happen. IBM, first of all, argues that there was an authorization, but they don't point to the Court or to us any basis for that supposed authorization.

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Santa Cruz understood that the product was to be developed. Santa Cruz understood that there would be sharing of the code as part of the project, but there is no allegation and no proof that anyone at Santa Cruz or SCO actually knew they had a claim. More importantly, IBM's arguments ignore the key evidence that we've uncovered. It is highly relevant that IBM itself thought and its product release did not authorize itself to use the code. And I'd like to walk the Court through that in a little bit more detail.

Part of that proof is the question of the operation of the JDA. Very relevant evidence as to the operation of the JDA is how IBM thought the JDA operated. Accordingly, very relevant evidence to our claim is IBM's view that it was not authorized under the JDA to undertake the copying it did. There is just no question that that evidence is relevant. IBM's argument produces the claim that the evidence is irrelevant, that it added nothing, that we could have brought a copyright claim without knowing that IBM thought that the release was pretextual. I don't think that's true to the extent that an argument is an accrual argument. And I'll address that in a moment, Your Honor.

offered for why we think it is appropriate. Some of the reasons are ones that IBM has frankly mischaracterized. They first discussed the documents and say that we dismissed the documents. As I said, that misses the point that as many of the documents that are released, they did not either attempt or give any basis for thinking they have copyright claims. And none of the documents suggest that anyone at Santa Cruz knew that IBM itself regards itself as having lack of authorization of the copying of the code. That is a critical aspect of the claim we propose to bring. It is an aspect that we could not have discovered possibly until we reviewed the documents in this litigation.

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Argument -- IBM then argues the issue of whether we should be imputed to have what little knowledge Santa Cruz might have had about the subject matter of the claim. We think IBM misses the point there, as well, Your Honor. IBM cites no case for its proposition and for purposes of Rule 15 that plaintiff should have knowledge of its predecessor imputed to it. These are the cases that IBM cites, cases in which the defense of laches had already barred the predecessor's claims when the predecessor purported to assign the claims to the successor. Those cases make sense. If laches were to preclude the predecessor's lawsuit, he should not be permitted to escape his untimeliness by selling or

giving his patent or other intellectual property rights to a successor to then try to file a timely lawsuit.

SCO does not seek to gain any rights that Santa Cruz did not have. The only issue here is whether SCO can bring a new claim as an amendment in this proceeding. IBM cites no cases to support its oral argument that knowledge of Santa Cruz, however limited, should be imputed to us.

IBM illustrates what I think is its failure to confront our main argument where it says the most basic of public and internal investigations would have revealed the basis for our proposed claim. That is not true. It's not remotely true. We would not have known even with the most intense investigation that IBM itself viewed itself as unauthorized to publish and to copy code as it did. That's critical evidence, Your Honor.

IBM argues that we acknowledged in our opening brief the JDA applied. That's not true, Your Honor. Here's the statement we made in our opening brief.

SCO recognizes that the parties' JDA for Project Monterey contains a forum selection clause for New York courts.

We acknowledge that the JDA contained a forum selection clause. We weren't obligated to raise every argument, Your Honor, in which 22.3 would not apply.

We're also at the height of formality here, Your

Honor. IBM filed an ex-parte motion for leave to file a surreply after they concluded that when we raised the issue of waiver in the applicability provision in our reply brief, they argue that we raised that for the first time. They got permission to file a surreply. They filed a 16-page surreply, and we're here arguing the points before Your Honor. I think it's an incorrect argument, and in any event, a technical one that shouldn't preclude the consideration of merits.

 As to the interpretation, Your Honor, of Section 22.3 of the JDA, IBM ignores again our main argument, which is by their own lights, the provision doesn't make any sense. They leave the accrual portion of the provision out because it would give the provision an unreasonable reading. They cite several cases that they say support their arguments, that in light or analogous provisions a forum selection clause should apply.

We think those cases make our point. In contrast to those cases, Section 22.3 does not encompass all claims relating to or arising under the agreement or concerting the parties' rights and duties under the agreement. That is not the scope of this provision. That's the scope of 20.1. It's a reason not to give the reading of 22.3 that IBM does.

IBM argues that there's been no waiver of the provision. We think that's wrong, Your Honor, for one basic reason, which is the scope of the Ninth Counterclaim. I

quoted the Ninth Counterclaim before, and it is extremely broad. It asks for a declaration of non-infringement. It does so in plain language. It was a counterclaim that exceeded the scope, as Mr. Marriott concedes, as praise as written that he exceeds the scope of our claims. That makes it not a compulsory counterclaim, as Mr. Marriott again explicitly concedes, but a permissible counterclaim. Parties pursue litigation from one forum constitutes the waiver of that party's ability to enforce the forum selection clause to another forum.

 The Ninth Counterclaim is permissive. None of SCO's claims required any fact finder to determine whether IBM's development of AIX violated any SCO copyrights. We think the precident makes clear that the defendant waives any venue objections when it objects to new issues in the case.

10th Circuit held long ago in Thompson, 1962, that the filing of a counterclaim can constitute the waiver of a forum selection clause.

IBM cites a more recent 10th Circuit case,

Campbell, I believe it's Campbell, in which the Court

concludes that if the counterclaim was compulsory, it would

not be a waiver. But the rule as it stands and as we can

prove from a variety of precidents is that the defendant

voluntarily submits himself to the forum through filing a

permissible counterclaim. We think the plain language of the

Ninth Counterclaim makes it clear that it's permissive.

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I'll address in a moment, Your Honor, the question of whether IBM's re-interpretation of its Ninth Counterclaim makes any sense. I want to address IBM's brief argument on the non-waiver provision in the JDA. We cited the case in our briefs that show where the party's conduct constitutes a waiver generally of venue objection, even if there is a no-waiver condition in the contract, that is not a right to the waiver, constitute a waiver, both of the no-waiver provision and of the venue objection generally in federal court.

The cases IBM cites don't support its argument. In the Roboserve case, the Seventh Circuit case, the Court acknowledged only that the waiver of authority in Illinois holds that, Waiver Only in Writing provisions can be waived by words and deeds of the parties. And I think IBM's Ninth Counterclaim constitutes a deed by which IBM intends to inject new issues into the case.

IBM argues that its Ninth Counterclaim shouldn't be read as written. IBM says its Ninth Counterclaim is not intended to encompass SCO's claims. And it's filed a motion styled, A Motion For Entry of Order Limiting the Scope of the Ninth Counterclaim. The motion is fully briefed. I take it, Your Honor, it will be heard another time.

But in sum, in our opposition to that motion, we

point out that among other things, IBM filed that motion only having seen after the October 2004 hearing before the magistrate court the evidence of its violation of SCO's copyrights and the evidence that it knew it was not authorized to use SCO's code.

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IBM doesn't seek leave to amend the counterclaim but seeks leave to ask the Court to enter an unprecedented order that would retroactively limit the scope of (unintelligible). It's unprecedented. IBM cites unprecedented to support a motion. And the motion directly contradicts IBM's argument to this Court in September of 2004, as Your Honor may recall, with respect to our motion to dismiss IBM's Tenth Counterclaim as a permissive one. IBM argued at that point that what you should control is the plain language of the scope of our copyright claim. In our view, our copyright claim was more narrow than IBM interpreted it to be. And we argued that the plain language didn't support IBM's agreement. And IBM argued that the plain language had to control. And the Court adopted, as we understand the Court's order, that rule, that the plain language of the counterclaim would control and the plain language of ${\tt SCO's}$ allegations would control. I don't see why a different rule would apply in this instance.

In short, Your Honor, IBM's argument ignores the crucial fact that there is no undue prejudice. IBM's argument

deduces the claim without any citation or precident or authority remotely analogous, that Santa Cruz' limited knowledge should be imputed to us. And we think those arguments are wrong.

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And as a last point, Your Honor, the question of the extent of Santa Cruz' knowledge is a statute of limitations accrual question. It is not a question that is relevant to the policies of Rule 15. At the very least, Your Honor, the question of when a claim (unintelligible) is a fact question, and we cited cases in our brief showing that it is a fact question, not only requiring discovery, but is one that cannot be resolved in summary judgment. An intense fact question. And to the extent that the document, the new document that IBM submitted suggests that Santa Cruz had a certain level of knowledge of copying, which is different from the question of any knowledge of IBM's knowingly unauthorized copying, that IBM acknowledged the copying was unauthorized, that is a fact question. And the fact that Mr. Marriott has brought in new documents, ones that we have not seen before, only highlights what that question is. It is no basis for (unintelligible). Thank you, Your Honor.

THE COURT: Thank you.

MR. MARRIOTT: May I have just a moment, Your

Honor? I can segway easily, if you like, into the scheduling discussion.

THE COURT: But you want -- well, the scheduling discussion is not going to be very lengthy. MR. MARRIOTT: Perhaps not. THE COURT: You want to say something? You want to reply to his reply? MR. MARRIOTT: I would if I could. THE COURT: How long? MR. MARRIOTT: Three minutes. THE COURT: Then he still gets the last word. It's his motion. MR. MARRIOTT: That's fine with me. MR. NORMAND: Your Honor, that's fine. THE COURT: I'll give you two minutes. MR. MARRIOTT: Okay. Thank you. First, Mr. Normand suggests that he heard nothing from IBM with respect to prejudice. As I said at the outset, Your Honor, we are not making here all of our arguments. There is no question that it would be prejudice to IBM if this motion would be allowed. If it would be allowed, it would be prejudice because the forum selection clause would be read out of the contract. There would be prejudice because new issues would be inserted in this case which are otherwise not here.

Like, for example, whether IBM has a license to include Unix System VR-4 code into this product. That issue is not in this

case. That is the central issue in all likelihood in their

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24 25 proposed claim.

 The proposed claim, Your Honor, concerns a contract between IBM, a New York corporation, and the Santa Cruz Operation, Inc., a California corporation, not the SCO Group, Inc., a Utah based company.

SCO suggests, Your Honor, by way of its inquiry in SCO's arguments that a party is not on notice for purposes of inquiry notice unless that party has all of the evidence, which we indicate the alleged underlying violation. That's wrong, Your Honor. If that were the rule, there would be no inquiry notice as a test.

Mr. Normand suggests that Rule 15 somehow is oblivious to whether a party knew or should have known. That's a fact question he says the Court couldn't possibly resolve in this posture. Courts resolve that question all the time in this juncture, Your Honor. If Mr. Normand were right that that was a fact question and the Court couldn't hear it and consider it, we would never have these decisions laid out in our book in which courts have denied amendments because the party should have known of the alleged misconduct.

With respect to the scheduling points, Your Honor, I guess my question is whether the Court intends to hear any argument with respect to that. If it does not, I'd like to show one other exhibit, which I think is of some consequence to this.

THE COURT: Consequence to this motion?

MR. MARRIOTT: It is.

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 THE COURT: Or referring to schedule?

MR. MARRIOTT: It is the consequence of both.

THE COURT: Well, show it. We're going to have a brief discussion about scheduling.

Now, tell me how this is of consequence to this motion.

MR. MARRIOTT: I will, Your Honor. It is of consequence to this motion because this chronology which lays out the events concerns both. The reason it relates to scheduling, Your Honor, because one of the scheduling questions is whether the Court should enter an order which includes a new deadline for filing amended pleadings.

THE COURT: Yeah, that is one of the questions.

MR. MARRIOTT: Pardon?

THE COURT: That is one of the questions.

MR. MARRIOTT: That is one of the questions. And that question is also obviously relevant to the motion that SCO should be allowed to amend its complaint. The documents that SCO contends is the newly discovered evidence are indicated here with asterisks, Your Honor. At the tabs, you'll see the correspondence which indicates when these newly discovered pieces of the evidence were produced. There is a factual record, and it is right here. And this is the record

that indicates when the documents were produced. Three of the six, as I say, were produced before the close of fact discovery.

Your Honor, the code in question, IBM AIX For Power product, was produced to SCO in March of 2004, as indicated on this document. SCO says in its papers that it was relatively easy to determine from those -- from that code that IBM infringed because it says that IBM copied hundreds of thousands of lines of code, to put that code into its AIX For Power product. SCO had that discovery, Your Honor, by March 4th. On April 5th, it filed a motion seeking to amend the scheduling orders. In that motion to amend, which is laid out here in the book, Your Honor, it asks for date after date after date for events in this case. Not a single one of those dates concerns a date for amending pleadings.

The parties appeared before the Court on June 8th, 2004, for a hearing with respect to the scheduling order, at which point SCO had had the allegedly critical documents, at which point all of the allegedly critical documents were in its possession, some for more than six months, the code which he said was -- well, that it easily determined was in possession. And nothing was said at that hearing about a need, Your Honor, to amend the schedule to have a new date for which to file an amended pleading. That is indicative of there not being either good cause or extraordinarily good

circumstances. Thank you.

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 THE COURT: Thank you.

Mr. Normand?

MR. NORMAND: Thank you, Your Honor. I won't dwell on the point. As I said, I don't know personally whether what IBM has represented about the documents is accurate. To the extent Your Honor thinks it might be relevant, we ask for the opportunity to respond to the submission that they made.

Mr. Marriott said earlier that, I think he said three of the six were produced in November of 2003; three of the most relevant were not. Even as to those that were produced, we received them only a few months before the original amendment of pleadings. Thank you, Your Honor.

THE COURT: Thank you.

All right. Now who's going to talk now about scheduling? Mr. Marriott?

MR. MARRIOTT: Yes, sir.

THE COURT: Who over here?

MR. NORMAND: Your Honor, I will.

THE COURT: All right. Now, I have your proposed schedules. Talk to me briefly, each of you, about what difference in your proposed, if any, the magistrate's order entered yesterday may make and what difference -- what your proposals would be if I allowed plaintiff to amend or if I didn't allow plaintiff to amend.

1 MR. NORMAND: Yes, Your Honor. We have a revised scheduling order. May I approach? 2 THE COURT: Yes. Have you given Mr. Marriott a 3 copy of it? 5 MR. MARRIOTT: He has, Your Honor. 6 THE COURT: Okay. This is your proposed revision; 7 right? 8 MR. NORMAND: Yes, Your Honor. THE COURT: And this is after the order yesterday 9 by Magistrate Wells? 10 MR. NORMAND: Yes, Your Honor. The modifications 1.1 to the scheduling order --12 THE COURT: Would this be affected by my ruling on 13 14 the motion to amend? 15 MR. NORMAND: It would not, Your Honor. It 16 proposes an amendment deadline. 17 THE COURT: Okay. MR. NORMAND: You see near the top of the page, 18 Your Honor, amendment deadline of June 17, 2005. 19 THE COURT: Okay. 20 MR. NORMAND: The differences between this revised 21 schedule and the schedule we submitted several weeks before 22 23 the magistrate's court order relate to merely timing. 24 THE COURT: Relate to what? 25 MR. NORMAND: Timing. The magistrate court order

gave IBM, as we understand it, as of yesterday --

THE COURT: Most schedules do relate to timing.

MR. NORMAND: Then I'm right.

THE COURT: You are right. You are certainly -- I'll take judicial notice of the correctness of your last statement.

Excuse me. Go ahead.

 $$\operatorname{MR}.$$ NORMAND: Thank you, Your Honor. I have that going for $\operatorname{me}.$

The magistrate court's order gave IBM 90 days from yesterday to comply with the discovery order the magistrate court had originally entered in January. Accordingly, we've changed our schedule in roughly proportional fashion, moved dates back. Of course, we moved the fact discovery deadline back 54 days, as indicated in the footnote. And we've moved most of the other dates back about 90 days. We don't presume to take a full 90 days that the Court has given. We would take 70 days. We think that the delay in the production is relevant to our ability to structure the order as we originally proposed it.

THE COURT: Thank you.

Mr. Marriott?

MR. MARRIOTT: Your Honor, I believe that

Magistrate Judge Wells' order doesn't change much of our

proposed schedule, except that I would suggest that by

adjusting outward the dates two months would accommodate the Court's order of yesterday.

 With respect to the other question, adding that complaint, Your Honor, would from our perspective complicate the case and require a line of discovery which was otherwise not contemplated and which is otherwise not necessary and would require a minimum of nine months additional time.

THE COURT: Have you looked at this?

 $$\operatorname{MR}.$$ MARRIOTT: I was handed that at the beginning of the hearing, Your Honor. I have not studied that.

THE COURT: All right. Thank you.

Now, do either of you -- is there -- would you be able to sleep tonight based on what you've told me about scheduling? I don't want you to go home and say, oh, gee, I wish I would have said that when we talked about scheduling. That happened to me a few times when I was practicing. Why didn't I say X? So is there something else you want to say about scheduling?

MR. NORMAND: Well, I know if I don't say something, Mr. Eskovitz will tell me I should have said something. Two main points --

THE COURT: That's reason enough. You don't want your partners calling you in the middle of the night.

MR. NORMAND: Thank you, Your Honor.

Mr. Marriott first said he doesn't see how the

magistrate's court order changes their proposed schedule.
We'll point out that their proposed schedule from a few weeks
ago presupposed that they would win a motion for
reconsideration.

 The other point, Your Honor, is the reasons I outlined my argument on the motion to amend, to the extent to the nine-month discovery schedule that IBM proposes for fact discovery, which is what I heard Mr. Marriott say, to the extent that that is premised on Project Monterey discovery, we think that has to be incorrect. Project Monterey is in the suit. We don't, SCO, need to take substantial additional discovery. And there's a six- to eight-month discovery under our schedule that we think is plenty to accommodate Project Monterey. Thank you.

THE COURT: Thank you.

Mr. Marriott, do you want to sleep well tonight?

MR. MARRIOTT: I do, Your Honor. Project Monterey is not in the case in the sense in which they propose to put it in the case, the words mentioned in the case to be sure.

The issues presented by their motion is not here, and I think an additional nine months would be required with respect to that.

I don't think, to respond briefly to what Mr. Normand said about my comment about Judge Wells' order, I don't think that doesn't affect the case at all. I think I

said it would shift about two months in the proposed dates.

 The one thing which I'd like to mention with respect to the proposed schedule is set out in the papers, but I think it deserves special emphasis. We believe that it is critical that the Court enter a proposed scheduling order that includes a provision which requires both parties to disclose the allegedly misused material, whatever it is, by a date certain, and that the parties then have an opportunity subsequent to the disclosure of that allegedly misused material to take discovery with respect to that material.

The Linux Operating System, Unix System V, AIX, and Dynix, include collectively hundreds of millions of lines of code, Your Honor. When they identified that which IBM has alleged to have misused, we're going to need to take discovery with respect to that identified code. We're going to need to take discovery with respect to who and when, where, why, how. We're going to need to take discovery with respect to whether it's subject to contracts, whether it's subject to copyright principles. We're going to need to take discovery with respect to whether it's in public domain, and if so, to what extent.

Your Honor, our proposal is that the Court impose an interim deadline, by which the parties disclose, I understand already should have been done, if the parties have additional information they disclose that and that there be a

final deadline. And after that deadline, the target is fixed. The experts are not permitted to disclose additional information in their reports or other pretrial submissions. They're not allowed an opportunity to add additional uses about that which was supposedly misappropriated. The target is fixed.

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That's the only way, Your Honor, if there's allowed to be a period of brief fact discovery after that we can properly prepare our defense. The only other alternative, Your Honor, is to undertake that kind of investigation with respect to the hundreds of millions of lines of code in issue in the case under a hypothetical, yet unasserted theories of liability. That is impossible, and any scheduling order we respectfully submit should include that kind of provision.

Now, they've made various arguments against it,

Your Honor. We've laid out in our papers why none of them are
respectfully are any good. If as they contend we will get
this information in the ordinary course, which is their
argument, then they ought to have no difficulty agreeing to a
schedule in which there is that kind of provision.

And respectfully, the reason that they don't particularly care about that provision is that IBM has disclosed to them 700,000-plus lines of code, line for line match up that we contend that they infringed in our copyright claim. That we don't have. That we want. That we think we

need in order for this case to progress. Thank you.

THE COURT: Thank you.

Mr. Normand?

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 MR. NORMAND: Thank you, Your Honor. The parties do disagree over the structure of the fact discovery. We have proposed that the fact discovery in this case proceed as it does in every other civil case, with mutual discovery. IBM wants a period of unilateral discovery to begin very shortly. They want that period to begin on August 11th. That's not enough time for us to review the code.

IBM's unilateral discovery proposal fails for several other reasons in addition, Your Honor. First, our schedule conforms that mutual discovery contemplated in the federal rules and the one that was structured in the previous schedule orders. And we think it would be odd if that framework changed as a result of -- as reflected in the magistrate court's January order, IBM's failure to produce relevant evidence for over a year.

IBM can prepare a defense to SCO's claims during the period of mutual fact discovery. IBM has served interrogatories on SCO, and SCO is under an obligation to respond to those interrogatories. We will do so as soon as we can. If it arises that IBM is of the view that it has not received our responses to their interrogatories in enough time to complete discovery, that is an issue to raise with the

1 Court at that point. The Court is full of arsenal of measures it can take to allow more time or to preclude us from using 2 evidence if we haven't produced responses to those interrogatories in time. 5 IBM's argument suffers we think also from a very fundamental flaw. No one knows better than IBM what they б contributed to Linux, how it was derived, how it was created. 7 The notion that IBM is flying blind is absurd. 8 Thank you, Your Honor. 9 10 THE COURT: Thank you. 11 Anything else? 12 All right. Thank you all. I'll take these motions under advisement and get a ruling out in due course. 13 14 Court will be in recess. 15 (Whereupon, the court proceedings were concluded.) 16 17 18 19 20 21 22 23 24 25

STATE OF UTAH 1 2) ss. COUNTY OF SALT LAKE) I, KELLY BROWN HICKEN, do hereby certify that I $\ensuremath{\mathtt{am}}$ 5 a certified court reporter for the State of Utah; That as such reporter, I attended the hearing of 6 the foregoing matter on April 21, 2005, and thereat reported 7 8 in Stenotype all of the testimony and proceedings had, and 9 caused said notes to be transcribed into typewriting; and the 10 foregoing pages number from 3 through 96 constitute a full, true and correct report of the same. 11 That I am not of kin to any of the parties and have 12 no interest in the outcome of the matter; 13 14 And hereby set my hand and seal, this ____ day of 15 _____2005. 16 17 18 19 20 KELLY BROWN HICKEN, CSR, RPR, RMR 21 22 23 24 25