GROUP, INC., a Delaware corporation, Plaintiff/Counterclaim Defendant,</p> <p>vs.</p> <p>NOVELL, INC., a Delaware corporation, Defendant/Counterclaim Plaintiff.</p>	<p>MEMORANDUM DECISION AND ORDER ON DEFENDANT’S MOTIONS IN LIMINE 12 TO 19</p> <p>Case No. 2:04-CV-139 TS</p>
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This matter is before the Court on Defendant’s Motions in Limine 12 to 19. The Court will discuss each Motion below.

I. BACKGROUND

In its Motions in Limine 12 to 19, Defendant seeks to exclude a number of witness from testifying on the copyright ownership provisions of the APA and Amendment No. 2 because they lack personal knowledge. In particular, Defendant argues that these particular witnesses were not involved in the drafting or negotiating of these documents and, therefore, lack personal knowledge to testify on them. Defendant also argues that testimony interpreting and contradicting the specific unambiguous terms of the APA should be excluded as improper parol evidence.

II. DISCUSSION

To properly consider this issue, the Court must examine the Tenth Circuit's ruling as it relates to extrinsic evidence on these contracts. As an initial matter, the Tenth Circuit had to determine whether to consider the APA and Amendment 2 separately or together. After considering the relevant evidence and argument, the court held that "Amendment No. 2 must be considered together with the APA as a unified document."¹ The court further stated that "to the extent that it is proper for us to read Amendment No. 2 as clarifying the APA, SCO's extrinsic evidence of the business negotiators' intent concerning the transaction ought to be admissible."² The court found that "extrinsic evidence regarding the parties' intent [was] relevant to [its] interpretation of the combined instrument."³

Turning to the question of whether summary judgment should have been granted on the ownership issue, Novell had argued "that many of [SCO's] witnesses were involved in the business negotiations, as opposed to the actual drafting of the contract."⁴ The court noted, however, that "because we cannot exclude the possibility that Amendment No. 2 was designed to restore the language of the transaction to the parties' actual intent during the business negotiations over the deal, such testimony is not irrelevant."⁵ The court further noted that "SCO's extrinsic evidence extends not only to the business negotiations proceeding the contract,

¹*The SCO Group, Inc. v. Novell, Inc.*, 578 F.3d 1201, 1211 (10th Cir. 2009).

²*Id.* at 1210-11.

³*Id.* at 1211.

⁴*Id.* at 1217.

⁵*Id.*

but also to the parties' understanding of the contract language itself."⁶ The Tenth Circuit further held that course of performance "evidence may be used to interpret an ambiguous contractual provision."⁷

Under the Tenth Circuit's ruling, a number of types of testimony are relevant to a determination of the ownership issue, including: (1) testimony from those involved with the actual drafting of the APA and Amendment No. 2; (2) testimony from those involved with the business negotiations preceding the contract; (3) testimony concerning the parties' understanding of the contractual language; and (4) testimony concerning the parties course of performance.

As indicated, Defendant seeks to exclude these witnesses based on a lack of personal knowledge. Fed.R.Evid. 602 provides, in pertinent part:

A witness may not testify to a matter unless evidence is introduced sufficient to support a finding that the witness has personal knowledge of the matter.

Further, Fed.R.Evid. 701 states that "[i]f the witness is not testifying as an expert, the witness' testimony in the form of opinions . . . is limited to those opinions or inferences which are . . . helpful to . . . the determination of a fact in issue" Lay testimony offering a legal conclusion is inadmissible because it is not helpful to the trier of fact.⁸ Similarly, "evidence that merely tells the jury what result to reach is not sufficiently helpful to the trier of fact to be admissible."⁹ With this background in mind, the Court turns to Defendant's Motions.

⁶*Id.*

⁷*Id.*

⁸*See, e.g., United States v. Noel*, 581 F.3d 490, 496 (7th Cir. 2009) ("We have held repeatedly that lay testimony offering a legal conclusion is inadmissible because it is not helpful to the jury, as required by Rule 701(b).").

⁹*Kostelecky v. NL Acme Tool*, 837 F.2d 828, 829 (8th Cir. 1988).

A. WILLIAM BRODERICK

Defendant's Motion in Limine No. 12 seeks to exclude certain testimony from William Broderick. At the time the APA was negotiated, Mr. Broderick worked for Novell as a contracts manager and has continued in that capacity with SCO. Mr. Broderick was not involved with the negotiation or drafting of either the APA or Amendment No. 2. Mr. Broderick is of the opinion that the APA transferred the copyrights at issue in this case to Plaintiff's predecessor and that Amendment No. 2 reinforces this understanding. Mr. Broderick's deposition makes clear that his opinion is based on two things: (1) statements made by Novell during company-wide meetings; and (2) his own understanding of those agreements based on his reading of them.

The first basis for his opinion—statements made by Novell during company-wide meetings—are clearly relevant as to the parties' understanding of the contract language. As set out by the Tenth Circuit, this is relevant evidence concerning the issue of copyright ownership. Mr. Broderick was a participant in those company-wide meetings and, thus, has personal knowledge of what was discussed there. Therefore, Mr. Broderick can testify as to those statements, provided they are otherwise admissible. Mr. Broderick can also provide testimony as to the parties' course of performance.

Mr. Broderick's second basis for his opinion—his own opinion of the agreements based on his reading of them—is an issue for the jury to decide. The jury can determine itself how to read the APA and Amendment No. 2 and how those agreements should be reconciled. Mr. Broderick's statements concerning his own understanding, as someone who was not involved with the drafting or the negotiation of either document, is not helpful to the trier of fact as it merely tells the jury the conclusion it should reach and is essentially a legal conclusion. For these reasons, this testimony will be excluded.

Defendant also seeks to exclude parol evidence on the unambiguous terms of the APA. As indicated, the meaning of the APA and the amendments thereto, as they relate to copyright ownership, is in dispute and the Tenth Circuit has held that extrinsic evidence is relevant to the determination of the ownership issue. Therefore, some parol evidence will be relevant and admissible on these issues. That being said, the Court cannot rule on this issue in the abstract and must deny Defendant's blanket request.

B. LAWRENCE BOUFFARD

Defendant's Motion in Limine No. 13 seeks to exclude certain testimony from Lawrence Bouffard. At the time the APA was negotiated, Mr. Bouffard worked in sales for Novell. Mr. Bouffard was not involved with the negotiation or drafting of the APA, however he was involved with the transition team.

It is the opinion of Mr. Bouffard that Santa Cruz, SCO's predecessor, had purchased Novell's UNIX business "lock, stock and barrel." Mr. Bouffard is of the opinion that it would not make sense for Novell to have sold Santa Cruz the UNIX business, but not the UNIX copyrights. Mr. Bouffard does not clearly state the basis for his opinions, but his opinions seem to be based on his own reading of the APA and his years of experience. To the extent that his opinions are based merely on his own reading of the APA and Amendment No. 2, that evidence will be excluded. Plaintiff has stated that it will not present any testimony from Mr. Bouffard in which he presently reads or interprets the language of the APA or Amendment No. 2. To the extent that Mr. Bouffard has testimony concerning one of the relevant types of evidence set forth above, he will not be excluded.

Defendant also seeks to exclude parol evidence on the unambiguous terms of the APA. For the same reasons discussed above, the Court must deny Defendant's blanket request.

C. JEAN ACHESON

Defendant's Motion in Limine No. 14 seeks to exclude certain testimony from Jean Acheson. Around the time of the APA, Ms. Acheson was the revenue manager for Novell. Ms. Acheson was not involved in the negotiations or drafting of the APA or Amendment No. 2, but was involved in the transition team and attended transition meetings. Based on these meetings and discussions with others, it was Ms. Acheson's understanding that Novell had sold its UNIX business, including the intellectual property, to SCO, only retaining the right to certain royalties.

Ms. Acheson's understanding of the APA is based on statements made by Novell employees concerning that agreement. This is clearly relevant to the parties' understanding of the contract language. Ms. Acheson attended those meetings where the understanding of the APA was discussed and, thus, has personal knowledge. Therefore, she can testify as to those statements, provided they are otherwise admissible. Ms. Acheson may also testify as to the parties' course of performance. Ms. Acheson, however, does not appear to have any personal knowledge concerning Amendment No. 2 and cannot testify as to that issue.

Defendant also seeks to exclude parol evidence on the unambiguous terms of the APA. For the same reasons discussed above, the Court must deny Defendant's blanket request.

D. ROBERT FRANKENBERG

Defendant's Motion in Limine No. 15 seeks to exclude certain testimony from Robert Frankenberg. Around the time of the APA, Mr. Frankenberg was the President and CEO of Novell. Mr. Frankenberg's deposition reveals that he has a personal knowledge of the parties' intent and understanding of the APA. Specifically, Mr. Frankenberg testified that the intent of the APA was to sell the whole UNIX business, including the copyrights. As Mr. Frankenberg has personal knowledge of the parties' intent and understanding, his testimony on that issue will

not be excluded on that ground. Further, Mr. Frankenberg may testify as to the parties' course of performance. However, Mr. Frankenberg has no such personal knowledge as it relates to Amendment No. 2. Rather, his testimony on Amendment No. 2 is based on his own reading of that agreement. That testimony is irrelevant, not based on personal knowledge, and will not help the trier of fact. Therefore, that testimony will be excluded.

Defendant also seeks to exclude parol evidence on the unambiguous terms of the APA. For the same reasons discussed above, the Court must deny Defendant's blanket request.

E. R. DUFF THOMPSON

Defendant's Motion in Limine No. 16 seeks to exclude certain testimony from R. Duff Thompson. At the time the APA was drafted, Mr. Thompson was Senior Vice President of Business Development and Strategic Relations for Novell. Mr. Thompson was the Novell executive responsible for the sale of the UNIX business. Mr. Thompson's deposition reveals that he has a personal knowledge of the intent and understanding of the parties concerning the APA. Specifically, he testified that it was Novell's intent to sell the UNIX business, including the copyrights. This testimony is consistent with his Declaration. Therefore, the Court finds that he has personal knowledge and his testimony on that issue will not be excluded on that ground. However, Mr. Thompson has no such personal knowledge as it relates to Amendment No. 2. His testimony on Amendment No. 2 is irrelevant, not based on personal knowledge, and will not help the trier of fact. Therefore, that testimony must be excluded.

Defendant also seeks to exclude parol evidence on the unambiguous terms of the APA. For the same reasons discussed above, the Court must deny Defendant's blanket request.

F. TY MATTINGLY

Defendant's Motion in Limine No. 17 seeks to exclude certain testimony from Ty Mattingly. At the time of the APA, Mr. Mattingly was working for R. Duff Thompson and was part of the "deal team." Mr. Mattingly was not involved in the crafting of the APA, but was involved in negotiations of the APA at a "high level." It is Mr. Mattingly's understanding that all of the UNIX business, including the copyrights, were sold to Santa Cruz. This understanding is based on his involvement in the negotiations of the APA at a "high level." Mr. Mattingly's testimony shows personal knowledge of the intent and understanding of the parties concerning the APA. Therefore, his testimony on that issue will not be excluded on that ground. Mr. Mattingly has no personal knowledge, however, concerning Amendment No. 2. Therefore, his testimony on Amendment No. 2 will be excluded.

Defendant also seeks to exclude parol evidence on the unambiguous terms of the APA. For the same reasons discussed above, the Court must deny Defendant's blanket request.

G. DOUGLAS MICHELS

Defendant's Motion in Limine No. 18 seeks to exclude certain testimony from Douglas Michels. At the time of the APA, Mr. Michels worked for Santa Cruz as its Chief Technology Officer. Mr. Michels was not involved in the drafting of the APA, but was "very involved" with the initiation of the APA, "very involved" in the strategy behind it, "very involved" in the high level structure of the agreement, and involved in supervising those people that were negotiating the details of the agreement.¹⁰ Mr. Michels' understanding of the transaction was that Santa Cruz was buying the UNIX business from Novell. Mr. Michels testified that it was the intent of the

¹⁰Docket No. 644, Ex. A at 9:11-16.

parties for Novell to sell the entire UNIX business and for Santa Cruz to buy it. In his Declaration, Mr. Michels states the entire UNIX business, including copyrights, was transferred to Santa Cruz. The Court finds that Mr. Michels' understanding of the APA is based on his personal knowledge and is relevant to the issue of the parties' intent and understanding of the APA. Therefore, it will not be excluded. However, Mr. Michels testified that he had no knowledge of Amendment No. 2. Therefore, testimony on Amendment No. 2 must be excluded because of a lack of personal knowledge.

Defendant also seeks to exclude parol evidence on the unambiguous terms of the APA. For the same reasons discussed above, the Court must deny Defendant's blanket request.

H. EDWARD CHATLOS, BURT LEVINE, AND KIM MADSEN

Defendant's Motion in Limine No. 19 seeks to exclude certain testimony from Edward Chatlos, Burt Levine, and Kim Madsen. Each of these individuals will be discussed below.

1. *Edward Chatlos*

Defendant seeks to preclude testimony from Mr. Chatlos concerning Amendment No. 2. Mr. Chatlos was not involved in the drafting Amendment No. 2 and had left Novell by that time. Mr. Chatlos speculates that Amendment No. 2 addresses the intent of the parties to transfer the copyrights. However, this speculation is not based on personal knowledge and would not help the trier of fact. Therefore, it will be excluded. This ruling does not preclude Mr. Chatlos from testifying concerning the APA.

2. *Burt Levine*

Defendant seeks to preclude testimony from Mr. Levine concerning Amendment No. 2. Mr. Levine was not involved in the negotiations or drafting of Amendment No. 2. However, Mr. Levine testified that Amendment No. 2 confirmed his understanding that the copyrights were

transferred to Santa Cruz. It is unclear what Mr. Levine bases this understanding on, though it appears that it is just upon his reading of Amendment No. 2. If this is the case, the Court finds that such testimony would not be helpful to the trier of fact and must be excluded. This ruling does not preclude Mr. Levine from testifying concerning the APA.

3. *Kim Madsen*

Defendant seeks to preclude testimony from Ms. Madsen concerning Amendment No. 2. During her deposition, Ms. Madsen could not recall any specific conversations concerning Amendment No. 2. However, in her Declaration, she stated that her understanding, from negotiations and discussions, was that Amendment No. 2 was intended to confirm the parties' intent and agreement that Santa Cruz obtained ownership of the UNIX copyrights. Such testimony is admissible.

III. CONCLUSION

It is therefore

ORDERED that Defendant's Motion in Limine No. 12 to Exclude Certain Testimony from William Broderick for Lack of Personal Knowledge and Violation of Parol Evidence Rule (Docket No. 637) is GRANTED IN PART AND DENIED IN PART. It is further

ORDERED that Defendant's Motion in Limine No. 13 to Exclude Certain Testimony From Lawrence Bouffard for Lack of Personal Knowledge and Violation of Parol Evidence Rule (Docket No. 638) is GRANTED IN PART AND DENIED IN PART. It is further

ORDERED that Defendant's Defendant's Motion in Limine No. 14 to Exclude Certain Testimony from Jean Acheson for Lack of Personal Knowledge and Violation of Parol Evidence Rule (Docket No. 639) is GRANTED IN PART AND DENIED IN PART. It is further

ORDERED that Defendant's Motion in Limine No. 15 to Exclude Certain Testimony from Robert Frankenberg for Lack of Personal Knowledge and Violation of Parol Evidence Rule (Docket No. 640) is GRANTED IN PART AND DENIED IN PART. It is further

ORDERED that Defendant's Motion in Limine No. 16 to Exclude Certain Testimony from R. Duff Thompson for Lack of Personal Knowledge and Violation of Parol Evidence Rule (Docket No. 641) is GRANTED IN PART AND DENIED IN PART. It is further

ORDERED that Defendant's Motion in Limine No. 17 to Exclude Certain Testimony from Ty Mattingly for Lack of Personal Knowledge and Violation of Parol Evidence Rule (Docket No. 642) is GRANTED IN PART AND DENIED IN PART. It is further

ORDERED that Defendant's Motion in Limine No. 18 to Exclude Certain Testimony from Douglas Michels for Lack of Personal Knowledge and Violation of Parol Evidence Rule (Docket No. 644) is GRANTED IN PART AND DENIED IN PART. It is further

ORDERED that Defendant's Motion in Limine No. 19 to Exclude Certain Testimony from Edward Chatlos, Burt Levine, and Kim Madsen for Lack of Personal Knowledge (Docket No. 648) is GRANTED IN PART AND DENIED IN PART.

DATED February 22, 2010.

BY THE COURT:



TED STEWART
United States District Judge

IN THE UNITED STATES COURT FOR THE DISTRICT OF UTAH
CENTRAL DIVISION

THE SCO GROUP, INC., a Delaware
corporation,

Plaintiff/Counterclaim Defendant,

MEMORANDUM DECISION AND
ORDER GRANTING NOVELL'S
MOTION IN LIMINE NO. 4 TO
PRECLUDE SCO FROM
CONTESTING THAT NOVELL HAD
AN OBJECTIVELY REASONABLE,
GOOD FAITH BASIS FOR ITS
STATEMENTS REGARDING
COPYRIGHT OWNERSHIP

vs.

NOVELL, INC., a Delaware corporation,

Defendant/Counterclaim Plaintiff.

Case No. 2:04-CV-139 TS

This matter is before the Court on Defendant's Motion in Limine No. 4. In that Motion, Defendant essentially argues that the law of the case and the mandate rule precludes litigation of the copyright ownership portions of Plaintiff's claims for unfair competition and for breach of the implied duty of good faith and fair dealing. Plaintiff states that it will not pursue its claim for unfair competition as it relates to assertions of copyright ownership because there were independent grounds for dismissal of that claim that were not appealed. Plaintiff argues, however, that the Court's summary judgment ruling on the claim for breach of the implied

covenant was predicated on now-reversed rulings and should proceed to trial. Because Plaintiff has conceded the copyright ownership portion of its unfair competition claims, this Order is limited to the copyright ownership portion of its implied covenant of good faith and fair dealing claim.

I. BACKGROUND

As set forth more fully in the Court's Memorandum Decision and Order Denying Defendant's Motion in Limine No. 1,¹ the Court's prior summary judgment ruling on a number of issues was predicated on its finding that Defendant was the owner of the copyrights at issue. That determination has now been reversed.

The Court, however, made other rulings concerning the copyright ownership portions of Plaintiff's implied covenant of good faith and fair dealing claim. The Court stated:

Even if the court had found that SCO owned the copyrights, Novell would still be entitled to summary judgment on the copyright ownership portions of SCO's claims of unfair competition and breach of the implied covenant of good faith and fair dealing. Novell's assertions that SCO does not own the UNIX and UnixWare copyrights do not state a claim for unfair competition under Utah common law or statutory law, and do not state a claim for breach of the implied covenant of good faith under California law.

SCO's breach of contract claim alleges that Novell breached the covenant of good faith and fair dealing under the APA and TLA by numerous acts of bad faith, including making false and misleading statements denying SCO's ownership of the copyrights in UNIX and UnixWare. SCO has cited to no California case holding that the implied duty of good faith and fair dealing prohibits a party to a contract from making statements related to its understanding of the rights that are conferred or not conferred by the contract.

A breach of the implied covenant requires objectively unreasonable conduct, regardless of the actor's motive. A comment to Section 205 of the Restatement Second of Contracts states that the implied covenants are violated by dishonest conduct such as conjuring up a pretended dispute, asserting an interpretation contrary to one's own understanding, or falsification of facts.

¹Docket No. 674.

Even if this court had ruled in SCO's favor on the copyright ownership issue, there is no evidence to demonstrate that Novell's position was contrary to its own understanding of the contractual language or objectively unreasonable given the history of the dispute between the parties.²

Plaintiff did not appeal this alternative ruling, either directly or indirectly, and it was mentioned only in passing by the Tenth Circuit.³

II. DISCUSSION

The mandate rule is an "important corollary" to the law of the case doctrine.⁴ "The mandate rule is a 'discretion-guiding rule' that 'generally requires trial court conformity with the articulated appellate remand,' subject to certain recognized exceptions."⁵ The mandate rule "provides that a district court must comply strictly with the mandate rendered by the reviewing court."⁶ While "a district court is bound to follow the mandate, and the mandate 'controls all matters within its scope, . . . a district court on remand is free to pass upon any issue which was not expressly or impliedly disposed of on appeal.'"⁷ Further, the Court may decide issues that

²Docket No. 377 at 64-65 (quotation marks and citations omitted).

³*The SCO Group, Inc. v. Novell, Inc.*, 578 F.3d 1201, 1207 (10th Cir. 2009).

⁴*Huffman v. Saul Holdings Ltd. P'ship*, 262 F.3d 1128, 1132 (10th Cir. 2001).

⁵*United States v. Hicks*, 146 F.3d 1198, 1200 (10th Cir. 1998) (quoting *United States v. Moore*, 83 F.3d 1231, 1234 (10th Cir. 1996)).

⁶*Huffman*, 262 F.3d at 1132 (quotation marks and citation omitted).

⁷*Procter & Gamble Co. v. Haugen*, 317 F.3d 1121, 1126 (10th Cir. 2003) (quoting *Newball v. Offshore Logistics Int'l*, 803 F.2d 821, 826 (5th Cir. 1986)).

were necessarily implied by the mandate.⁸ However, the mandate rule prevents a court from considering an argument that could have been, but was not, made on appeal.⁹

Plaintiff argues that the Court’s alternative ruling was premised on the Court’s other rulings—that (1) the APA can and should be read independent of Amendment No. 2; (2) extrinsic evidence cannot be considered; and (3) the APA merely gives SCO an implied license—which have now been reversed. Therefore, the Court may revisit them because they are necessarily implied by the mandate. The Court disagrees.

The Court’s alternative rulings were not predicated on those now-reversed rulings. Unlike the Court’s decision concerning Plaintiff’s slander of title claim, which was solely based on the Court’s finding that Defendant owned the copyrights, there were alternative, independent bases for the Court’s ruling on the copyright ownership portion of Plaintiff’s implied covenant of good faith and fair dealing claim. As those alternative rulings were not appealed and, thus, not reversed, the Court is without authority to revisit them on remand. Therefore, the Court will preclude litigation of the copyright ownership portions of Plaintiff’s claim for breach of the implied duty of good faith and fair dealing.

⁸*Id.* at 1132.

⁹*See, e.g., United States v. Webb*, 98 F.3d 585, 589 (10th Cir. 1996) (noting that because an issue was not appealed the district court’s ruling became final and court did not err in declining to address it on remand).

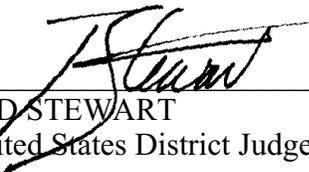
III. CONCLUSION

It is therefore

ORDERED that Defendant's Motion in Limine No. 4 to Preclude SCO from Contesting that Novell had an Objectively Reasonable, Good Faith Basis for its Statements Regarding Copyright Ownership (Docket No. 631) is GRANTED.

DATED February 23, 2010.

BY THE COURT:



TED STEWART
United States District Judge

IN THE UNITED STATES COURT FOR THE DISTRICT OF UTAH
CENTRAL DIVISION

<p>THE SCO GROUP, INC., a Delaware corporation, Plaintiff/Counterclaim Defendant,</p> <p>vs.</p> <p>NOVELL, INC., a Delaware corporation, Defendant/Counterclaim Plaintiff.</p>	<p>MEMORANDUM DECISION AND ORDER ON ALLOCATION OF ISSUES FOR BENCH AND JURY TRIAL</p> <p>Case No. 2:04-CV-139 TS</p>
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This matter is before the Court for a determination of which issues are to be decided by the Court and which are to be decided by the jury. In the Pretrial Order, the parties agreed that Plaintiff's claim for specific performance should be resolved by the Court and that the parties' claims for slander of title should be tried to the jury, but disagreed as to whether Plaintiff's remaining claim for breach of the implied covenant of good faith and fair dealing and Defendant's claim for declaratory judgment should be tried to the Court or the jury.

The parties now agree that:

1. Plaintiff's slander of title claim against Defendant should be tried to the jury;
2. Defendant's slander of title claim against Plaintiff should be tried to the jury;

3. Plaintiff's remaining claim that Defendant breached the implied covenant of good faith and fair dealing should be tried to the Court;
4. The Court should declare Defendant's rights under § 4.16 of the APA;
5. Plaintiff's claim for specific performance should be tried to the Court; and
6. If Defendant's unclean hands defense is tried, it should be tried to the Court.¹

In addition to the above, Defendant requests an advisory verdict from the jury on the following issues:

1. Whether the APA requires Defendant to transfer the UNIX copyrights to Plaintiff; and
2. Defendant's unclean hands defense.

Plaintiff opposes Defendant's request for an advisory verdict.

Fed.R.Civ.P. 39(c)(1) provides: "In an action not triable of right by a jury, the court, on motion or on its own . . . may try any issue with an advisory jury." The decision to use an advisory jury is within the Court's discretion.²

Exercising this discretion, the Court will deny Defendant's request for an advisory jury. As articulated by Plaintiff, this trial is already sufficiently complex. It would only become more complex if the jury was asked to decide a number of issues which the parties now agree are for the Court to resolve. The Court declines to place such a burden on the jury. Further, the jury's findings would be merely advisory and the Court would be required to make its own findings of

¹Plaintiff argues that Defendant's affirmative defense of unclean hands should not be tried at all.

²See *Wright v. United States*, 80 F.R.D. 478, 479 (D. Mont. 1978).

fact and conclusions of law.³ The Court finds that the use of an advisory jury in this circumstance would be an inefficient use of both the jury's and the Court's resources. Therefore, the Court will deny Defendant's request for an advisory jury. The Court will decide the issues concerning Defendant's affirmative defense of unclean hands in connection with the jury instructions.

SO ORDERED.

DATED March 5, 2010.

BY THE COURT:



TED STEWART
United States District Judge

³See *OCI Wyoming, L.P. v. PacifiCorp*, 479 F.3d 1199, 1206 (10th Cir. 2007).

IN THE UNITED STATES COURT FOR THE DISTRICT OF UTAH
CENTRAL DIVISION

<p>THE SCO GROUP, INC., a Delaware corporation, Plaintiff/Counterclaim Defendant,</p> <p>vs.</p> <p>NOVELL, INC., a Delaware corporation, Defendant/Counterclaim Plaintiff.</p>	<p>MEMORANDUM DECISION AND ORDER GRANTING DEFENDANT’S MOTION TO DETERMINE THAT FIRST AMENDMENT DEFENSES APPLY TO SLANDER OF TITLE AND REQUIRE PROOF OF CONSTITUTIONAL MALICE</p> <p>Case No. 2:04-CV-139 TS</p>
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This matter is before the Court on Defendant’s Motion to Determine that First Amendment Defenses Apply to Slander of Title and Require Proof of Constitutional Malice. In that Motion, as well as two previous motions in limine, Defendant seeks a ruling that the First Amendment applies to slander of title claims. Defendant also seeks a ruling that Plaintiff is a limited-purpose public figure for purposes of the First Amendment. If Defendant were to prevail in both instances, Plaintiff would be required to prove, by clear and convincing evidence, that Defendant acted with actual malice. Plaintiff argues that First Amendment standards should not apply to its slander of title claim. Plaintiff also suggests that the Court could propound a

question to the jury to ask whether Defendant acted with actual malice. Plaintiff does not argue that it is not a limited-purpose public figure.

I. DISCUSSION

A. SLANDER OF TITLE

As both parties recognize, the impact of the First Amendment and the Supreme Court's decision of *New York Times Co. v. Sullivan*,¹ on slander of title actions is unclear. The Supreme Court has not explored the issue.² As stated in Comment C to the Restatement (Second) of Torts § 623A:

In the absence of any indications from the Supreme Court on the extent, if any, to which the elements of the tort of injurious falsehood will be affected by the free-speech and free-press provisions of the First Amendment, it is not presently feasible to make predictions with assurance.³

In *New York Times Co. v. Sullivan*, the Supreme Court held that the First Amendment requires a public official to prove that a defamatory falsehood relating to his official conduct was made with “actual malice,” that is, with “knowledge that it was false or with reckless disregard of whether it was false or not.”⁴ The Court has extended this rule to include claims by private individuals who are “limited-purpose public figures.”⁵ The Supreme Court has also extended the

¹376 U.S. 254 (1964).

²Robert D. Sack, *Sack on Defamation*, § 13.1.8 (Practicing Law Institute 2008).

³Restatement (Second) of Torts § 623A, cmt. c (1977).

⁴*Sullivan*, 376 U.S. at 279-80.

⁵*Gertz v. Robert Welch, Inc.*, 418 U.S. 323, 351 (1974) (defining limited purpose public figure as “an individual [who] voluntarily injects himself or is drawn into a particular public controversy and thereby becomes a public figure for a limited range of issues”).

rule to claims for invasion of privacy and intentional infliction of emotional distress.⁶ The Court has held that “such a standard is necessary to give adequate ‘breathing space’ to the freedoms protected by the First Amendment.”⁷

Federal courts have relied on this principle in extending the First Amendment to other claims directed against an allegedly wrongful statement. In *Jefferson County School District No. R-1 v. Moody’s Investor’s Services, Inc.*,⁸ the Tenth Circuit applied the First Amendment’s protection of statements of opinion to claims for publication of an injurious falsehood.⁹ The Tenth Circuit also rejected claims for intentional interference with contract and for intentional interference with prospective business relations on First Amendment grounds, noting that lower courts had rejected “a variety of tort claims based on speech protected by the First Amendment.”¹⁰ The court specifically cited to *Unleko Corp. v. Rooney*.¹¹ In that case, the Ninth Circuit stated that claims for product disparagement and tortious interference were “subject to the same first amendment requirements that govern actions for defamation.”¹²

⁶*See Time, Inc. v. Hill*, 385 U.S. 374, 390-91 (1967); *Hustler Magazine v. Falwell*, 485 U.S. 46, 56 (1988).

⁷*Hustler Magazine*, 485 U.S. at 56.

⁸175 F.3d 848 (10th Cir. 1999).

⁹*Id.* at 856. The Court recognizes, as Plaintiff argues, that *Jefferson* addressed First Amendment protection of opinions. Despite this difference in the case before the Court, the Court finds it significant that *Jefferson* extended First Amendment protections to a claim for an injurious falsehood.

¹⁰*Id.* at 857.

¹¹912 F.2d 1049, 1057 (9th Cir. 1990).

¹²*Id.* at 1058.

In *Bose Corp. v. Consumers Union of United States, Inc.*,¹³ the district court addressed a product disparagement case, a tort closely related to slander of title.¹⁴ The court provided the following thoughtful analysis:

An analysis of the Supreme Court's reasoning in *New York Times* also leads to the conclusion that the actual malice standard should not be limited to personal defamation actions. In the *New York Times* line of cases the Supreme Court has attempted to strike a balance between the need for a vigorous and uninhibited press and the legitimate state interest in compensating individuals for wrongful injury to reputation.

The nature of the balancing process changes significantly in product disparagement cases because different interests are being weighed. In a personal defamation action one of the competing interests being balanced is an individual's interest in the protection of his reputation, which, according to Mr. Justice Stewart reflects no more than our basic concept of the essential dignity and worth of every human being a concept at the root of any decent system of ordered liberty. On the other hand, in this product disparagement action we are concerned with a manufacturer's interest in the reputation of its product, an interest not nearly as significant as an individual's interest in his personal reputation and hardly at the root of any decent system of ordered liberty. Damage to a product's reputation, unlike damage to the reputation of an individual, can always be measured in terms of monetary loss. Moreover, a manufacturer almost always has access to the channels of communication that can be used to refute disparaging comments about its product.

On the other side of the scale in this balancing process is the consumer's interest in obtaining information about the quality and characteristics of consumer products. The public's interest in obtaining information of this type is perhaps even greater than the corresponding interest in personal defamation actions, the interest in obtaining information about other people. Information obtained from product commentators often relates to health or safety problems in consumer products. It would be unfortunate indeed if the threat of product disparagement actions stifled the free flow of such information.

¹³*Bose Corp. v. Consumers Union of United States, Inc.*, 508 F.Supp. 1249, *rev'd on other grounds*, 692 F.2d 189 (1st Cir. 1982), *aff'd*, 466 U.S. 485 (1984).

¹⁴*See* Robert D. Sack, *Sack on Defamation*, § 13.1.1 (Practicing Law Institute 2007) (explaining that injurious falsehood describes two common law torts: slander of title and disparagement of quality); *Jack B. Parson Co. v. Nield*, 751 P.2d 1131, 1134 (Utah 1988) (stating that slander of title is also known as injurious falsehood).

On balance, the Court concludes that the factors underlying the *New York Times* privilege militate perhaps even more strongly in favor of the application of the actual malice standard in product disparagement cases than they do in personal defamation actions. Accordingly, the Court rules that the *New York Times* actual malice standard is applicable in this product disparagement case, provided, of course, that the plaintiff is a public figure for First Amendment purposes.¹⁵

This case was later appealed to the Supreme Court, but the applicability of the malice standard in a product disparagement case was not before the Court and, therefore, not addressed.¹⁶

The California Supreme Court has held that First Amendment defenses apply to “all claims whose gravamen is the alleged injurious falsehood of a statement” because “constitutional protection does not depend on the label given the stated cause of action.”¹⁷ The Utah Supreme Court has held that actual malice is required in a product disparagement action against a media defendant.¹⁸ The Colorado Court of Appeals has stated that “[t]he constitutional protections afforded a defendant in a defamation action are applicable to a defendant in a product disparagement action.”¹⁹

Plaintiff asserts that federal courts have never applied First Amendment defenses to a slander of title action. In support, Plaintiff cites to *Mueller v. Abdnor*.²⁰ One of the issues on

¹⁵*Bose Corp.*, 508 F.Supp. at 1270-71 (internal quotation marks and citations omitted).

¹⁶*Bose Corp. v. Consumers Union of United States, Inc.*, 466 U.S. 485, 513 (1984).

¹⁷*Blatty v. New York Times, Co.*, 728 P.2d 1177, 1182 (Cal. 1987).

¹⁸*Direct Import Buyer's Ass'n v. K.S.L., Inc.*, 572 P.2d 692, 696 (Utah 1977) (stating that “this case involves, not defamation of character, but defamation of a product of a business and the correct standard to be applied is that of actual malice.”).

¹⁹*Teilhaber Mfg. Co. v. Unarco Materials Storage*, 791 P.2d 1164, 1167 (Colo. Ct. App. 1989).

²⁰972 F.2d 931 (8th Cir. 1992).

appeal in that case is whether the trial court was correct in using a preponderance standard, rather than the higher clear and convincing standard.²¹ The court noted that “[t]he higher standard . . . does not apply in the ordinary defamation case, but in an action brought by an individual, specifically a public official or a public figure.”²² The court further noted that, under Missouri law, the “clear and convincing standard applies only in cases involving a public figure or public official.”²³ While acknowledging that the defendant in that case, the Small Business Administration, may be a public figure, because the case involved defamation to land, not defamation to an individual’s reputation, the court found that the trial court applied the appropriate standard.²⁴ The Court finds *Mueller* unhelpful because it does not involve a matter of public interest. Further, the *Mueller* court seemed to recognize that the clear and convincing standard could be applicable in some circumstances not present in that case.

Plaintiff also relies on *Zacchani v. Scripps-Howard Broadcasting Co.*²⁵ In that case, the Supreme Court declined to apply a First Amendment defense to a claim for misappropriation of property. Importantly, that case did not involve an allegedly wrongful statement. Further, the Court emphasized the distinction between the tort of misappropriation of property and the other

²¹*Id.* at 936.

²²*Id.*

²³*Id.*

²⁴*Id.* at 937.

²⁵433 U.S. 562 (1977).

torts to which First Amendment protections had been extended.²⁶ Based on these considerations, the Court finds *Zacchani* to be inapplicable here.

Having reviewed the relevant authority, the Court finds that slander of title claims are subject to the First Amendment. As one commentator aptly stated:

There is no reason to accord lessened protection because the plaintiff's claim is denominated "disparagement," "trade libel," or "injurious falsehood" rather than "libel" or "slander" or because the injury is to economic interests rather than to personal reputation. Since only economic injury and not injury to reputation and psyche is at issue, perhaps the balance should tip even further to the side of free expression.²⁷

B. COMMERCIAL SPEECH

Plaintiff further argues that Defendant's statements are entitled to lesser protection because they constitute commercial speech. Plaintiff, however, does not argue that all of Defendant's statements can be considered commercial speech. Plaintiff only points to two statements that it contends are commercial speech: press releases from May 28, 2003 and June 6, 2003.²⁸

"The Supreme Court has not held whether the actual malice standard applies to commercial speech"²⁹ Various courts, however, have held that the actual malice standard

²⁶*Id.* at 573-75.

²⁷Robert D. Sack, *Sack on Defamation*, § 13.1.8.

²⁸Plaintiff has previously stated that it does not assert that the June 6, 2003 press release constitutes slander of title. See Docket No. 682 at 2-3.

²⁹*Dial One of the Mid-South, Inc. v. BellSouth Telecomms., Inc.*, 269 F.3d 523, 526-27 (5th Cir. 2001).

does not apply to commercial speech.³⁰ The Court need not reach this issue because it finds that Defendant's May 28, 2003 and June 6, 2003 press releases do not constitute commercial speech.

The Supreme Court defines commercial speech as "expression related solely to the economic interests of the speaker and its audience."³¹ The Court has stated that the "core notion of commercial speech" is "speech which does no more than propose a commercial transaction."³² "According to the Court, speech may properly be characterized as commercial speech where, among other things, (1) it is concededly an advertisement, (2) it refers to a specific product, or (3) it is motivated by an economic interest in selling the product."³³ If all three factors are present, there is strong support for the conclusion that the speech is commercial.³⁴

With these principles in mind, the Court considers the two press releases which Plaintiff argues are commercial speech. Defendant's May 28, 2003 press release states:

Defending its interests in developing services to operate on the Linux platform, Novell today issued a dual challenge to The SCO Group over its recent statements regarding its UNIX ownership and potential intellectual property rights claims over Linux.

First, Novell challenged SCO's assertion that it owns the copyrights and patents to UNIX System V, pointing out that the asset purchase agreement entered

³⁰*See Procter & Gamble Co. v. Amway Corp.*, 242 P.3d 539, 556 (5th Cir. 2001) ("Supreme Court precedent prevents us from importing the actual-malice standard into cases involving false commercial speech."); *U.S. Healthcare, Inc. v. Blue Cross of Greater Philadelphia*, 898 F.2d 914, 937 (3d Cir. 1990) (concluding that commercial speech "does not warrant heightened constitutional protection").

³¹*Cent. Hudson Gas & Elec. Corp. v. Pub. Serv. Comm'n*, 447 U.S. 557, 561 (1980).

³²*Bolger v. Youngs Drug Prods. Corp.*, 463 U.S. 60, 66 (1983) (quotation marks and citations omitted).

³³*United States v. Wenger*, 427 F.3d 840, 847 (10th Cir. 2005) (citing *Bolger*, 463 U.S. at 66-67).

³⁴*Bolger*, 463 U.S. at 67.

into between Novell and SCO in 1995 did not transfer these rights to SCO. Second, Novell sought from SCO facts to back up its assertion that certain UNIX System V code has been copied into Linux. Novell communicated these concerns to SCO via a letter (text below) from Novell® Chairman and CEO Jack Messman in response to SCO making these claims.

“To Novell's knowledge, the 1995 agreement governing SCO’s purchase of UNIX from Novell does not convey to SCO the associated copyrights,” Messman said in the letter. “We believe it unlikely that SCO can demonstrate that it has any ownership interest whatsoever in those copyrights. Apparently you share this view, since over the last few months you have repeatedly asked Novell to transfer the copyrights to SCO, requests that Novell has rejected.”

“SCO claims it has specific evidence supporting its allegations against the Linux community,” Messman added. “It is time to substantiate that claim, or recant the sweeping and unsupported allegation made in your letter. Absent such action, it will be apparent to all that SCO’s true intent is to sow fear, uncertainty, and doubt about Linux in order to extort payments from Linux distributors and users.”

“Novell has answered the call of the open source community,” said Bruce Perens, a leading proponent of open source. “We admire what they are doing. Based on recent announcements to support Linux with NetWare services and now this revelation . . . Novell has just won the hearts and minds of developers and corporations alike.”³⁵

The text of the letter from Mr. Messman to SCO President and CEO Darl McBride is reprinted in the press release.³⁶ The press release then provides a short statement about Novell, stating that it is “a leading provider of information solutions.”³⁷ The letter identifies certain Novell products and provides contact information.³⁸

Defendant’s June 6, 2003 press release states:

In a May 28th letter to SCO, Novell challenged SCO’s claims to UNIX patent and copyright ownership and demanded that SCO substantiate its allegations that Linux infringes SCO’s intellectual property rights. Amendment

³⁵Docket No. 748, Ex. 2.

³⁶*Id.*

³⁷*Id.*

³⁸*Id.*

#2 to the 1995 SCO-Novell Asset Purchase Agreement was sent to Novell last night by SCO. To Novell's knowledge, this amendment is not present in Novell's files. The amendment appears to support SCO's claim that ownership of certain copyrights for UNIX did transfer to SCO in 1996. The amendment does not address ownership of patents, however, which clearly remain with Novell.

Novell reiterates its request to SCO to address the fundamental issue Novell raised in its May 28 letter: SCO's still unsubstantiated claims against the Linux community.³⁹

That press similarly provides a brief statement about Defendant.⁴⁰

The Court finds that these press releases do not constitute commercial speech as they do not propose a commercial transaction. Turning to the first factor set out in *Bolger*, the Court agrees with Plaintiff that, in some circumstances, a press release may constitute an advertisement. This is not such a circumstance. While, as discussed below, the press releases do mention certain of Defendant's products, they do not attempt to market those products in anyway. Rather, these press releases merely challenge Plaintiff's claims of ownership to the UNIX and UnixWare copyrights and their claims of infringement of such copyrights by Linux. Second, the press releases do mention some of Defendant's specific products. However, the mention of specific products is only in passing and in connection with boilerplate language describing Defendant. Third, there is at least some evidence to suggest that Defendant made these statements because they were motivated by an economic interest. By challenging Plaintiff on its claims of ownership and infringement Defendant could be seen as appealing to the Linux community, which may have been out of an economic interest. However, considering each of the *Bolger* factors and these press releases as a whole, the Court finds that Defendant's possible economic interest in making these statements alone does not convert these press releases into

³⁹*Id.*, Ex. 3.

⁴⁰*Id.*

commercial speech. Therefore, they are not entitled to lesser protection under the First Amendment as argued by Plaintiff.

C. LIMITED-PURPOSE PUBLIC FIGURE

Defendant next argues that, if the First Amendment applies to claims for slander of title, Plaintiff is a limited-purpose public figure. Plaintiff does not argue that it is not a limited-purpose public figure. Rather, Plaintiff argues that if the First Amendment does apply to a slander of title claim and Defendant's statements qualify for heightened protection, the appropriate course would be to provide a special question on the verdict form.⁴¹ As a result of Plaintiff's failure to respond to Defendant's argument, the Court finds that Plaintiff is a limited-purpose public figure. Even without Plaintiff's apparent concession of this point, the Court would find Plaintiff to be a limited-purpose public figure.

"[A] limited-purpose public figure is only a public figure with respect to a specific issue."⁴² The Supreme Court has defined a limited-purpose public figure as one who "voluntarily injects himself or is drawn into a particular public controversy and thereby becomes a public figure for a limited range of issues."⁴³

Utah employs a two-part test to determine whether the plaintiff is a limited-purpose public figure. First, the court must isolate the specific public controversy related to the defamatory remarks. Next, the court should examine the type and extent of the plaintiff's participation in that public controversy to

⁴¹Docket No. 683 at 2.

⁴²*World Wide Ass'n of Specialty Programs v. Pure, Inc.*, 450 F.3d 1132, 1136 (10th Cir. 2006).

⁴³*Gertz*, 418 U.S. at 351.

determine whether, under *Gertz*, he has “thrust [himself] to the forefront of [the] controvers[y] in order to influence the resolution of the issues involved.”⁴⁴

First, the Court finds that there is a public controversy concerning the ownership of the UNIX and UnixWare copyrights and Plaintiff’s contention that Linux users infringed those copyrights. In support of its Motion in Limine No. 3, Defendant has submitted a number of news accounts of this controversy.⁴⁵ Further, thousands of companies and individuals have a direct interest in the controversy because of the impact it may have on them. Second, the Court finds that Plaintiff thrust itself to the forefront of the controversy in order to influence the resolution of those issues. Specifically, Plaintiff made a number of public statements, through press releases and other means, and actively sought media coverage to air its position on these issues. Therefore, the Court finds that Plaintiff is a limited-purpose public figure concerning its alleged UNIX rights.

II. CONCLUSION

Based on the above, the Court finds that the First Amendment applies to slander of title claims, that Defendant’s press releases are not commercial speech, and that Plaintiff is a limited-purpose public figure. As a result, Plaintiff must prove, by clear and convincing evidence, that Defendant acted with actual malice. The above reasoning is equally applicable to Defendant’s slander of title claim.

⁴⁴*World Wide Ass’n of Specialty Programs*, 450 F.3d at 1136-37 (quoting *Wayment v. Clear Channel Broad., Inc.*, 116 P.3d 271, 283 (Utah 2005)).

⁴⁵*See* Docket No. 630.

It is therefore

ORDERED that Defendant's Motion to Determine that First Amendment Defenses Apply to Slander of Title and Require Proof of Constitutional Malice (Docket No. 748) is GRANTED.

It is further

ORDERED that Defendant's Motions in Limine No. 2 and 3 (Docket Nos. 629 and 630) are GRANTED.

DATED March 5, 2010.

BY THE COURT:



TED STEWART
United States District Judge

IN THE UNITED STATES COURT FOR THE DISTRICT OF UTAH
CENTRAL DIVISION

<p>THE SCO GROUP, INC., a Delaware corporation, Plaintiff,</p> <p>vs.</p> <p>NOVELL, INC., a Delaware corporation, Defendant.</p>	<p>MEMORANDUM DECISION AND ORDER LIMITING USE OF DEPOSITION TESTIMONY DURING OPENING STATEMENTS</p> <p>Case No. 2:04-CV-139 TS</p>
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This matter is before the Court on a letter sent to the Court by counsel for Plaintiff. In that letter, Plaintiff's counsel indicates that he intends to use videos and other demonstrative evidence in his opening statement. Plaintiff's counsel further indicates that Defendant has objected to the use of deposition testimony (either by video or otherwise) in opening statements. Plaintiff's counsel requests the Court's guidance on this issue prior to trial.

The Court will not permit either party to use portions of video depositions during opening statements. The Court believes that using video depositions during opening statements is akin to permitting a witness to testify during opening statements. The Court will not allow either practice.

The Court finds the reasoning in *Hynix Semiconductor Inc. v. Rambus Inc.*,¹ particularly instructive. That court addressed the same issue before this Court. The court noted that, “if unrestricted, a video deposition can be shown once in opening, again during trial (at least once), and in closing in the exact same form.”² In rejecting the use of video depositions during opening statements, the *Hynix* court held that “[r]epeatedly showing the same few deposition segments seeks to exalt the relevance of those videotaped shreds of evidence over live testimony.”³ The Court agrees with this statement. Accordingly, neither party will be allowed to use video deposition testimony during opening statements.

Reading deposition testimony, however, does not raise the same concerns.⁴ Therefore, the parties will be allowed to read portions of deposition testimony during openings.

As the parties have not sought the Court’s guidance on the use of other types of demonstrative evidence during opening statements, the Court makes no ruling on them. The Court expects counsel to communicate with each other the demonstrative evidence they intend to use in their opening statements and either party may make appropriate objection to the same prior to opening statements being delivered to the jury.

SO ORDERED.

¹2008 WL 190990 (N.D. Cal. Jan 21, 2008).

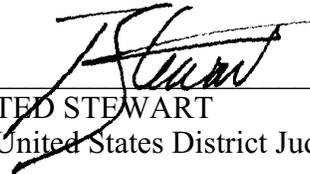
²*Id.* at *1.

³*Id.*

⁴*See id.*

DATED March 5, 2010.

BY THE COURT:



TED STEWART
United States District Judge

IN THE UNITED STATES COURT FOR THE DISTRICT OF UTAH
CENTRAL DIVISION

<p>THE SCO GROUP, INC., a Delaware corporation, Plaintiff, vs. NOVELL, INC., a Delaware corporation, Defendant.</p>	<p>SPECIAL VERDICT FORM Case No. 2:04-CV-139 TS</p>
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We, the jury, unanimously find as follows:

1. Did the amended Asset Purchase Agreement transfer the UNIX and UnixWare copyrights from Novell to SCO?

Yes _____ No

If you answer "Yes," go on to Question 2. If you answer "No," have the foreperson sign and date the Special Verdict Form and notify the Court Security Officer that you have reached a verdict.

2. Did Novell slander SCO's title to the UNIX and UnixWare copyrights?

Yes _____ No _____

If you answer "Yes," go on to Question 3. If you answer "No," have the foreperson sign and date the Special Verdict Form and notify the Court Security Officer that you have reached a verdict.

3. What is the amount of special damages, if any, that you award SCO as a result of Novell's slander of SCO's title to the UNIX and UnixWare copyrights?

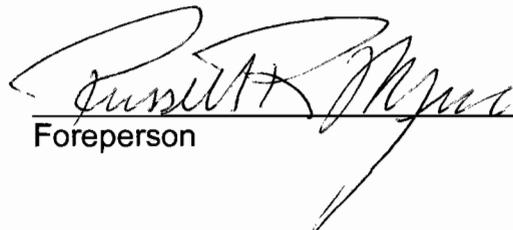
\$ _____

Go on to Question 4.

4. What is the amount of punitive damages, if any, that you award SCO as a result of Novell's slander of SCO's title to the UNIX and UnixWare copyrights?

\$ _____

DATED this 30 day of March, 2010.



Foreperson

IN THE UNITED STATES COURT FOR THE DISTRICT OF UTAH
CENTRAL DIVISION

<p>THE SCO GROUP, INC., a Delaware corporation, Plaintiff/Counterclaim Defendant,</p> <p>vs.</p> <p>NOVELL, INC., a Delaware corporation, Defendant/Counterclaim Plaintiff.</p>	<p>FINDINGS OF FACT AND CONCLUSIONS OF LAW</p> <p>Case No. 2:04-CV-139 TS</p>
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This matter came before the Court for trial from March 8, 2010, through March 26, 2010. Having heard the evidence presented at trial, reviewed the materials submitted by the parties, and being otherwise fully informed, the Court makes the following findings of fact and conclusions of law.

I. INTRODUCTION

“This case primarily involves a dispute between SCO and Novell regarding the scope of intellectual property in certain UNIX and UnixWare technology and other rights retained by Novell following the sale of part of its UNIX business to Santa Cruz, a predecessor corporate

entity to SCO, in the mid-1990s.”¹ Following competing motions for summary judgment, this Court issued an opinion granting summary judgment to Novell on many of the key issues.² SCO appealed the Court’s decision to the Tenth Circuit Court of Appeals which affirmed in part, reversed in part, and remanded for trial on the remaining issues. Specifically, the Tenth Circuit reversed the Court’s “entry of summary judgment on (1) the ownership of the UNIX and UnixWare copyrights; (2) SCO’s claim seeking specific performance; (3) the scope of Novell’s rights under Section 4.16 of the APA; [and] (4) the application of the covenant of good faith and fair dealing to Novell’s rights under Section 4.16 of the APA.”³ The Tenth Circuit remanded these issues for trial.⁴

Pursuant to the Tenth Circuit’s remand, a trial was held in this matter beginning March 8, 2010, through March 26, 2010. Prior to trial, the parties agreed that certain issues were to be decided by the jury and certain issues were to be decided by the Court.⁵ Specifically, SCO’s claim for slander of title and Novell’s counterclaim for slander of title were to be decided by the jury.⁶ At the close of Novell’s evidence, the Court granted SCO’s Motion for Judgment as a

¹*The SCO Group, Inc. v. Novell, Inc.*, 578 F.3d 1201, 1204 (10th Cir. 2009).

²*See* Docket No. 377.

³*The SCO Group, Inc.*, 578 F.3d at 1227.

⁴*Id.*

⁵Docket No. 750.

⁶*Id.* at 1.

Matter of Law Pursuant to Fed.R.Civ.P. 50 on Novell's counterclaim for slander of title.⁷ After its deliberations, the jury found that the amended Asset Purchase Agreement ("APA") did not transfer the UNIX and UnixWare copyrights from Novell to SCO.⁸ Because it found that SCO was not the owner of the UNIX and UnixWare copyrights, there was no need for the jury to reach SCO's slander of title claim.

The issues the Court must now decide include: (1) SCO's claim for specific performance, seeking an order directing Novell to transfer the UNIX and UnixWare copyrights; (2) Novell's counterclaim for declaratory judgment of its rights under Section 4.16 of the APA; and (3) SCO's claim that Novell breached the implied covenant of good faith and fair dealing in exercising its rights under Section 4.16 of the APA.⁹ Additionally, the parties agreed that Novell's affirmative defense of unclean hands, if any, should be tried to the Court.¹⁰ Novell did not include any discussion of its affirmative defense of unclean hands in its Proposed Findings of Fact and Conclusions of Law.¹¹ The Court finds that this constitutes a waiver of that defense and

⁷Docket No. 839.

⁸Docket No. 846.

⁹Docket No. 750, at 1.

¹⁰*Id.*

¹¹Docket No. 852.

it will not be addressed by the Court.¹² Therefore, only those three issues set forth above remain for the Court's determination.

II. FINDINGS OF FACT

A. THE PARTIES

1. Plaintiff, The SCO Group, Inc. ("SCO"), is a Delaware corporation with its principal place of business in Lindon, Utah.¹³ SCO is in the business of developing and selling software products.¹⁴
2. Defendant, Novell, Inc. ("Novell"), is a Delaware corporation with its executive offices in Waltham, Massachusetts, and its principal product development facility in Provo, Utah.¹⁵ Novell is also involved in the development and sale of software products.¹⁶

B. UNIX AND UNIXWARE

3. UNIX is the name of a computer operating system originally developed in the late 1960s by engineers at AT&T's Bell Laboratories.¹⁷

¹²Because of the Court's determination of the issues, discussion of Novell's defense of unclean hands is unnecessary in any event. In addition, the Court need not rule on Novell's defense of substantial performance.

¹³Docket No. 731, at 3.

¹⁴*Id.*

¹⁵*Id.*

¹⁶*Id.*

¹⁷*Id.*

4. “By the 1980s, AT&T had developed UNIX System V (“SVRX”); it built a substantial business by licensing UNIX source code to a number of major computer manufacturers, including IBM, Sun, and Hewlett-Packard. These manufacturers, in turn, would use the SVRX source code to develop their own individualized UNIX-derived “flavors” for use on their computer systems. Licensees could modify the source code and create derivative products mostly for internal use, but agreed to keep the UNIX source code confidential.”¹⁸
5. “In 1993, Novell paid over \$300 million to purchase UNIX System Laboratories, the AT&T spin-off that owned the UNIX copyrights and licenses.”¹⁹
6. “UnixWare is the brand name for the more recent releases of the UNIX System V, Release 4 operating system developed and licensed in the early 1990s by Novell and its predecessors to the technology. The product was called UnixWare because it was to be a combination of the latest release of System V source code and some components of Novell’s NetWare source code. The first releases of UnixWare contain all or virtually all of the technology included in the immediately prior System V releases, SVR4.2 and SVR4.2MP.”²⁰

¹⁸*The SCO Group, Inc.*, 578 F.3d at 1204-05.

¹⁹*Id.* at 1205.

²⁰Docket No. 542 at 7. Both parties agree that the Court’s prior factual findings, to the extent not reversed, are applicable here. *See* Docket No. 852, at 21 & n.7; Docket No. 853, at 8 n.3; Trial Tr. 1917:8-1918:3.

7. As will be discussed in more detail below, Novell sold the UnixWare business to Santa Cruz in 1995 under the APA.²¹ “The core members of Novell’s UNIX licensing group became employees of Santa Cruz. After the APA, Santa Cruz and then SCO developed and licensed SCO UnixWare.”²²
 8. “SCO released several subsequent releases of UnixWare, including multiple versions of each UnixWare 2 and UnixWare 7, which are the latest implementation of System V and the latest generation of UNIX SVR 4.2 with SVR 4.2 MP. All of the releases of UnixWare subsequent to Novell’s transfer of the business are releases of System V. Witnesses testified that the commercially valuable technology from the prior versions is included in UnixWare, and UnixWare would not operate without its System V components. The current version of UnixWare supports the newest industry-standard hardware.”²³
 9. “Novell acknowledges that it is not entitled to royalties from any UnixWare licenses.”²⁴
- C. THE SALE TO SANTA CRUZ**
10. In 1995, Robert Frankenberg, then-CEO of Novell, made the determination that it would be in the best interest of Novell to sell the UNIX business.²⁵ Mr. Frankenberg appointed

²¹Docket No. 542, at 7.

²²*Id.*

²³*Id.* at 7-8.

²⁴*Id.* at 9.

²⁵Trial Tr. at 88:9-89:13.

Novell Senior Vice President Duff Thompson as the individual responsible for accomplishing the sale of the UNIX business.²⁶ Mr. Thompson and others from Novell had discussions with various individuals from Santa Cruz, which was ultimately chosen as the buyer.²⁷

11. It was the initial intent of Novell to sell the entire UNIX business.²⁸ However, during the negotiations, the parties realized that Santa Cruz could not afford to pay cash or stock for the entire purchase price sought by Novell.²⁹ Therefore, the deal was structured so that Novell only sold certain of the assets that it had acquired when it purchased the UNIX business from AT&T.³⁰ In particular, Novell sold Santa Cruz the UnixWare business, that is the right to exploit and develop UnixWare.³¹ As will be discussed below, Novell retained substantial rights in the UNIX business,³² that is the UNIX System V source licensing business where source code was provided to customers to create a binary product.³³ Specifically, Novell retained the UNIX and UnixWare copyrights and the right

²⁶*Id.* at 90:13-25; *id.* at 223:4-11.

²⁷*Id.* at 223:12-228:6; *id.* at 92:14-93:19.

²⁸*Id.* at 90:2-12; *id.* at 221:24-222:2.

²⁹*Id.* at 234:19-25; *id.* at 353:3-10; *id.* at 459:14-22; *id.* at 2344:1-19.

³⁰*Id.* at 2346:23-2347:1.

³¹*Id.* at 2305:5-2308:10; *id.* at 2347:2-5.

³²*Id.* at 2346:17-2348:3.

³³*Id.* at 2305:11-16.

to receive SVRX royalties. For its part, SCO was to act as Novell's agent in the collection of those royalties and SCO acquired certain UNIX-related assets, such as contracts and employees, to aid in this role.³⁴

12. In exchange for selling these assets, Novell received the following: approximately 16% to 19% of Santa Cruz Stock; a royalty arrangement if Santa Cruz hit certain benchmarks on certain products; and the royalties from SVRX licenses.³⁵

D. THE ASSET PURCHASE AGREEMENT

13. In September 1995, Novell and Santa Cruz entered into the APA memorializing the terms of the sale.³⁶ The APA was signed on September 19, 1995, and was amended in December 1995 and again in October 1996.³⁷ SCO is a successor-in-interest to all of the assets that Santa Cruz acquired under the amended APA with Novell.³⁸

14. Recitals A and B of the APA state:
 - A. Seller is engaged in 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 (collectively, the "Business").
 - B. The Board of Directors of each of Seller and Buyer believe it is in the best interests of each company and their respective stockholders that Buyer

³⁴*Id.* at 2347:6-2348:3.

³⁵*Id.* at 235:4-236:15; *id.* at 353:3-10; *id.* at 2344:20-2347:5; *see also* Trial Ex. 1, § 1.2(a)-(b).

³⁶Docket No. 731 at 3; *see also* Trial Ex. 1.

³⁷Docket No. 731 at 3; *see also* Trial Ex. 1.

³⁸Docket No. 731 at 3.

acquire certain assets of, and assume certain liabilities of Seller compromising the Business (the “Acquisition”).³⁹

15. The “Acquisition” and those “certain assets” which Santa Cruz acquired are set forth in more detail in Section 1.1(a) of the APA. That section provides:

On the terms and subject to the conditions set forth in this Agreement, Seller will sell, convey, transfer, assign and deliver to Buyer and Buyer will purchase and acquire from Seller on the Closing Date . . . all of Seller’s right, title and interest in and to the assets and properties of Seller relating to the Business (collectively the “Assets”) identified on Schedule 1.1(a) hereto. Notwithstanding the foregoing, the Assets to be so purchased shall not include those assets (the “Excluded Assets”) set forth on Schedule 1.1(b).⁴⁰

16. Schedule 1.1(a) identifies those assets that were transferred under the APA. Section I of Schedule 1.1(a) states:

All rights and ownership of UNIX and UnixWare, including but not limited to all versions of UNIX and UnixWare and all copies of UNIX and UnixWare (including revisions and updates in process), and all technical, design, development, installation, operation and maintenance information concerning UNIX and UnixWare, including source code, source documentation, source listings and annotations, appropriate engineering notebooks, test data and test results, as well as all reference manuals and support materials normally distributed by Seller to end-users and potential end-users in connection with the distribution of UNIX and UnixWare⁴¹

That provision goes on to list a number of UNIX source code products, binary product releases, products under development, and other technology.⁴²

³⁹Trial Ex. 1, Recitals A-B.

⁴⁰*Id.* § 1.1(a).

⁴¹*Id.* Schedule 1.1(a), § I.

⁴²*Id.*

17. Section II of Schedule 1.1(a) transferred “[a]ll of Seller’s claims arising after the Closing Date against any parties relating to any right, property or asset included in the Business.”⁴³
18. Section III.L of Schedule 1.1(a) transferred to Santa Cruz “[a]ll of Seller’s rights pertaining to UNIX and UnixWare under any software development contracts [or] licenses . . . and which pertain to the Business, . . . including without limitation: Software and Sublicensing Agreements”⁴⁴
19. Section IV of Schedule 1.1(a) transfers “[a]ll copies of UNIX and UnixWare, wherever located, owned by Seller.”⁴⁵
20. Section V of Schedule 1.1(a), the “Intellectual Property” portion of the included asset schedule, transfers: “Trademarks UNIX and UnixWare as and to the extent held by the seller”⁴⁶
21. Section V of Schedule 1.1(b), the “Intellectual Property” portion of the excluded asset schedule, states:
 - “A. All copyrights and trademarks, except for the trademarks UNIX and UnixWare.
 - B. All Patents”⁴⁷

⁴³*Id.* Schedule 1.1(a), § II.

⁴⁴*Id.* Schedule 1.1(a), § III.L.

⁴⁵*Id.* Schedule 1.1(a), § IV.

⁴⁶*Id.* Schedule 1.1(a), § V.

⁴⁷*Id.* Schedule 1.1(b), § V.

22. Section VIII of Schedule 1.1(b) excludes “[a]ll right, title and interest to the SVRx Royalties, less the 5% fee for administering the collection thereof pursuant to Section 4.16 hereof.”⁴⁸
23. Under the plain language of the original APA, all copyrights, including the UNIX and UnixWare copyrights, were clearly excluded from the transaction between Novell and Santa Cruz.⁴⁹
24. Another significant aspect of the APA is the treatment of SVRX royalties. Under the payment provisions of the APA, Novell retained “all rights to the SVRX Royalties notwithstanding the transfer of the SVRX Licenses to [Santa Cruz].”⁵⁰ Santa Cruz agreed to collect and pass through 100% of the SVRX royalties, as defined in Section 4.16, and Novell agreed to pay Santa Cruz a 5% administrative fee.⁵¹ Santa Cruz obtained only “legal title and not an equitable interest in such royalties within the meaning of Section 541(d) of the Bankruptcy Code.”⁵²
25. Section 4.16(a) of the APA, as amended by Amendment No. 1, provides:

Following the Closing, Buyer shall administer the collection of all royalties, fees and other amounts due under all SVRX Licenses (as listed in detail under item VI

⁴⁸*Id.* Schedule 1.1(b), § VIII.

⁴⁹*See The SCO Group, Inc.*, 578 F.3d at 1210 (“If we were to interpret the contract based initially only on the APA itself—without regard to Amendment No. 2—we agree that its language unambiguously excludes the transfer of copyrights.”)

⁵⁰Trial Ex. 1, § 1.2(b).

⁵¹*Id.*

⁵²*Id.*

of Schedule 1.1(a) hereof and referred to herein as “SVRX Royalties”). Within one (1) calendar month following each calendar month in which SVRX royalties (and royalties from Royalty-Bearing Products) are received by Buyer [except for those SVRX Royalties to be retained in their entirety by Buyer pursuant to paragraph (e) of Section 1.2 hereof] Buyer shall remit 100% of all such royalties to Seller or Seller’s assignee. Buyer shall also provide to Seller, within six (6) days following the calendar month in which such royalties are received, and estimate the total amount of such royalties. . . . In consideration of such activities described in the preceding sentence, Seller shall pay to Buyer within 5 days of receipt of SVRX Royalties from Buyer as set forth in the preceding sentence, an administrative fee equal to 5% of such SVRX Royalties⁵³

26. Item VI of Schedule 1.1(a) states that among the assets to be transferred to SCO are “[a]ll contracts relating to the SVRX Licenses listed below.”⁵⁴ Item VI of Schedule 1.1(a) goes on to provide a list of SVRX software releases, up to and including UNIX System V 4.2 MP.⁵⁵ UNIX System V 4.2 MP was the last version of UNIX before UnixWare.⁵⁶
27. Under Section 1.2(e), which was added by Amendment No. 1, Santa Cruz had the right to retain 100% of the following categories of SVRX Royalties: (1) fees attributable to stand-alone contracts for maintenance and support of SVRX products listed under Item VI of Schedule 1.1(a); (2) source code right to use fees under existing SVRX Licenses from the licensing of additional CPU’s and from the distribution by Santa Cruz of additional source code copies; (3) source code right to use fees attributable to new SVRX licenses approved by Novell pursuant to Section 4.16(b); and (4) royalties attributable to the

⁵³Trial Ex. 1, § 4.16(a) and Amendment No. 1.

⁵⁴*Id.*, Schedule 1.1(a), § VI.

⁵⁵*Id.*

⁵⁶Trial Tr. 1731:24-1732:5.

distribution by Santa Cruz and its distributors of binary copies of SVRX products, to the extent such copies are made by or for Santa Cruz pursuant to Santa Cruz's own licenses from Novell acquired before the Closing Date.⁵⁷

28. Section 4.16(b), as amended by Amendment No. 1, states:

Buyer shall not, and shall not have the authority to, amend, modify or waive any right under any SVRX License without the prior written consent of Seller. In addition, at Seller's sole discretion and direction, Buyer shall amend, supplement, modify or waive any rights under, or shall assign any rights to, any SVRX License to the extent so directed in any manner or respect by Seller. In the event that Buyer shall fail to take any such action concerning the SVRX Licenses as required herein, Seller shall be authorized, and hereby is granted, the rights to take any action on Buyer's own behalf. Notwithstanding the foregoing, Buyer shall have the right to enter into amendments of the SVRX Licenses (i) as may be incidentally involved through its rights to sell and license UnixWare software or the Merged Product . . . or future versions of the Merged Product, or (ii) to allow a licensee under a particular SVRX License to use the source code of the relevant SVRX product(s) on additional CPU's or to receive an additional distribution, from Buyer, of such source code. In addition, Buyer shall not, and shall have no right to, enter into new SVRX Licenses except in the situation specified in (i) of the preceding sentence or as otherwise approved in writing in advance by Seller on a case by case basis.⁵⁸

29. Another aspect of the APA is the License Back of Assets found in Section 1.6. That section states that Santa Cruz must execute a license agreement giving Novell "a royalty-free, perpetual, worldwide license to (i) all of the technology included in the Assets and (ii) all derivatives of the technology included in the Assets."⁵⁹

⁵⁷Trial Ex. 1, § 1.2(e) and Amendment No. 1.

⁵⁸*Id.* § 4.16(b) and Amendment No. 1.

⁵⁹*Id.* § 1.6.

30. The parties did enter into a Technology Licensing Agreement (“TLA”) in connection with the APA’s closing.⁶⁰ The TLA states that Novell retains a “non-exclusive, non-terminable, worldwide, fee-free licence to” use “Licensed Technology” under certain conditions.⁶¹ The TLA provides that the term “Licensed Technology” has the same meaning attributed to it in the APA. The APA, in turn, defines “Licensed Technology” as “all of the technology included in the Assets and . . . all derivatives of the technology included in the Assets.”⁶²
31. Novell’s Board of Directors approved the APA on September 18, 1995.⁶³ As part of that approval, the Board of Directors resolved that “Novell will retain all of its patents, copyrights and trademarks (except for the trademarks UNIX and UnixWare)”⁶⁴

E. THE CLOSING AND AMENDMENT NO. 1

32. The transaction between Novell and Santa Cruz closed on December 6, 1995. At the same time, the parties entered into a Bill of Sale⁶⁵ and Amendment No. 1.⁶⁶

⁶⁰Trial Ex. 162.

⁶¹*Id.*

⁶²Trial Ex. 1, § 1.6.

⁶³Trial Ex. Z3.

⁶⁴*Id.* at 2.

⁶⁵Trial Ex. 90.

⁶⁶Trial Ex. 1, Amendment No. 1; Trial Ex. T5.

33. As set forth above, Amendment No. 1 made various changes to the APA, including changes to Section 4.16. Amendment No. 1, however, did not amend the intellectual property portion of either the included or excluded asset schedules found in Schedule 1.1(a) and Schedule 1.1(b).⁶⁷

F. AMENDMENT NO. 2

34. The parties entered into Amendment No. 2 on October 16, 1996.⁶⁸ Amendment No. 2 amended the intellectual property provision of the excluded asset schedule, Schedule 1.1(b), as follows:

All copyrights and trademarks, except for the copyrights and trademarks owned by Novell as of the date of the Agreement required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies. However, in no event shall Novell be liable to SCO for any claim brought by any third party pertaining to said copyrights and trademarks.⁶⁹

35. Amendment No. 2 also set out provisions for how the parties were to approach future buy-outs of SVRX licenses.⁷⁰ Section B.5 of Amendment No. 2 states:

This Amendment does not give Novell the right to increase any SVRX licensee's rights to SVRX source code, nor does it give Novell the right to grant new SVRX source code licenses. In addition, Novell may not prevent SCO from exercising its rights with respect to SVRX source code in accordance with the Agreement.⁷¹

⁶⁷Trial Ex. 1, Amendment No. 1; Trial Ex. T5.

⁶⁸Trial Ex. 1, Amendment No. 2; Trial Ex. N8.

⁶⁹Trial Ex. 1, Amendment No. 2; Trial Ex. N8.

⁷⁰Trial Ex. 1, Amendment No. 2; Trial Ex. N8.

⁷¹Trial Ex. 1, Amendment No. 2; Trial Ex. N8.

G. TESTIMONY ON SCO'S CLAIM FOR SPECIFIC PERFORMANCE

36. The bulk of the evidence presented during the March 2010 trial focused on the intent of the parties concerning the APA and what copyrights were “required” for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies. The Court will discuss that evidence below.

1. The Intent of the Parties

a. SCO's Witnesses

37. SCO presented a number of witnesses who testified that it was the intent of the parties to transfer ownership of the copyrights.

38. Robert Frankenberg, the CEO of Novell at the time of the APA, testified that it was his intent to sell the UNIX business in its entirety, including the UNIX copyrights.⁷²

However, Mr. Frankenberg's testimony revealed that he was only involved in the high-level negotiations, that he did not read the entire APA before he signed it, and that he relied on the advice of the attorneys and others in accepting the APA.⁷³

39. Duff Thompson, the Senior Vice President of Corporate Development for Novell at the time of the APA, testified that he was instructed to sell the UNIX business in its entirety.⁷⁴ As part of that sale, Mr. Thompson testified that he “assumed” that the

⁷²Trial Tr. 90:2-9.

⁷³*Id.* at 148:13-24.

⁷⁴*Id.* at 221:24-222:2.

copyrights were being sold as well.⁷⁵ Despite this assumption, Mr. Thompson offered no testimony on any actual discussions concerning the copyrights. Mr. Thompson also testified that around the time of the APA he had already decided to leave Novell.⁷⁶ Mr. Thompson subsequently became a board member of Santa Cruz and ultimately of SCO.⁷⁷ Mr. Thompson was part of the SCO board when SCO made the decision to sue Novell and voted in favor of that decision.⁷⁸ Mr. Thompson also has a financial interest in SCO and stands to gain financially if SCO is successful in this lawsuit.⁷⁹

40. Edward Chatlos, the Senior Director of Strategic Relationships at Novell at the time of the APA, was a primary negotiator of the deal between Novell and Santa Cruz.⁸⁰ Mr. Chatlos testified that the general nature of the transaction was to sell “the entire business,” including the copyrights.⁸¹ Mr. Chatlos admitted that his wife works for SCO and that she had stock options that could become more valuable if SCO succeeded in this lawsuit.⁸²

⁷⁵*Id.* at 230:24-231:4; *id.* at 304:2-10.

⁷⁶*Id.* at 278:1-279:11.

⁷⁷*Id.* at 279:12-280:8.

⁷⁸*Id.* at 280:9-24.

⁷⁹*Id.* at 281:13-282:13.

⁸⁰*Id.* at 349:13-16.

⁸¹*Id.* at 351:8-11; *id.* at 351:20-22; *id.* at 352:5-8.

⁸²*Id.* at 374:8-375:11.

41. Jim Wilt, Santa Cruz's Vice President of Development at the time of the APA, testified that the intent of SCO was to acquire the entire UNIX and UnixWare business, including the copyrights.⁸³ However, Mr. Wilt also testified that he became less active toward the end of the negotiations and that he could not recall any specific conversations concerning the transfer of copyrights.⁸⁴
42. Alok Mohan, the CEO of Santa Cruz at the time of the APA, testified that Santa Cruz bought the business from Novell.⁸⁵ However, Mr. Mohan acknowledged that he was only involved in the negotiations at a high level.⁸⁶ He also testified that he was not involved in writing the APA, which was drafted by others.⁸⁷
43. Doug Michels, the Executive Vice President of Santa Cruz at the time of the APA, testified that the intent of Santa Cruz was to buy the UNIX business from Novell.⁸⁸ Mr. Michels testified that Santa Cruz bought the business "[a]nd as a result of buying the business, we owned all the intellectual property."⁸⁹ Mr. Michels stated that there was "no

⁸³*Id.* at 445:12-446:5.

⁸⁴*Id.* at 442:11-444:8.

⁸⁵*Id.* at 458:14-19.

⁸⁶*Id.* at 455:20-456:9.

⁸⁷*Id.* at 456:10-457:6.

⁸⁸*Id.* at 491:15-21.

⁸⁹*Id.* at 501:3-4.

way that [the] deal could have happened without getting the copyrights.”⁹⁰ However, Mr. Michels could not recall specific conversations concerning the copyrights.⁹¹ Mr. Michels further stated that he did not draft or review the APA,⁹² did not have specific recollections of being involved in Amendment No. 1,⁹³ and did not know what Amendment No. 2 was.⁹⁴

44. Burt Levine, an attorney working with Novell at the time of the APA who later transferred to Santa Cruz, testified that the intent was to transfer ownership rights, including the copyrights.⁹⁵ Mr. Levine testified that he disagreed with the language concerning intellectual property in the excluded asset schedule of the APA and would have stricken this language or reformed it in some way.⁹⁶ However, Mr. Levine did review this portion of the APA when it was being drafted and did not alter the copyright exclusion.⁹⁷

⁹⁰*Id.* at 504:7-8.

⁹¹*Id.* at 504:9-505:7.

⁹²*Id.* at 510:11-24; *id.* 512:13-15.

⁹³*Id.* at 511:5-11.

⁹⁴*Id.* at 511:11-15.

⁹⁵*Id.* at 518:5-14.

⁹⁶*Id.* at 530:13-531:17.

⁹⁷*Id.* at 531:18-537:23; *see also* Trial Ex. X3.

45. Ty Mattingly, Novell's Vice President of Corporate Development Strategic Relationships at the time of the APA, was also involved in the sale of the UNIX business to Santa Cruz.⁹⁸ Mr. Mattingly testified that Novell "sold the business" to Santa Cruz and that Novell only retained 95% of the SVRX royalties.⁹⁹ Mr. Mattingly, however, stated that he was not focused on the details of the transaction and was more of a "high level strategy guy."¹⁰⁰ While he was involved in the memorandum of understanding phase, he was not involved in the actual drafting of the APA.¹⁰¹ Further, Mr. Mattingly testified that he owns over 9,000 shares of SCO stock.¹⁰²
46. Kimberlee Madsen worked as the Manager of Law and Corporate Affairs for Santa Cruz at the time of the APA.¹⁰³ Ms. Madsen was involved in the transaction between Novell and Santa Cruz as support for Santa Cruz's general counsel Steve Sabbath and was involved in the negotiations as well.¹⁰⁴ Ms. Madsen testified that the intent was for Santa Cruz to purchase all of the UNIX and UnixWare assets, including the copyrights.¹⁰⁵

⁹⁸Trial Tr. at 674:23-675:6.

⁹⁹*Id.* at 676:12-677:4.

¹⁰⁰*Id.* at 711:2-4.

¹⁰¹*Id.* at 711:5-715:10.

¹⁰²*Id.* at 701:12-23.

¹⁰³*Id.* at 780:22-24.

¹⁰⁴*Id.* at 781:9-17.

¹⁰⁵*Id.* at 783:2-9.

However, Ms. Madsen conceded that the transaction was more complicated than simply buying the whole business.¹⁰⁶

47. Steve Sabbath, Santa Cruz's general counsel at the time of the APA, testified that Santa Cruz was buying the entire business, including the intellectual property.¹⁰⁷ However, Mr. Sabbath previously executed a declaration where he made a number of contradictory statements, including that, under the APA, Novell would retain significant UNIX-related assets including much of the UNIX System V intellectual property.¹⁰⁸

b. Novell's Witnesses

48. Tor Braham, outside counsel for Novell and lead drafter of the APA, testified that Novell was selling to Santa Cruz the UnixWare business while Novell "retained all of the economics and relationships arising out of the UNIX business."¹⁰⁹ Mr. Braham testified that the exclusion of the copyrights was agreed upon by the parties.¹¹⁰ He also stated that the purpose for excluding the copyrights was to protect Novell's interest in the UNIX business that it had retained.¹¹¹ Mr. Braham further testified that Santa Cruz could use the assets that it received "to then build a new version of UnixWare, and it would own the

¹⁰⁶*Id.* at 820:1-3.

¹⁰⁷*Id.* at 899:12-16.

¹⁰⁸*Id.* at 926:9-927:10.

¹⁰⁹*Id.* at 2346:17-2347:5.

¹¹⁰*Id.* at 2363:19-23.

¹¹¹*Id.* at 2364:3-11.

copyrights in what it built on top of the base UNIX and UnixWare software that it had a copy of.”¹¹² Santa Cruz could then license that product to third parties.¹¹³

49. David Bradford worked as Novell’s general counsel from 1985 to 2000. Mr. Bradford testified that it was “very clear” that Novell retained the copyrights.¹¹⁴ Mr. Bradford further testified that the Novell board of directors agreed that under the APA Novell would retain all of its copyrights.¹¹⁵
50. James Tolonen, Novell’s Chief Financial Officer at the time of the APA, testified that the copyrights were purposefully excluded from the assets to be transferred to Santa Cruz.¹¹⁶ Mr. Tolonen explained that retaining the copyrights was done: (1) as “part of [Novell’s] strategy and [was] really necessary under the nature of the transaction”; (2) because Santa Cruz was relatively small and could not afford the entire value; (3) to avoid ownership issues with other products; and (4) because of concerns with the long-term viability of Santa Cruz.¹¹⁷ As will be discussed in more detail below, Mr. Tolonen also testified that Amendment No. 2 was meant to address use rights, not ownership of the copyrights.¹¹⁸

¹¹²*Id.* at 2365:2-9.

¹¹³*Id.* at 2365:10-13.

¹¹⁴*Id.* at 2438:14-16.

¹¹⁵*Id.* at 2442:13-19.

¹¹⁶*Id.* at 2021:24-2022:3.

¹¹⁷*Id.* at 2022:7-2023:18.

¹¹⁸*Id.* at 2036:5-22.

51. Michael Defazio, an Executive Vice President at Novell at the time of the APA, testified that the intent of the APA was not to transfer the copyrights and that the copyrights were retained as a way to “bulletproof” Novell’s financial asset stream.¹¹⁹
52. Jack Messman was a member of Novell’s Board of Directors at the time of the APA¹²⁰ and would later become CEO. Mr. Messman was present for a telephonic meeting where the APA was discussed.¹²¹ Mr. Messman testified that, based upon that meeting, he understood that the copyrights were not sold as part of the transaction between Novell and Santa Cruz and that there was a specific discussion on that issue.¹²² Mr. Messman stated Novell retained the copyrights because SCO was a “fledgling company” and because Novell was worried about the SVRX revenue stream.¹²³ Mr. Messman testified that retention of the copyrights “was the key part of the deal that convinced the board to do that deal.”¹²⁴ Mr. Messman further testified that the copyrights were not required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies as the plan was for SCO to develop new code.¹²⁵

¹¹⁹*Id.* at 2311:7-17.

¹²⁰*Id.* at 2284:2-3

¹²¹*Id.* at 2284:9-10.

¹²²*Id.* at 426:9-13-428:5.

¹²³*Id.* at 2284:17-2285:1.

¹²⁴*Id.* at 2285:5-6.

¹²⁵*Id.* at 429:2-10; *id.* at 437:5-439:24.

c. Conclusions from the Testimony

53. The Court finds the witnesses presented by SCO on the parties' intent to be less credible than Novell's witnesses for a number of reasons. First, many of SCO's witnesses were involved only in the "high level" negotiations and did not participate in the actual drafting of the APA where the details of the deal were agreed to. Thus, while these individuals may have provided relevant testimony as to what the parties were intending or hoping to do at the outset, their testimony has less relevance as to what actually happened as the negotiations unfolded and the APA was actually drafted. This fact is critical here because the transaction could not be completed as it had been initially envisioned, specifically it had to be structured to account for the fact that Santa Cruz did not have the financial resources necessary to purchase the entire business and there was uncertainty about its long-term viability. Second, many of these witnesses seemed to take for granted that the copyrights would transfer, but there was surprisingly little evidence of any actual discussions concerning the copyrights. Finally, a number of SCO's witnesses, though not all, have a direct financial interest in this litigation.¹²⁶

d. Course of Performance

54. SCO also points to the parties' course of performance to support its argument that it was the intent of the parties to transfer ownership of the copyrights.

¹²⁶*Id.* at 281:13:282:13; *id.* at 445:12-446:5; *id.* at 701:12-23.

55. SCO points to a “joint” press release issued after the transaction. That press release announced an “agreement for SCO to purchase the UNIX business from Novell.”¹²⁷ The press release goes on to state that “SCO will acquire Novell’s UnixWare business and UNIX intellectual property.”¹²⁸ While SCO described this as a “joint” press release, there is no indication that it was joined in by Novell and appears to be issued solely by SCO. Further, the press release supports Novell’s argument that SCO only acquired the UnixWare business, as opposed to the UNIX business. Finally, though the press release mentions “UNIX intellectual property,” it does not specifically mention copyrights and could just as logically refer to other UNIX-related assets which did transfer under the APA.
56. SCO also points to its 1996 Form 10-K in which it stated that it “acquired certain assets related to the UNIX business including the core intellectual property from Novell.”¹²⁹ Again, there is no mention of copyrights and no description of what “core intellectual property” was acquired.
57. SCO also relies on the fact that SCO copyright notices were placed on existing versions of UnixWare, but as SCO’s own witness admitted, this does not answer the question of ownership.¹³⁰ SCO also points to the physical possession of copyright registration

¹²⁷Trial Ex. 526.

¹²⁸*Id.*

¹²⁹Trial Ex. 521.

¹³⁰Trial Tr. at 1779:2-20.

certificates. However, SCO's witnesses testified that, when the APA was finalized, SCO staff and property simply remained in the same physical location as before.¹³¹

58. SCO also argues that letters sent from Novell to its customers support the conclusion that the copyrights were transferred. These letters state that Novell transferred to SCO Novell's "existing ownership interest in UNIX System-based offerings and related products."¹³² However, SCO's witnesses acknowledged that the letters were not meant to give the customers all of the details of the transaction, but merely to inform the customers that they were going to deal with SCO in the future.¹³³
59. SCO also points to the TLA as further evidence of the parties intent to transfer copyright ownership. However, testimony concerning the TLA affirmed that one of the purposes of that agreement was to allow Novell the right to use post-APA SCO-developed code.¹³⁴
60. The Court finds that SCO's course of performance evidence, either separately or in combination, does not support its position that it was the intent of the parties to transfer copyright ownership.

e. Conclusion on the Intent of the Parties

61. Based on the evidence presented at trial, the Court finds that it was not the intent of the parties to transfer ownership of the UNIX and UnixWare copyrights. Rather, the Court

¹³¹*Id.* at 641:19-642:3.

¹³²Trial Ex. 580.

¹³³Trial Tr. at 1705:22-1707:25.

¹³⁴*Id.* at 1964:8-22; *id.* at 1984:6-1985:21.

finds that Novell intentionally retained the UNIX and UnixWare copyrights. The Court finds that the copyrights were retained by Novell for the following reasons: (1) to protect the SVRX royalty stream; (2) because Santa Cruz could not afford to purchase the entire UNIX business; and (3) because of concerns with Santa Cruz's future financial viability.

2. *Whether the Copyrights are "Required"*

62. SCO argues that the copyrights are, nonetheless, "required" under Amendment No. 2.
63. As set forth above, Amendment No. 2 amended the excluded asset schedule (Schedule 1.1(b)) of the APA to state: "All copyrights and trademarks, except for the copyrights and trademarks owned by Novell as of the date of the Agreement required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies."¹³⁵ The parties presented differing evidence on the intent and purpose of Amendment No. 2, as well as which copyrights were "required."

a. *SCO's Witnesses*

64. SCO presented little evidence as to the intent of Amendment No. 2. Steve Sabbath, general counsel for Santa Cruz at the time of the APA, testified that Amendment No. 2 was meant to confirm that Santa Cruz acquired all copyrights pertaining to the UNIX business.¹³⁶ Mr. Sabbath stated that the copyrights were needed to protect the technology.¹³⁷ As discussed above, however, Mr. Sabbath executed a contradictory

¹³⁵Trial Ex. 1, Amendment No. 2.

¹³⁶Trial Tr. at 911:8-10.

¹³⁷*Id.* at 913:12-15.

declaration and, as will be discussed below, Mr. Sabbath's testimony is refuted by Novell witnesses.

65. Kimberlee Madsen testified that the copyrights were essential for SCO to protect its intellectual property rights.¹³⁸ However, when asked what copyrights were required for Santa Cruz to operate its UNIX and UnixWare business, she responded that Santa Cruz "would have acquired all the copyrights."¹³⁹ Ms. Madsen also testified that she did not draft the language of Amendment No. 2 and had no specific recollection of any discussions with Mr. Sabbath about that Amendment.¹⁴⁰
66. A number of SCO witnesses testified that the UNIX and UnixWare copyrights were "required" for SCO to operate its business. For instance, William Broderick, a former Novell and current SCO UNIX Contract manager, testified that the way "you show your ownership and protect your software is by copyright."¹⁴¹ But Mr. Broderick was not involved in the negotiation of the APA and had no involvement in either Amendment.¹⁴²
67. Darl McBride, the former CEO of SCO, testified that ownership of the copyrights was required for SCO's business.¹⁴³ Mr. McBride testified that there were a number of

¹³⁸*Id.* at 875:7-14.

¹³⁹*Id.* at 802:23-803:1.

¹⁴⁰*Id.* at 802:17-22.

¹⁴¹*Id.* at 667:20-21.

¹⁴²*Id.* at 621:16-25.

¹⁴³*Id.* at 997:3-14.

reasons for this, stating that copyrights were required in order to make copies, do deals, and enforce your rights against others.¹⁴⁴ Mr. McBride was also not involved with negotiation or drafting of either the APA or Amendment No. 2.¹⁴⁵

68. John Maciaszek, a former Novell and current SCO UNIX Product Manager, testified that copyrights are required for SCO to operate its business.¹⁴⁶ There is no evidence that Mr. Maciaszek was involved in negotiating or drafting the APA or its Amendments.
69. Ryan Tibbitts, general counsel for SCO, testified that the copyrights were “critical” for SCO to run the business purchased from Novell.¹⁴⁷ Mr. Tibbitts stated: “Because we own the core UNIX intellectual property and a very critical component of that at this point in time is to protect that IP, and we have got to have that IP to keep other people from encroaching into our marketplace.”¹⁴⁸ Mr. Tibbitts was similarly not involved with the APA or its Amendments.¹⁴⁹
70. Most of these witnesses testified that the copyrights were “required” for SCO to run its SCOsource licensing program.¹⁵⁰ However, as will be discussed below, this program was

¹⁴⁴*Id.* at 997:14-23.

¹⁴⁵*Id.* at 1054:5-12.

¹⁴⁶*Id.* at 1687:22-24.

¹⁴⁷*Id.* at 1844:25-1846:1.

¹⁴⁸*Id.* at 1845:15-18.

¹⁴⁹*Id.* at 1847:16-24.

¹⁵⁰*Id.* at 1225:18-1226:10.

not something that SCO acquired from Novell. SCO only acquired the UnixWare business from Novell, while Novell retained significant rights in the UNIX business. Amendment No. 2 applies only to those copyrights “required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies.”

71. SCO witnesses acknowledged that SCO could operate its UnixWare business without the copyrights. Mr. McBride admitted that SCO could run its UnixWare business without the copyrights.¹⁵¹ Mr. Tibbitts similarly stated that SCO could run its UNIX product business without the UNIX and UnixWare copyrights.¹⁵² Indeed, SCO had offered to sell its business without the copyrights.¹⁵³
72. Moreover, it was undisputed that SCO would own any newly developed code and could obtain copyrights to protect that code.¹⁵⁴

b. Novell's Witnesses

73. Novell presented a different view of the intent and meaning of Amendment No. 2.
74. Allison Amadia worked as in-house counsel for Novell at the time of Amendment No. 2 and was the lead negotiator and drafter of that document for Novell.¹⁵⁵ Ms. Amadia was contacted by Steve Sabbath, general counsel for SCO, who requested an amendment to

¹⁵¹*Id.*

¹⁵²*Id.* at 1850:11-1851:18.

¹⁵³*Id.*

¹⁵⁴*Id.* at 933:2-7; *id.* at 939:3-18; *id.* at 816:19-817:14; *id.* at 2365:2-9.

¹⁵⁵*Id.* at 2105:18-25.

the APA.¹⁵⁶ Mr. Sabbath stated that because of a “clerical error” the APA did not transfer copyright ownership.¹⁵⁷

75. Mr. Sabbath sent Ms. Amadia a proposed amendment which would have amended Section V of Schedule 1.1(b) of the APA (the intellectual property portion of the excluded assets schedule) to state: “All copyrights and trademarks, except for the copyrights and trademarks owned by Novell as of the date of this Amendment No. 2, which pertain to the UNIX and UnixWare technologies and which SCO has acquired hereunder. . . .”¹⁵⁸
76. After review of the APA and discussions with Tor Braham and James Tolonen, Novell, through Ms. Amadia, made the decision not to alter the APA with regard to copyright ownership as requested by Mr. Sabbath.¹⁵⁹ Rather than alter the APA to transfer copyrights, Ms. Amadia modified the amendment proposed by Mr. Sabbath to affirm that SCO had the rights to use the technology.¹⁶⁰ Ms. Amadia testified that Amendment No. 2 was meant to affirm that SCO had the right to use, manufacture, and make modifications to the UNIX technology.¹⁶¹

¹⁵⁶*Id.* at 2107:2-12.

¹⁵⁷*Id.*

¹⁵⁸Trial Ex. T34.

¹⁵⁹Trial Tr. at 2119:25-2120:6.

¹⁶⁰*Id.* at 2120:17-25.

¹⁶¹*Id.* at 2128:1-19.

77. James Tolonen, Novell's Chief Financial Officer at the time of the APA and Amendment No. 2, similarly testified that Amendment No. 2 was meant to address use rights, not ownership.¹⁶² Mr. Tolonen stated that the easiest way to show a transfer of the copyrights would be to include them on the schedule of included assets, which did not happen.¹⁶³
78. Mr. Sabbath signed Amendment No. 2, as modified by Ms. Amadia, on behalf of Santa Cruz with no apparent further protest.¹⁶⁴

c. Conclusions from the Testimony

79. The Court finds that Amendment No. 2 was not intended to confirm that the UNIX and UnixWare copyrights were transferred to SCO under the APA, as argued by SCO. Rather, the Court finds that Novell made a conscious decision to retain the copyrights in the APA and that intent was reflected throughout the negotiating and drafting of Amendment No. 2. The Court finds that Amendment No. 2 was only meant to confirm that SCO had the right to use the UNIX technology. The Court finds the testimony of Novell's witnesses, especially Ms. Amadia and Mr. Tolonen, to be credible. The Court finds SCO's witnesses to be less credible for a number of reasons, including the fact that many were not directly involved in the negotiation and drafting of Amendment No. 2. Additionally, as previously stated, many have a financial interest in this litigation.

¹⁶²*Id.* at 2036:5-22.

¹⁶³*Id.* at 2037:18-25.

¹⁶⁴Trial Ex. 1, Amendment No. 2; *see also* Trial Tr. 2124:21-2127:18.

80. Based on all of the above, the Court finds that it was not the parties intent to transfer ownership of the UNIX and UnixWare copyrights to SCO. Rather, Novell purposefully retained those copyrights. The purpose for doing so was to protect its significant interest in the SVRX royalty stream, to alleviate concerns of SCO's future financial viability, and because of the fact that SCO could not afford to purchase the entire UNIX business. The Court further finds that the copyrights are not required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies. SCO did not acquire the entire UNIX business from Novell, but only acquired the UnixWare business while Novell retained substantial rights in the UNIX business. The undisputed evidence is that SCO did not need the UNIX and UnixWare copyrights in order to operate its UnixWare product business. Further, ownership of the copyrights is not required for SCO to protect its own code. SCO did present evidence that the copyrights were required for SCO to operate its SCOSource licensing program. However, this was a business strategy designed by SCO after the APA and its Amendments, not something that it acquired from Novell.

H. NOVELL’S WAIVER RIGHTS UNDER SECTION 4.16

81. As stated above, Novell retained significant assets under the APA. One of those assets were royalties from SVRX licenses.¹⁶⁵ Novell recognized that this future royalty stream would be very significant.¹⁶⁶
82. Under the APA, SCO was to act as Novell’s agent in the collection of these royalties.¹⁶⁷ In connection with that role, SCO acquired certain assets, including certain agreements and certain employees of Novell.¹⁶⁸
83. Section 4.16 of the APA was “the key provision that embodied the deal that the UNIX business, as compared to the UnixWare business, . . . would remain with Novell, but be administered by SCO.”¹⁶⁹ The intent of Section 4.16 was to “bulletproof” Novell’s ongoing financial interest.¹⁷⁰ A number of SCO witnesses similarly recognized the purpose of Section 4.16 as a way of protecting and managing Novell’s ongoing financial

¹⁶⁵See Trial Ex. 1, § 1.2(b); *see also* Trial Tr. at 236:6-15; *id.* at 353:3-10; *id.* at 2344:20-2347:5.

¹⁶⁶*Id.* at 2310:14-15.

¹⁶⁷*Id.* at 2347:6-2348:3; *see* Trial Ex. 1, § 4.16(a); *see also* Trial Ex. 163 (stating that SCO “will manage the licensing business for UNIX prior to UnixWare 1.0 (SVRx)”).

¹⁶⁸Trial Tr. at 2347:6-2348:3.

¹⁶⁹*Id.* at 2350:2-9.

¹⁷⁰*Id.* at 2310:15-2311:6.

interests, though those witnesses disagreed on the scope of Novell's rights under that section.¹⁷¹

84. Tor Braham testified that Section 4.16 was added to make very clear that SCO did not have the right to modify, change, or waive SVRX licenses without Novell's written consent and that if SCO did not act properly Novell "could step in and do it ourselves."¹⁷² Mr. Braham testified that Section 4.16 was drafted to avoid any doubt that Novell had complete rights to control what happened with the UNIX business.¹⁷³ Mr. Braham further stated that, under Section 4.16, "[i]f SCO didn't do what it was supposed to do as [Novell's] agent, we could step in . . . and do it ourselves."¹⁷⁴
85. Section 4.16(a) states: "Following the Closing, Buyer shall administer the collection of all royalties, fees and other amounts due under all SVRX Licenses (as listed in detail under item VI of Schedule 1.1(a) hereof and referred to herein as 'SVRX Royalties'). . . ." Item VI of Schedule 1.1(a) states that among the assets to be transferred to SCO are "[a]ll contracts relating to the SVRX Licenses listed below." However, the list provided in Item VI of Schedule 1.1(a) provides a list of SVRX software releases, not a list of license agreements.

¹⁷¹*Id.* at 247:23-248:19; *id.* at 447:3-19; *id.* at 829:12-16.

¹⁷²*Id.* at 2350:10-19.

¹⁷³*Id.* at 2354:6-8.

¹⁷⁴*Id.* at 2355:6-13.

86. Section 4.16(b) preserved to Novell certain waiver rights with regard to SVRX licenses.

It states, in pertinent part:

Buyer shall not, and shall not have the authority to, amend, modify or waive any right under any SVRX License without the prior written consent of Seller. In addition, at Seller's sole discretion and direction, Buyer shall amend, supplement, modify or waive any rights under, or shall assign any rights to, any SVRX License to the extent so directed in any manner or respect by Seller. In the event that Buyer shall fail to take any such action concerning the SVRX Licenses as required herein, Seller shall be authorized, and hereby is granted, the rights to take any action on Buyer's own behalf.¹⁷⁵

87. The question here is what constitutes an "SVRX License." SCO contends that the term SVRX License applies only to product supplement agreements, while Novell contends that the term is not so limited and applies to software agreements and sublicensing agreements as well.

88. William Broderick, the Director of Software Licensing for SCO, described the various types of agreements. The first type of agreement is called the software agreement or umbrella agreement.¹⁷⁶ The software agreement provided the general terms and conditions that a company would agree to when licensing source code.¹⁷⁷ The second type of agreement is a product supplement agreement or product schedule license. This type of license actually licenses a software product.¹⁷⁸ The third type of agreement is a sublicensing agreement. The sublicensing agreement grants the rights to distribute a

¹⁷⁵Trial Ex. 1, § 4.16(b).

¹⁷⁶Trial Tr. at 555:15-20.

¹⁷⁷*Id.* at 555:21-556:9.

¹⁷⁸*Id.* at 578:13-18.

binary product.¹⁷⁹ These agreements work together. The software and product license allow companies to create a UNIX flavor and the sublicensing agreement allows that company to distribute its UNIX flavor. A company could not take a product license if it did not have an umbrella software agreement.¹⁸⁰

89. SCO's witnesses asserted that Novell's waiver rights extend only to product schedule licenses. For instance, Mr. Broderick testified that Novell used the term SVRX Licenses to refer to product schedule licenses that licensed SVRX products.¹⁸¹ However, Mr. Broderick had no involvement in the drafting, negotiation, or approval of the APA or its amendments.¹⁸² Mr. Broderick also conceded that there was nothing in the APA so limiting Section 4.16.¹⁸³ Other SCO witnesses testified that this provision was only meant to give Novell control over binary royalties,¹⁸⁴ but this testimony suffers from the same flaws set forth above in relation to the intent of the parties. Further, many of these witnesses acknowledged that the language of Section 4.16 of the APA was not limited to product supplement agreements.¹⁸⁵

¹⁷⁹*Id.* at 581:1-12.

¹⁸⁰*Id.* at 627:9-19.

¹⁸¹*Id.* at 658:23-659:16.

¹⁸²*Id.* at 621:16-25.

¹⁸³*Id.* at 654:24-655:7

¹⁸⁴*Id.* at 110:2-21; *id.* at 247:23-248:19; *id.* at 367:22-369:10; *id.* at 447:3-19; *id.* at 494:23-494:18; *id.* at 852:1-10; *id.* at 906:7-23.

¹⁸⁵*Id.* at 379:12-381:5; *id.* at 519:17-520:14; *id.* at 654:24-655:7.

90. SCO also points to the parties' course of performance in arguing that Novell's waiver rights extend only to product schedule licenses. Specifically, SCO points to a dispute between Novell, Santa Cruz, and IBM in 1996 where Novell attempted to grant IBM a buyout of its contractual royalty obligations.¹⁸⁶ SCO objected and began to initiate a lawsuit against Novell.¹⁸⁷ The dispute was ultimately settled by: (1) cancelling the buyout that Novell had executed with IBM and replacing it with Amendment No. X, a three-party agreement between IBM, Novell, and SCO; (2) a payment to SCO; and (3) clarifying how to approach future buyouts through Amendment No. 2.¹⁸⁸ During that dispute, Novell did not invoke Section 4.16(b) to the extent it now has.¹⁸⁹ However, the fact that Novell decided to settle this dispute in this way provides little support for SCO's ultimate argument. As recognized by the Tenth Circuit, "[p]arties may choose to settle claims for a variety of reasons unrelated to their merits, not the least to avoid expensive litigation or to maintain civility in an important commercial relationship."¹⁹⁰
91. The Court finds that Novell's waiver rights extend to all three types of agreements and are not limited to product supplement agreements. The Court bases this finding on a number of things. First, a number of witnesses, including SCO witnesses, recognized the

¹⁸⁶*Id.* at 1689:5-21.

¹⁸⁷*Id.* at 1689:22-1695:20.

¹⁸⁸*Id.* at 1696:16-1697:24.

¹⁸⁹*Id.* at 1695:21-1696:9.

¹⁹⁰*The SCO Group, Inc.*, 578 F.3d at 1223.

importance of the royalty stream that Novell was retaining and viewed Section 4.16 as the mechanism that Novell put in place to protect that royalty stream. While Novell did transfer certain assets to SCO, it did not transfer the SVRX royalty stream. In order to protect and maintain control over that royalty stream, Novell retained significant rights, as set out in Section 4.16. It only makes sense for Novell to retain control over all components of the SVRX licensing agreements in order to protect this significant asset. The reasoning behind this is the somewhat hierarchical nature of the agreements. Each company was required to sign a software agreement and termination of the software agreement would terminate the other agreements. If Novell did not retain control over the software agreement, SCO could terminate that agreement, thereby terminating the other agreements, and deprive Novell of revenue to which Novell would be entitled. Thus, in order for Novell to protect its SVRX revenue stream, it needed to retain rights with respect to all components of the SVRX licensing agreements.

92. Second, the plain language of the APA states that Novell's waiver rights apply to "any SVRX License." The language of the APA is not limited to product supplement agreements. Several SCO witnesses conceded that the language of the APA was not limited to product supplement agreements.
93. Third, Section 1.2(e) provides support for this finding. By identifying "source code right to use fees under existing SVRX Licenses" as a type of SVRX Royalty, this provision supports the conclusion that "SVRX License" includes software agreements covering source code rights.

94. Fourth, 4.16(a) refers to Item VI of Schedule 1.1(a). That provision states that “[a]ll contracts relating to the SVRX Licenses listed below” will be transferred to SCO. While Item VI does not go on to list licenses, it does go on to list releases of UNIX. Thus, under this provision, SVRX licenses include all contracts relating to UNIX System V releases, up to and including UNIX System V 4.2 MP, the latest version of UNIX prior to UnixWare.
95. Finally, the Court finds SCO’s evidence on this to be less credible for many of the same reasons stated above in relation to SCO’s claim for specific performance. Further, many witnesses acknowledged that the language of Section 4.16 of the APA was not limited to product supplement agreements.
96. Based on the above, the Court finds that Novell’s waiver rights apply to all three types of agreements and are not limited to product supplement agreements. With this in mind, the Court turns to the actions taken by Novell under Section 4.16.

I. LINUX, SCOSOURCE, AND NOVELL’S ACTIONS UNDER SECTION 4.16

97. “In 2002 and 2003, tensions increased between Novell and SCO. SCO asserted that users of Linux, an alternative to UNIX might be infringing on SCO’s UNIX-related intellectual property rights.”¹⁹¹
98. “In late 2002, SCO formally created a new division known as SCOSource. In approximately January 2003, SCO launched its SCOSource program. . . . As a general matter, the SCOSource program was an effort to obtain license fees from Linux users

¹⁹¹*Id.* at 1206.

based on SCO's claims to UNIX intellectual property allegedly contained in Linux."¹⁹²

Under its SCOSource program, SCO "purported to offer Linux users the opportunity to purchase an intellectual property license in order to continue using Linux without infringing any of SCO's copyrights."¹⁹³

99. In January 2003, Joseph LaSala, Novell's then-General Counsel, learned of SCO's SCOSource program.¹⁹⁴ Mr. LaSala viewed this as a "campaign against Linux end users" and became concerned about SCO's program because of Novell's own involvement in the Linux business.¹⁹⁵ By that point, Novell had "announced its intention to get involved in the Linux business."¹⁹⁶ In connection with Novell's Linux business, IBM purchased \$50 million worth of Novell stock.¹⁹⁷
100. SCO filed a lawsuit against IBM in 2003 alleging that IBM had distributed UNIX source code and other confidential information to Linux.¹⁹⁸ As part of that litigation, SCO threatened to terminate IBM's SVRX license.

¹⁹²Docket No. 542, at 13.

¹⁹³*The SCO Group, Inc.*, 578 F.3d at 1206-07.

¹⁹⁴Trial Tr. at 1882:7-15.

¹⁹⁵*Id.* at 1882:16-1883:19.

¹⁹⁶*Id.* at 1883:3-10.

¹⁹⁷*Id.* at 2289:6-2290:13.

¹⁹⁸*The SCO Group, Inc. v. Int'l Bus. Machs. Corp.*, 2:03-CV-294 TC (D. Utah).

101. After the initiation of that lawsuit, Mr. LaSala received a call from IBM's outside counsel.¹⁹⁹ IBM's outside counsel informed Mr. LaSala that Novell had certain rights under the APA²⁰⁰
102. At some later point, Mr. LaSala participated in a call between himself, the general counsel of IBM, IBM's outside counsel, and Novell's outside counsel.²⁰¹ During that call, IBM's outside counsel requested that Novell waive all claims that SCO had made or might make against IBM with respect to IBM's SVRX license.²⁰² Novell, through its outside counsel, responded that they were looking at the issue, that they would evaluate each on a case by case basis, and that Novell would take action accordingly.²⁰³ Novell undertook that analysis, which resulted in letter written on June 9, 2003.²⁰⁴
103. On June 9, 2003, then-CEO of Novell Jack Messman wrote a letter to SCO CEO Darl McBride.²⁰⁵ In that letter, Novell stated that SCO was advancing unsubstantiated charges and threatening action that could potentially injure Novell, Novell's customers, and the

¹⁹⁹Trial Tr. at 1886:19-1887:1.

²⁰⁰*Id.* at 1887:2-12.

²⁰¹*Id.* 1908:18-1909:12.

²⁰²*Id.* at 1909:13-18.

²⁰³*Id.* at 1909:19-1910:4.

²⁰⁴*Id.* at 1910:5-8.

²⁰⁵Trial Ex. F16.

industry in general.²⁰⁶ Mr. Messman explained that Novell and SCO had granted IBM an irrevocable, fully paid-up, perpetual right to exercise all of the rights under the IBM SVRX Licenses that IBM then held and that IBM had paid over \$10 million for this right.²⁰⁷ Novell then quoted directly from Section 4.16(b) of the APA, stating that Novell had the sole discretion to waive any rights under any SVRX License.²⁰⁸ Novell concluded, acting pursuant to Section 4.16(b), by directing “SCO to waive any purported right SCO may claim to terminate IBM’s SVRX Licenses enumerated in Amendment X or to revoke any rights thereunder.”²⁰⁹ When SCO failed to take the action directed by Novell, Novell wrote a second letter on June 12, 2003.²¹⁰ In that letter, Novell, acting pursuant to Section 4.16(b) and on behalf of SCO, waived “any purported right SCO may claim to terminate IBM’s SVRX Licenses enumerated in Amendment X or to revoke any rights thereunder.”²¹¹

104. Novell wrote another letter to SCO on October 7, 2003, responding to SCO’s “position that code developed by IBM, or licensed by IBM from a third party, which IBM incorporated in AIX but which itself does not contain proprietary UNIX code supplied by

²⁰⁶*Id.*

²⁰⁷*Id.*

²⁰⁸*Id.*

²⁰⁹*Id.*

²¹⁰Trial Ex. 675.

²¹¹*Id.*

AT&T under the license agreements between AT&T and IBM ('IBM Code'), must nevertheless be maintained as confidential and may not be contributed to Linux."²¹² In that letter, Novell disputed SCO's position, citing to various agreements.²¹³ Novell again cited to Section 4.16(b) of the APA and directed "SCO to waive any purported right SCO may claim to require IBM to treat IBM Code itself as subject to the confidentiality obligations or use restrictions of the Agreements."²¹⁴ When SCO failed to take the action directed by Novell, Novell, acting pursuant to Section 4.16(b), waived "any purported right SCO may claim to require IBM to treat IBM Code . . . which IBM incorporated in AIX but which itself does not contain proprietary UNIX code supplied by AT&T under the license agreements between AT&T and IBM, itself as subject to the confidentiality obligations or use restrictions of the Agreements."²¹⁵

105. A similar interaction took place in relation to another company, Silicon Graphics, Inc. ("SGI"). On October 7, 2003, Novell wrote a letter to SCO disputing SCO's "position that code developed by SGI, or licensed by SGI from a third party, which SGI incorporated in its UNIX variant but which itself does not contain proprietary UNIX code supplied by AT&T under the license agreement between AT&T and SGI ("SGI Code"),

²¹²Trial Ex. F21.

²¹³*Id.*

²¹⁴*Id.*

²¹⁵Trial Ex. 691.

must nevertheless be maintained as confidential and may not be contributed to Linux.”²¹⁶ Novell stated that SCO’s position was “not supportable” and detailed the reasons why.²¹⁷ Citing to Section 4.16(b) of the APA, Novell directed SCO “to waive any purported right SCO may claim to terminate SGI’s SVRX license or to revoke any rights thereunder.”²¹⁸ Novell further directed SCO “to waive any purported right SCO may claim to require SGI to treat SGI code itself as subject to the confidentiality obligations or use restrictions of SGI’s SVRX license.”²¹⁹ Novell made clear that it was not “directing SCO to take any action (other than to waive termination) with respect to claims that SGI incorporated in Linux certain proprietary UNIX code supplied by AT&T under the SGI license agreement.”²²⁰

106. SCO also took this position with a third company, Sequent Computer Systems. Novell responded in similar fashion. On February 6, 2004, Novell wrote a letter to SCO directing SCO, under Section 4.16(b) of the APA, “to waive any purported right SCO may claim to require Sequent (or IBM as its successor) to treat Sequent Code as subject to the confidentiality obligations or use restrictions of Sequent’s SVRX license.”²²¹ When

²¹⁶Trial Ex. G21.

²¹⁷*Id.*

²¹⁸*Id.*

²¹⁹*Id.*

²²⁰*Id.*

²²¹Trial Ex. 108.

SCO failed to take the action directed by Novell, Novell, acting pursuant to Section 4.16(b), waived “any purported right SCO may claim to require Sequent (or IBM as its successor) to treat Sequent Code as subject to the confidentiality obligations or use restrictions of Sequent’s SVRX license.”²²²

107. Chris Stone, Senior Vice President of Novell from 1997 to 1999 and Vice Chairman of Novell from 2002 to 2004, testified that when Novell took these actions with respect to IBM, it was concerned about Novell, Linux, and the open source movement, and that SCO’s actions were damaging to that process.²²³ Mr. Stone further testified that Novell’s actions were not motivated by something said or done by IBM and were not motivated by IBM’s purchase of \$50 million of Novell stock.²²⁴ Jack Messman, Novell’s former CEO, similarly testified that Novell’s action to waive SCO’s claims against IBM was unrelated to IBM’s investment in Novell.²²⁵
108. As will be discussed below, the Court finds that Novell had the right, under Section 4.16 of the APA, to take these actions.

²²²Trial Ex. 500.

²²³Trial Tr. at 1613:22-1614:3.

²²⁴*Id.* at 1638:3-11.

²²⁵*Id.* at 2298:24-2299:23.

III. CONCLUSIONS OF LAW

A. SPECIFIC PERFORMANCE

109. SCO requests, as an alternative to its other claims for relief, an order directing Novell to transfer the UNIX and UnixWare copyrights. SCO's request for specific performance must be rejected for three reasons. First, the jury verdict has determined that the amended APA did not transfer the copyrights from Novell to SCO. Second, it was not the intent of the parties to transfer ownership of the copyrights. Finally, the copyrights are not required for SCO to exercise its right with respect to the acquisition of UNIX and UnixWare technologies. Each of these conclusions will be discussed in detail below.

1. The Jury Verdict

110. As set forth above, this matter came before the jury on the parties' competing claims for slander of title. While Novell's slander of title claim was dismissed on a Rule 50 motion, SCO's claim proceeded to the jury. The jury determined that the amended APA did not transfer the UNIX and UnixWare copyrights from Novell to SCO. Because the jury determined that SCO was not the owner of the copyrights, there was no need for the jury to determine SCO's claim for slander of title.

111. "[T]he Seventh Amendment prevents district courts from applying equitable doctrines on the basis of factual predicates rejected, explicitly or implicitly, by a jury verdict."²²⁶ If

²²⁶*Haynes Trane Serv. Agency, Inc. v. Am. Standard, Inc.*, 573 F.3d 947, 959 (10th Cir. 2009).

“the jury verdict by necessary implication reflects the resolution of a common factual issue . . . the district court may not ignore that determination.”²²⁷

112. SCO argues that the jury verdict does not resolve its claim for specific performance. SCO argues that its claim rests on findings not precluded by the jury verdict. In support of this argument, SCO posits a number of rather tenuous grounds on which the jury could have determined the question presented to it. The Court must respectfully disagree with SCO’s assessment.
113. As stated previously, the bulk of the evidence at trial concerned two issues: (1) whether the parties intended to transfer ownership of the copyrights; and (2) whether the copyrights were “required” for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies. Both parties presented substantial evidence and argument on these two issues.
114. The jury verdict in this case shows that the jury considered SCO’s evidence on these points and rejected that evidence in favor of the evidence presented by Novell. The jury verdict necessarily means that the jury found that it was not the intent of the parties to transfer ownership of the copyrights from Novell to SCO and that the copyrights were not required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies. As discussed in the Court’s Memorandum Decision and Order Denying SCO’s Renewed Motion for Judgment as a Matter of Law or, in the Alternative, for a New Trial, the jury’s verdict is well supported by the evidence.

²²⁷*Ag Servs. of Am., Inc. v. Nielsen*, 231 F.3d 726, 732 (10th Cir. 2000).

115. SCO's claim for specific performance rests upon factual predicates rejected by the jury verdict. SCO's request for specific performance essentially asks the Court to ignore or overrule the jury verdict. Such relief is prohibited under the Seventh Amendment. For this reason, SCO's claim for specific performance must fail. Even if the jury verdict did not preclude SCO's claim for specific performance, it would be rejected for the reasons discussed below.

2. *The Intent of the Parties*

116. Much of the evidence at trial focused on the intent of the parties in drafting the APA. While Plaintiff presented a number of witnesses from both Novell and Santa Cruz who testified that it was the intent of the parties to transfer the copyrights, the Court, as evidently did the jury, finds the evidence presented by Novell on this issue to be more persuasive. The Court finds particularly persuasive the testimony of Novell's outside counsel Tor Braham, who was the lead drafter of the APA.

117. As set forth above, Mr. Braham's testimony showed that Novell purposefully retained ownership of the copyrights. Novell did so in order to protect its substantial retained interest in the UNIX business. Mr. Braham's testimony is supported by the testimony of James Tolonen who explained that retaining the copyrights was necessary: (1) because of the nature of the transaction; (2) because Santa Cruz could not afford the entire value; (3) to avoid ownership issues with other products; and (4) because of concerns with the long-term viability of Santa Cruz. Mr. Braham's testimony is further supported by Michael Defazio, an Executive Vice President at Novell, who testified that the copyrights were

retained as a way to “bulletproof” Novell’s financial asset stream. SCO’s witnesses on this issue are less credible for the reasons set forth above.

118. The parties’ dealings concerning Amendment No. 2 further support the conclusion that it was not the intent of the parties to transfer copyright ownership. As set forth above, Steve Sabbath, Santa Cruz general counsel, contacted Allison Amadia, in-house counsel for Novell, to discuss a “clerical error” resulting in the copyrights not being transferred. Santa Cruz sought an amendment which would have amended Schedule 1.1(b) to exclude all copyrights and trademarks, except for the copyrights and trademarks owned by Novell which pertain to the UNIX and UnixWare technologies. Upon further research, Ms. Amadia concluded that no clerical error had occurred and Novell specifically rejected the proposed amendment. Thus, Amendment No. 2 was written to state that all copyrights and trademarks were excluded, except for the copyrights and trademarks required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies. As testified to by both Ms. Amadia and Mr. Tolonen, this amendment addressed use, not ownership. This interaction shows Novell’s continued intent to retain the copyrights.

119. SCO argues that the forthright negotiator rule is applicable to Amendment No. 2. The Tenth Circuit has stated:

Where the parties assign different meanings to a term, it is interpreted in accordance with the meaning attached by one of them if at the time the agreement was made
(a) that party did not know of any different meaning attached by the other, and the other knew the meaning attached by the first party; or

(b) that party had no reason to know of any different meaning attached by the other, and the other had reason to know the meaning attached by the first party.²²⁸

Here, there is no evidence to support the argument that Ms. Amadia had reason to know that SCO attached a different meaning to Amendment No. 2. Indeed, Ms. Amadia specifically testified that she informed Mr. Sabbath that Novell would not transfer the copyrights.²²⁹

120. SCO also argues that other provisions of the APA are consistent with it acquiring ownership of the copyrights. Specifically, SCO cites to the license back provision of the APA, Section 1.6. However, that provision only applies to the assets listed in the included asset schedule, which does not include the UNIX copyrights. Further, testimony concerning the TLA affirmed that one of the purposes of that agreement was to allow Novell the right to use post-APA SCO-developed code.²³⁰ SCO also points to Section II of Schedule 1.1(a), which transferred “[a]ll of [Novell’s] claims arising after the Closing Date against any parties relating to any right, property or asset included in the Business.”²³¹ However, SCO provided no evidence of any such claims that it was entitled to pursue.

²²⁸*Flying J Inc. v. Comdata Network, Inc.*, 405 F.3d 821, 837 (10th Cir. 2005) (citing Restatement (Second) of Contracts § 201(2)).

²²⁹Trial Tr. at 2120:15-2121:2.

²³⁰*Id.* at 1964:8-22; *id.* at 1984:6-1985:21.

²³¹Trial. Ex. 1, Schedule 1.1(a), § II.

121. While it may have initially been the wish of individuals in both entities for Novell to sell and Santa Cruz to buy the entire UNIX business, that is not what happened. Rather, because Santa Cruz could not purchase the entire business, the deal had to be structured in a way different than had been originally envisioned. As all witnesses seemed to recognize, a primary component of the transaction was Novell's retention of a significant royalty stream. One of the ways that Novell chose to protect that royalty stream was to retain ownership of the copyrights. Based on all of the above, the Court finds that the intent of the parties did not entail transfer of ownership of the copyrights.

3. *Copyrights are not "Required"*

122. SCO further argues that transfer of ownership is appropriate because the copyrights are "required" under Amendment No. 2. SCO makes two arguments as to why ownership of the copyrights is required. First, it argues that ownership of the copyrights are required in order for it to protect its intellectual property. Second, SCO argues that ownership of the copyrights are necessary for its SCOsource licensing program. The Court rejects both arguments.

123. In order to fully understand both of these issues, the exact nature of the transaction between the parties must be understood. As set forth above, Novell initially envisioned selling the entire UNIX business that it had purchased from AT&T to Santa Cruz. However, because Santa Cruz could not afford the entire business, the transaction had to be restructured. The business was essentially divided into two components: the UNIX business and the UnixWare business. The UNIX business was the UNIX System V

source licensing business. Novell retained the royalties from the licenses and SCO acted as Novell's agent in their collection. Novell retained significant rights in order to protect its royalty stream. Additionally, Novell retained the copyrights as a way to "bulletproof" those royalties. The UnixWare business, on the other hand, was the business whereby SCO had the ability to go forward and create a new product. SCO would, of course, own the copyrights for whatever new code it created. With this understanding, the Court turns to SCO's arguments.

124. SCO argues that the copyrights are required to protect its intellectual property. The Court agrees with this general proposition. However, SCO was not the owner of the copyrights and, thus, had no right to enforce them. Further, the parties agree that SCO would own the copyrights to any newly developed code and could use those copyrights to protect against infringement. Thus, SCO has not shown that ownership of the UNIX copyrights is required to protect its own intellectual property.
125. SCO also argues that ownership of the copyrights is necessary to run its SCOSource licensing program. However, the language of Amendment No. 2 applies to copyrights required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies. The SCOSource program is not something SCO ever acquired from Novell. It appears that SCOSource was not something that was envisioned by either party at the time of the APA and its amendments. Further, both Mr. Tibbitts and Mr. McBride acknowledged that SCO could run its UnixWare business, which is something SCO did acquire from Novell, without the copyrights. Therefore, the Court finds that the

copyrights are not required for SCO to operate the business that it had acquired from Novell.

126. Based on the above, the Court finds that it was not the intent of the parties to transfer the copyrights and that the copyrights are not required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies. Further, the jury verdict precludes the Court from entering judgment in favor of SCO on its claim for specific performance. For all of the reasons stated, SCO's claim for specific performance must fail.

B. DECLARATORY JUDGMENT

127. Novell seeks declaratory relief that: (a) under Section 4.16(b) of the APA, Novell is entitled to direct SCO to waive claims against IBM, Sequent and other SVRX licensees; (b) Novell is entitled to waive such claims on SCO's behalf; and (c) SCO is obligated to recognize such a waiver.²³²

128. Section 4.16(b) of the APA states, in pertinent part:

Buyer shall not, and shall not have the authority to, amend, modify or waive any right under any SVRX License without the prior written consent of Seller. In addition, at Seller's sole discretion and direction, Buyer shall amend, supplement, modify or waive any rights under, or shall assign any rights to, any SVRX License to the extent so directed in any manner or respect by Seller. In the event that Buyer shall fail to take any such action concerning the SVRX Licenses as required herein, Seller shall be authorized, and hereby is granted, the rights to take any action on Buyer's own behalf.²³³

²³²Docket No. 142, at 26.

²³³Trial Ex. 1, § 4.16(b).

129. “The scope of Novell’s waiver rights turns on the meaning of the term ‘SVRX License.’”²³⁴ In order to understand the meaning of Section 4.16(b) and the term SVRX License, it is again necessary to understand the nature of the transaction between the parties.
130. As stated previously, Novell sold Santa Cruz the UnixWare business, while retaining substantial rights in the UNIX business. While Novell retained the financial portion of the UNIX business (the royalties from SVRX licenses), SCO acted as Novell’s agent in the collection of those royalties.²³⁵
131. Witnesses from both SCO and Novell recognized Novell’s ongoing financial interests and the importance of that interest. Section 4.16(b) was the key provision of the APA designed to protect Novell’s financial interest. As Mr. Braham testified, Section 4.16 was drafted to avoid any doubt that Novell had the right to control what happened with the UNIX business and that if SCO did not do what it was supposed to as Novell’s agent, Novell could step in and take what action it deemed necessary.²³⁶
132. The Court concludes that Novell’s waiver rights are not limited to product supplement agreements, as argued by SCO. The Court reaches this conclusion based on a number of things. First, the financial interest Novell had in the SVRX royalty stream necessitates such a finding. As stated above, Novell retained a significant financial interest and Mr.

²³⁴*The SCO Group, Inc.*, 578 F.3d at 1219.

²³⁵Trial Ex. 1, § 4.16(a).

²³⁶Trial Tr. at 2354:6-2355:13.

Braham, as well as others, testified that Section 4.16 of the APA was designed to protect that interest. The somewhat hierarchical structure of the three types of agreements leads to the conclusion that Novell must retain rights over the software and sublicensing agreements as well. As was explained by Mr. Broderick, each company was required to obtain a software agreement. If Novell did not have the authority over the software agreements, SCO could easily cancel that agreement, necessarily cancelling both the sublicensing and product supplement agreements, and thereby deprive Novell of revenue.

133. Another consideration in support of the Court's conclusion is the contract language itself. The contract is not limited to product supplement agreements. The contract language refers to "SVRX Licenses" and does not differentiate between the three types of agreements. Further, other language in the APA, specifically Section 1.2(e) and Item VI of Schedule 1.1(a), support a broad reading of the language.
134. Finally, the Court considers SCO's evidence on this point to be less credible than that of Novell. For all of these reasons, the Court finds that Novell's waiver rights extend to software agreements, sublicensing agreements, and product supplement agreements.
135. With this conclusion in mind, the Court turns to Novell's actions with regard to its waiver rights. On June 9, 2003, Novell directed SCO to waive any right SCO may claim to terminate IBM's SVRX Licenses or to revoke any rights thereunder. When SCO failed to act, Novell waived those rights on SCO's behalf. On October 7, 2003, Novell directed SCO to waive any right SCO may claim to require IBM to treat IBM code as subject to the confidentiality obligations or use restrictions of IBM's SVRX Licenses. When SCO

failed to act, Novell waived that right on SCO's behalf. Novell took similar actions in relation to SGI and Sequent.

136. The Court finds that Novell had the authority under Section 4.16(b) of the APA to direct SCO to waive its claims against these SVRX licensees, that Novell had the authority to waive such claims on SCO's behalf, and that SCO was obligated to recognize such waivers.

C. IMPLIED COVENANT OF GOOD FAITH AND FAIR DEALING

137. SCO argues that Novell's actions in directing SCO to waive certain claims against IBM, SGI, and Sequent breached the implied covenant of good faith and fair dealing.
138. The APA is governed by California law.²³⁷ Under California law, "[e]very contract imposes upon each party a duty of good faith and fair dealing in its performance and its enforcement."²³⁸ "The covenant of good faith finds particular application in situations where one party is invested with a discretionary power affecting the rights of another. Such power must be exercised in good faith."²³⁹ That said, "[i]t is universally recognized the scope of conduct prohibited by the covenant of good faith is circumscribed by the purposes and express terms of the contract."²⁴⁰ The Court is "aware of no reported case in which a court has held the covenant of good faith may be read to prohibit a party from

²³⁷Trial Ex. 1, § 9.8.

²³⁸*Carma Developers (Cal.), Inc. v. Marathon Dev. Cal., Inc.*, 826 P.2d 710, 726 (Cal. 1992) (quotation marks and citation omitted).

²³⁹*Id.*

²⁴⁰*Id.* at 727.

doing that which is expressly permitted by an agreement. On the contrary, as a general matter, implied terms should never be read to vary express terms.”²⁴¹

139. In this matter, the Tenth Circuit has cautioned “that it is not always the case that an express grant of contractual authority is not constrained by the operation of the covenant of good faith.”²⁴² “California recognizes at least two exceptional situations where the covenant of good faith may inform the interpretation of even an express grant of contractual authority. First, where the express discretion makes the contract, viewed as a whole, ‘contradictory and ambiguous,’ the implied covenant may be applied to aid in construction.”²⁴³ “Second, the covenant may aid in the interpretation of a contract seemingly expressly granting unbridled discretion ‘in those relatively rare instances when reading the provision literally would, contrary to the parties’ clear intention, result in an unenforceable, illusory agreement.’”²⁴⁴
140. Considering Novell’s actions, the implied covenant of good faith and fair dealing, and the exceptional situations discussed by the Tenth Circuit, the Court finds that SCO’s breach of the implied covenant of good faith and fair dealing claim must fail.

²⁴¹*Id.* at 728.

²⁴²*The SCO Group, Inc.*, 578 F.3d at 1225.

²⁴³*Id.* (citing *April Enters., Inc. v. KTTV*, 147 Cal. App. 3d 805, 816 (Cal. Ct. App. 1983)).

²⁴⁴*Id.* (quoting *Third Story Music, Inc. v. Waits*, 41 Cal. App. 4th 798, 808 (Cal. Ct. App. 1995)).

141. The Court finds, as an initial matter, that the actions Novell took with respect to IBM, SGI, and Sequent were pursuant to an express contractual provision granting it the authority to do so for the reasons discussed above. Thus, generally speaking, Novell's conduct would not be a breach of the implied covenant.
142. Considering the exceptional circumstances discussed by the Tenth Circuit on appeal, the Court finds that neither are present here.
143. The first exceptional circumstance applies where the express discretion makes the contract, viewed as a whole, "contradictory and ambiguous," the implied covenant may be applied to aid in construction.²⁴⁵ Under the contract at issue in *April Enterprises*, one party had the right to syndicate episodes of a television show, while the other had the right to erase episodes of the show. Both parties shared revenues from compensation. Although the contract expressly granted one party the right to erase episodes, the court applied the covenant of good faith, holding that the contract was contradictory and ambiguous as to whether tapes could be erased while the other party was negotiating for syndication.
144. SCO argues that Novell's interpretation of Section 4.16(b) creates the same contradiction and ambiguity because, if Novell could change any part of the contracts that embody the UNIX-based business that Novell transferred, it could destroy that business. This argument, however, hinges on a faulty premise: that Novell transferred the UNIX business to SCO. As set forth above, Novell transferred the UnixWare business to SCO,

²⁴⁵*April Enters., Inc.*, 147 Cal. App. 3d at 816.

while retaining substantial rights in the UNIX business. SCO's involvement with the UNIX business was as Novell's agent and those portions of the UNIX business that did transfer to SCO were transferred to aid SCO in this role. Because Novell did not transfer the entire UNIX business, it could take the above actions in relation to that business and the contractual provision allowing for such action cannot be viewed as contradictory or ambiguous.

145. The second exceptional circumstance, as stated in *Third Story Music, Inc. v. Waits*, provides that "courts are not at liberty to imply a covenant directly at odds with a contract's express grant of discretionary power except in those relatively rare instances when reading the provision literally would, contrary to the parties' clear intention, result in an unenforceable, illusory agreement."²⁴⁶ As set forth throughout this Order, this is not such a "rare instance."
146. Further, the Court finds that SCO's claim for breach of the implied covenant of good faith and fair dealing fails because Novell acted in good faith according to a reasonable interpretation of the contract language. A breach of the implied covenant requires "objectively unreasonable conduct, regardless of the actor's motive."²⁴⁷ Here, the Court finds that Novell's conduct was objectively reasonable, considering its actions and the language of the APA. The Court finds that Novell's actions were motivated to protect its

²⁴⁶*Third Story Music, Inc.*, 41 Cal. App. 4th at 808.

²⁴⁷*Carma Developers*, 826 P.2d at 727.

own interests and those of the open source community and were not taken because of influence by IBM or any ill-will toward SCO.

IV. CONCLUSION

Based on the foregoing, it is hereby

ORDERED that Novell's claim for declaratory judgment is GRANTED. It is further

ORDERED that SCO's claims for specific performance and breach of the implied covenant of good faith and fair dealing are DENIED.

DATED June 10, 2010.

BY THE COURT:



TED STEWART
United States District Judge

IN THE UNITED STATES COURT FOR THE DISTRICT OF UTAH
CENTRAL DIVISION

THE SCO GROUP, INC., a Delaware
corporation,

Plaintiff/Counterclaim Defendant,

vs.

NOVELL, INC., a Delaware corporation,

Defendant/Counterclaim Plaintiff.

MEMORANDUM DECISION AND
ORDER DENYING SCO'S
RENEWED MOTION FOR
JUDGMENT AS A MATTER OF
LAW OR, IN THE ALTERNATIVE,
FOR A NEW TRIAL

Case No. 2:04-CV-139 TS

This matter comes before the Court on SCO's Renewed Motion for Judgment as a Matter of Law or, in the Alternative, for a New Trial. For the reasons discussed below, the Court will deny the Motion.

I. BACKGROUND

This matter came before the Court for trial from March 8, 2010, through March 26, 2010. The sole issue before the jury was SCO's claim for slander of title.¹ After its deliberations, the jury found that the amended Asset Purchase Agreement ("APA") did not transfer the UNIX and UnixWare copyrights from Novell to SCO.² Because it found that SCO was not the owner of the UNIX and UnixWare copyrights, there was no need for the jury to reach SCO's slander of title claim.

In the instant Motion, SCO argues that the "jury simply got it wrong."³ As a result, SCO argues that it is entitled to judgment as a matter of law or, in the alternative, a new trial. Novell opposes the Motion.

II. DISCUSSION

A. JUDGMENT AS A MATTER OF LAW

Under Fed.R.Civ.P. 50, a court should render judgment as a matter of law when "a party has been fully heard on an issue and there is no legally sufficient evidentiary basis for a reasonable jury to find for that party on that issue."⁴ A party which has made a motion for

¹Novell's counterclaim for slander of title was disposed of on a Rule 50 Motion and the parties remaining claims were tried to the Court and are addressed in the Court's Findings of Fact and Conclusions of law issued contemporaneously herewith.

²Docket No. 846.

³Docket No. 872 at 1.

⁴Fed. R. Civ. P. 50(a)(1).

judgment as a matter of law under Rule 50(a) prior to a jury verdict may renew that motion under Rule 50(b) after judgment is rendered.

“In [entertaining a motion for judgment as a matter of law], the court must draw all reasonable inferences in favor of the nonmoving party, and it may not make credibility determinations or weigh the evidence.”⁵ “Credibility determinations, the weighing of the evidence, and the drawing of legitimate inferences from the facts are jury functions, not those of a judge.”⁶

The Tenth Circuit has made it clear that judgment as a matter of law is to be “cautiously and sparingly granted,”⁷ and is only appropriate when there is no way to legally justify a jury verdict. Judgment as a matter of law is appropriate only “[i]f there is no legally sufficient evidentiary basis . . . with respect to a claim or defense . . . under the controlling law,”⁸ or if “the evidence points but one way and is susceptible to no reasonable inferences which may support the opposing party’s position.”⁹ “Judgment as a matter of law is improper unless the evidence so overwhelmingly favors the moving party as to permit no other rational conclusion.”¹⁰

⁵*Lytle v. Household Mfg., Inc.*, 494 U.S. 545, 554-555 (1990).

⁶*Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 255 (1986).

⁷*Weese v. Schukman*, 98 F.3d 542, 547 (10th Cir. 1996).

⁸*Baty v. Willamette Indus., Inc.*, 172 F.3d 1232, 1241 (10th Cir. 1999) (quoting Fed. R. Civ. P. 50).

⁹*Finley v. United States*, 82 F.3d 966, 968 (10th Cir. 1996).

¹⁰*Shaw v. AAA Eng’g & Drafting*, 213 F.3d 519, 529 (10th Cir. 2000).

SCO argues that it is entitled to judgment as a matter of law “because the verdict cannot be squared with the overwhelming evidence and the law.”¹¹ The Court respectfully disagrees. The jury was presented with two versions of the deal between Novell and Santa Cruz, SCO’s predecessor in interest. On the one hand, SCO argued that the deal was essentially an acquisition of the UNIX and UnixWare business, wherein Santa Cruz acquired all of the business, including the copyrights. Novell, on the other hand, argued that the deal was more complex and that Santa Cruz only acquired the UnixWare business and that Novell retained significant rights in the UNIX business, such as the copyrights and the right to receive SVRX royalties. Evidently, the jury found Novell’s version of facts to be more persuasive. This conclusion is well supported by the evidence.

There was substantial evidence that Novell made an intentional decision to retain ownership of the copyrights. For instance, Tor Braham, outside counsel for Novell and lead drafter of the APA, testified that Novell was selling to Santa Cruz the UnixWare business and retaining the UNIX business.¹² Mr. Braham testified that the exclusion of the copyrights was agreed upon by the parties.¹³ Mr. Braham stated that the purpose for excluding the copyrights was to protect Novell’s interest in the UNIX business that it had retained.¹⁴

¹¹Docket No. 872 at 4.

¹²Trial Tr. at 2347:2-5.

¹³*Id.* at 2363:19-23.

¹⁴*Id.* at 2364:3-11.

Mr. Braham's testimony is supported by James Tolonen, Novell's Chief Financial Officer at the time of the APA and Amendment No. 2, who testified that the copyrights were purposefully excluded from the assets to be transferred to Santa Cruz.¹⁵ Mr. Tolonen explained that retaining the copyrights was: (1) "part of [Novell's] strategy and really necessary under the nature of the transaction"; (2) necessary because Santa Cruz was relatively small and could not afford the entire value; (3) necessary to avoid ownership issues with other products; and (4) necessary because of concerns with the long-term viability of Santa Cruz.¹⁶

That testimony is further supported by Michael Defazio, an executive vice president at Novell at the time of the APA, who testified that the intent of the APA was not to transfer the copyrights and that the copyrights were retained as a way to "bulletproof" Novell's financial asset stream.¹⁷

All such testimony is further supported by the minutes of Novell's Board of Directors, which resolved that "Novell will retain all of its patents, copyrights and trademarks (except for the trademarks UNIX and UnixWare)."¹⁸

It is true that SCO presented more witnesses who testified that it was the intent of the parties to transfer the copyrights as part of the deal but, as the jury was instructed, the number of

¹⁵*Id.* at 2021:24-2022:3.

¹⁶*Id.* at 2022:7-2023:18.

¹⁷*Id.* at 2311:7-17.

¹⁸Trial Ex. Z3.

witnesses is not determinative.¹⁹ Thus, there was more than sufficient evidence on which the jury could determine that it was not the parties intent to transfer the copyrights.

SCO nonetheless argues that the copyrights were required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies under Amendment No. 2. Again, there was testimony presented that it was not the intent of Novell, in executing Amendment No. 2, to transfer ownership of the copyrights. Allison Amadia, who worked as in-house counsel for Novell at the time of Amendment No. 2 and was the lead negotiator and drafter of that document, testified that after reviewing the APA and consulting with Tor Braham and James Tolonen, the decision was made not to alter the APA with regard to copyright ownership.²⁰ In fact, Novell rejected a draft amendment from SCO which would have transferred ownership of the copyrights “which pertain to the UNIX and UnixWare technologies and which SCO has acquired hereunder. . . .”²¹ Ms. Amadia further testified that Amendment No. 2 was meant to affirm that SCO had the right to use, manufacture, and make modifications to the UNIX technology. James Tolonen similarly testified that Amendment No. 2 was meant to address use rights, not ownership.²²

Further, SCO witnesses acknowledged that SCO could operate its UnixWare business without the copyrights. Mr. McBride, SCO’s former CEO, admitted that SCO could run its

¹⁹Jury Instruction No. 12.

²⁰Trial Tr. at 2119:25-2120:6.

²¹Trial Ex. T34.

²²*Id.* at 2036:5-22.

UnixWare business without the copyrights.²³ Mr. Tibbitts, SCO's general counsel, similarly stated that SCO could run its UNIX product business without the UNIX and UnixWare copyrights.²⁴ Indeed, SCO had offered to sell its business without the copyrights.²⁵ Moreover, it was undisputed that SCO would own any newly developed code and could obtain copyrights to protect that code.²⁶ Finally, while SCO's witnesses testified that the copyrights were "required" for SCO to run its SCOSource licensing program, this was not something that SCO ever acquired from Novell.

SCO relies on Recital A in arguing that SCO acquired the "Business," which is defined as "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."²⁷ SCO, however, ignores Recital B which states that Santa Cruz would only acquire "certain assets."²⁸ Those "certain assets" are set forth in more detail in Schedule 1.1(a) and do

²³*Id.* at 1225:18-1226:10.

²⁴*Id.* at 1850:11-1851:18.

²⁵*Id.*

²⁶*Id.* at 933:2-7; *id.* at 939:3-18; *id.* at 816:19-817:14.

²⁷Trial Ex. 1, Recital A.

²⁸*Id.*, Recital B.

not include the excluded assets set out in Schedule 1.1(b).²⁹ Under the plain language of the original APA, the copyrights were excluded from the transaction.³⁰

SCO also points to Section II of Schedule 1.1(a), which transferred “[a]ll of [Novell’s] claim arising after the Closing Date against any parties relating to any right, property or asset included in the Business.”³¹ However, SCO provided no evidence of any such claims that it was entitled to pursue.

Based on the above, the Court finds that SCO is not entitled to judgment as a matter of law on its claim for copyright ownership.

B. NEW TRIAL

SCO moves, in the alternative, for a new trial under Fed.R.Civ.P. 59. Rule 59(a) provides that a new trial may be granted “after a jury trial, for any reason for which a new trial has heretofore been granted in an action at law in federal court.”³² The Tenth Circuit has stated that “[a] motion for new trial on the grounds that the jury verdict is against the weight of the evidence . . . involve[s] the discretion of the trial court The inquiry focuses on whether the verdict is clearly, decidedly or overwhelmingly against the weight of the evidence.”³³

²⁹*Id.*, § 1.1(a); *id.*, Schedule 1.1(a); *id.*, Schedule 1.1(b).

³⁰*Id.*, Schedule 1.1(b), § V.

³¹Trial. Ex. 1, Schedule 1.1(a), § II.

³²Fed. R. Civ. P. 59(a).

³³*Black v. Heib’s Enterprises, Inc.*, 805 F.2d 360, 363 (10th Cir. 1986).

SCO argues that the “overwhelming weight of the evidence . . . [shows] that a transfer of copyrights was intended.”³⁴ It is certainly true that SCO presented more witnesses than Novell concerning the intent of the parties, however, the mere fact that SCO presented more witnesses does not show that the verdict is clearly, decidedly, or overwhelmingly against the weight of the evidence. The jury could have rejected the testimony of SCO’s witnesses for a number of reasons, including their lack of involvement in drafting the APA, the fact that there was little testimony on any actual discussions concerning the transfer of copyrights, or that many of the witnesses had a financial interest in the litigation.

SCO also relies on the “Forthright Negotiator Rule.” Under that rule,

Where the parties assign different meanings to a term,
it is interpreted in accordance with the meaning attached by one of them if at the
time the agreement was made

- (a) that party did not know of any different meaning attached by the other, and the other knew the meaning attached by the first party; or
- (b) that party had no reason to know of any different meaning attached by the other, and the other had reason to know the meaning attached by the first party.³⁵

Here, there is no evidence to support the argument that Ms. Amadia had reason to know that SCO attached a different meaning to Amendment No. 2. Indeed, Ms. Amadia specifically testified that she informed Mr. Sabbath that Novell would not transfer the copyrights.³⁶

SCO also cites to the TLA as providing support for the transfer of copyrights. The testimony concerning the TLA, however, affirmed that one of the purposes of that agreement was

³⁴Docket No. 872 at 15.

³⁵*Flying J Inc. v. Comdata Network, Inc.*, 405 F.3d 821, 837 (10th Cir. 2005) (citing Restatement (Second) of Contracts § 201(2)).

³⁶Trial Tr. at 2120:15-2121:2.

to allow Novell the right to use post-APA SCO-developed code.³⁷ Further, the TLA licensed assets that were transferred under the APA, which did not include the copyrights.

SCO also points to various course of performance evidence in support of its argument. However, this evidence, either individually or in combination, does not support the notion that it was the intent of the parties to transfer copyright ownership.

Finally, SCO argues that the copyrights were required for it to exercise its rights with respect to the acquisition of the UNIX and UnixWare technologies. However, as set forth above, there was evidence that SCO did not need the copyrights to operate the UnixWare business, that it could obtain copyrights to protect any newly developed code, and that the SCOSource licensing program was not something that SCO acquired from Novell. Thus, this argument fails.

For each of these reasons, the Court finds that the verdict is not clearly, decidedly, or overwhelmingly against the weight of the evidence. Therefore, SCO is not entitled to a new trial.

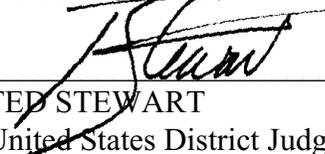
III. CONCLUSION

It is therefore

ORDERED that SCO's Renewed Motion for Judgment as a Matter of Law or, in the Alternative, for a New Trial (Docket No. 871) is DENIED.

DATED June 10, 2010.

BY THE COURT:



TED STEWART
United States District Judge

³⁷*Id.* at 1964:8-22; *id.* at 1984:6-1985:21.

IN THE UNITED STATES COURT FOR THE DISTRICT OF UTAH
CENTRAL DIVISION

<p>THE SCO GROUP, INC., a Delaware corporation, Plaintiff/Counterclaim Defendant,</p> <p>vs.</p> <p>NOVELL, INC., a Delaware corporation, Defendant/Counterclaim Plaintiff.</p>	<p>FINAL JUDGMENT</p> <p>Case No. 2:04-CV-139 TS</p>
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This matter came before the Court for trial on March 8, 2010, through March 26, 2010. Based on the Jury Verdict and the Court's Findings of Fact and Conclusions of Law, Final Judgment is entered as follows:

1. Judgment is entered in favor of Novell and against SCO on SCO's claim for slander of title pursuant to the Jury Verdict.
2. Judgment is entered in favor of Novell and against SCO on SCO's claim for specific performance pursuant to the Court's Findings of Fact and Conclusions of Law.
3. Judgment is entered in favor of Novell and against SCO on Novell's claim for declaratory relief pursuant to the Court's Findings of Fact and Conclusions of Law. Specifically, the Court declares:

- a. Under § 4.16(b) of the APA, Novell is entitled, at its sole discretion, to direct SCO to waive its purported claims against IBM, Sequent and other SVRX licensees;
 - b. Under § 4.16(b) of the APA, Novell is entitled to waive on SCO's behalf SCO's purported claims against IBM, Sequent and other SVRX licensees, when SCO refuses to act as directed by Novell; and
 - c. SCO is obligated to recognize Novell's waiver of SCO's purported claims against IBM and Sequent.
4. Judgment is entered in favor of Novell and against SCO on SCO's claim for breach of the implied covenant of good faith and fair dealing pursuant to the Court's Findings of Fact and Conclusions of Law.

The Clerk of the Court is directed to close this case forthwith.

SO ORDERED.

DATED June 10, 2010.

BY THE COURT:



TED STEWART
United States District Judge