

Appeal No. 08-4217

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

THE SCO GROUP, INC.,

Plaintiff-Appellant,

vs.

NOVELL, INC.,

Defendant-Appellee.

**On Appeal from the United States District Court
for the District of Utah
The Honorable Dale A. Kimball, Judge Presiding
(Case No. 2:04-CV-00139-DAK)**

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CORPORATE DISCLOSURE STATEMENT

Appellee Novell, Inc. has no parent corporation. No publicly held corporation owns 10% or more of Novell's stock.

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STATEMENT OF RELATED CASES

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Movant-Appellant Jonathan Lee Riches, dismissed on October 6, 2008, for failure
to prosecute.

TABLE OF ABBREVIATIONS AND SPECIAL TERMS

Term	Meaning
#####	Five-digit numbers refer to SCO's Appendix. Novell's Addendum uses the same numbers, but is limited to relevant parts of key documents and substitutes better copies of certain documents.
AB	Appellant's Brief
Amendment No. 1	Amendment No. 1 to the APA, executed at the Closing on December 6, 1995
Amendment No. 2	Amendment No. 2 to the APA, executed on October 16, 1996
Amendment X	Amendment to IBM's SVRX License executed by Novell, Santa Cruz, and IBM on October 16, 1996
APA	Asset Purchase Agreement, executed September 19, 1995
Bill of Sale	Document executed at the Closing on December 6, 1995, which transferred assets pursuant to the APA
Caldera	Former name of Appellant SCO
IBM SVRX License	Agreements that licensed SVRX to IBM
Linux	The Linux operating system
Novell	Appellee Novell, Inc.
Santa Cruz	The Santa Cruz Operation, Inc. (also known as "SCO"), predecessor-in-interest to Appellant SCO
SCO	Appellant The SCO Group, Inc., formerly known as Caldera
Sequent	Sequent Computer Systems

Term	Meaning
Sequent SVRX License	Agreements that licensed SVRX to Sequent
Supplement	Software Agreement Supplement (called “Product Supplement” or “Product Schedule License” by SCO)
SVRX	UNIX System V Releases, as defined in the APA
TLA	Technology License Agreement
UNIX	The UNIX operating system
UnixWare	Novell’s version of UNIX, later enhanced by Santa Cruz

STATEMENT OF ISSUES

1. Did the district court correctly hold, as a matter of law, that the APA and Bill of Sale executed in 1995 did not transfer ownership of UNIX and UnixWare copyrights because the APA explicitly excluded “all copyrights” from the transferred assets?

2. Did the district court correctly hold, as a matter of law, that the APA as amended by Amendment No. 2 effective “as of” October 1996 did not transfer ownership of the UNIX and UnixWare copyrights because it did not qualify as an “instrument of conveyance” under the Copyright Act, and SCO failed to present admissible evidence sufficient to create triable issues of fact that the amended APA was intended to transfer copyrights?

3. Did the district court correctly hold for the same reasons that the APA as amended by Amendment No. 2 did not transfer copyright ownership, it also did not obligate Novell to transfer ownership in the future?

4. Did the district court correctly hold, as a matter of law, that Novell’s authority to waive “any rights” under “any SVRX License” included all agreements licensing SVRX to IBM and Sequent?

5. Did the district court correctly hold that Novell did not violate the implied covenant of good faith by exercising its express contractual authority to waive SCO’s claimed rights under the IBM and Sequent SVRX Licenses?

6. Did the district court correctly hold, as a matter of law, that Novell's right to receive 95% of "SVRX Royalties" under "all SVRX Licenses" included SVRX licenses that were signed after the APA, including SCO's amended SVRX license with Sun?

STATEMENT OF CASE

A. Nature of Case

This appeal concerns SCO's attempt to rewrite the plain language of the Asset Purchase Agreement ("APA"), a contract to which SCO was not a signatory, to support a new litigation-oriented business model that SCO adopted long after the APA was executed.

In 1995, under the APA, Novell sold certain assets related to the UNIX System V operating system ("SVRX") to Santa Cruz, but retained significant assets and rights, including ownership of "all copyrights" and 95% of SVRX license royalties. In 2001, SCO (then Caldera) purchased Santa Cruz's UNIX business. SCO, an ardent supporter of the Linux operating system, announced that it would use its new UNIX assets to promote Linux. However, in 2003, SCO decided to attack Linux instead. SCO threatened and sued IBM and other Linux users, claiming that Linux infringed SCO's alleged UNIX copyrights. When Novell reminded SCO that Novell had retained ownership of these copyrights,

SCO brought this action against Novell for “slandering” SCO’s alleged title in the copyrights.

B. PROCEEDINGS AND DISPOSITION BELOW

Novell moved to dismiss SCO’s complaint because SCO did not own the UNIX copyrights. The district court agreed that “the APA did not transfer any copyrights,” and that APA Amendment No. 2 contained “no transfer language” and did not identify specific copyrights to be transferred. (16706-07.) However, the court concluded that dismissal was premature and Novell’s arguments “would more properly be before the court on motions for summary judgment or trial.” (16713.)

After extensive discovery, both parties filed summary judgment motions. In August 2007, the district court denied SCO’s motions and issued three summary judgment rulings for Novell. (11983-12084.) First, the district court granted summary judgment that the APA and related documents did not transfer ownership of the UNIX copyrights, and that SCO had no right to obtain ownership. The court held that the APA’s plain language excluded “all copyrights” from the transferred assets; the “Bill of Sale” that implemented the APA did not transfer copyrights; and Amendment No. 2 did not transfer copyrights or require them to be transferred. (12033;12041-44;12081-82.)

Second, the district court granted summary judgment that the APA authorized Novell to waive “any rights” under “any SVRX License,” including claims based on IBM’s and Sequent’s alleged breach of Software and Sublicensing Agreements that were part of the “combination of agreements” licensing SVRX. (12058-68;12082.)

Third, the district court granted summary judgment that the APA required SCO, as Novell’s agent and fiduciary, to provide Novell with royalties paid under “all SVRX Licenses,” including payments that SCO had received from Sun and Microsoft, to the extent they related to SVRX. (12077-78;12080.) After a four-day bench trial, the court awarded Novell \$2,547,817 of Sun’s \$9.1 million payment. (12080;12123;12131.)

SCO has appealed these summary judgment rulings.

STATEMENT OF FACTS

I. APA BACKGROUND AND STRUCTURE

In the 1980s, AT&T developed and licensed UNIX System V (“SVRX”) to various companies, who developed their own UNIX “flavors.” (03524(#19-20); AB7.) In 1993, Novell paid over \$300 million to purchase UNIX System Laboratories, the AT&T spin-off that owned the UNIX copyrights and licenses. (02181;06100(¶4).) Novell developed its own UNIX version, “UnixWare,” which supported Novell’s “NetWare” networking software. (06100-02(¶¶4,8).)

In 1995, Novell decided to sell its UNIX business to Santa Cruz, another UNIX vendor. Because Santa Cruz did not have sufficient cash to buy all of Novell's UNIX assets, the APA was structured so that Novell retained certain UNIX-related rights and received other consideration. (06101-07(¶¶7-20);06766-69;06077;06094;06096-97;06101;AB8.)

Santa Cruz paid no cash. It transferred shares of its stock worth approximately \$50 million and promised a portion of future UnixWare revenue exceeding certain targets (which were not met). (00265-66(Art.1.2(a)-(c));06087;06101.)¹ Novell retained significant rights, including 95% of SVRX License royalties, which totaled \$50 million in 1995 alone. (00265(Art.1.2(b));00287(Art.4.16);06087;06104(¶14).) To protect this revenue stream, Novell retained the UNIX copyrights on which the revenue was based. (00318(Schedule 1.1(b));06104(¶14);06075(¶9);06096(¶12(a),(d)).)

¹ SCO inflates the purchase price to "\$250 million," by improperly adding the uncontested stock value to the value of the SVRX royalty stream that Novell *retained*. (AB3(adding figures at 06101 to those at 04637).)

II. EXCLUSION OF COPYRIGHTS

A. The APA, Executed in September 1995, Excluded Copyrights

The APA, as executed on September 19, 1995, defined the “Assets” to be transferred by reference to schedules of included and excluded assets.

Article 1.1(a) stated that on the Closing Date:

Seller will...transfer...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).*

(00264-65(emphasis added).)

Schedule 1.1(a)’s description of “Intellectual Property” to be transferred did not include copyrights:

V. Intellectual Property — Trademarks UNIX and UnixWare as and to the extent held by Seller (excluding any compensation Seller receives with respect of the license granted to X/Open regarding the UNIX trademark).

(00315.)² Schedule 1.1(b) identified the following “Intellectual Property” as “Excluded Assets”:

² This was not unusual for Novell. Several months after the APA, Novell also retained copyrights when it sold its “TUXEDO” software business to BEA Systems. (06080(¶18); see 07589-90(software executive testifying that it is common to license, instead of transfer, copyrights).)

- A. *All copyrights* and trademarks, except for the trademarks UNIX and UnixWare.
- B. All Patents.

(00318(emphasis added).)

The APA included an integration clause stating that “[t]his Agreement, and the Schedules and Exhibits hereto,” constitute the parties’ “entire agreement,” “supersed[ing] all prior agreements and understandings, both written and oral....”

(00310(Art.9.5).)

B. Novell Deliberately Retained Copyrights to Protect Its SVRX Royalty Stream

An early draft of Schedule 1.1(a) included “all...copyrights.” (06104(¶15); 06338.) Novell then *deleted* “all copyrights” from the Schedule 1.1(a) transferred assets, and *added* “all copyrights” to the Schedule 1.1(b) “Excluded Assets.” (06104(¶15);06378;06381;06385;06392.) Novell and Santa Cruz exchanged draft schedules that excluded copyrights, and the final APA preserved this exclusion. (06104-06(¶¶15-17);06269-76;00318.)

Novell excluded copyrights from the transfer to protect its retained SVRX License royalty stream (06104(¶14);06075(¶9);06096(¶12(a),(d))), which was critical to bridging the gap between what Novell wanted and what Santa Cruz could afford (06077(¶9);06096(¶12(a));06104(¶14)). Novell believed that retaining copyright ownership would help ensure its receipt of royalties even if

Santa Cruz went bankrupt, and protect Novell's right to execute "buy-outs" in which a UNIX licensee made a lump-sum payment to obtain a paid-up license. (06077(¶¶9,16);06104(¶14).)

Novell's Board resolution approving the APA on September 18, 1995, stated that "Novell will retain all of its patents, copyrights and trademarks (except for the trademarks UNIX and UnixWare)...." (05192.)

C. Amendment No. 1 and the Bill of Sale, Executed in December 1995, Did Not Transfer Copyrights

At closing on December 6, 1995, the parties signed Amendment No. 1, which modified the included and excluded asset Schedules, but left the exclusion of "all copyrights." (00361-63.)

Also on December 6, Novell executed a "Bill of Sale" transferring assets, as required by the APA. (05602;00268(Art.1.7(b)(iii)).) The Bill of Sale stated that Novell "does hereby transfer...all of the Assets," as defined in the APA. (05602.) Because the APA defined "Assets" as those included in Schedule 1.1(a) and not excluded by Schedule 1.1(b), the Bill of Sale did not transfer any copyrights. (00264-65(Art.1.1(a)).)

D. Technology License Agreement

APA Article 1.6 entitled Novell to use "Licensed Technology," defined as technology included in the Assets and "derivatives" of such technology. (00268.) This clause was implemented by a Technology License Agreement stating that

Novell “retains” a license to Licensed Technology. (00268;03690.) Novell negotiated this license to enable it to use future enhancements that Santa Cruz developed as derivative works and other technology (such as trade secrets) transferred to Santa Cruz. (06107(¶¶21-23);06457-58.)

E. Amendment No. 2 Amended the APA as of October 16, 1996

Ten months after Closing, the parties executed Amendment No. 2, which amended the APA “as of the 16th Day of October 1996.” (00374.) Santa Cruz proposed a first draft of Amendment No. 2 that would have added the following, italicized language to Schedule 1.1(b) “Excluded Assets”:

All copyrights and trademarks, except for the copyrights and trademarks owned by Novell as of the date of this Amendment, which pertain to the UNIX and UnixWare technologies and which SCO has acquired hereunder....

(06070(italics added);06064(¶8).) Novell rejected this proposal, stating that Novell would confirm Santa Cruz’s right to use Novell’s copyrighted UNIX and UnixWare products, but “was not going to transfer ownership of any copyrights to Santa Cruz through Amendment No. 2.” (06064(¶10).)

The parties removed the reference to copyrights that Santa Cruz “has acquired,” and to “copyrights...which pertain to the UNIX and UnixWare technologies.” (06065(¶11).) The final Amendment No. 2 revised Schedule 1.1(b) to include:

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 the UNIX and UnixWare technologies.

(00374.) It did not call for a bill of sale, and Novell did not execute a bill of sale on signing Amendment No. 2 or thereafter. (06066(¶17).)

F. SCO Offered Post-Hoc Testimony from Witnesses Unfamiliar with Negotiation of APA Language

SCO offered testimony from various witnesses that, despite the explicit exclusion of “all copyrights” from the APA, the parties intended to transfer UNIX and UnixWare copyrights to Santa Cruz. None of these witnesses was familiar with the drafting of the actual APA language, and none had any familiarity with Amendment No. 2. (12000-05;07738,07709,07706(Chatlos);07720, 07723(Frankenberg);07745,8778(Levine)³;07842-43,07846(Madsen);07727-29,07733(Mattingly);07801-02,07805(Michels);07792,07789-90,07796-97(Mohan);07667-69,07664-65,07730-31(Thompson);07817-18,07741, 07816(Wilt).)

³ Burt Levine testified that he reviewed some drafts, but admitted that (1) he did not specifically recall what intellectual property the APA transferred (07745); and (2) he reviewed and revised the asset schedules *without* changing the exclusion of copyrights (06417-22;08748-53).

It is undisputed that the APA language was negotiated and drafted by Novell's inside and outside counsel (David Bradford, Tor Braham, Aaron Alter, and Shannon Whisenant); and SCO's inside and outside counsel (Steven Sabbath, Edward Leonard, Scott Lester, and Jeffrey Higgins). (06100-01(¶¶5-6); 06260;06269;10718.) It is also undisputed that Amendment No. 2 was negotiated and drafted by Allison Amadia and James Tolonen, Novell's in-house counsel and CFO, respectively; and by Steven Sabbath, Santa Cruz's in-house counsel. (06063(¶5);06097(¶¶13-16).)

Novell presented testimony from three persons responsible for drafting the APA that copyrights were deliberately excluded from the transfer to protect Novell's SVRX royalty stream and other interests. (06078(¶12)(Bradford); 06106(¶18)(Braham);07677-81(Alter).) Two persons responsible for Amendment No. 2 testified that it was not intended to and did not transfer copyright ownership. (06065(¶14)(Amadia);06095(¶11),06097(¶16)(Tolonen).)

SCO offered only Sabbath's testimony (AB14) that the APA was intended to transfer copyright ownership. But Sabbath admitted that he did not recall negotiating Amendment No. 2 (10721), and he had sworn in a prior declaration that (1) SCO's claim that it had acquired ownership of the UNIX copyrights was "incorrect"; and (2) "neither Santa Cruz nor Novell ever identified the specific

copyrights...for which a transfer of ownership was ‘required.’” (05184(¶26); 05185(¶29).)

The district court concluded that “SCO has not provided evidence from witnesses on the Santa Cruz side of the transaction with respect to their review of the asset schedules. In fact, there is no evidence from any of Santa Cruz’s outside counsel and very little evidence from Santa Cruz’s in-house legal department regarding the drafting of the APA.” (11994.)

III. APA IMPLEMENTATION AND SCO’S ANTI-LINUX CAMPAIGN

A. Santa Cruz’s APA Implementation

The APA was forward-looking. The goal was for Santa Cruz to develop and sell a “Merged Product” based on Novell’s UnixWare that would provide a platform for Novell’s NetWare. (06102(¶8);00288(Art.4.18);01425-26;01438.)

After the APA closed, Santa Cruz devoted substantial resources “to upgrade UnixWare for high-performance computing on Intel processors.” (05819(¶49);15541-42.)

Santa Cruz changed the copyright notices on UnixWare products to state:

Copyright 1996 The Santa Cruz Operation, Inc. All rights reserved.

Copyright 1984-1995 Novell, Inc. All rights reserved.

(10310.) SCO continues to use that form of copyright notice, even on recent products. (07408.) These notices reflect that (1) Novell owns the copyrights for

code developed 1984-1995, having bought those rights from AT&T and withheld them from the sale to Santa Cruz; and (2) Santa Cruz owns the copyrights on code added from 1996. *See* 2 Nimmer on Copyright §7.12[C][1](noting “practice of many publishers to include earlier copyright notices as well as a notice for the newly published derivative or collective work”).

B. SCO’s Purchase of Santa Cruz’s UNIX Business and Change in Business Strategy

1. Santa Cruz Warned SCO About “Chain of Title”

In May 2001, SCO purchased Santa Cruz’s UNIX business. (06658.) Santa Cruz purported to transfer its interest in UNIX and UnixWare copyrights to SCO (07422-23;07443), but warned that it “may not be able to establish a chain of title from Novell.” (07424(¶8(v)).)

2. SCO’s Decision to Attack Linux

SCO announced that its acquisition of Santa Cruz’s UNIX business made SCO “the largest Linux company in the world,” and that the deal would enable SCO to “broaden and validate both the Linux and UNIX industries and communities, by providing open access to its unified Linux and UNIX technologies.” (06658;06650.) However, after hiring a new CEO in 2002, SCO embarked on a new business model called “SCOsource”: license, and if that failed, sue Linux users for using UNIX code allegedly contained in Linux. (07178-229;09761-62;09768.)

SCO's new "SCOsource" campaign required SCO to establish title to UNIX copyrights, despite Santa Cruz's warning. Michael Anderer, a SCO consultant, concluded that Santa Cruz's "asset purchase" from Novell "excludes all patents, copyrights, and just about everything else." Anderer warned, "We need to be really clear about what we can license. It may be a lot less than we think." (07541;07535.)

SCO repeatedly contacted Novell seeking a transfer of copyrights so SCO could pursue its new business model. (07526(¶¶13-14);07529;07543;07552-53(referring to 07543);07557-58;07570;07592-94;07598-602.) Novell rejected SCO's requests. (*Id.*)

Despite this rejection, SCO launched a highly public campaign, claiming that Linux infringed SCO's alleged UNIX rights. SCO sued IBM and others, and sent threatening letters to Novell and more than 1,000 other Linux users. (05808-12;00871-72;01908-09;06955.) Novell responded that SCO had failed to provide "meaningful notice of any allegedly infringing Linux code," and that UNIX copyrights were owned by Novell, not SCO.⁴ (05874-75.) Other Linux users

⁴ SCO makes the unfounded and irrelevant accusation that Novell deliberately announced that it owns the UNIX copyrights on the day of SCO's earnings report to harm SCO's stock price. (AB12.) Chris Stone, the alleged source of this information, testified that he did not even know that SCO was announcing its earnings on that date. (07584-88.) SCO also cites Novell's

(Footnote continues on next page.)

complained about SCO's vague claims. (07148;07150;07152;07154;07163-66;07168.) Merrill Lynch noted that "nearly all the articles and papers published in connection with this very public dispute categorically reject SCO's allegations of intellectual property ownership and infringement," and "SCO was even fined last year by a German Court for continuing to claim that Linux violated SCO's intellectual property." (07158.) Industry analysts also reacted skeptically. (06976(SCO's claims "are uniformly without merit");06968(Linux users should avoid paying SCO's "arbitrarily high" license fees).)

IV. NOVELL'S SVRX LICENSE WAIVER RIGHTS

A. The APA Entitled Novell to Waive Any Rights under Any SVRX License

The APA entitled Novell to receive 95% of royalties due under SVRX Licenses. (00265(Art.1.2(b));00287(Art.4.16).) Novell also retained "sole discretion" to require SCO to "amend, supplement, modify or waive any right" under "any SVRX License" in "any manner or respect," and to waive such rights on SCO's behalf if SCO failed to do so. (00287(Art.4.16(b)).)

(Footnote continued from previous page.)

comment that it had just become aware of Amendment No. 2, which "appears to support" SCO's ownership claim. (AB11.) But Novell concluded, upon further review, that Amendment No. 2 did not transfer copyrights because SCO had not demonstrated that it "required" the copyrights. (07902.)

The APA defined “SVRX Licenses” by referring to Item VI of Schedule 1.1(a). (00287(Art.4.16(a)).) Item VI listed multiple UNIX System V releases. (00315-16.) “SVRX” is an abbreviation for “System V Release ___.” (03524(#19);AB8.)

B. AT&T Licensed SVRX Using a Combination of “Software Agreement,” “Sublicensing Agreement,” and “Supplements”

As SCO has acknowledged, AT&T “used a combination of agreements in licensing its SVRX technology, including the Software Agreement, Sublicensing Agreement, and the various Product Supplements.” (03451(¶38).) The Software and Sublicensing Agreements are umbrella agreements that “set forth the rights and obligations for the licensee’s use of a software product it might choose to license.” (03454(¶44).) The Software Agreement included a “Grant of Rights” that conferred the “right to modify” and “to prepare derivative works based on” the “SOFTWARE PRODUCT,” which was defined to include both source code and object code (called “binary code” by SCO). (01472(§§2.01,1.02,1.04).) The Sublicensing Agreement granted the right to distribute copies of “SUBLICENSED PRODUCTS,” defined as binary code. (01493(§§1.04,2.01).)

The Supplements “only identif[y] the product the licensee had a right to use and the CPUs on which it had that right, and the fees the licensor had a right to receive in exchange.” (03454(¶44).) The Supplement refers to the related

Software Agreement, stating that the Supplement is “made a part of the referenced [Software] Agreement.” (01479;01471.) It also refers to “Sublicensing fees” that apply to “SUBLICENSSED PRODUCT under a Sublicensing Agreement.” (01480(§1(c)).)

The Software and Sublicensing Agreements refer to the Supplements in their integration clauses, and define the licensed products and CPUs by referring to Supplements and related Schedules. (01471(¶¶2,4);01472(§§1.03,1.04); 01492(¶¶1,4);01493(§1.04).) The Software and Sublicensing Agreements thus form an integrated agreement with the Supplements.

C. The IBM and Sequent SVRX Licenses

From 1985 to 1989, AT&T entered into a series of agreements licensing SVRX to IBM (“IBM SVRX License”), including a Software Agreement, Sublicensing Agreement, various Supplements, and other related agreements. (01471-90;01492-500;01502;01504-14;01516;01523;01543;01577.) In the same time period, AT&T executed similar agreements licensing SVRX to Sequent (“Sequent SVRX License”). (01633-38;01640-46;01648-56;01664;01674; 01679;01685.)

Novell succeeded to AT&T’s rights under the IBM and Sequent SVRX Licenses upon purchasing UNIX System Laboratories in 1993. (03531(#34);

03534(#41).) IBM assumed Sequent's rights and obligations under the Sequent SVRX License upon acquiring Sequent in 1999. (03534(#40).)

D. IBM's Buy-Out of Its SVRX License Rights

The IBM SVRX License included one-time source code "right-to-use" fees and ongoing "sublicensing fees" for distributing sublicensed, binary code products. (01480.) In October 1996, IBM executed Amendment X, granting IBM an "irrevocable, fully-paid-up, perpetual right to exercise all of its rights" under the SVRX license agreements in exchange for payment of \$10,125,000 in two installments. (03904(§1);03908(§4).) Amendment X also modified the Software and Sublicensing Agreements by granting IBM the right to license SVRX source code to customers under certain circumstances. (03905-08(§§2,3,7).)

Both Novell and Santa Cruz signed Amendment X. (03911-13.) Novell and Santa Cruz agreed, in a separate "General Release," that Santa Cruz would retain \$1.5 million of IBM's \$10.125 million payment to settle Santa Cruz's claims against Novell regarding the IBM buy-out. (03915(§§1,2).) They also agreed in APA Amendment No. 2 that "notwithstanding the provisions of Article 4.16, Sections (b) and (c)," special procedures would apply to "any potential transaction with an SVRX licensee which concerns a buy-out of any such licensee's royalty obligations...." (00374.) For example, any future SVRX buy-out required both parties' consent. (*Id.*)

SCO forwarded IBM's \$10.125 million payment to Novell after deducting (1) the \$1.5 million settlement payment and (2) an "Administrative Fee for IBM" of \$243,000 in November 1996 and \$263,250 in January 1997—exactly 5% of \$10.125 million. (12176;12183.)

E. SCO's Refusal to Waive Claims Based on IBM and Subsequent SVRX Licenses

As part of its "SCOsource" campaign, SCO claimed that IBM had violated the AT&T/IBM Software and Sublicensing Agreements. (01911-13.) In June 2003, Novell disputed SCO's claim and directed 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..." (01920.) SCO rejected this demand, but did not deny that the Software and Sublicensing Agreements constituted an "SVRX License." (01924.) On the contrary, SCO stated that Novell sought "to assert claims on behalf of IBM with respect to its *SVRX License* with SCO." (01922(emphasis added).)

Novell notified SCO that, pursuant to Article 4.16(b), Novell was waiving "any purported right SCO may claim to terminate IBM's SVRX Licenses enumerated in Amendment X or to revoke any rights thereunder..." (01937.) SCO nevertheless purported to terminate these licenses, and refused to waive

related claims against IBM. (01939;01942-47.) Novell then waived those claims. (01949-50.)

Similarly, when SCO purported to terminate the Sequent SVRX License and refused to waive claims against Sequent, Novell waived those claims on SCO's behalf. (01964-65;01954;1959-60;01917-18;01956-57.)

V. SCO'S FIDUCIARY OBLIGATION TO REMIT SVRX ROYALTIES

Santa Cruz agreed in the APA to "collect and pass through to [Novell] one hundred percent (100%) of the SVRX Royalties," subject to a 5% "administrative fee." (00265(Art.1.2(b)).) As the district court noted, this requirement indisputably imposed a fiduciary obligation on SCO, as Novell's agent, to collect and remit SVRX Royalties. (12072.)

The APA defined "SVRX Royalties" as "all royalties, fees and other amounts due under all SVRX Licenses." (00287(Art.4.16(a)).) The APA stated that Santa Cruz "shall not, and shall not have the authority to, amend, modify or waive any right under or assign any SVRX License...[or to] enter into future licenses or amendments of the SVRX Licenses, except as may be incidentally involved through its rights to sell and license the Assets." (00287(Art.4.16(b)).) Amendment No. 1 confirmed that SCO "shall not, and shall have no right to, enter into new SVRX Licenses." (00361(§J)). Amendment No. 2 prohibited SCO from

entering into any “transaction with an SVRX licensee which concerns a buy-out of any such licensee’s royalty obligations” without Novell’s consent. (00374(§B).)

In 1994, Sun executed an SVRX License with Novell that bought out its ongoing SVRX royalty obligations. (00889-911.) Sun agreed to keep the licensed source code confidential. (00898(§10.1).) In 2003, SCO purported to amend that SVRX License and buy-out agreement, removing the confidentiality restrictions. (00877-78(§8.1).) SCO executed this license without Novell’s consent and refused to remit to Novell any of the royalties SCO obtained from Sun.

SUMMARY OF ARGUMENT

1. The district court correctly held that the unambiguous language of the APA, as executed in September 1995 and amended as of the December 1995 closing, did not meet the requirements of the Copyright Act for transferring copyright ownership to SCO’s predecessor, Santa Cruz. The APA asset schedules unequivocally excluded “[a]ll copyrights.” The Bill of Sale executed in December 1995 transferred only those assets included in the APA. Extrinsic evidence purporting to show that the parties intended to transfer copyright ownership is irrelevant and inadmissible under California’s parol evidence rule because the APA is an integrated agreement, and its clear and explicit language is not susceptible to that interpretation.

2. The district court correctly held that the APA as amended by Amendment No. 2, which amended the APA's schedule of excluded assets "as of October 16, 1996," did not transfer copyright ownership for several independent reasons.

First, Amendment No. 2 failed as a matter of law to meet the Copyright Act's requirements for conveyance of copyright ownership because it had no transfer language, did not retroactively amend the December 1995 Bill of Sale, and did not identify with reasonable certainty which copyrights, if any, were to be transferred.

Second, SCO presented no competent evidence that Amendment No. 2 was intended to transfer copyright ownership. Indeed, Novell had indisputably *rejected* Santa Cruz's proposed amendment transferring copyright ownership.

Third, SCO presented no evidence that Santa Cruz "required" copyright ownership to exercise its APA rights. SCO argues circularly that Santa Cruz required copyright ownership to sue for copyright infringement because the APA transferred "claims" related to the acquired assets. But this would follow only if those assets included copyright ownership, which the APA specifically excluded. Moreover, Santa Cruz and SCO operated the acquired business for seven years without asserting a copyright ownership claim, until SCO changed its business model and sued IBM in 2003.

3. SCO's claim for specific performance suffers from the same deficiencies and circularity as its claim for copyright ownership. The district court correctly denied that claim as a matter of law for the same reasons it denied SCO's copyright ownership claim.

4. The district court correctly concluded that Novell's contractual authority to waive "any rights" under "any SVRX License" entitled Novell to waive SCO's rights under any of the agreements that licensed SVRX to IBM and Sequent, including the Software and Sublicensing Agreements. SCO's attempt to rewrite "any SVRX License" as "Supplements only" is unreasonable as a matter of law. The Supplements do not, by themselves, confer any right to use the licensed products. Rather, the Supplements confer a license only when *combined* with the Software and Sublicensing Agreements.

5. The district court correctly rejected SCO's claim that Novell breached the implied covenant of good faith by exercising its contractual authority to waive "any rights" under "any SVRX License." Under controlling California Supreme Court precedent, the implied covenant does not "prohibit a party from doing that which is expressly permitted by an agreement."

6. The district court correctly held that Novell's right to royalties under "all SVRX Licenses" included all licenses to the UNIX System V Releases identified in the APA, not just "pre-existing" licenses. Therefore, SCO's challenge

to the damages award related to the Sun SVRX License fails. The Sun damages award is also supported by other rulings that SCO has not challenged.

ARGUMENT

I. THE DISTRICT COURT CORRECTLY HELD AS A MATTER OF LAW THAT THE APA AND BILL OF SALE DID NOT TRANSFER COPYRIGHT OWNERSHIP.

SCO argues that the APA should be interpreted only as amended by Amendment No. 2, which was executed in October 1996, 13 months after the APA and 10 months after the Bill of Sale. SCO ignores that Amendment No. 2 amended the APA “[a]s of the 16th day of October 1996.” Amendment No. 2 was not in effect when the Bill of Sale transferring assets was executed in December 1995. It is, therefore, necessary to consider separately (1) whether the APA and Bill of Sale transferred copyright ownership in 1995; and (2) whether Amendment No. 2 transferred ownership upon taking effect in October 1996. The district court correctly held that none of these documents transferred copyright ownership.

A. Applicable Federal and State Law

Two sets of legal principles govern copyright ownership. First, Section 204(a) of the Copyright Act requires a signed, written “instrument of conveyance” to transfer copyright ownership. 17 U.S.C. § 204(a). Second, California law governs contract interpretation, and its parol evidence rule prohibits

use of extrinsic evidence to support an interpretation to which the plain language is not “reasonably susceptible.”

1. The Copyright Act Requires a Clear and Definite “Instrument of Conveyance”

The Copyright Act’s “instrument of conveyance” requirement “enhances predictability and certainty of copyright ownership—Congress’ paramount goal” when it amended the Copyright Act in 1976. *Effects Assocs. v. Cohen*, 908 F.2d 555, 557 (9th Cir. 1990), citing *Community for Creative Non-Violence v. Reid*, 490 U.S. 730, 749-50 (1989). Section 204(a) has been strictly applied consistent with this purpose. *See Konigsberg Int’l v. Rice*, 16 F.3d 355, 357 (9th Cir. 1994); *Radio Television Espanola S.A. v. New World Entm’t*, 183 F.3d 922, 926 (9th Cir. 1999). It is a substantive prerequisite, not merely an evidentiary rule; a copyright transfer is “not valid” without the required written instrument. *Konigsberg*, 16 F.3d at 357. Unlike a statute of frauds, Section 204(a) is not subject to equitable defenses, which would “undermine the goal of uniformity and predictability in the field of copyright ownership and transfer.” *Pamfiloff v. Giant Records*, 794 F.Supp. 933, 937 (N.D. Cal. 1992).

Section 204(a) requires a written instrument sufficiently “clear and definite” that “such property will be readily marketable” and the “parties need only look to the writing that sets out their respective rights.” *Konigsberg*, 16 F.3d at 357. This

prevents misunderstandings by “spelling out the terms of a deal in black and white,” and “forc[ing] a party who wants to use the copyrighted work to negotiate with the creator to determine *precisely what rights are being transferred.*” *Effects*, 908 F.2d at 557 (emphasis added).

2. California Law Prohibits Using Extrinsic Evidence to Support a Contract Interpretation to Which the Plain Language Is Not Reasonably Susceptible

California law governs the APA pursuant to its choice-of-law clause. (00310(Art.9.8).) Under California law, “[t]he language of a contract is to govern its interpretation, if the language is clear and explicit, and does not involve an absurdity.” Cal.Civ.Code § 1638. Extrinsic evidence cannot be used to support an interpretation to which the contract language is not “reasonably susceptible.” *Dore v. Arnold Worldwide*, 39 Cal.4th 384, 391 (2006). “When a dispute arises over the meaning of contract language, the first question to be decided is whether the language is ‘reasonably susceptible’ to the interpretation urged by the party. If it is not, the case is over.” *Id.* at 393.

Under California’s parol evidence rule, “Terms set forth in a writing intended by the parties as a final expression of their agreement with respect to such terms as are included therein may not be contradicted by evidence of any prior agreement or of a contemporaneous oral agreement.” Cal.Civ.Proc.Code § 1856(a). “[W]hen the parties intend a written agreement to be the final and

complete expression of their understanding, that writing becomes the final contract between the parties, ***which may not be contradicted by even the most persuasive evidence of collateral agreements. Such evidence is legally irrelevant.***” *EPA Real Estate P’ship v. Kang*, 12 Cal.App.4th 171, 175 (1992)(emphasis added); *Gerdlund v. Elec. Dispensers Int’l*, 190 Cal.App.3d 263, 270 (1987)(“The parol evidence rule generally prohibits the introduction of any extrinsic evidence to vary or contradict the terms of an integrated written instrument.”).

The court may “provisionally receive, without actually admitting,” extrinsic evidence to determine “whether or not the written agreement is reasonably susceptible to the interpretation offered by a party.” *Blumenfeld v. R.H. Macy & Co.*, 92 Cal.App.3d 38, 45 (1979). However, “if the court decides in light of this extrinsic evidence that the contract is not reasonably susceptible to the offered interpretation, then the evidence is irrelevant and inadmissible to interpret the contract.” *Blumenfeld*, 92 Cal.App.3d at 45.

California courts have strictly applied the parol evidence rule. In *Gerdlund*, plaintiffs relied on “[t]estimony by ***all parties*** at the *in limine* hearing [] that ***all had the same general intent*** regarding the length of employment, namely that [plaintiffs] would not be terminated as long as they were doing a good job,” to argue that a contract allowing termination for “***any reason***” should be interpreted as “***any good reason.***” 190 Cal.App.3d at 273 (bold emphasis added). The court

rejected this evidence as inadmissible because “any reason” is “plainly all-inclusive, encompassing all reasons ‘*of whatever kind,*’ good, bad, or indifferent.” *Id.* at 273, 278; *see also Blumenfeld*, 92 Cal.App.3d at 46 (rejecting extrinsic evidence that transfer of “all claims against third parties” did not include plaintiff’s claim against defendant, because “all-inclusive language” was not “reasonably susceptible” to this interpretation, so plaintiff “was simply mistaken in its belief that it had retained [that] claim”).

SCO cites cases that considered extrinsic evidence (AB39), but those cases confirm that extrinsic evidence should *not* be admitted unless the contract is “reasonably susceptible” to the proposed interpretation. *Wolf v. Walt Disney Pictures & Television*, 162 Cal.App.4th 1107, 1126 (2008); *Employers Reins. Co. v. Superior Court*, 161 Cal.App.4th 906, 920 (2008); *Morey v. Vannucci*, 64 Cal.App.4th 904, 912 (1998); *Halicki Films v. Sanderson Sales & Mktg.*, 547 F.3d 1213, 1223 (9th Cir. 2008); *see Universal Sales Corp. v. Cal. Press Mfg.*, 20 Cal.2d 751, 761, 776 (1942)(considering extrinsic evidence after finding “ambiguity”).

B. The APA and Bill of Sale When Executed in 1995 Did Not Transfer Copyright Ownership

1. The APA and Bill of Sale Did Not Constitute an Instrument of Conveyance

As executed in 1995, the APA and Bill of Sale did not constitute an “instrument of conveyance” sufficient to transfer copyrights under the Copyright Act because they explicitly excluded “all copyrights” from the transfer.

The APA did not transfer any assets, but rather defined the “Assets” to be transferred at the Closing pursuant to a “Bill of Sale.” (00264(Art.1.1(a)); 00268(Art.1.7(b)(3)).) Article 1.1(a) stated that the Assets to be transferred were *“identified on Schedule 1.1(a) hereto,”* but that *“notwithstanding the foregoing, the Assets to be so purchased shall not include those assets (‘the Excluded Assets’) set forth on Schedule 1.1(b)....”* (00264(Art.1.1(a)).)

As “Intellectual property” transferred, Schedule 1.1(a) identified only “Trademarks UNIX and UnixWare as and to the extent held by Seller.” (00315.) Schedule 1.1(b) excluded, under its “Intellectual Property” heading, “All copyrights and trademarks, except for the trademarks UNIX and UnixWare,” as well as “All Patents.” (00318.) The “notwithstanding” clause in Article 1.1(a) makes it clear that the transferred Assets “shall not include” the Schedule 1.1(b)

“Excluded Assets,” even if such assets are part of Schedule 1.1(a). The APA’s “clear and explicit” language thus excluded “all copyrights” from the transfer.⁵

The Bill of Sale, executed on December 6, 1995, stated that it “does hereby transfer” the “Assets,” as defined in the APA, and thus did not include copyrights. (05602.)

2. The TLA Did Not Override the APA’s Exclusion of “All Copyrights”

SCO contends that the Technology License Agreement (“TLA”) executed at the Closing pursuant to APA Article 1.6 supports interpreting the APA as transferring UNIX and UnixWare copyrights because Novell did not need a “license-back” to technology that it owned. (AB35.) The district court correctly rejected this argument because (1) “Licensed Technology” is defined as “all of the technology included in the Assets and all derivatives of the technology included in the assets”; and (2) the definition therefore included “rights distinct from Novell’s UNIX and UnixWare copyrights,” such as “other aspects of the technology sold to

⁵ Relying on *Shugrue v. Cont’l Airlines, Inc.*, 977 F.Supp. 280 (S.D.N.Y. 1997), SCO argues that Schedule 1.1(a)’s reference to “all rights and ownership of UNIX and UnixWare” (0313) includes copyrights. (AB32.) But *Shugrue* found copyright transfer because “[n]o exception was carved out for copyrights” and “no rights, titles, or interests were retained.” 977 F.Supp. at 285 (emphasis added). Here, there was an explicit carve-out for “[a]ll copyrights.” See also Cal.Civ.Proc.Code § 1859 (“when a general and particular provision are inconsistent, the latter is paramount to the former”).

Santa Cruz and derivatives of the transferred technology,” for which Novell did need a license. (12031-32;00268(Art.1.6);03690(§II.A).)

As the court also noted, SCO’s argument would imply that the APA transferred patents because Novell would otherwise not need a license-back of patents; yet SCO admitted that the APA did *not* transfer patents. (12032.)

Moreover, the TLA did not purport to override Schedule 1.1(b)’s explicit exclusion of “all copyrights” from the transferred assets.

3. Extrinsic Evidence of the Parties’ Intent Is Inadmissible Under the Parol Evidence Rule

SCO argues that extrinsic evidence creates a triable issue regarding whether the APA transferred copyrights. As discussed above, California law allows extrinsic evidence to be “provisionally received,” but requires its exclusion if the contract is not “reasonably susceptible” to the proffered interpretation, even if *all parties* have testified to that interpretation. (*Supra*, 26.)

The APA explicitly excluded “all copyrights” when the Bill of Sale transferring assets was executed in 1995. That language is not susceptible to the interpretation that it transferred copyrights. The extrinsic evidence cited by SCO is, therefore, inadmissible.

As required by California law, the district court provisionally received extrinsic evidence to determine whether such evidence made the APA reasonably

susceptible to SCO's interpretation. Novell presented evidence that the parties deliberately excluded copyrights from the transfer. (*Supra*, 7-8.) SCO presented conclusory testimony that the parties intended when they executed the APA in 1995 to transfer the UNIX and UnixWare copyrights. These witnesses admitted, however, that they were not responsible for negotiating and drafting the actual APA language. (*Supra*, 10-12.) Nor did these witnesses explain why the APA *excluded* "all copyrights," if the intent was to *include* the UNIX and UnixWare copyrights in the transfer. As noted by the district court, SCO "provide[d] no extrinsic evidence regarding the final negotiations of the deal that would contradict Novell's evidence." (12036.)

SCO argues that the district court "improperly weighed the evidence." (AB40-47,62.) On the contrary, after carefully considering extrinsic evidence regarding the parties' intent and subsequent conduct⁶ (11985-12013;12024-45), the

⁶ SCO claims its possession of AT&T's UNIX copyright registrations constitutes "prima facie" evidence of ownership. (AB47;05731-44.) But possession of a copyright registration certificate is "immaterial" to ownership. *Kingsrow Enters. v. Metromedia*, 397 F.Supp. 879, 881 (S.D.N.Y. 1975). Nor does SCO's possession show that Novell affirmatively transferred ownership; the certificates were stored in an office taken over by Santa Cruz pursuant to the APA. (07636-38;08735.) Novell and SCO filed competing registrations after this dispute arose in 2003 (*see, e.g.*, 15911-12), but no "prima facie" assumption attaches because those registrations were more than five years after publication of the copyrighted works. *See* 17 U.S.C. § 410(c).

court correctly concluded that “[t]he parol evidence rule precludes SCO from relying on extrinsic evidence to try to rewrite the exclusion of ‘all copyrights’ from APA because the language is unambiguous and not reasonably susceptible to SCO’s interpretation.” (12035.) “Reasonably susceptible” is an issue of law that the court properly decided on summary judgment. *See Dore*, 39 Cal.4th at 387, 394 (affirming summary judgment); *Gerdlund*, 190 Cal.App.3d at 267 (reversing jury verdict); *Blumenfeld*, 92 Cal.App.3d at 41, 46 (reversing bench trial judgment).

C. The APA as Amended by Amendment No. 2 Did Not Transfer Ownership of the UNIX and UnixWare Copyrights

The district court correctly held that the APA as amended effective October 16, 1996, by Amendment No. 2 did not transfer ownership of UNIX and UnixWare copyrights for three separate reasons: (1) it did not meet Copyright Act requirements for transferring copyright ownership; (2) no admissible extrinsic evidence shows that Amendment No. 2 was intended to transfer copyright ownership; and (3) SCO presented no evidence that copyright ownership was required to exercise its APA rights.

1. Amendment No. 2 Did Not Meet the Copyright Act Requirements for Transfer of Ownership

As discussed in Part I.A.1, Copyright Act Section 204(a) requires a clear and definite “instrument of conveyance” that enables the parties to resolve disputes by

examining “the writing that sets out their respective rights.” *Konigsberg*, 16 F.3d at 357. This instrument must “(1) reasonably identify the subject matter of the agreement, (2) be sufficient to indicate the parties have come to an agreement, and (3) state with reasonable certainty the essential terms of the agreement.” *Pamfiloff*, 794 F.Supp. at 936. Amendment No. 2 did not satisfy these requirements because it did not purport to transfer copyright ownership or retroactively amend the Bill of Sale, and did not identify which copyrights, if any, were transferred.

a. Amendment No. 2 did not transfer copyright ownership or retroactively amend the Bill of Sale

As the district court found, “Amendment No. 2 does not include any provision that purports to transfer ownership of copyrights.” (12041.) It does not state that copyrights “are hereby transferred,” “have been transferred,” or even “will be transferred.” Rather, it merely revises the “Intellectual Property” category of “Excluded Assets” under Schedule 1.1(b).

SCO attempts to overcome this problem by arguing that “[t]he APA, as amended by Amendment No. 2, *and the Bill of Sale*, easily satisfy the Copyright Act’s requirements.” (AB49(emphasis added); AB50(“The Bill of Sale unambiguously effectuated this transfer and complied with the Copyright Act.”).) As the district court found, however, “Amendment No. 2 was not accompanied by a separate ‘Bill of Sale’ transferring any assets” and did not “purport to

retroactively change the scope of assets transferred by the Bill of Sale that was executed in connection with the APA in December 1995.” (12041.) Amendment No. 2 stated that it “amended” the APA “[a]s of the 16th day of October, 1996,” ten months *after* the December 1995 Bill of Sale. (*Id.*)

SCO attempts to imply retroactivity in Amendment No. 2’s reference to “the copyrights and trademarks owned by Novell as of the date of the Agreement.” (AB34.) This reference relates plainly, however, to which copyrights are at issue, not to the amendment’s effective date. Amendment No. 2 explicitly states that it applies *prospectively* — “[a]s of the 16th day of October, 1996,” its signing date. That language is not reasonably susceptible to SCO’s retroactive interpretation. The APA as amended by Amendment No. 2 is, therefore, not “sufficient to indicate the parties have come to an agreement” to transfer copyrights. *Pamfiloff*, 794 F.Supp. at 936.

b. Amendment No. 2 did not identify which copyrights, if any, should be transferred.

Amendment No. 2’s reference to copyrights “required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies” did not “reasonably identify the subject matter of the agreement.” *Id.* SCO now contends that Santa Cruz “required” outright ownership of, not just a license to, *all* of Novell’s copyrights for the many versions and releases of UNIX and UnixWare

to exercise rights acquired under the APA. But Amendment No. 2 says nothing of the kind, and SCO has not demonstrated that it required ownership of *any* copyrights. (*Infra*, 42-48.) At a minimum, because there was no “meeting of the minds,” Amendment No. 2 was not a sufficient “instrument of conveyance.” See *Foraste v. Brown Univ.*, 290 F.Supp.2d 234, 239-40 (D.R.I. 2003)(no valid Section 204(a) transfer because of “utter absence of precision regarding the rights to be transferred” and “no evidence of...‘meeting of the minds’”); *Pamfiloff*, 794 F.Supp. at 936 (conveyance instrument must show agreement concerning “essential terms of the agreement”); *Konigsberg*, 16 F.3d at 357 (instrument must “determine precisely what rights are being transferred”); *Playboy Enters. v. Dumas*, 53 F.3d 549, 564 (2d Cir. 1995)(instrument not sufficient because of “ambiguity of the agreement”).

Quoting APA Article 1.1(a) only in part, SCO argues that “[t]he amended APA unambiguously provided for the transfer to Santa Cruz of all of Novell’s ‘right, title, and interest’ and ‘all rights and ownership of UNIX and UnixWare’” and that Amendment No. 2 “confirms...the written agreement in the APA.” (AB50-51.)⁷ SCO ignores the remainder of Article 1.1(a), which limits such rights

⁷ SCO asserts that later ratification may satisfy the Copyright Act, citing cases where transfer of ownership was *not* disputed. See *Arthur Rutenberg Homes v. Drew Homes*, 29 F.3d 1529 (11th Cir. 1994); *Imperial Residential*

(Footnote continues on next page.)

and interest to assets “*identified on Schedule 1.1(a) hereto*” and “*not includ[ing] those assets (‘the Excluded Assets’) set forth on Schedule 1.1(b).*” Amendment No. 2 did not change Schedule 1.1(a), which still limited the transferred “[i]ntellectual property” to “[t]rademarks UNIX and UnixWare as and to the extent held by [Novell]” and still identified *no* copyrights. Schedule 1.1(b), as amended, still excluded “[a]ll copyrights” except those “required for SCO to exercise its rights” under the APA. SCO cannot escape Amendment No. 2’s failure to identify any copyrights with the specificity required by the Copyright Act by resorting to the APA’s general provisions.

Nor do the cases SCO relies on contradict the principle that the written instrument of conveyance must be specific and unambiguous to be enforceable. SCO cites *Radio Television Espanola S.A.* for the proposition that “[n]o particular language or ‘magic words’ are required” (AB49-50), but that case affirmed summary judgment based on failure to comply with Section 204(a) because the documents lacked sufficient specificity. 183 F.3d at 927, 931. *Kenbrooke Fabrics v. Soho Fashions*, 690 F.Supp. 298, 301 (S.D.N.Y. 1988), held only that a

(Footnote continued from previous page.)

Design v. Palms Dev. Group, 70 F.3d 96 (11th Cir. 1995). This line of cases is irrelevant when, as here, transfer is disputed. See *Lyrick Studios v. Big Idea Prods.*, 420 F.3d 388, 394 (2005); *In re Napster*, 191 F.Supp.2d 1087, 1099 (N.D.Cal. 2002); 3 Nimmer on Copyrights §10.03[A][3] (2008).

“letter of authorization” stating that it was “transfer[ring] ownership of all screens” might be sufficient to meet the requirements of the Act if signed by a properly authorized agent. And *ITOFCA v. MegaTrans Logistics*, 322 F.3d 928 (7th Cir. 2003), did not resolve whether the agreement transferred copyright ownership, relying instead on the preclusive effect of an order allowing the defendant to make and sell copies of the software. *Id.* at 931 (“even if the agreement did not transfer the copyright...it transferred a right to sell a modified version, which is all that matters so far as this appeal is concerned”); *see id.* at 938 (concurrency noting that finding transfer would “conflict[] with the purposes of section 204”).

None of these cases supports transfer of copyright ownership where, as here, the document relied on as an instrument of conveyance fails to specify its subject matter and terms. *Playboy, supra*, is instructive. The Second Circuit held that an agreement to assign “all right, title and interest in and to the following items” was insufficient to satisfy Section 204(a), because “the evidence [was] conflicting as to whether the parties intended a one-time transfer of reproduction rights or a transfer that included copyright.” 53 F.3d at 564. Here, as in *Playboy*, “the ambiguity of the agreement and the accompanying circumstances” render Amendment No. 2 “insufficient to meet the writing requirement of § 204(a).” *Id.*

2. SCO Presented No Extrinsic Evidence that Amendment No. 2 Was Intended to Transfer Ownership of Copyrights

Because Amendment No. 2 does not meet the Copyright Act requirements to transfer ownership, extrinsic evidence need not be considered. Indeed, extrinsic evidence is not admissible to show that Amendment No. 2 was intended to transfer copyrights by retroactively amending the Bill of Sale, because Amendment No. 2 indisputably does not contain any language of transfer and explicitly applies prospectively, “as of” its signing date, so the plain language is not reasonably susceptible to this interpretation.

Moreover, the district court correctly found that “[e]ven if the Amendment met the requirements of Section 204, the extrinsic evidence demonstrates that the parties intended only to affirm the implied license granted under the APA.”

(12044.) Amendment No. 2 was negotiated by two in-house lawyers, Novell’s Allison Amadia and Santa Cruz’s Steven Sabbath. (06063(¶¶5,6);06097(¶¶13-16).) Amadia gave unrebutted testimony that Sabbath said that the APA excluded copyrights from the asset sale and requested that Novell “amend the Original APA to explicitly give Santa Cruz rights to copyrights in UNIX and UnixWare.”

(*Id.*) Sabbath then proposed revising the “Excluded Assets” schedule, through Paragraph A of Amendment No. 2, to read:

All copyrights and trademarks, except for the copyrights and trademarks owned by Novell as of the date of this Amendment, which pertain to the UNIX and UnixWare technologies and which SCO has acquired hereunder....

(06064(¶8);06070.) Santa Cruz thus acknowledged that “as of the date of this Amendment,” Novell owned copyrights “pertain[ing] to the UNIX and UnixWare technologies” and sought to obtain ownership of those copyrights by stating that “SCO has acquired [them] hereunder.” (*Id.*)

Novell rejected this proposal. Amadia told Sabbath that “while Novell was willing to affirm that Santa Cruz had a license under the Original APA to use Novell’s UNIX and UnixWare copyrighted works in its business, Novell was not going to transfer ownership of any copyrights to Santa Cruz through Amendment No. 2.” (06064(¶10).)

The final version of Amendment No. 2 did not refer to copyrights “which SCO has acquired hereunder.” (06065(¶11);00374(¶A).) Moreover, instead of a blanket exception for copyrights that “pertain to the UNIX and UnixWare technologies,” it referred only to copyrights “required for SCO to exercise its rights with respect to the acquisition of the UNIX and UnixWare technologies.” (*Id.*) Jim Tolonen, the Novell executive who signed Amendment No. 2, confirmed that it was not intended to transfer copyright ownership. (06097(¶¶13-16).)

It is undisputed that Novell rejected Santa Cruz's proposal to obtain the interpretation that SCO now urges for Amendment No. 2—transfer of all UNIX and UnixWare copyrights. SCO's attempt to get back what Santa Cruz already gave up is untenable as a matter of law.⁸ *See Apple Computer v. Microsoft Corp.*, 35 F.3d 1435, 1440-41 (9th Cir. 1994)(under California law, where Microsoft rejected Apple's proposal "to limit Microsoft's license to Windows 1.0," there was "no basis for construing the Agreement to grant the narrow license Apple bargained for but gave up").

SCO offered no competent contrary evidence. With the exception of Sabbath, *none of the witnesses SCO cites was involved in negotiating Amendment No. 2*. And Sabbath admitted that *he had no recollection of negotiating the relevant part of Amendment No. 2*:

Q. Is paragraph A a part of Amendment Number 2 that you recall negotiating to any extent?

A. I don't recall that. But I don't know.

⁸ SCO argues that Amendment No. 2 was unnecessary if it merely affirmed Santa Cruz's inherent license. (AB38.) The amendment provided written assurance that Santa Cruz was entitled to use whatever copyrights were "required" to exercise its rights regarding the UNIX and UnixWare acquisition. That assurance is what Novell was willing to give and what Santa Cruz accepted, after Novell rejected Santa Cruz's proposal to transfer copyrights.

Q. And to the best of your recollection, who at Santa Cruz would have been involved in negotiating the language of paragraph A to Amendment Number 2[?]

A. I don't know.

(10721.)

Moreover, Sabbath declared that “Novell had retained its UNIX copyrights” under the APA (05183(¶25)) and that SCO’s claim to own “all right, title and interest in and to UNIX System V...together with copyrights” was “incorrect.” (05185(¶29).) Sabbath is, therefore, not competent to testify about the parties’ intent in negotiating Amendment No. 2, and his conclusory assertion that Amendment No. 2 was intended to confirm that Santa Cruz owned the UNIX copyrights does not create a triable issue of fact. *See Franks v. Nimmo*, 796 F.2d 1230, 1237 (10th Cir. 1986)(conclusory affidavit that contradicts prior testimony does not defeat summary judgment); *FrontRange Solutions USA v. NewRoad Software*, 2007 U.S. Dist. LEXIS 64757, at **2-12 (D.Colo. Aug. 31, 2007)(unpublished)(same).

3. SCO Presented No Evidence that Ownership of UNIX and UnixWare Copyrights Was Required to Exercise Its Rights Under the APA

Even if Amendment No. 2 met the requirements of the Copyright Act, and even if SCO had presented competent extrinsic evidence regarding Amendment No. 2, SCO would have the burden of establishing a triable issue that transfer of

copyright ownership was “required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies.” SCO failed to meet that burden. As the district court correctly held, “SCO has not provided evidence that it required ownership of the copyrights to exercise its rights under the APA.” (12044.)

SCO had the burden to show that copyright ownership was “required,” which means “necessary” or “essential,” and not merely “useful” or “helpful.” SCO also had the burden to show (1) which of the numerous copyrights for UNIX releases were “required for” the exercise of Santa Cruz’s APA rights, and (2) which specific rights within the bundle of copyright ownership rights (*e.g.*, use, modify, copy, distribute, etc.) were “required.” SCO made no showing as to either.

SCO presented no evidence that Santa Cruz needed to own UNIX and UnixWare copyrights to exercise its rights regarding acquired UNIX and UnixWare technology. As the district court found, “Santa Cruz had been able to pursue its UNIX business from December 6, 1995 until October 16, 1996, without any problems due to its lack of ownership of the copyrights. Santa Cruz indisputably did not own the copyrights during those ten months.” (12043.) Moreover, Santa Cruz continued to operate its UNIX business without any problems, promoting enhanced versions of Novell’s “UnixWare” as “the standard UNIX System for volume enterprise servers.” (02507.) SCO continued to sell

UnixWare after taking over Santa Cruz's product line in 2001, releasing UnixWare 7.1.3 in December 2002. (00457.)

Santa Cruz did not need to own the UNIX and UnixWare copyrights because the APA necessarily conferred a license on Santa Cruz to use those copyrights as needed to implement the APA. A contract involving copyrighted works confers a license to use the copyrights as needed to implement the transaction, even if the contract does not expressly refer to a license. *Foad Consulting Group v. Musil Govan Azzalino*, 270 F.3d 821, 828 (9th Cir. 2001)(finding license where required for “[t]he central purpose of the contract”); *see also Effects*, 908 F.2d at 558.

A “central purpose” of the APA was to enable Santa Cruz to develop and distribute an improved version of Novell's “UnixWare” product. (*Supra*, 12.) This required Santa Cruz to modify and distribute the copyrighted code in Novell's UnixWare. Thus, the APA necessarily conferred a license to use the related copyrights to effectuate this purpose. (06107(¶20);08752.) Burt Levine, a former SCO litigation consultant and in-house attorney at AT&T/Novell/Santa Cruz, gave uncontradicted testimony that if the copyrights were not transferred, Santa Cruz “absolutely, absolutely” would have had a license to use the copyrights, and that there would be an “inherent” license to do “anything necessary to practice the copyright in the transferred asset.” (06107(¶20);08752.)

The conclusion that Santa Cruz did not require ownership of the UNIX copyrights is reinforced by Santa Cruz's admitted lack of ownership of Novell's UNIX-related patents. (05638(¶9);08767;08776.) Santa Cruz needed to use these patents to distribute and modify UNIX products, so Novell's sale of its UNIX products to Santa Cruz necessarily conveyed "enough of a patent license under Novell's patents that would be necessary for SCO to conduct its business," as Levine confirmed. (08767.)⁹

SCO did not dispute that companies routinely operate software businesses without owning the underlying rights. (07577-78;07590.) Indeed, SCO's complaint against IBM noted that IBM sells a variant of UNIX, even though IBM does not own the underlying UNIX copyrights. (05814.)

Contrary to SCO's assertion (AB36), courts have not limited the implied license doctrine to works created for the licensee.¹⁰ *Keane Dealer Servs. v. Harts*,

⁹ SCO argues for the first time on appeal that "the evidence showed that patents that may have implicated UNIX in some way did not transfer because Novell did not own any such patents." (AB45.) That assertion is refuted by APA Attachment D, entitled "Seller's Patents and Patent Applications Affecting the Business," which lists 37 U.S. and international patents. (00340-41.)

¹⁰ *I.A.E. v. Shaver*, 74 F.3d 768, 776 (7th Cir. 1996), cited by SCO for this proposition, only notes that the doctrine of implied license has been applied in those circumstances. *SmithKline Beecham Consumer Healthcare v. Watson Pharms.*, 211 F.3d 21, 25 (2d Cir. 2000), held only that an infringer that never had

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968 F.Supp. 944 (S.D.N.Y. 1997), for example, found a license on parallel facts. Lehman Brothers sold its retail branch assets to Smith Barney, including a retail order management system, but did not transfer the software's copyrights. *Id.* at 946. Lehman subsequently sold its rights to the software's developer, who sued Smith Barney for copyright infringement. *Id.* at 946-47. The court granted summary judgment for Smith Barney based on an implied license to use the software program arising from Lehman's knowledge of, and acquiescence in, the use of the software. *Id.* at 947; *see Pamfiloff*, 794 F.Supp. at 938-39 (transfer of all rights in compositions in exchange for royalty payments did not fulfill Copyright Act requirements to transfer copyright ownership but created implied license to use compositions).

Moreover, SCO's argument implies that Santa Cruz did not have *any* license to carry out the UNIX-related business contemplated by the APA for the ten months between the Bill of Sale and Amendment No. 2, during which time it indisputably did not own the copyrights. Unless SCO believes that Santa Cruz was acting illegally during that period, Santa Cruz must have had an inherent license.

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an agreement of any kind with the copyright owner did not have an implied license.

SCO contends that Santa Cruz “required” copyright ownership to exercise its APA rights because Schedule 1.1(a) included “[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.” (00314;AB37.) This argument is circular. It requires one to assume what SCO seeks to prove—that the assets transferred included Novell’s UNIX and UnixWare copyrights. Schedule 1.1(a) included only those “claims” that related to *assets “included in the Business.”* But copyrights were explicitly *excluded* from the sale of the business when the APA was executed and closed in 1995.

Moreover, SCO offered no evidence that suing Linux companies was “required” to exercise rights contemplated by the APA. SCO has submitted no evidence that, in the *seven years* between the execution of the APA and its suit against IBM, it was necessary to sue or threaten to sue any party concerning the original, unmodified UNIX or UnixWare code subject to the APA.

What actually happened is that SCO decided to adopt a new business model that was not contemplated by the APA: suing Linux users for alleged infringement, instead of developing and selling its own products. SCO has presented no evidence that such lawsuits were “required” to pursue the UnixWare business that Santa Cruz and Novell contemplated upon executing the APA in 1995. Indeed, the undisputed evidence shows that the APA’s purpose was to enable Santa Cruz to

develop and promote an enhanced version of UnixWare. (06102(¶8); 00288(Art.4.18);01425-26;01438.)

Other than the APA's reference to "claims," the only evidence that SCO presented was conclusory statements that "you need all of the copyrights." Such "generic and conclusory testimony," "wholly devoid of any specific instances" in which ownership of the copyrights was in fact required to exercise Santa Cruz's APA rights, is insufficient to create a disputed issue of material fact. *See Jones v. Denver Post Corp.*, 203 F.3d 748, 756 (10th Cir. 2000).

II. THE DISTRICT COURT CORRECTLY HELD AS A MATTER OF LAW THAT THE APA DOES NOT ENTITLE SCO TO TRANSFER OF THE UNIX AND UNIXWARE COPYRIGHTS NOW

SCO argues, in the alternative, that even if the APA as amended by Amendment No. 2 did not transfer Novell's UNIX and UnixWare copyrights, SCO is entitled to "specific performance" requiring the transfer of those copyrights now. (AB51-52.) This claim suffers from the same deficiencies and circularity as SCO's claim for copyright ownership.

As demonstrated above, the APA, even as amended by Amendment No. 2 "as of October 16, 1996," does not meet the Copyright Act requirements. Its vague reference to "copyrights...required to exercise [SCO's] rights" does not identify "precisely what rights are being transferred," *Effects*, 908 F.2d at 557, or "reasonably identify the subject matter of the agreement" or "state with reasonable

certainty the essential terms of the agreement,” *Pamfiloff*, 794 F.Supp. at 936. Treating Amendment No. 2 as an agreement for future transfer subject to specific enforcement does not cure these deficiencies. The Copyright Act applies equally to promises of future transfer. *Valente-Kritzer Video v. Pinckney*, 881 F.2d 772, 774 (9th Cir. 1989)(promise to transfer copyright ownership unenforceable for failure to comply with Copyright Act); *Mellencamp v. Riva Music*, 698 F.Supp. 1154, 1161-62 (S.D.N.Y. 1988)(“there is no merit to plaintiff’s contention that a contract to transfer a copyright can be enforced without a writing [complying with the Copyright Act]”); *A. Brod, Inc. v. SK&I Co.*, 998 F.Supp. 314, 323-24 (S.D.N.Y. 1998)(“*Section 204* applies...to oral agreements to (re)transfer copyright ownership in the future.”).

SCO repeats its circular argument that SCO “requires” copyright ownership to “exercise its rights” to bring “claims” for copyright infringement, *i.e.*, SCO requires ownership of the copyrights because otherwise it cannot sue as a copyright owner. But if copyrights were not assets transferred, suing as an owner cannot be required to exercise rights relating to those assets.

SCO argues, in particular, that it “requires” copyright ownership to sue IBM for infringement of UNIX copyrights with respect to IBM’s Linux product. But SCO has made no showing that it or Santa Cruz was unable to operate the acquired business without suing IBM. Indeed, SCO did not sue IBM until 2003, seven years

after the closing of the APA and long after Linux was first distributed in the 1990s. Moreover, SCO's claims against IBM are based on alleged misuse of SVRX code that IBM licensed from AT&T in the 1980s and for which Novell retained 95% of the revenue stream. (05809(¶4);05822(¶62);05825-26(¶¶75-83); 00287(Art.4.16(a).) Those claims have nothing to do with post-APA code and products developed by Santa Cruz and SCO, which were the focus of the APA and for which SCO holds its own copyrights.

For the same reasons that Amendment No. 2 failed to transfer ownership of UNIX and UnixWare copyrights to Santa Cruz, it created no obligation by Novell to transfer ownership of those copyrights in the future.

III. THE DISTRICT COURT CORRECTLY HELD THAT NOVELL HAD THE RIGHT TO WAIVE SCO'S RIGHTS UNDER THE IBM AND SEQUENT SVRX LICENSES

APA Article 4.16(b) gave Novell "sole discretion" to "waive any rights" under "any SVRX License." (00287.) SCO contends that this authority is limited to "binary royalty rights" under "Supplements," and does not include the IBM and Sequent Software and Sublicensing Agreements. (AB53-63.) This argument fails because the contract is not reasonably susceptible to SCO's interpretation.

A. “Any SVRX License” Includes All Licenses to SVRX, and Cannot Reasonably Be Limited to “Supplements” that Do Not Confer Any Right to Use SVRX.

1. The plain-language meaning of “any SVRX License” is any contract that licenses SVRX technology

The only term in “any SVRX License” that is not clear on its face is “SVRX.” SCO has admitted, however, that “SVRX” refers to UNIX System V releases. (03524(#19);AB8.) This is consistent with the APA, which defines “SVRX License” by referring to UNIX System V releases. (00287;00315-16.)

The ordinary meaning of “any SVRX License” is any agreement that licenses SVRX. SCO has admitted that AT&T “used a combination of agreements in licensing its SVRX technology, including the Software Agreement, Sublicensing Agreement, and various Product Supplements.” (03451(¶38).) Nevertheless, SCO contends that “any SVRX License” is limited to Supplements only.

SCO’s interpretation is unreasonable as a matter of law. The Supplements did not grant any right to use SVRX. Rather, as conceded by SCO and noted by the district court, the Supplements “only identified the product the licensee had a right to use and the CPUs on which it had that right, and the fees the licensor had a right to receive in exchange.” (03454(¶44);12064;01479-85.)

The Supplements are *one portion* of an “SVRX License,” but confer a license only when *combined* with the “Grant of Rights” in the Software and Sublicensing Agreements. (01472-73;01493-96.) The Supplements refer to the

Software and Sublicensing Agreements, which in turn refer to the Supplements as part of the same integrated agreement. (01479;01480(§1(c));01471(¶¶2-4); 01472(§§1.03,1.04);01492(¶¶1,4);01493(§1.04).) The district court correctly interpreted “any SVRX License” as including *both* the Software and Sublicensing Agreements (which define “general rights and obligations for the licensee’s use of any software product”) *and* the Supplements (which “give[] content” to those Agreements by identifying the “software product”). (12064.)

2. “SVRX License” is not ambiguous

SCO contends that “SVRX License” is ambiguous because the Item VI list of “SVRX Licenses” consists of UNIX System V releases, not specific licenses. (AB53-54.) As the district court noted, the only reasonable interpretation is that “SVRX License” refers to all licenses related to the UNIX System V releases in Item VI. (12060-61.) Indeed, SCO has admitted that “SVRX” refers to UNIX System V releases. (03524(#19).)

The APA does not define “License,” but this is an ordinary word that needs no definition. SCO asserts that “[t]he absence of any definition supports a finding of ambiguity” (AB54), but its cited authority “rejected the view that the lack of [an insurance] policy definition necessarily creates ambiguity,” since any such rule “would be illogical and unworkable.” *Bay Cities Paving & Grading v. Lawyers’ Mut. Ins. Co.*, 5 Cal.4th 854, 866 (1993). Ambiguity *might* exist “when the term in

question has no generally accepted meaning” (*id.* at 867), but “license” has a generally accepted meaning, as confirmed by SCO’s admission that AT&T used a combination of agreements in “*licensing* its SVRX technology.” (03451(¶38).)

SCO cites the district court’s reference to “some ambiguity in the APA’s attempt to define SVRX Licenses” (AB54), but ignores the court’s explanation that “an ambiguity only exists if the language is reasonably susceptible to more than one meaning.” (12060.) The district court correctly concluded that “any SVRX License” cannot be limited to Supplements because (1) such a limitation would be contrary to “the integrated nature of the licensing agreements” and the APA’s broad references to “any” and “all” SVRX Licenses; and (2) the licensee’s rights and obligations are defined by the Software and Sublicensing Agreements, not by the Supplements. (12061-64.)

3. Item III.L does not exclude Software and Sublicensing Agreements from “any SVRX License”

SCO asserts that interpreting “SVRX License” in Item VI as including Software and Sublicensing Agreements would be “redundant” because Item III.L also identifies these Agreements. (AB56-57.) However, redundancy does not justify interpreting a contract “as meaning something other than what it clearly does....Superfluity happens, even in the best of agreements. That is why, as explained in every lawyer’s favorite maxim of jurisprudence, ‘superfluity does not

vitate.’ (Civ. Code, § 3537.)” *Crow Irvine #2 v. Winthrop Cal. Investors Ltd. P’ship*, 104 Cal.App.4th 996, 1008 (2002)(unpublished); see *Big Creek Lumber Co. v. County of Santa Cruz*, 38 Cal.4th 1139, 1170 (2006)(applying “superfluity does not vitiate” to statutory interpretation); *In re B.J.B.*, 185 Cal.App.3d 1201, 1215-16 (1986)(same).

SCO’s cited cases involved a possible *contradiction* between two provisions, rather than redundancy. *Boghos v. Certain Underwriters*, 36 Cal.4th 495, 500-04 (2005)(conflict between arbitration clause and court jurisdiction clause); *United States v. Gonzalez-Garcia*, 85 F.App’x 160, 164 (10th Cir. 2004)(unpublished) (conflict between one plea bargain clause and defendant’s interpretation of another). Here, there is no conflict. Interpreting “SVRX License” in Item VI as including Software and Sublicensing Agreements is consistent with Item III, which first refers to “software development contracts, *licenses*, and other contracts,” and then identifies Software and Sublicensing Agreements as one type of license. (00314-15(emphasis added).)

B. The District Court’s Interpretation of Article 4.16(b) Does Not Destroy the Value of the Purchased Assets

SCO contends that interpreting Article 4.16(b) to allow Novell to waive “any right” under “any SVRX License” would “destroy” the value of the UNIX assets purchased by Santa Cruz. (AB57-59.) But Santa Cruz purchased Novell’s

assets subject to Novell's "sole discretion" to waive such rights. SCO has no basis to complain about Novell exercising this authority.

SCO apparently contends that Novell's waiver authority should be narrowly construed to prevent the APA from becoming invalid due to lack of consideration. But California courts will not review the fairness of agreed consideration unless it is "so one-sided as to create an issue of unconscionability...." *Third Story Music v. Waits*, 41 Cal.App.4th 798, 808 n.5 (1995).

SCO has never argued that the APA is unconscionable. Moreover, the APA provided consideration to Santa Cruz *independent* of UNIX System V, including:

- Rights related to Novell's "UnixWare" operating system and contracts, including the right to develop new products based on UnixWare (00313-15(Items I,III,IV);00288(Art.4.18); 01425-26;01438;06102(§8));
- Novell's customer lists and assistance in transferring customers and orders to Santa Cruz (00266(Art.1.3));
- Novell's assistance in transferring employees to Santa Cruz, as well as related office furniture (00286(Art.4.13); 00316(Item VII)).

SCO asserts that waiving SVRX rights would "destroy the value of UnixWare" because UnixWare is based on UNIX System V. (AB58.) But UnixWare clearly has independent value, as confirmed by the district court's ruling that Novell is not entitled to any of Microsoft's \$8.5 million payment to SCO because it was merely "incidental to a UnixWare license"; and is entitled to only

\$2.5 million of Sun's \$9.1 million payment to SCO, as the remainder concerned UnixWare and associated drivers. (12121-23;12130-31.)

SCO contends that including Software and Sublicensing Agreements in "any SVRX License" would lead to the "absurd" result that Novell could waive SCO's rights regarding Novell's retained license under APA Article 1.6 and the related TLA. (AB59.) This is a *non sequitur*. The TLA is not a separate "SVRX License"; it is an integral part of the APA, as confirmed by APA Article 1.6 and TLA Article VIII. (00268;03693.) In contrast, the Software and Sublicensing Agreements are indisputably part of "the combination of agreements" licensing SVRX. Novell has never argued that Article 4.16(b) overrides SCO's explicit rights under Article 1.6 and the TLA.¹¹

SCO asserts that including Software and Sublicensing Agreements in "any SVRX License" would mean that Novell could waive Santa Cruz's own rights, *as a licensee*, to SVRX. (AB59.) But Article 4.16 concerns Santa Cruz's rights and obligations as *a licensor*, not as a licensee, as confirmed by the reference to Santa Cruz's *administration* of SVRX Licenses. (00287(Art.4.16(a)).) Moreover,

¹¹ As the district court noted, the TLA also did not constitute an SVRX License because the "Licensed Technology" did not include SVRX copyrights (which Novell owned), but was instead limited to other technology, such as derivative works created by Santa Cruz. (12062.)

Amendment No. 1 entitled Santa Cruz to retain all royalties due under its SVRX License. (00357(¶E(e)(iv)).) Article 4.16(b) did not nullify Santa Cruz's rights under this paid-up license.

C. SCO's Extrinsic Evidence Does Not Make "Any SVRX License" Reasonably Susceptible To SCO's Interpretation

SCO contends that extrinsic evidence shows that Novell's right to waive "any right" under "any SVRX License" is limited to binary code royalty rights under Supplements, and excludes rights in the Software and Sublicensing Agreements. (AB59-63.) SCO's argument fails because the APA language is not reasonably susceptible to SCO's interpretation.¹²

1. Article 4.16(b)'s intent

SCO asserts that various witnesses testified that Article 4.16(b) was intended to allow Novell to waive rights related to collection of SVRX royalties for binary code only and did not allow waiver of source code rights under the Software and Sublicensing Agreements. (AB59-60;05653(¶13).) This testimony fails to show that 4.16(b)'s explicit authority to waive "any right" under "any SVRX License" is reasonably susceptible to SCO's proposed interpretation of "*only some rights*"

¹² SCO also argues that the district court improperly weighed evidence, citing comments that are qualified by, "*If the contract language was susceptible to SCO's interpretation...*" (AB60-62;12068-69 n.6.) Those comments are irrelevant because 4.16(b) is *not* susceptible to SCO's interpretation.

under the “*Supplement portion*” of the SVRX Licenses. SCO’s cited witnesses do not explain why 4.16(b) was drafted as all-inclusive, if the intent was much narrower. Nor do they explain how “any SVRX License” can reasonably be limited to the Supplements only, given that the Supplements do not grant a license unless *combined* with Software and Sublicensing Agreements. Additionally, no witness explains how *waiving* the right to collect binary product royalties would “protect” Novell’s interest in *collecting* such royalties. Moreover, as the district court noted, Amendment No. 1’s multiple references to source code-related royalties under SVRX Licenses refute SCO’s attempt to limit SVRX Licenses to binary code royalties. (12066-67, citing amended Arts.1.2(e)(ii),1.2(f)(00357-58).)

SCO cites testimony that waiving source code rights was *not* discussed during the contract negotiations, but has presented no evidence that the parties *affirmatively discussed and agreed* to limit waivers to binary royalties only. (03553(¶ 7);03937(¶ 13).) The *absence* of such discussion does not justify overriding the broad authority conferred by 4.16(b)’s plain language.

2. “The set” of agreements used to license SVRX

SCO cites the testimony of John Maciaszek and William Broderick that they “understood an SVRX license to be an SVRX product supplement.” (04625(¶ 12); 04610(¶ 15), *cited at* AB21;AB60(citing the same declarations with different appendix numbers).) However, Maciaszek and Broderick do not assert that “any

SVRX License” refers *exclusively* to the Supplements, without the underlying Software and Sublicensing Agreements. On the contrary, they confirm that (1) UNIX and UnixWare were licensed through a “set of agreements” that included Software Agreements, Sublicensing Agreements, and Supplements; and (2) the Software and Sublicensing Agreements “described general rights and obligations that would apply if a licensee licensed a product.” (04624-25(¶¶10-13);04609-10(¶¶13-16).) Their testimony does not make it reasonable to interpret “any SVRX License” as Supplements only.

3. The IBM buy-out and related agreements

SCO contends that agreements related to IBM’s “buy-out” of its SVRX License rights show that Novell had no authority to waive Software and Sublicensing Agreement rights. (AB60-61.) SCO asserts that Novell agreed in Amendment No. 2 that Novell “may not prevent SCO from exercising its rights with respect to SVRX source code in accordance” with the APA. (AB60-61.) However, as the district court noted, Paragraph B of Amendment No. 2 makes it clear that this clause applies solely to a “potential transaction with an SVRX licensee which concerns a buy-out of any such licensee’s royalty obligations....” (12067;00374.)

Novell’s waiver of SCO’s claims against IBM and Sequent did not involve a buy-out. Therefore, as the district court noted, “[b]ecause the Amendment’s

language regarding Novell's rights with respect to source code rights is limited by the plain language of Amendment No. 2 to buy-out transactions, it provides no insight into the source code rights SCO had or did not have under Article 4.16(b) of the original APA." (12067-68.)

SCO contends that extrinsic evidence shows that Amendment No. 2 "clarified" that Novell had no right to waive SCO's rights related to SVRX source code. (AB61.) However, this evidence does not make it reasonable to ignore paragraph B's plain language limiting the following subparagraphs to buy-outs.

SCO argues that Novell "capitulat[ed] to Santa Cruz's claim that it had acquired 'ownership and exclusive rights to license the UNIX source code,'" by allowing SCO to retain \$1.5 million of IBM's buy-out payment to settle SCO's claim. (AB61.) But IBM paid \$10.125 million. (03904-08(¶¶1,4).) Allowing Santa Cruz to retain a fraction of this amount hardly constitutes "capitulation." Moreover, Novell and Santa Cruz agreed that \$1.5 million was a "settlement payment" that did not admit the validity of any claims. (03915-17(§§1,9).)

In fact, SCO's conduct confirms that "SVRX License" includes SVRX source code rights. Santa Cruz retained a 5% "administrative fee" for *all* of IBM's \$10.125 million payment (*supra*, 18-19), which was proper only if IBM's entire payment constituted "SVRX License" royalties. (00287(Art.4.16(a).) Some portion of IBM's payment was for additional source code rights (03905-

08(¶¶2,3,7);AB62), so Santa Cruz’s conduct shows that it considered the source code payment to involve an “SVRX License.”

4. Novell’s transfer of product ownership

SCO cites—without any explanation—“course of performance” documents that supposedly show that Novell’s Article 4.16(b) rights did not include the Software and Sublicensing Agreements. (AB61.) These documents do not support SCO’s interpretation. They simply confirm that Novell had transferred ownership of “UNIX System-based offerings and products,” and hence customers should send royalty payments and other communications to Santa Cruz. (10645;10652;10657; 10710;03838;03843;03845;02384-86;02970;02972;02974.)¹³ The APA *required* Santa Cruz to “administer” SVRX Licenses as Novell’s agent (00287(Art.4.16(a)), so Novell naturally told customers to send royalties to Santa Cruz. Novell had no reason to inform customers about Novell’s retained rights (95% of royalties, authority to waive SVRX License rights, ownership of the underlying copyrights) as this did not change the fact that customers should communicate with Santa Cruz.

¹³ SCO also cites the Operating Agreement (01432), which merely states that Novell should transfer contracts to Santa Cruz, and does *not* nullify Novell’s Article 4.16(b) waiver authority.

IV. THE DISTRICT COURT CORRECTLY HELD THAT THE IMPLIED COVENANT OF GOOD FAITH DID NOT PROHIBIT NOVELL FROM EXERCISING ITS EXPRESS RIGHT TO WAIVE “ANY RIGHT” UNDER “ANY SVRX LICENSE”

Alternatively, SCO contends that even if the APA authorized Novell to waive SCO’s rights under the IBM and Sequent SVRX Licenses, Novell breached the implied covenant of good faith by exercising this authority. (AB63.) The district court rejected this argument because “California law precludes application of the covenant of good faith and fair dealing where a party is acting within an explicit grant of contractual authority,” citing *Carma Developers v. Marathon Dev. Cal.*, 2 Cal.4th 342, 374 (1992). (12069.)

SCO cites *Carma*’s reference to “discretionary power” (AB63), but ignores *Carma*’s key holding: “doing that which is expressly permitted by an agreement” cannot violate the implied covenant. 2 Cal.4th at 374. Later California cases confirm that the implied covenant does not apply to an express grant of discretionary authority. “[A]lthough it has been said the implied covenant finds ‘particular application in situations where one party is invested with a discretionary power affecting the rights of another’ . . . , if the express purpose of the contract is to grant unfettered discretion, and the contract is otherwise supported by adequate consideration, then the conduct is, by definition, within the reasonable expectation of the parties and ‘can never violate an implied covenant of good faith and fair

dealing.’” *Wolf*, 162 Cal.App.4th at 1121-22 (quoting *Carma*, 2 Cal.4th at 372, 376); see *Third Story*, 41 Cal.App.4th at 808 (“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”); accord *Storek & Storek v. Citicorp Real Estate*, 100 Cal.App.4th 44, 57 (2002).

SCO asserts that *Locke v. Warner Bros.*, 57 Cal.App.4th 354, 367 (1997), held that “provisions granting a party ‘discretion’ (even ‘sole discretion’) differ from express contractual rights,” and “thus must be exercised in accordance with the implied covenant of good faith and fair dealing.” (AB63-64.) However, the contract in *Locke* did not confer “sole” discretion regarding the challenged conduct. The contract conferred discretion regarding whether to develop Locke’s proposed movies, but did *not* “give Warner the express right to refrain from working with Locke.” 57 Cal.App.4th at 367. The court distinguished the *Third Story* contract, which “*expressly* provided” the defendant with “the right to *refrain*” from marketing the plaintiff’s recordings. *Id.* at 366 (emphasis in original).

Here, Article 4.16(b) gave Novell “sole discretion” to waive “any rights” under “any SVRX License” in “any manner or respect.” (00287.) This is an explicit grant of unfettered discretion—a conclusion that is reinforced by SCO’s

role as Novell's agent for administering SVRX Licenses. (12072.) Because the APA "expressly permitted" Novell to waive any rights under SVRX Licenses, including the IBM and Sequent licenses, the implied covenant does not apply.

SCO contends that *Third Story* requires Novell's waiver authority to be limited by the implied covenant because a "literal" reading would "result in an unenforceable, illusory agreement." (AB64.) However, *Third Story* held that the implied covenant did *not* apply because other consideration supported the contract, so an obligation to act in good faith need not be implied to preserve the binding nature of the contract. 41 Cal.App.4th at 801, 808.¹⁴ The APA provided Santa Cruz with substantial consideration that would not be eliminated even if Novell waived *all* rights under *all* SVRX Licenses (which Novell did not do). (*Supra*, 55.) Thus, Novell's "sole discretion" need not be limited to prevent the APA from becoming an "illusory" contract.

¹⁴ *Third Story* explained that the cases in SCO's footnote 9 required a limit on discretionary authority to avoid an "illusory promise" that would invalidate the contract. *Id.* at 804-06. In contrast, in *Carma* and several other cases, courts declined to imply a limit when "one of the parties was expressly given a discretionary power but regardless of how such power was exercised, the agreement would have been supported by adequate consideration." *Id.* at 808.

V. NOVELL IS ENTITLED TO ROYALTIES FROM POST-APA CONTRACTS RELATING TO SVRX

A. SCO's Definition of "SVRX License" Is Contrary to the APA's Plain Language

SCO claims that its obligation to provide Novell with 95% of "*all* royalties, fees and other amounts due under *all* SVRX Licenses" (00287(Art.4.16(a)) (emphasis added)) is limited to SVRX Licenses executed before the APA (AB66)—*i.e.*, "all" means "some." The district court correctly rejected SCO's argument as "contrary to the express terms of the agreement...." (12075.)

SCO points to APA clauses that supposedly treat SVRX Licenses as existing assets. (AB66-69.) However, those clauses do not preclude "SVRX Licenses" from referring to *both* existing and future licenses. Indeed, the APA and its amendments explicitly address future SVRX Licenses. As executed, Article 4.16(b) prohibited SCO from entering into "future licenses." (00287.) Amendment No. 1 revised Article 4.16 to confirm that SCO "shall not, and shall have no right to, enter into new SVRX Licenses," without Novell's consent except under limited conditions not present here. (00361.) These provisions confirm the APA drafters knew how to distinguish between existing and new licenses, and that interpreting "SVRX Licenses" to mean only "pre-APA" licenses is nonsense: What would it mean for Amendment No. 1 to bar SCO from executing "new

SVRX Licenses” (00361) if, as SCO proposes, the definition of “SVRX Licenses” excludes new licenses?¹⁵

B. Even Under SCO’s Mistaken Interpretation of “SVRX License,” SCO Had No Authority to Amend Sun’s SVRX License.

SCO appears to challenge the district court’s award of \$2.5 million in “SVRX Royalties” under the 2003 SCO-Sun agreement on the ground that this post-APA agreement did not constitute an “SVRX License.” (AB67-68.) This argument fails because “SVRX License” is not limited to pre-existing licenses, as discussed above.

SCO’s argument also fails because the 2003 SCO-Sun agreement is *not* a “new” license but an amendment to a 1994 Novell-Sun license. (00874.) In the 1994 license, Sun agreed to keep licensed SVRX source code confidential. (00898(§10.1).) The 2003 SCO-Sun agreement “amend[s] and restate[s]” the 1994 license in various respects, including by purporting to lift Sun’s confidentiality obligation. (00874(Recitals);00877-78(§8.1).) Even under SCO’s definition, the 1994 Novell-Sun agreement is an “SVRX License,” as it pre-dates the APA. Article 4.16(b) prohibited SCO from amending SVRX Licenses, except in limited

¹⁵ SCO offers testimony from “witnesses” who admit they had little or no involvement in APA drafting and negotiations. (AB68-69; *supra*, 10-12.) Because these witnesses advocate an interpretation to which the APA is not “reasonably susceptible,” their testimony is inadmissible. *Dore*, 39 Cal.4th at 391.

situations not applicable here. (00287.) Therefore, as the district court concluded in its bench trial judgment, the 2003 agreement was an unauthorized amendment of the 1994 license, and Novell was entitled to a portion of the license proceeds to prevent unjust enrichment. (12123-28.)

SCO has *not* challenged the district court's finding that the 2003 agreement was an unauthorized amendment, which provides an independent basis for affirming the Sun damages award. SCO nevertheless asserts that Novell is not entitled to any portion of Sun's \$9.1 million payment to SCO, because Sun already bought out its SVRX royalty obligations in 1994. (AB67-68.) After conducting a four-day bench trial, the district court concluded that \$2.5 million of the \$9.1 million payment was attributable to SCO's removal of Sun's confidentiality restrictions on SVRX source code and therefore qualified as SVRX Royalties. (12124.) This is a finding of fact that can be reversed only if "clearly erroneous." SCO does not even mention the bench trial or any of the evidence or factual findings in support of this apportionment. SCO has not shown that the district court's findings were clearly erroneous.

CONCLUSION

For all of the above reasons, the district court judgment should be affirmed.

Respectfully submitted on this 9th day of April, 2009.

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ORAL ARGUMENT STATEMENT

Novell requests oral argument in this matter. The procedural background of the claims in this litigation is complex, and the appeal presents legal issues that turn on detailed analysis of the applicable precedent.

CERTIFICATE OF COMPLIANCE

I, Michael A. Jacobs, certify that this brief complies with the type-volume limitation of Fed. R. App. P. 32(a)(7)(B), the typeface requirement of Fed. R. App. P. 32(a)(5), and the typestyle requirements of Fed. R. App. P. 32(a)(6). This brief contains 13,999 words, excluding the parts of the brief exempted by Fed. R. App. P. 32(a)(7)(B)(iii), and is prepared in a proportionally spaced typeface (14-point Times New Roman).

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CERTIFICATE OF SERVICE

I, Michael A. Jacobs, certify that on this 9th day of April, 2009, a true and correct copy of the foregoing APPELLEE NOVELL, INC.'S BRIEF and the accompanying APPELLEE NOVELL, INC.'S ADDENDUM OF APPENDIX EXCERPTS was served by hand delivery in accordance with Fed. R. App.

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CERTIFICATE OF DIGITAL SUBMISSION

I, Michael A. Jacobs, certify that no privacy redactions were necessary for this filing. This APPELLEE NOVELL, INC.'S BRIEF submitted in digital form is an exact copy of the written document filed with the Clerk. This digital submission has been scanned for viruses with the most recent version of a commercial virus-scanning program (using Symantec AntiVirus v.10.1.4.4, last updated April 4, 2009) and, according to the program, is free of viruses.

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