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Sterling A. Brennan (Utah State Bar No. 10060; E-mail: sbrennan@wnlaw.com)

David R. Wright (Utah State Bar No. 5164; E-mail: dwright@wnlaw.com)

Kirk R. Harris (Utah State Bar No. 10221; E-mail: kharris@wnlaw.com)

Cara J. Baldwin (Utah State Bar No. 11863; E-mail: cbaldwin@wnlaw.com)

1000 Eagle Gate Tower

60 E. South Temple

Salt Lake City, Utah 84111

Telephone: (801) 533-9800

Facsimile: (801) 328-1707

MORRISON & FOERSTER LLP

Michael A. Jacobs (Admitted *Pro Hac Vice*; E-mail: mjacobs@mofo.com)

Eric M. Acker (Admitted *Pro Hac Vice*; E-mail: eacker@mofo.com)

Grant L. Kim (Admitted *Pro Hac Vice*; E-Mail: gkim@mofo.com)

425 Market Street

San Francisco, California 94105-2482

Telephone: (415) 268-7000

Facsimile: (415) 268-7522

Attorneys for Defendant and Counterclaim-Plaintiff NOVELL, INC.

IN THE UNITED STATES DISTRICT COURT

DISTRICT OF UTAH, CENTRAL DIVISION

THE SCO GROUP, INC., a Delaware corporation,

Plaintiff,

vs.

NOVELL, INC., a Delaware corporation,

Defendant.

AND RELATED COUNTERCLAIMS.

Case No. 2:04CV00139

**JOINT SUBMISSION ADDRESSING
ALLOCATION OF ISSUES FOR
BENCH AND JURY TRIAL**

Judge Ted Stewart

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As directed by the Court's minute order of February 25, 2010 (Dkt. No. 733), the parties submit the following statement with respect to trial of issues by the Court and the jury.

I. ISSUES TO BE DECIDED BY THE JURY

The parties agree that the following claims and issues are triable as of right, and should be tried, by the jury:

1. SCO's slander of title claim against Novell; and
2. Novell's slander of title counterclaim against SCO.

II. ISSUES TRIABLE TO THE COURT

The parties stipulate to trial of the following claims and defenses by the Court:

1. SCO's remaining claim for breach of the covenant of good faith and fair dealing¹;
2. Novell's claim for declaratory judgment of its rights under § 4.16 of the APA; and
3. SCO's claim for specific performance.

The parties further agree that:

4. If Novell's unclean hands defense is tried, it should be tried to the Court.

SCO contends that unclean hands should not be tried at all, for reasons it will present to the Court by this coming Friday, March 5, 2010.

III. ADVISORY VERDICTS REQUESTED BY NOVELL

As and for reasons explained below, Novell requests that the Court take advisory verdicts from the jury with respect to specific performance and unclean hands. SCO will respond to Novell's request for advisory verdicts by this coming Thursday, March 4, 2010, at 5:00 p.m.

¹ To Novell's understanding, all that remains of SCO's good faith claim is the allegation that Novell breached the covenant by directing SCO to waive certain claims against IBM. SCO maintains that its claim is not so limited.

A. Novell Requests that the Court Take an Advisory Verdict on whether the APA Requires Novell to Convey the UNIX Copyrights

As an alternative to its slander of title claim, SCO seeks specific performance of what it claims is an obligation imposed on Novell by the APA to transfer the UNIX copyrights. The underlying theory appears to be that if the APA does not itself transfer those copyright, as required to sustain SCO's slander claim, the APA might nevertheless require Novell to transfer them. While Novell does not seek jury trial of SCO's entire specific performance claim, it does request that the Court take an advisory verdict with respect to whether the APA, as amended, requires Novell to convey the copyrights to SCO.

Such a procedure is plainly authorized by Federal Rule of Civil Procedure 39(c): "In an action not triable as of right by a jury, the court ... (1) may try any issue with an advisory jury."² "This ancient practice is ... frequently used to advantage by the federal courts," Wright & Miller, *Federal Practice & Procedure: Civil 3d* § 2335 (West 2008); particularly in actions "involv[ing] both jury and nonjury claims or issues" and for "issues ... traditionally considered to be particularly appropriate for jury resolution," such as those "that turn on the credibility of witnesses," 8 *Moore's Federal Practice*, § 39.41(Matthew Bender 3d ed.).

Here, the parties agree that their respective slander of title claims should be tried to the jury. It is anticipated that the adjudication of those claims will depend, in the first instance, on what the APA provides with respect to copyright ownership. And the Tenth Circuit has already ruled that the proper interpretation of the APA, as amended, with respect to copyright ownership, presents a question of fact for the jury. Because the jury will already be charged with

² See also *Hargrove v. American Central Ins. Co.*, 125 F.2d 225, 228 (10th Cir. 1942) (even if "the issues tendered are purely equitable, the court has the indisputable right under the civil rules of procedure to call a jury in an advisory capacity ... and to submit to them such issues of fact as he sees fit, and to accept or disregard its verdict thereon in his discretion").

interpreting the contract to determine whether it transfers copyright, it makes sense for the Court to take an advisory verdict from the jury as to whether those provisions, if they do not themselves transfer copyright, nevertheless obligate Novell to do so.

B. Novell Requests that the Court Take an Advisory Verdict on Unclean Hands

Novell has interposed unclean hands as a defense to each and every one of SCO's claims. As a matter of California law, at least, unclean hands clearly "provides a complete defense to both legal and equitable causes of action." *Mendoza v. Ruesga*, 169 Cal. App. 4th 270, 279, 86 Cal. Rptr. 3d 610 (2008); *see also Unilogic, Inc. v. Burroughs Corp.*, 10 Cal. App. 4th 612, 619, 12 Cal. Rptr. 2d 741 (1992) ("[T]he equitable doctrine of unclean hands has no legal equivalent. Thus, it has been allowed as an affirmative defense in legal actions."). Utah unclean hands law is less well developed than California's, and Novell has not found Utah authority on this issue (whether unclean hands is a defense to a legal claim), one way or the other. In the absence of Utah law, the Court may consider California law as at least persuasive authority on general principles; and if the Court discerns a conflict between Utah and California law on this score, it should follow California law because "when a federal court exercises supplemental jurisdiction over state law claims in a federal question lawsuit," it "applies the substantive law, including choice of law rules, of the forum state" *Bancoklahoma Mortgage Corp. v. Capital Title Co.*, 194 F.3d 1089, 1103 (10th Cir. 1999) (in part quoting *Barrett v. Tallon*, 30 F.3d 1296, 1300 (10th Cir. 1994)); Utah law respects contractual choice of law, *Shearson Lehman Bros. v. M&L Investments*, 10 F.3d 1510, 1514-15 (10th Cir. 1993); and § 9.8 of the APA provides:

“Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California ...”³

Although unclean hands (like specific performance) is equitable, Novell also requests that the Court take an advisory verdict from the jury on this defense. An advisory verdict on unclean hands would be helpful and proper because “the hands of the litigant are rendered unclean by conduct which is ‘condemned and pronounced wrongful by honest and fairminded men.’ (19 Am.Jur. § 476, p. 330.)” *Katz v. Karlsson*, 84 Cal. App. 2d 469, 474, 191 P.2d 541 (1948).⁴

³ Under California law, “a valid choice-of-law clause, which provides that a specified body of law ‘governs’ the ‘agreement’ between the parties, encompasses all causes of action arising from or related to that agreement, regardless of how they are characterized, including tortious breaches of duties emanating from the agreement or the legal relationships it creates.” *Nedlloyd Lines B.V. v. Superior Court*, 3 Cal. 4th 459, 470, 834 P.2d 1148 (1992). (See Mem. Decision & Order, Dkt. 377, 89 [Kimball, J., citing *Nedlloyd* in support of unappealed ruling that “California law governs actions arising from the APA”].)

⁴ Novell’s proposed jury instruction on unclean hands is:

Novell claims that SCO has unclean hands. The phrase “unclean hands” captures the idea that bad actors should not be aided by the courts. A party who has unclean hands is denied relief, regardless of whether it has otherwise proven its claims.

While there is no precise rule applied to determine whether a party’s hands are clean, in general terms the unclean hands defense has two parts: first, the party said to have unclean hands must have acted unconscientiously, or in bad faith, or unfairly; and second, the bad conduct must be connected with the subject matter of the lawsuit.

Novell claims that SCO has unclean hands because even if it owns the copyrights, it misused them by trying to collect royalties from companies that might not infringe the copyrights, and by refusing to give those companies the information they needed to either decide if they infringe the copyrights or change their code so they would not infringe. A copyright is misused if the owner of the copyright tries to use it to prevent others from either using unprotected elements of the copyrighted work or designing around the protected elements of the work, for example, by writing noninfringing code that performs the same function.

It is SCO’s burden to prove that its hands are clean. That is, SCO must prove that the conduct said by Novell to make SCO’s hands unclean either is not unconscientious, or in bad faith, or unfair; or that the conduct is not connected with the subject matter of this lawsuit.

The verdict form would inquire: “Did SCO prove that it acted conscientiously, in good faith, and fairly in connection with the subject matter of this lawsuit?”

Manifestly, the jury is an instrument perfectly adapted to help the Court gauge the reactions not of just one “honest and fairminded” man but of “honest and fairminded” citizens, in general.

IV. CONCLUSIONS

As set forth above, the parties stipulate and agree that:

1. SCO’s slander of title claim against Novell should be tried by the jury;
2. Novell’s slander of title claim against SCO should be tried by the jury;
3. SCO’s remaining claim that Novell breached the implied covenant of good faith and fair dealing;
4. The Court should declare Novell’s rights under § 4.16 of the APA;
5. SCO’s claim for specific performance should be tried by the Court; and
6. If Novell’s unclean hands defense is tried, it should be tried by the Court.

Novell further requests that the Court seek and receive from the jury advisory verdicts on:

7. Whether the APA requires Novell to transfer the UNIX copyrights to SCO; and
8. Novell’s unclean hands defense.

Respectfully submitted this 2d day of March, 2010,

By: /s/ Sterling A. Brennan

WORKMAN NYDEGGER

MORRISON & FOERSTER LLP

Attorneys for Defendant and
Counterclaim-Plaintiff Novell, Inc.

By: /s/ Edward Normand

BOIES SCHILLER & FLEXNER LLP

Attorneys for Plaintiff, SCO GROUP, INC.