

No. _____

In The
Supreme Court of the United States

NOVELL, INC., PETITIONER,

v.

THE SCO GROUP, INC.

*ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE TENTH CIRCUIT*

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Section 204(a) of Title 17 of the United States Code provides: “A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner’s duly authorized agent.” The question presented is:

Whether Section 204(a) requires a writing that specifies which copyrights were conveyed, or whether, as the court of appeals held, requires only that the written instrument could be construed to convey some copyrights, leaving the factfinder to determine which, if any, copyrights were conveyed.

PARTIES TO THE PROCEEDING

The parties are as stated in the caption.

**RULE 29.6 CORPORATE
DISCLOSURE STATEMENT**

Petitioner has no parent corporation, and no publicly held company owns 10% or more of petitioner's stock.

TABLE OF CONTENTS

	Page
QUESTION PRESENTED.....	i
PARTIES TO THE PROCEEDING	ii
RULE 29.6 CORPORATE DISCLOSURE STATEMENT.....	ii
TABLE OF AUTHORITIES	v
PETITION FOR A WRIT OF CERTIORARI	1
OPINIONS BELOW.....	1
JURISDICTION.....	1
STATUTORY PROVISION INVOLVED	1
INTRODUCTION	2
STATEMENT OF THE CASE.....	4
A. Statutory Framework.....	4
B. Factual Background	5
C. Proceedings Below.....	8
REASONS FOR GRANTING THE PETITION	12
THE COURTS OF APPEALS ARE SHARPLY DIVIDED ON THE REQUIREMENTS FOR A COPYRIGHT TO BE VALIDLY TRANS- FERRED UNDER SECTION 204(a)'S WRITTEN-TRANSFER REQUIREMENT	12
A. The Decision Below Deepens A Recog- nized Circuit Conflict Concerning The Written-Transfer Requirement Of Section 204(a).....	13

TABLE OF CONTENTS – Continued

	Page
B. Review Is Necessary Because The Question Presented Raises An Issue Of Exceptional Importance To Every Owner Of Copyrights	18
1. The ruling below undermines predictability and certainty in copyright ownership	18
2. This case is an ideal vehicle to address Section 204(a) and raises issues of utmost importance to open-source software users throughout the nation	26
CONCLUSION.....	29
Appendix A: Opinion of the United States Court of Appeals for the Tenth Circuit, dated August 24, 2009	1a
Appendix B: Memorandum Decision and Order of the United States District Court for the District of Utah, dated August 10, 2007.....	59a
Appendix C: Order of the United States Court of Appeals for the Tenth Circuit denying petition for rehearing and petition for rehearing en banc, dated October 20, 2009.....	190a
Appendix D: 17 U.S.C. § 204	191a

TABLE OF AUTHORITIES

Page

CASES:

<i>American Plastic Equip., Inc. v. Toytrackerz, LLC</i> , No. 07-2253, 2009 WL 902422 (D. Kan. Mar. 31, 2009)	17
<i>Beck v. Prupis</i> , 529 U.S. 494 (2000)	19
<i>Bernstein v. Glavin</i> , 725 N.E.2d 455 (Ind. Ct. App. 2000)	23
<i>Bridge v. Phoenix Bond & Indem. Co.</i> , 128 S. Ct. 2131 (2008)	27
<i>Community for Creative Non-Violence v. Reid</i> , 490 U.S. 730 (1989)	5, 18
<i>Conwell v. Gray Loon Outdoor Mktg. Group, Inc.</i> , 906 N.E.2d 805 (Ind. 2009)	17
<i>Dean v. Burrows</i> , 732 F. Supp. 816 (E.D. Tenn. 1989)	17
<i>Eden Toys, Inc. v. Florelee Undergarment Co.</i> , 697 F.2d 27 (2d Cir. 1982)	21
<i>Effects Assocs., Inc. v. Cohen</i> , 908 F.2d 555 (9th Cir. 1990), cert. denied, 498 U.S. 1103 (1991)	13, 14, 15, 21
<i>Foraste v. Brown Univ.</i> , 290 F. Supp. 2d 234 (D.R.I. 2003)	17
<i>Hammond v. Hacker</i> , 111 So. 511 (Fla. 1927)	19
<i>ITOFCA, Inc. v. Mega Trans Logistics, Inc.</i> , 322 F.3d 928 (7th Cir. 2003)	16

TABLE OF AUTHORITIES – Continued

	Page
<i>Johnson v. Tuff-n-Rumble Mgmt., Inc.</i> , No. 99-1374, 2000 WL 1145748 (E.D. La. Aug. 14, 2000)	17
<i>Konigsberg Int’l, Inc. v. Rice</i> , 16 F.3d 355 (9th Cir. 1994)	14, 24
<i>Lyrick Studios, Inc. v. Big Idea Prods., Inc.</i> , 420 F.3d 388 (5th Cir. 2005), cert. denied, 547 U.S. 1054 (2006).....	13, 14, 23
<i>Maurice v. Hatterasman Motel Corp.</i> , 248 S.E.2d 430 (N.C. Ct. App. 1978)	19
<i>Merck & Co., Inc. v. Reynolds</i> , No. 08-905 (U.S. cert. granted May 26, 2009).....	27
<i>MGM Studios Inc. v. Grokster, Ltd.</i> , 545 U.S. 913 (2005).....	24
<i>Morissette v. United States</i> , 342 U.S. 246 (1952).....	20
<i>National Ass’n for Stock Car Auto Racing, Inc. v. Scharle</i> , 356 F. Supp. 2d 515 (E.D. Pa. 2005)	17
<i>Playboy Enters., Inc. v. Dumas</i> , 53 F.3d 549 (2d Cir.), cert. denied, 515 U.S. 1010 (1995)	15
<i>Radio Television Espanola S.A. v. New World Entm’t, Ltd.</i> , 183 F.3d 922 (9th Cir. 1999).....	14, 24
<i>Rico Records Distribs., Inc. v. Ithier</i> , No. 04-9782, 2006 WL 846488 (S.D.N.Y. Mar. 30, 2006)	17
<i>Saenger Org., Inc. v. Nationwide Ins. Lic. Assocs., Inc.</i> , 864 F. Supp. 246 (D. Mass. 1994)	16

TABLE OF AUTHORITIES – Continued

	Page
<i>Saxon v. Blann</i> , 968 F.2d 676 (8th Cir. 1992).....	13, 14
<i>Schiller & Schmidt, Inc. v. Nordisco Corp.</i> , 969 F.2d 410 (7th Cir. 1992)	15, 16
<i>Shy v. Lewis</i> , 12 S.W.2d 719 (Mo. 1928)	19
<i>Sony Corp. of Am. v. Universal City Studios, Inc.</i> , 464 U.S. 417 (1984).....	24
<i>Trident Center v. Connecticut Gen. Life Ins. Co.</i> , 847 F.2d 564 (9th Cir. 1988)	3
<i>Weinstein Co. v. Smokewood Entm't Group, LLC</i> , 664 F. Supp. 2d 332 (S.D.N.Y. 2009)	16, 23
 U.S. CONSTITUTION & STATUTES:	
U.S. Const. art. I, § 8, cl. 8	4
17 U.S.C. § 204(a).....	<i>passim</i>
17 U.S.C. § 302(a).....	21
 OTHER AUTHORITIES:	
Robert S. Boynton, <i>How to Make a Guerilla Documentary</i> , N.Y. TIMES, July 11, 2004 (magazine).....	24
Jay Dratler, Jr., <i>Intellectual Property Law: Commercial, Creative, & Industrial Property (2008)</i>	20
Alice Haemmerli, <i>Take It, It's Mine: Illicit Transfers of Copyright by Operation of Law</i> , 63 WASH. & LEE L. REV. 1011 (2006).....	20

TABLE OF AUTHORITIES – Continued

	Page
Molly Shaffer Van Houweling, <i>Distributive Values in Copyright</i> , 83 TEX. L. REV. 1535 (2005).....	25
Melville Nimmer & David Nimmer, <i>Nimmer on Copyright</i> (2009).....	18, 22, 24, 25
Richard Powell, <i>Powell on Real Property</i> (Michael Allan Wolf ed., 2009).....	19, 20
Press Release, The SCO Group, <i>The SCO Group Announces Strategic Plan & Management Change</i> (Oct. 19, 2009).....	28
Stephen Shankland, CNET News, <i>SCO sues Big Blue over Unix, Linux</i> (Mar. 6, 2003)	27, 28
S. Rep. No. 105-190 (1998) (Conf. Rep.).....	25
H.R. Rep. No. 94-1476 (1976).....	5, 19

PETITION FOR A WRIT OF CERTIORARI

Novell, Inc. respectfully petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Tenth Circuit.

OPINIONS BELOW

The opinion of the court of appeals (App., *infra*, 1a-58a) is reported at 578 F.3d 1201 (2009). The memorandum decision and order of the district court (App., *infra*, 59a-189a) is unreported.

JURISDICTION

The court of appeals entered its judgment on August 24, 2009. A petition for rehearing and rehearing en banc was denied on October 20, 2009. App., *infra*, 190a. On January 8, 2010, Justice Sotomayor granted an extension of time within which to file a petition for a writ of certiorari to and including February 18, 2010, and, on February 4, 2010, she granted a further extension to and including March 4, 2010.

This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

STATUTORY PROVISION INVOLVED

Section 204(a) of Title 17 of the United States Code provides: "A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent." App., *infra*, 191a.

INTRODUCTION

This case presents an important question of statutory interpretation that will affect billions of dollars in copyright transactions across the country.

The 1976 Copyright Act significantly overhauled copyright law, in part to enhance predictability and certainty in copyright ownership and transfer. Section 204(a) of the act provides that a consensual transfer of copyright ownership is “valid” only if made through an “instrument of conveyance” or a “note or memorandum of the transfer” that is “in writing and signed by the owner of the rights conveyed.” 17 U.S.C. § 204(a). This provision furthers the Copyright Act’s goal of promoting certainty in copyright transactions by requiring that any transfer of copyright ownership be in a writing that memorializes the transaction. Among other things, that writing serves as a guidepost for subsequent disputes between parties and their successors.

In this dispute, respondent The SCO Group, Inc. claims that petitioner Novell, Inc. transferred ownership of certain valuable copyrights to the UNIX operating system—copyrights that have been licensed to the world’s leading businesses, institutions, and governments and are critical to the nation’s Internet infrastructure. Respondent’s ownership claims are based on an ambiguous writing that fails to specify which, if any, copyrights were actually subject to the transaction between the parties. The court of appeals held that such an ambiguous writing could effect a

valid transfer under the Copyright Act. Under that decision, it is enough to satisfy Section 204(a) if the writing could be construed to convey *some* copyrights. In the court of appeals' view, a jury can then be left to determine—from extrinsic evidence and oral testimony of “partisan witnesses whose recollection is hazy from passage of time and colored by their conflicting interests”—which specific copyrights, if any, were transferred. App., *infra*, 28a (quoting *Trident Center v. Connecticut Gen. Life Ins. Co.*, 847 F.2d 564, 569 (9th Cir. 1988)).

The effect of this ruling could not be more profound, not only on petitioner and the millions of users of the copyrights at issue in this dispute, but on every individual, company, or institution that uses copyrighted works and thus exposes itself to copyright liability to the works' true owners. The court of appeals' ruling undermines certainty and predictability in copyright ownership, and creates a significant likelihood that parties will be subject to claims that they inadvertently transferred copyright ownership in vague writings that set forth no terms of any agreement and do not specify which copyrights, if any, were conveyed. In this digital age, companies investing in innovative ways to bring media to consumers—through mobile devices, tablet computers, or other e-readers—rely on licenses to provide content. Especially given the increasing new uses of older works, that content often comes with long chains of title attached—some as long as a century or more—that the ruling below will cloud.

Organizations that have obtained, or are seeking to obtain, copyrights have an interest in confirming precisely who owns the copyrights. The ruling below will frustrate that search for certainty.

This is of particular concern given that copyrights survive for 70 years after the death of the original author. Copyright ownership disputes thus often arise long after the memories of key percipient witnesses have faded, or the key witnesses have died, making it difficult or impossible to resolve such disputes based on extrinsic evidence.

Not surprisingly, the ruling below cannot be reconciled with the decisions of several other courts of appeals. Absent this Court's review, the nation's intellectual property will be subject to great uncertainty and will be at risk of unintentional transfer by ambiguous writings. And disputes over ownership will be governed by divergent standards, which will lead to forum shopping.

STATEMENT OF THE CASE

A. Statutory Framework

1. The original federal copyright law was enacted by the first Congress in 1790 pursuant to its congressional authority “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” U.S. Const. art. I, § 8, cl. 8. While Congress enacted significant revisions to the copyright laws in 1831, 1870, and 1909, after 1909 no substantial changes were made to

the Copyright Act for nearly seven more decades. During that decades-long interval, some of the most significant changes to affect the operation of copyright law occurred—from the advancement of radio and television to other technological advances.

In the 1976 Copyright Act, Congress significantly overhauled copyright law, in part to enhance predictability and certainty of copyright ownership. One goal of these revisions was to limit the effect of inconsistent state laws on issues relating to copyright transfers. *Community for Creative Non-Violence v. Reid*, 490 U.S. 730, 740 (1989); see H.R. Rep. No. 94-1476, at 129-131 (1976). In Section 204(a) of the act, Congress provided that a purported transfer of a copyright “is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing.” 17 U.S.C. § 204(a). This provision prevents later misunderstandings over copyright ownership by requiring that parties spell out the terms of their agreement, disciplining the parties to clarify their thinking and consider future problems, and determine which rights are to be transferred.

B. Factual Background

1. UNIX is a groundbreaking computer operating system first developed by AT&T in the late 1960s. UNIX was the first operating system that standardized the commands needed to make a computer work, independent of the hardware. App., *infra*, 3a. UNIX has been licensed to many of the world’s leading institutions, including government agencies,

universities, and both large and small businesses. Linux is an operating system which was developed as part of a free and open source software collaboration. Linux can be installed on a wide-range of computers (including cell phones and digital video recorders). Linux is extensively used for servers; it is estimated that most web servers run on Linux.

In 1993, petitioner Novell paid over \$300 million to purchase UNIX System Laboratories, the AT&T spin-off that owned the UNIX intellectual property, including the copyrights, and customer agreements. Two years later, petitioner decided to sell its UNIX business to Santa Cruz. Petitioner and Santa Cruz entered into an Asset Purchase Agreement dated September 19, 1995. Because Santa Cruz did not have sufficient cash to buy petitioner's UNIX business, the deal was structured so that Novell retained significant UNIX-related rights (including "[a]ll copyrights"), and Santa Cruz agreed to issue as consideration shares of its common stock valued between \$125 to \$150 million. App., *infra*, 3a-5a.

Under the Asset Purchase Agreement, the only assets transferred were the "right, title, and interest in and to the assets" identified in Schedule 1.1(a) of the agreement. And the only "Intellectual Property" identified in that schedule were the "[t]rademarks UNIX and UnixWare"; nowhere did Schedule 1.1(a) mention copyrights. To the contrary, Schedule 1.1(b) to the Asset Purchase Agreement expressly excluded certain assets from the transaction, including "[a]ll

copyrights and trademarks, except for the trademarks UNIX and UnixWare” and “[a]ll Patents.” App., *infra*, 4a-5a. The Asset Purchase Agreement further provided that no assets would transfer until the parties executed a Bill of Sale, which they did on December 6, 1995.¹ The Bill of Sale provided that the Asset Purchase Agreement was “the exclusive source of the agreement and understanding between” the parties. App., *infra*, 64a.

Approximately a year later, the parties amended the Asset Purchase Agreement. This amendment modified the assets expressly excluded by Schedule 1.1(b) so that the provision as modified excluded: “[a]ll copyrights and trademarks, except for the copyrights and trademarks owned by Novell as of the date of the Agreement required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies.” App., *infra*, 5a. This amendment, however, did not identify any specific copyrights or trademarks that were being transferred. Moreover, the amendment did not include any language of transfer and did not modify the assets transferred in Schedule 1.1(a), which identified the UNIX and UnixWare trademarks as the only intellectual property transferred by the agreement. App., *infra*, 24a. Nor was a new Bill of Sale or other

¹ The district court erroneously noted the date of execution as December 6, “2005.” App., *infra*, 64a.

transfer document executed contemporaneous with the amendment. App., *infra*, 24a.

2. In May 2001, Santa Cruz sold its UNIX business to respondent SCO (then named Caldera). App., *infra*, 8a.

Respondent SCO later launched what is known as the “SCOsource initiative”—an aggressive and well-publicized attempt by SCO to get users of Linux to pay respondent licensing royalties. App., *infra*, 94a-95a. In letters to 1500 Linux end-user corporations, respondent claimed that Linux infringed respondent’s claimed UNIX intellectual property, and that those Linux users needed to purchase a license from respondent to continue use of Linux without infringing respondent’s copyrights. App., *infra*, 95a.

Some Linux users complied with respondent’s demand and purchased licenses; IBM, petitioner, and others refused to do so. App., *infra*, 95a. Respondent sued IBM and others, alleging that they infringed SCO’s claimed UNIX intellectual property rights, and sought billions of dollars in damages. App., *infra*, 95a-96a. Petitioner, for its part, publicly declared that it had never transferred the UNIX copyrights to respondent and that respondent was not the owner of the UNIX copyrights that the Linux users were allegedly infringing. App., *infra*, 96a.

C. Proceedings Below

1. Respondent SCO filed a slander of title action in state court, which petitioner removed to federal

court. Petitioner Novell contended that it retained the UNIX copyrights and eventually asserted counterclaims for slander of title, breach of contract, declaratory relief, restitution/unjust enrichment, and accounting. SCO amended its pleadings and added claims for breach of contract, specific performance, copyright infringement, and unfair competition. App., *infra*, 8a-9a.

The district court granted summary judgment for petitioner, holding that petitioner owned the UNIX copyrights at issue. App., *infra*, 138a-139a. The court explained that under 17 U.S.C. § 204(a), “[a] transfer of copyright is simply ‘not valid’ without the required written instrument.” App., *infra*, 132a. The amendment to the Asset Purchase Agreement did not transfer any UNIX copyrights; rather, “[i]t merely revised the definition of the intellectual property category of the Excluded Assets schedule.” App., *infra*, 133a. Moreover, the court reasoned that even had the amendment to the Asset Purchase Agreement purported to transfer copyrights, that amendment “did not identify which copyrights, if any, were ‘required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies.’” App., *infra*, 134a. As the district court explained, “[t]he written instrument required by Section 204 should contain sufficient information to serve as a guidepost for the parties to resolve their disputes.” App., *infra*, 134a (internal quotation marks and citation omitted).

2. The court of appeals reversed the district court in part. App., *infra*, 1a-58a.

The court held that there was an issue of fact as to whether the amendment to the Asset Purchase Agreement transferred ownership of the UNIX copyrights at issue in this case. App., *infra*, 28a. The court explained that it was enough to satisfy the Copyright Act's written-transfer requirement if there was *any* writing that a jury could read as having transferred some copyrights.

The court of appeals recognized that “predictability and certainty of ownership” was a “paramount goal” of the Copyright Act revisions, but nevertheless concluded that Section 204(a) does not require any particularity as to which copyrights a written document purports to transfer. In reaching this conclusion, the court acknowledged that it was parting ways with “some courts” which have held that “a writing is insufficient to transfer copyrights unless (1) it reasonably identifies the subject matter of the agreement, (2) is sufficient to indicate that the parties have come to an agreement, and (3) states with reasonable certainty the essential terms of the agreement.” App., *infra*, 21a. By contrast, the court of appeals held that “Section 204's writing requirement is best understood as a means of ensuring that parties intend to transfer copyrights themselves, as opposed to other categories of rights.” App., *infra*, 22a. Any “linguistic ambiguity concerning which particular copyrights” were involved, the court noted, can be

determined with the use of extrinsic evidence. App., *infra*, 23a.

Under this standard, the court of appeals did not hold that any copyrights actually transferred from petitioner to SCO. App., *infra*, 29a-37a. Rather, the court below explained that whether any copyrights at issue in this case had transferred was disputed, because a rational trier of fact “*could*” conclude, based upon extrinsic evidence, that “at least some copyrights transferred to SCO.” App., *infra*, 31a-32a (emphasis added). Based on this possibility that a transfer had occurred, the court of appeals held that the issue of copyright ownership could not be resolved on summary judgment. Significantly, the court of appeals recognized that there “may be reasons to discount the credibility, relevance, or persuasiveness of the extrinsic evidence that SCO presents.” App., *infra*, 28a. Nevertheless, the court held that cases involving “complicated, multi-million dollar business transaction[s] involving ambiguous language” could be resolved at trial, even though it might mean resorting to “the self-serving testimony offered by partisan witnesses whose recollection is hazy from passage of time and colored by their conflicting interests.” App., *infra*, 27a-28a (citation omitted). The court remanded for trial, which the district court has scheduled for March 2010.

REASONS FOR GRANTING THE PETITION**THE COURTS OF APPEALS ARE SHARPLY DIVIDED ON THE REQUIREMENTS FOR A COPYRIGHT TO BE VALIDLY TRANSFERRED UNDER SECTION 204(a)'S WRITTEN-TRANSFER REQUIREMENT**

This case presents a question of fundamental importance to copyright law because it affects the crucial question of who owns a copyright. The answer to the question presented will have broad ramifications for the software, music, film, publishing, and other creative industries. Under the court of appeals' decision, a writing is sufficient under 17 U.S.C. § 204(a) to transfer copyright ownership so long as that writing evinces that a transfer of some copyrights *might* have been intended, even if the identity of those copyrights is not clear. If allowed to stand, this decision will leave to juries the question of what rights, if any, have been transferred by an ambiguous writing. This decision deepens a preexisting conflict among the courts of appeals. Five courts of appeals now have adopted divergent standards for determining whether Section 204(a)'s written-transfer requirement has been met, and most require more specificity than that tolerated by the decision below. Because this case presents an ideal vehicle to address an important and recurring problem, the petition should be granted.

A. The Decision Below Deepens A Recognized Circuit Conflict Concerning The Written-Transfer Requirement Of Section 204(a)

As the court of appeals expressly recognized, (App., *infra*, 21a), the ruling below cannot be reconciled with decisions of other courts that have addressed the question presented.

1. In conflict with the decision in this case, three courts of appeals have held that, to constitute a valid transfer, a writing must identify with reasonable certainty the specific subject matter and the essential terms of the transfer. *Lyrick Studios, Inc. v. Big Idea Prods., Inc.*, 420 F.3d 388, 393-396 (5th Cir. 2005), cert. denied, 547 U.S. 1054 (2006); *Saxon v. Blann*, 968 F.2d 676, 680 (8th Cir. 1992); *Effects Assocs., Inc. v. Cohen*, 908 F.2d 555, 557 (9th Cir. 1990), cert. denied, 498 U.S. 1103 (1991). These courts have thus required an “instrument of conveyance” or a “note or memorandum of the transfer,” as the text of Section 204(a) mandates. 17 U.S.C. § 204(a).

In *Effects Associates, Inc. v. Cohen*, the Ninth Circuit explained that a purpose that undergirds the 1976 revisions to the Copyright Act—*viz.*, “predictability and certainty of copyright ownership”—requires parties to “spell[] out the terms of a deal in black and white” so that they know “precisely what rights” are involved in the transaction. *Effects Assocs.*, 908 F.2d at 557. In contrast to the ruling below, the Ninth Circuit has explained that a writing that

satisfies Section 204(a) must be sufficiently detailed so that the “parties need only look to the writing” to determine “their respective rights.” *Ibid.* Thus, unlike the Tenth Circuit, the Ninth Circuit has declined to permit juries to determine whether vague writings that refer to copyrights can constitute a valid transfer of copyrights under Section 204(a). *Radio Television Espanola S.A. v. New World Entm’t, Ltd.*, 183 F.3d 922, 927 (9th Cir. 1999) (Section 204(a) not satisfied where a series of documents contained no “information about the deal itself,” such as “the terms of any license agreement”); *Konigsberg Int’l, Inc. v. Rice*, 16 F.3d 355, 357 (9th Cir. 1994) (Section 204(a) not satisfied because document was not specific enough to “serve as a guidepost for the parties to resolve their disputes”).

The Fifth Circuit also has held that a collection of documents that described only “some” terms of an agreement “is not the kind of memorandum envisioned by § 204(a),” *Lyrick Studios*, 420 F.3d at 393-396, and has reversed a jury’s determination that those documents granted an exclusive license. Likewise, unlike the court below, the Eighth Circuit has explained that a document purporting to transfer “rights of ownership” of a particular book (including its negatives and layouts) is insufficient under Section 204(a) without any mention of the term “copyright.” *Compare Saxon*, 968 F.2d at 680 *with App., infra*, 24a (noting that a transfer does not even need to mention the word “copyright” to satisfy Section

204(a) (quoting *Schiller & Schmidt, Inc. v. Nordisco Corp.*, 969 F.2d 410, 413 (7th Cir. 1992))).²

There can be little doubt that in all three of these courts of appeals the outcome of the present suit would have been different. Far from ensuring that the “parties need only look to the writing” to determine “their respective rights,” *Effects Assocs.*, 908 F.2d at 557, the decision below acknowledged that petitioner “Novell has powerful arguments to support its version of the transaction” and that there “may be reasons to discount the credibility, relevance, or persuasiveness of the extrinsic evidence that SCO presents.” App., *infra*, 28a. Nevertheless, the Tenth Circuit found no impediment under Section 204(a) to the use of extrinsic evidence that could lead to, “[a]t a trial in a case like this, the intention of the parties * * * [being] divined from self-serving testimony offered by partisan witnesses whose recollection is hazy from passage of time and colored by their conflicting interests.” App., *infra*, 28a (citation omitted).

² The Second Circuit has held, in conflict with the Eighth Circuit, that a transfer under Section 204(a) need not specify that it is transferring copyrights to be valid. *Playboy Enters., Inc. v. Dumas*, 53 F.3d 549, 564 (2d Cir.), cert. denied, 515 U.S. 1010 (1995). That court, however, has not squarely addressed the degree of certainty that is required for a transfer to take place under Section 204(a). See *ibid.* (noting, but not expressly adopting, the district court’s willingness to consider parol evidence to determine whether a valid transfer of copyright had occurred).

2. On the other side of the legal divide, the Seventh Circuit has permitted extrinsic evidence to determine whether copyrights have been transferred.

In *Schiller & Schmidt, Inc. v. Nordisco Corp.*, 969 F.2d 410 (7th Cir. 1992), the Seventh Circuit held that a written transfer agreement may satisfy Section 204(a) *even* when it “does not mention the word ‘copyright’” itself. *Id.* at 413. Thus, according to the Seventh Circuit, it is enough under Section 204(a) if there is some writing; the “issue” then for the court “is its interpretation.” *Ibid.*; *see also ITOFCA, Inc. v. Mega Trans Logistics, Inc.*, 322 F.3d 928, 932 (7th Cir. 2003) (concluding that copyrights must have been transferred by nonspecific agreement because otherwise the transferee “could not use the [transferred goods] profitably”). Such a ruling, like that of the court below, allows Section 204(a) to be satisfied by a writing that may not even transfer a copyright. Once a court determines that Section 204(a) has been satisfied, it falls to the factfinder to look to extrinsic evidence to determine what rights, if any, have been transferred.³

³ Federal district courts also are divided. Contrary to the court of appeals here, several district courts (like the district court in this case) have held that Section 204(a) requires specificity as to the purported transfer. *Saenger Org., Inc. v. Nationwide Ins. Lic. Assocs., Inc.*, 864 F.Supp. 246, 250 (D. Mass. 1994) (requiring specificity in a writing purporting to transfer a copyright under Section 204(a)); *Weinstein Co. v. Smokewood Entm't Group, LLC*, 664 F.Supp. 2d 332, 342 (S.D.N.Y. 2009) (holding that a writing sufficient under Section

(Continued on following page)

3. This conflict in the courts of appeals is well-recognized, and it will not resolve itself absent this Court's review.

The Supreme Court of Indiana has acknowledged that “the federal circuits do not yet agree on the nuances” of Section 204(a)'s writing requirements. *Conwell v. Gray Loon Outdoor Mktg. Group, Inc.*, 906 N.E.2d 805, 816 (Ind. 2009). Nor has this conflict been lost on commentators. One leading copyright treatise notes the different standards that apply to

204(a) will provide “the parties with a clear guide to their rights and responsibilities”); *American Plastic Equip., Inc. v. Toytrackerz, LLC*, No. 07-2253, 2009 WL 902422, at *5 (D. Kan. Mar. 31, 2009) (writing did not “clearly show an agreement to transfer the rights in the copyright”); *Foraste v. Brown Univ.*, 290 F. Supp. 2d 234, 239 (D.R.I. 2003) (rejecting a writing that contained “[n]ot a single relevant detail of the purported transfer” and “spell[ed] out no material terms”). On the other hand, some district courts have permitted transfers to occur based on broad, general language like the ruling below. *See, e.g., Rico Records Distribs., Inc. v. Ithier*, No. 04-9782, 2006 WL 846488, at *1 (S.D.N.Y. Mar. 30, 2006) (a Section 204 writing need only specify “that a copyright transfer was intended”); *National Ass'n for Stock Car Auto Racing, Inc. v. Scharle*, 356 F. Supp. 2d 515, 523 (E.D. Pa. 2005) (characterizing Section 204 as a “lax” requirement and finding sufficient a document that transferred all copyrights generally); *Johnson v. Tuff-n-Rumble Mgmt., Inc.*, No. 99-1374, 2000 WL 1145748, at *6 (E.D. La. Aug. 14, 2000) (copyright transfer valid because, even though the specifics of what was transferred were “ambiguous,” the writing contemplated the assignment of some copyrights); *Dean v. Burrows*, 732 F. Supp. 816, 823 (E.D. Tenn. 1989) (finding sufficient a check endorsement referring to “mold designs and molds” without mentioning copyright ownership).

Section 204(a)'s written-transfer requirement. *See* 3 Melville Nimmer & David Nimmer, *Nimmer on Copyright* § 10.03[2] (2009). The treatise explains that a writing lacking the terms “transfer” and “copyright” sometimes “may suffice,” but it also notes that some courts have reached an “alternative holding.” *Ibid.*

B. Review Is Necessary Because The Question Presented Raises An Issue Of Exceptional Importance To Every Owner Of Copyrights

1. The ruling below undermines predictability and certainty in copyright ownership

This Court has recognized that a “paramount goal” of the 1976 Copyright Act was to create a “national, uniform copyright law” and thus “enhanc[e] predictability and certainty of copyright ownership.” *Community for Creative Non-Violence v. Reid*, 490 U.S. 730, 740 & 749 (1989). The standard adopted by the ruling below—which permits any writing that arguably purports to transfer some copyright to satisfy Section 204(a)—will frustrate that congressional purpose and will have a significant adverse effect on copyright ownership in industries dealing in intellectual property worth billions of dollars.

a. Section 204(a) gives effect to Congress’ goal of certainty and predictability, because the only way a transfer can be certain is when the terms of that transfer are explicit. Congress thus did not permit *any* writing to satisfy the written-transfer requirement. Rather, Congress required an “instrument of

conveyance” or a “note or memorandum of the transfer.” 17 U.S.C. § 204(a); *see also* H.R. Rep. No. 94-1476, at 124 (1976) (noting that a “*specific* written conveyance of rights” is required to transfer a copyright) (emphasis added).

That choice of words is significant. At common law, to be a valid transfer of real property, “instruments of conveyance,” such as deeds, must have “language in the description sufficient to serve as a guide.” *Maurice v. Hatterasman Motel Corp.*, 248 S.E.2d 430, 432 (N.C. Ct. App. 1978); *see also* *Shy v. Lewis*, 12 S.W.2d 719, 721 (Mo. 1928) (discussing the specificity required in the written instrument of transfer). This specific language must be within the instrument itself; courts will not resort to extrinsic evidence to cure ambiguities unless they can first determine from the instrument the “particular piece of land” involved. *Hammond v. Hacker*, 111 So. 511, 511 (Fla. 1927); *see also* 14 Richard Powell, *Powell on Real Property* § 81A.05[1][c][iii] (Michael Allan Wolf ed., 2009) (“a description may not be so meager in its identification of the property as to require substantially the entire description to depend on parol evidence”). Given that settled understanding, Congress is presumed to have intended those prerequisites when it required an “instrument of conveyance” or other “note or memorandum of transfer” for copyright. *See Beck v. Prupis*, 529 U.S. 494, 500-501 (2000) (“[W]hen Congress uses language with a settled meaning at common law, Congress ‘presumably knows and adopts the cluster of ideas that were

attached to each borrowed word in the body of learning from which it was taken and the meaning its use will convey to the judicial mind unless otherwise instructed.’” (quoting *Morissette v. United States*, 342 U.S. 246, 263 (1952))).

And Congress required such a writing for the same reason that “instruments of conveyance” were introduced into real property law: to make it possible “to prove the transfer, and its specific terms, many years into the future.” 14 Powell, *supra*, § 81A.01[2][b]; see Alice Haemmerli, *Take It, It’s Mine: Illicit Transfers of Copyright by Operation of Law*, 63 WASH. & LEE L. REV. 1011, 1012 (2006) (noting that “the drafters of the Act undertook to ensure that transfers of ownership would be clearly demarcated[,] always explicit[,] * * * and unequivocally intentional”). As with real property transfers, the written-transfer requirement for copyrights serves the purposes of “establish[ing] the boundaries of the property,” “determin[ing] the extent of record notice,” and providing descriptions of the property for third parties. 14 Powell, *supra*, § 81A.05[1][b]. Indeed, specificity is particularly important for copyright transfers because, unlike a parcel of real property, which is confined to a specific place, a copyright is intangible. See 3 Jay Dratler, Jr., *Intellectual Property Law: Commercial, Creative, & Industrial Property* § 6.03[3] at 6-74.5 through 6-74.6 (2008) (explaining that intellectual property transactions inevitably require parties to “describ[e] the bounds of intangible rights that cannot be seen or felt”).

Moreover, the length of copyright protection, and the continuing development of new uses of older works, make specificity especially important in intellectual property transactions. See 17 U.S.C. § 302(a) (providing that copyrights created on or after January 1, 1978 are protected for the life of the author and 70 years after the author's death). Under the ruling below, factfinders often will be required to discern whether there was an intent to transfer from extrinsic evidence, including witnesses who may not remember the original understanding or who may be unavailable because they have since passed away.

b. It has been the real-world experience of copyright holders and courts resolving such disputes that a specific writing requirement under Section 204(a) is critically important to ensure that each party to a copyright transaction knows precisely what rights are being transferred. This clarity is guaranteed only by a requirement that any transfer taking place pursuant to Section 204(a) clearly describe the rights at issue. As other courts of appeals have explained, Section 204(a) forces parties “to clarify their thinking” and “spell[] out the terms of a deal in black and white.” *Effects Assocs.*, 908 F.2d at 557. This avoids the untoward result, which Congress sought to guard against, of a hapless author inadvertently giving away his or her copyrights. *Ibid.* (“Section 204 ensures that the creator of a work will not give away his copyright inadvertently”); *Eden Toys, Inc. v. Florelee Undergarment Co.*, 697 F.2d 27, 36 (2d Cir. 1982) (“the purpose of [Section 204(a)] is to

protect copyright holders from persons mistakenly or fraudulently claiming” property rights). Under the ruling below, however, owners of copyrights are more susceptible to challenges from litigants who have allegedly acquired rights under ambiguous writings purporting to transfer some unspecified copyrights from the author.

Indeed, the concerns raised by the ruling below are anything but inchoate. The court of appeals in this case held that a jury should determine what copyrights, if any, were transferred by an ambiguous writing that addressed only what copyrights were *excluded* from the transaction in question. App., *infra*, 27a-28a. In reaching this conclusion, the court of appeals acknowledged that partisan witnesses with fading memories would be presenting potentially self-serving testimony to a jury. App., *infra*, 28a. Economic considerations and other conditions can easily change over time resulting in “[r]emanufactured memories and new advice * * * combin[ing] to ascribe an updated and previously un contemplated meaning to the term[s]” in an ambiguous writing. 3 Nimmer, *supra*, § 10.08[B] (citation omitted).

c. If left uncorrected, the ruling below will adversely affect a broad range of industries, ranging from performing arts and literary works to computer software companies, which collectively own copyrights worth billions of dollars.

Cases in these industries demonstrate that the pernicious effects generated by the decision below will

reach all levels of industries dealing in copyright ownership. Production companies and artists have long faced costly challenges involving the ownership of copyrighted works, and, because there often are not clear writings memorializing agreements, the outcome of the dispute depends upon the written-transfer standard the court applies. For example, there have been challenges involving entertainment for children. *See Lyrick Studios*, 420 F.3d at 390-391 (even though there was no final, signed agreement between the parties, and even though the initial proposal between the companies indicated that “no contract will exist until both parties have executed a formal agreement,” the jury found that a collection of documents constituted a contract that granted exclusive licensing rights);⁴ *Bernstein v. Glavin*, 725 N.E.2d 455, 459 (Ind. Ct. App. 2000) (holding that the author of the lyrics to the theme song for the hit children’s program Barney and Friends had transferred her ownership rights in return for a mere copy of a children’s songbook and recognition as the song’s writer). And there have been lawsuits involving Oscar nominated films. *See Weinstein Co. v. Smokewood Entm’t Group, LLC*, 664 F. Supp. 2d 332,

⁴ Although the Fifth Circuit ultimately reversed the jury finding and adopted a more rigorous requirement for Section 204(a) writings, the case demonstrates the dangerous consequences that could flow from a rule, like that adopted by the decision below, which permits ambiguous documents to transfer copyright ownership and relies on a jury’s interpretation to determine what copyrights were transferred.

339-340 (S.D.N.Y. 2009); *see also* *Radio Television Espanola S.A. v. New World Entm't, Ltd.*, 183 F.3d 922, 927-929 (9th Cir. 1999) (rejecting argument that documents generated during negotiations were sufficient for purposes of Section 204(a) to grant an exclusive license to broadcast Spiderman and Marvel Action Hour). Even authors ranking among the most widely read in modern history have faced challenges by parties claiming ownership rights in their works. *See* *Konigsberg Int'l*, 16 F.3d at 356-357 (rejecting a claim that Anne Rice had granted ownership rights based on a document generated after a lawsuit was instituted).

And clear title to copyrights has become particularly vital in the digital age. 3 Nimmer, *supra*, § 12B.01 (noting copyright owners' concerns about copyright infringement due to developments in the digital age); *cf.* *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 430 (1984) ("From its beginning, the law of copyright has developed in response to significant changes in technology."). Copyrighted material is licensed and then reproduced in numerous media at a rapid pace. *MGM Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 928-929 (2005) (noting the ease with which copyrighted materials can be distributed digitally); Robert S. Boynton, *How to Make a Guerilla Documentary*, N.Y. TIMES, July 11, 2004 (magazine) (commenting on the ease with which the public can make productions available electronically). Computers, tablet computers, e-readers, and other mobile devices have become new means for transmitting copyrighted works to consumers, and

the providers of such content depend on the certainty that Section 204(a) was intended to provide. *See* 3 Nimmer, *supra*, § 12B.01; Molly Shaffer Van Houweling, *Distributive Values in Copyright*, 83 TEX. L. REV. 1535, 1539 (2005) (explaining the important role that copyright protection plays for artists in the digital age); *see generally* S. Rep. No. 105-190, at 1 (1998) (Conf. Rep.) (explaining that a purpose in amending copyright law is to “provide certainty” for copyright owners in light of emerging technologies).

In this digital age where movies, music, and software are all available online for purchase or license, the ruling below destabilizes more than just the direct parties to an ambiguous transaction. Unlike a parcel of real property, which will have a physically limited number of users, a copyright may be used by thousands or tens of thousands of individuals and companies across the globe. Indeed, this case involves an attempt by a party to claim ownership in open-source software that is extensively used throughout the world to support many of the world’s websites. Unless the specific copyright alleged to be in the software is in fact owned by the individual who licensed these uses, every one of these end users is a potential infringer. This would certainly be the case with a germinal operating system such as UNIX, whose uncounted users have investment-backed expectations that their licensor owns the relevant copyrights. The same is true for the millions of users that download books, music, and movies every day through services such as iTunes and Netflix. Yet if

ambiguous documents are permitted to effect a transfer of copyright ownership, costs for these everyday transactions will increase as licensors will be forced to expend significant effort to ascertain each link in the copyright chain of title.

The less stringent standard for Section 204(a) adopted by the decision below creates significant uncertainty, will give rise to costly lawsuits, and encourage forum shopping, as savvy litigants with the alleged back-of-the-cocktail-napkin agreement will file suits in jurisdictions, like the Tenth Circuit, where that ambiguity is enough to have a jury—rather than specific transfer documents resulting from arms-length negotiations—determine which copyrights have been transferred.

2. *This case is an ideal vehicle to address Section 204(a) and raises issues of utmost importance to open-source software users throughout the nation*

a. This case presents an ideal vehicle for the Court to address Section 204(a)'s written-transfer requirements. The writings relied on by respondent as satisfying Section 204(a) are plainly ambiguous and provide this Court with a clear example of the type of unclear language that sometimes is used in these kinds of business transactions. Indeed, the court of appeals concluded that a jury trial was *necessary* to determine which copyrights, if any, were transferred by the writings at issue in this case. App., *infra*, 37a. Thus, it cannot be disputed that a

rejection of the Section 204(a) standard adopted by the ruling below would be dispositive in this case.

Moreover, notwithstanding the fact that the court of appeals remanded the case for trial, this Court should address the question presented now, because any extrinsic evidence that may be developed in the district court is irrelevant to the Section 204(a) analysis. Indeed, in cases where further development of the record will not enhance this Court's review, the Court has not hesitated to address case-dispositive legal questions despite ongoing proceedings on remand. *See, e.g., Merck & Co., Inc. v. Reynolds*, No. 08-905 (U.S. cert. granted May 26, 2009); *Bridge v. Phoenix Bond & Indem. Co.*, 128 S. Ct. 2131 (2008).

b. The question presented has substantial ramifications beyond this case. The decision below potentially affects all users of Linux, which is a vital open-source computer operating system used in web servers throughout the nation, as respondent claims those users are infringing the copyrights allegedly transferred to it by petitioner. Respondent already has sued IBM and others, *see, e.g., The SCO Group v. IBM* (No. 03-294 D. Utah), *The SCO Group v. AutoZone* (No. 04-237 D. Nev.), *The SCO Group v. DaimlerChrysler* (04-056587 Oakland County 6th Judicial Circuit Ct. (Cal.)), demanding billions of dollars in damages. Such lawsuits create high stakes for defendants, and *in terrorem* settlements by parties who are unwilling to litigate "are often quite lucrative" for plaintiffs. Stephen Shankland, CNET News,

SCO sues Big Blue over Unix, Linux (Mar. 6, 2003), available at tinyurl.com/yfvvqjq (last visited Mar. 2, 2010). Although some of those suits apparently have settled, respondent continues to look for other Linux users it might sue. Press Release, The SCO Group, *The SCO Group Announces Strategic Plan & Management Change* (Oct. 19, 2009), available at tinyurl.com/yhh2lp5 (last visited Mar. 2, 2010) (indicating respondent's plan to "pursue litigation"). This has resulted in "fear, uncertainty and doubt" within the software industry and among users of Linux, which is precisely what respondent sought as part of its plan to garner royalties. Shankland, *supra*.

Indeed, due to the uncertainty caused by respondent's actions, numerous lawsuits arose as the industry struggled to resolve the ensuing confusion, and websites have been developed for the very purpose of following the controversy generated by respondent's actions. See www.groklaw.net. Given respondent's avowed campaign of collecting licensing royalties, there is no reason to believe that these lawsuits are nearing an end. Moreover, even aside from the copyrights at issue in this case, permitting a copyright transfer to be based on ambiguous writings will open the door for other parties to benefit from dubious claims of copyright ownership. Only early intervention by this Court can stifle the wave of litigation that already has begun.

CONCLUSION

For the reasons set forth above, the petition for a writ of certiorari should be granted.

Respectfully submitted,

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MARCH 4, 2010

APPENDIX A

PUBLISH

UNITED STATES COURT OF APPEALS

TENTH CIRCUIT

THE SCO GROUP, INC.,
Plaintiff-Appellant,

v.

NOVELL, INC.,
Defendant-Appellee.

No. 08-4217

**APPEAL FROM THE
UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF UTAH
(D.C. NO. 2:04-CV-00139-DAK)**

(Filed Aug. 24, 2009)

Stuart Singer, Boies, Schiller & Flexner LLP, Fort Lauderdale, Florida (David Boies, Robert Silver, and Edward Normand, Boies Schiller & Flexner LLP, Armonk, New York; Brent O. Hatch, Mark F. James, Hatch, James & Dodge, PC, Salt Lake City, Utah; Devan V. Padmanabhan, Dorsey & Whitney LLP, Minneapolis, Minnesota with him on the briefs) for Plaintiff-Appellant.

Michael Jacobs, Morrison & Foerster LLP, San Francisco, California (George C. Harris, Grant L. Kim, David E. Melaugh, Morrison & Foerster LLP, San Francisco, California; Thomas R. Karrenberg, Heather M. Sneddon, Anderson & Karrenberg, Salt Lake City, Utah with him on the briefs) for Defendant-Appellee.

Before **LUCERO**, **BALDOCK** and **McCONNELL**,
Circuit Judges.

McCONNELL, Circuit Judge.

This case primarily involves a dispute between SCO and Novell regarding the scope of intellectual property in certain UNIX and UnixWare technology and other rights retained by Novell following the sale of part of its UNIX business to Santa Cruz, a predecessor corporate entity to SCO, in the mid-1990s. Following competing motions for summary judgment, the district court issued a detailed opinion granting summary judgment to Novell on many of the key issues. We affirm the judgment of the district court in part, reverse in part, and remand for trial on the remaining issues.

I. Background

We begin by laying out some of the basic facts underlying Novell's transfer of certain UNIX-related assets to Santa Cruz, as well as the background to the instant litigation. Other facts will be discussed as the issues require.

A. The UNIX Business and the Sale to Santa Cruz

UNIX is a computer operating system originally developed in the late 1960s at AT&T. By the 1980s, AT&T had developed UNIX System V ("SVRX"); it built a substantial business by licensing UNIX source code to a number of major computer manufacturers, including IBM, Sun, and Hewlett-Packard. These manufacturers, in turn, would use the SVRX source code to develop their own individualized UNIX-derived "flavors" for use on their computer systems. Licensees could modify the source code and create derivative products mostly for internal use, but agreed to keep the UNIX source code confidential.

In 1993, Novell paid over \$300 million to purchase UNIX System Laboratories, the AT&T spin-off that owned the UNIX copyrights and licenses. Only two years later, however, Novell decided to sell its UNIX business. Although Novell may have initially intended "to sell the complete UNIX business," both parties agree that Santa Cruz was either unwilling or unable to commit sufficient financial resources to purchase the entire UNIX business outright. App'x 8610;

Aplt. Br. 8; Aple. Br. 5. The deal was therefore structured so that Novell would retain a 95% interest in SVRX license royalties, which had totaled \$50 million in 1995.

The transfer of Unix-related rights occurred pursuant to three documents: an asset purchase agreement (“APA”) executed on September 19, 1995; “Amendment No. 1” signed by the parties at the actual closing on December 6, 1995; and “Amendment No. 2” on October 16, 1996. The APA provided that:

Buyer will purchase and acquire from Seller on the Closing Date . . . all of Seller’s right, title, and interest in and to the assets and properties of Seller relating to the Business (collectively the “Assets”) identified on Schedule 1.1(a). Notwithstanding the foregoing, the Assets to be so purchased shall not include those assets (the “Excluded Assets”) set forth on Schedule 1.1(b).

Schedule 1.1(a) included within the list of “Assets” transferred, “[a]ll rights and ownership of UNIX and UnixWare.” App’x 313. Section V of the Asset Schedule, entitled “Intellectual property” provided that Santa Cruz would obtain “[t]rademarks UNIX and UnixWare as and to the extent held by Seller” but did not explicitly mention copyrights. App’x 315. In contrast, Schedule 1.1(b), the list of assets excluded from the deal, did expressly speak to copyrights. Section V – “Intellectual Property” – explained that “*All copyrights* and trademarks, except for the trademarks UNIX and UnixWare,” as well as “[a]ll

[p]atents,” were excluded from the deal. App’x 318 (emphasis added).

Less than a year after the deal closed, the parties agreed to Amendment No. 2, which amended the APA’s treatment of copyrights. Amendment No. 2 provided that:

With respect to Schedule 1.1(b) of the Agreement, titled ‘Excluded Assets’, Section V, Subsection A shall be revised to read:

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

App’x 374.

The APA separately purported to give Novell certain residual control over “SVRX Licenses.” Section 4.16(b) of the agreement provided that:

Buyer shall not, and shall not have the authority to, amend, modify or waive any right under or assign any SVRX License without the prior written consent of Seller. In addition, at Seller’s sole discretion and direction, Buyer shall amend, supplement, modify or waive any rights under, or shall assign any rights to, any SVRX License to

the extent so directed in any manner or respect by Seller.

The parties differ markedly in their characterization of the rights transferred to Santa Cruz and the value of the deal. According to SCO, Santa Cruz purchased the bulk of the business, including the core UNIX copyrights, for \$250 million, but Novell retained a 95% interest in royalties as a “financing device.” According to Novell, SCO’s \$250 million figure improperly inflates the value of the deal, by accounting not only for the value of assets actually transferred by SCO to Novell, but including the share of the SVRX royalty stream *retained* by Novell. *See* Aple. Br. 5 n1. Novell calculates that it received only about \$50 million in stock, as well as a promised share of the “UnixWare” revenue stream exceeding certain targets. Novell contends that it retained ownership of the UNIX copyrights, extending only an implied license to Santa Cruz to use the copyrights, for instance, to develop and distribute an improved version of Novell’s “UnixWare” product.

In support of its understanding of the transaction, SCO relies heavily on extrinsic evidence of the parties’ intent at the time of the APA – including testimony from *Novell’s* leadership at the time – suggesting that the parties’ intent was to transfer the copyrights. For instance, Robert Frankenberg, then President and CEO of Novell, testified that it was his “initial intent,” his “intent at the time when the APA was signed,” and his “intent when that transaction closed” that “Novell would transfer the copyrights to

UNIX and UnixWare technology to Santa Cruz” and that “that intent never changed.” App’x 8563. Similarly, Ed Chatlos, a Senior Director for UNIX Strategic Partnerships and Business Development within Novell’s Strategic Relations and Mergers and Acquisitions organization, submitted an affidavit affirming SCO’s version of the facts. *See* App’x 8659-60:

In or about June 1995, I became the lead negotiator for Novell in the negotiations with SCO and headed the day-to-day responsibility for the potential deal. . . . During these negotiations, I met regularly with SCO representatives. . . . Early in our discussions, it became apparent that SCO could not pay the full purchase price as contemplated by Novell. To bridge the price gap, it was ultimately agreed that Novell would retain certain binary royalty payments under UNIX licenses. It was my understanding and intent, on behalf of Novell – that the complete UNIX business would be transferred to SCO.

Novell, in contrast, defends its interpretation of the transaction largely by pointing to the language of the contract itself, and by arguing that the witnesses put forward by SCO to offer extrinsic evidence of the parties’ intent lacked any familiarity with the actual drafting of the APA’s language or Amendment No. 2. *See* Aple. Br. 6-10. At oral argument, Novell suggested that whatever the intent of the business negotiators involved in the deal, it was superseded by

the work of those lawyers who ultimately negotiated the language of the contract that governs the transaction.

B. Proceedings Below

In May 2001, Santa Cruz sold its UNIX business to Caldera, the immediate predecessor to SCO. Santa Cruz purported to transfer its interest in the UNIX and UnixWare copyrights to Caldera/SCO. In 2002 and 2003, tensions increased between Novell and SCO. SCO asserted that users of Linux, an alternative to UNIX, might be infringing on SCO's UNIX-related intellectual property rights. *See* App'x 7178. It purported to offer Linux users the opportunity to purchase an intellectual property license in order to continue using Linux without infringing any of SCO's copyrights. *See id.*; Aple. Br. 13. In March 2003, SCO brought contract and copyright claims against IBM on the basis of SCO's alleged intellectual property rights in UNIX. Novell then directed SCO "to waive any purported right SCO may claim to terminate [certain of] IBM's SVRX Licenses," on the basis of its aforementioned waiver rights, set out in Section 4.16 of the APA. After SCO refused, Novell ultimately claimed publicly that it – rather than SCO – maintained ownership over the UNIX copyrights. App'x 5875.

SCO filed a slander of title action against Novell. Novell asserted counterclaims for slander of title, breach of contract, and unjust enrichment. Both

parties then proceeded to amend their pleadings to add additional claims and counterclaims. After the parties filed dueling motions for summary judgment, the United States District Court for the District of Utah issued a detailed memorandum decision and order on August 10, 2007.

The district court first concluded that Novell is the owner of the UNIX and UnixWare copyrights. It reviewed the APA and Amendment No. 2 separately and sequentially. *See* Dist. Ct. Op. 45-46. The court found that the plain language of the APA indicated that the UNIX copyrights were not transferred to Santa Cruz. *See* Dist. Ct. Op. 52. The court also determined that Amendment No. 2 did not transfer ownership of the copyrights. *See id.* at 59. It reasoned that “[u]nlike the APA, Amendment No. 2 was not accompanied by a separate ‘Bill of Sale’ transferring any assets.” *Id.* In addition, it found persuasive that Amendment No. 2 amended only the list of excluded assets from the transaction (Schedule 1.1(b)), but did not alter the language of the list of included assets (Schedule 1.1(a)). Finally, the court determined that Amendment No. 2 did not sufficiently identify which copyrights were to change hands, and therefore failed to satisfy the requirements necessary to transfer ownership of a copyright under Section 204(a) of the Copyright Act, 17 U.S.C. § 204(a).

Having found that SCO’s assertions of copyright ownership were false, the court granted summary judgment to Novell on SCO’s claims alleging slander of title and seeking specific performance of Novell’s

alleged duty to transfer ownership of the UNIX and UnixWare copyrights to SCO. *See* Dist. Ct. Op. 62. The court also rejected SCO's claims against Novell for unfair competition under Utah common law or statutory law, or for breach of the implied covenant of good faith under California law. *See id.* at 63.

Next, the court reviewed the parties' competing cross motions regarding whether the APA authorized Novell to direct SCO to waive its claims against IBM and Sequent (which had been acquired by IBM in 1999) for alleged breach of their SVRX license agreements. The parties disputed both whether the IBM and Sequent Sublicensing Agreements were "SVRX Licenses" within the meaning of the APA, as well as the scope of provisions in the APA purportedly authorizing Novell to take action on SCO's behalf after SCO refused to waive the claims. *See id.* at 76. Although the district court agreed with SCO that "there appears to be some ambiguity in the APA's attempt to define SVRX Licenses," *id.* at 78, it ultimately found "no support in the language and structure of the APA for SCO's interpretation of SVRX License[s]." *Id.* at 86. It therefore concluded that "SVRX Licenses" referred to the "entire set of agreements relating to the licensing of SVRX code." *Id.* As a result, the court found that Novell "was and is entitled, at its sole discretion, to direct SCO to waive its purported claims against IBM and Sequent, and [that] SCO is obligated to recognize Novell's waiver." *Id.* at 88. Having determined that SCO gave Novell the right to waive SCO's claims by virtue of

“an explicit grant of contractual authority,” the court also concluded that California law precluded the application of the covenant of good faith and fair dealing. *Id.* at 87.

Finally, the court addressed Novell’s entitlement to royalties from certain licensing agreements entered into between SCO and Sun and Microsoft in 2003. The court found that SCO’s duty to turn over revenue from SVRX licenses was not limited only to licenses existing at the time of the APA. *See id.* at 93. It also concluded that the Sun agreement represented an unauthorized amendment to an SVRX License, in violation of Section 4.16(b) of the APA. As a result, it concluded that “SCO breached its fiduciary duties to Novell by failing to account for and remit the appropriate SVRX Royalty payments to Novell for the SVRX portions of the 2003 Sun and Microsoft Agreements.” *Id.* at 96. After a later bench trial on the value of payments due to Novell, the district court awarded Novell judgment in the amount of \$2,547,817. Findings of Fact, July 16, 2008 at 42.¹

On appeal, SCO challenges various aspects of the decision below. It argues that the district court erred by concluding, *as a matter of law*, that (1) Santa Cruz did not obtain the UNIX and UnixWare copyrights

¹ The district court also issued a number of rulings regarding specific arguments made in support of both parties’ claims and counterclaims. To the extent that those rulings do not directly affect the substance of this appeal, we do not address them.

from Novell, but instead acquired only an implied license; (2) SCO was not now entitled to specific performance – the transfer of any copyrights not transferred by the APA; (3) Novell has the right under the APA to force SCO to waive legal claims against IBM for its alleged breach of software and sub-licensing agreements; (4) Novell did not have to comply with the implied covenant of good faith and fair dealing in exercising any waiver rights; (5) Novell retained an interest in royalties from SCO's 2003 agreement with Sun Microsystems and other post-APA contracts related to SVRX technology. We address each argument in turn.

II. The Ownership of UNIX and UnixWare Copyrights

We begin by reviewing the district court's decision to grant summary judgment to Novell with regard to SCO's claims of ownership in the UNIX and UnixWare copyrights. Summary judgment is appropriate only "if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law." Fed. R. Civ. P. 56(c). "When applying this standard, we view the evidence and draw reasonable inferences therefrom in the light most favorable to the non-moving party." *Davidson v. America Online, Inc.*, 337 F.3d 1179, 1182 (10th Cir. 2003) (citation omitted). We

review the district court's grant of summary judgment de novo. *Id.*

SCO argues that the district court erred by interpreting the APA and Amendment No. 2 as separate and independent. It further contends that the text of the APA and Amendment No. 2 is at least ambiguous concerning whether the parties intended to transfer ownership of the copyrights, making it appropriate to consider extrinsic evidence. SCO asserts that a thorough review of extrinsic evidence makes summary judgment inappropriate on whether the copyrights were transferred by the transaction. Finally, SCO argues that the language in the APA and Amendment No. 2 was sufficient to meet the requirements to transfer ownership of a copyright under the [sic] Section 204(a) of the Copyright Act.

Novell, in contrast, argues that we ought to consider the APA and Amendment No. 2 separately. It asserts that the plain language of the APA itself unambiguously did not transfer copyright ownership, making consideration of parol evidence inappropriate. As for Amendment No. 2, Novell contends that no admissible extrinsic evidence shows that it was intended to transfer copyright ownership. Additionally, Novell claims that "SCO presented no evidence that copyright ownership was *required* to exercise its APA rights." Aple. Br. 33 (emphasis added). Because Amendment No. 2 revised the excluded assets schedule so as to allow only for transfer of those "copyrights . . . owned by Novell as of the date of the Agreement required for SCO to exercise

its rights with respect to the acquisition of UNIX and UnixWare technologies,” Novell argues that SCO has failed to demonstrate that any copyrights were transferred. Finally, Novell argues that any purported transfer of copyrights did not meet the requirements for transfer of ownership under the Copyright Act.

We will proceed in three steps, asking first, whether the APA and Amendment No. 2 should be considered separately or together; second, whether the APA and Amendment No. 2 satisfy any requirements imposed by the Copyright Act in order to effect a transfer of copyright ownership; and third, whether the district court erred by concluding, as a matter of law, that the transaction’s language and any admissible extrinsic evidence could not support the conclusion that Novell and Santa Cruz intended the copyrights to transfer.

A. Should We Consider APA and Amendment No. 2 Separately or Together?

The parties initially contest whether Amendment No. 2 should be read separately from the APA or together with it, as a successive writing elucidating the parties’ intent in the original document. As we explain below, our disposition on this point is important primarily because it operates to fix the scope of extrinsic evidence admissible to clarify the contract.

California law “generally prohibits the introduction of any extrinsic evidence to vary or contradict the terms of an integrated written instrument.” *Gerdlund v. Elec. Dispensers Int’l*, 190 Cal. App. 3d 263, 270 (Cal. Ct. App. 1987). California’s parol evidence rule provides that “[t]erms set forth in a writing intended by the parties as a final expression of their agreement . . . may not be contradicted by evidence of any prior agreement or of a contemporaneous oral agreement.” Cal. Code Civ. Proc. § 1856(a). Such a writing “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 (Cal. Ct. App. 1992); *see also Gerdlund*, 190 Cal. App. 3d at 270 (Cal. Ct. App. 1987) (although all parties testified that they shared same intent as to employment agreement, evidence was not admissible to prove meaning of contract where plain language of contract could not support that interpretation). The rule “is based upon the premise that the written instrument *is* the agreement of the parties.” *Id.* (citing *Tahoe Nat’l Bank v. Phillips*, 480 P.2d 320, 4 Cal. 3d 11, 22-23 (Cal. 1971)).

On the other hand, “[e]ven if a contract appears unambiguous on its face,” California law permits the use of extrinsic evidence to expose “a latent ambiguity . . . which reveals more than one possible meaning to which the *language* of the contract is yet reasonably susceptible.” *Dore v. Arnold Worldwide, Inc.*, 139 P.3d 56, 60 (Cal. 2006) (emphasis added).

“The test of admissibility of extrinsic evidence to explain the meaning of a written instrument is not whether it appears to the court to be plain and unambiguous on its face, but whether the offered evidence is relevant to prove a meaning to which the language of the instrument is reasonably susceptible.” *Id.* (quoting *Pacific Gas & E. Co. v. G.W. Thomas Drayage & Rigging Co.*, 442 P.2d 641, 644 (Cal. 1968)). Thus, California law does not permit the use of extrinsic evidence to establish an ambiguity in the parties’ intent independent from the terms of the contract; instead, it can only be used to expose or resolve a latent ambiguity in the language of the agreement itself.

If we were to interpret the contract based initially only on the APA itself – without regard to Amendment No. 2 – we agree that its language unambiguously excludes the transfer of copyrights. Although SCO argues that the asset schedule approves of the transfer of “[a]ll rights and ownership of UNIX and UnixWare” to SCO, this ignores that the APA explicitly provides that “Notwithstanding [those assets listed on the Asset Schedule], the Assets to be so purchased shall not include those assets (the “Excluded Assets”) set forth on Schedule 1.1(b).” App’x 264-65. Schedule 1.1(b), in turn, explains straightforwardly that “all copyrights” were excluded from the transaction. App’x 318. None of SCO’s extrinsic evidence explains how the actual *language* of the APA is “reasonably susceptible” to its interpretation of the transaction – namely, that all

relevant copyrights were transferred (or in other words, the exact opposite of what the APA's language suggests). *See* Dist. Ct. Op. 46-51 (explaining why the language of the APA itself cannot bear the interpretation that copyrights transferred to SCO). Novell argues, therefore, that we ought not consider any of SCO's extrinsic evidence bearing on the development of the APA itself, and limit any inquiry beyond the text of the agreement to the course of the parties' negotiations over Amendment No. 2.

But if we understand Amendment No. 2 to clarify the parties' original intent as to the transfer of copyrights, SCO's extrinsic evidence concerning the business negotiations may be relevant to resolving ambiguity concerning the content of that original intent. Indeed, SCO argues that Amendment No. 2 was designed to bring the language of the transaction in line with the parties' original intent to transfer the copyrights. *See* Aplt. R. Br. 10 ("Amendment No. 2 *clarified* the APA to confirm that the copyrights had been transferred thereunder.") Of course, Novell disputes this characterization of Amendment No. 2. But unlike the language of the APA itself, the contractual language of Amendment No. 2 concerning the transfer of copyrights is ambiguous. Amendment No. 2 revises the excluded asset schedule to limit those copyrights excluded from the transaction to "[a]ll copyrights and trademarks, *except for the copyrights and trademarks owned by Novell as of the date of the Agreement required for SCO to exercise its rights with respect to the acquisition of UNIX and*

UnixWare technologies.” App’x 374 (emphasis added). Because what copyrights are “required” for SCO to exercise its rights under the agreement is not clear on its face, California law allows courts to consider extrinsic evidence to resolve the ambiguity. *See ASP Properties Group v. Fard, Inc.*, 133 Cal. Rptr. 3d 343, 349 (Cal. Ct. App. 2005). Thus, to the extent that it is proper for us to read Amendment No. 2 as clarifying the APA, SCO’s extrinsic evidence of the business negotiators’ intent concerning the transaction ought to be admissible.

Having closely considered the parties’ arguments, as well as the district court’s reasoning, we find that Amendment No. 2 must be considered together with the APA as a unified document. Under California law, “[s]everal contracts relating to the same matters, between the same parties, and made as parts of substantially one transaction, are to be taken together.” Cal. Civ. Code § 1642. “[M]ultiple writings must be considered together when part of the same contract.” *Nish Noroian Farms v. Agric. Labor Relations Bd.*, 35 Cal. 3d 726, 735 (Cal. 1984). Even if we considered the language of the APA and Amendment No. 2 to be mutually antagonistic, California law still dictates that we construe them together, following Amendment No. 2 wherever its language contradicts the APA. Where “two contracts are made at different times, [but where] the later is not intended to entirely supersede the first, but only modif[y] it in certain particulars[,] [t]he two are to be construed as parts of one contract, the later superseding the earlier one

wherever it is inconsistent therewith.” *Hawes v. Lux*, 294 P. 1080, 1081 (Cal. Dist. Ct. App. 1931); *accord San Diego Const. Co. v. Mannix*, 166 P. 325, 326 (Cal. 1917).

In so doing, we note that SCO paid no additional consideration for Novell’s agreement to Amendment No. 2. That makes sense if Amendment No. 2 was a clarification of the agreement, to bring the language of the APA into line with the parties’ intent. If Amendment No. 2 were a change in the agreement (and a commercially significant one, at that), it is hard to see why Novell would have agreed to it without compensation.

Therefore, we construe the contract and Amendment No. 2 together for the purpose of assessing any ambiguities in the contract. This means that extrinsic evidence regarding the parties’ intent is relevant to our interpretation of the combined instrument.

B. Does the Amended APA Satisfy the Requirements of the Copyright Act?

We next consider whether the amended APA constituted a writing sufficient to transfer copyrights under federal law. Under the Copyright Act, “[a] transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner’s duly authorized agent.” 17 U.S.C. § 204(a). Section 204 is intended “to protect

copyright holders from persons mistakenly or fraudulently claiming oral licenses [or transfers].” *Eden Toys, Inc. v. Florelee Undergarment Co., Inc.*, 697 F.2d 27, 36 (2d Cir. 1982). As a result, Section 204 “enhances predictability and certainty of ownership – ‘Congress’s paramount goal’ when it revised the [Copyright] Act in 1976.” *Konigsberg Intern. Inc. v. Rice*, 16 F.3d 355, 357 (9th Cir. 1994) (quoting *Community for Creative Non-Violence v. Reid*, 490 U.S. 730, 749 (1989)). Novell argues that the Copyright Act imposes not only the requirement that a copyright transfer be in writing, but also that it state with sufficient clarity the copyrights to be transferred. *See* Aple. Br. 25-26; 34. Novell contends that Amendment No. 2 fails this test because its language is ambiguous. Since it is not clearly apparent which copyrights are “required for Novell to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies,” Novell asserts that Amendment No. 2 was not a valid “instrument of conveyance.”

As an initial matter, we note that the language of 17 U.S.C. § 204(a) does not readily lend itself to the construction Novell seeks to give it. Section 204(a), by its terms, imposes only the requirement that a copyright transfer be in writing and signed by the parties from whom the copyright is transferred; it does not on its face impose any heightened burden of clarity or particularity. Likewise, Novell points to nothing in the legislative history of Section 204 which suggests that Congress envisioned it to invalidate

copyright transfer agreements carrying material language subject to multiple reasonable interpretations. Nonetheless, some courts have understood Section 204(a) to impose requirements similar to that necessary to satisfy the statute of frauds. They have found that a writing is insufficient to transfer copyrights unless (1) it reasonably identifies the subject matter of the agreement, (2) is sufficient to indicate that the parties have come to an agreement, and (3) states with reasonable certainty the essential terms of the agreement. *Pamfiloff v. Giant Records, Inc.*, 794 F. Supp. 933, 936 (N.D. Cal. 1992) (citing Restatement (2d) of Contracts § 131 (1981)).

Novell argues that Section 204's writing requirement would disserve the goals of "predictability and certainty of copyright ownership" if parties could fulfill it without making clear what copyrights they intend to transfer. But it is hardly clear that imposing strict requirements of clarity in order to effect a copyright transfer will always aid "predictability and certainty of copyright ownership." "[A]mbiguities in copyright grants are anything but rare in the jurisprudence." 3 Melville B. Nimmer and David Nimmer, *Nimmer on Copyright* § 10.08 (2009). "The written memorialization of [an] agreement [transferring copyrights] inevitably fails to mandate only one pellucid interpretation." *Id.* If every copyright transaction were vulnerable to challenge whenever a party is able to point out some ambiguity within the governing agreement, parties might be forced to engage in costly, protracted litigation to determine

whether the transfer is valid, putting into doubt the proper holder of the copyright.

In the absence of any support from the language or legislative history, we are unwilling to read into Section 204 such an onerous restraint on the alienability of copyrights. As the Second Circuit has commented, “[t]he need for interpretation of a contract does not necessarily mean that there is a bona fide issue as to whether the contract is a writing for purposes of section 204(a). In most cases, there will be no doubt that the contract is a section 204(a) writing, and the only substantial issue will be contract interpretation.” *Jasper v. Bovina Music*, 314 F.3d 42, 47 (2d Cir. 2002). In copyright as elsewhere, “[t]he making of a contract depends not on the agreement of two minds in one intention, but on the agreement of two sets of external signs – not on the parties having meant the same thing but on their having said the same thing.” Nimmer on Copyright, § 10.08 (quoting *Tingley Sys. v. Healthlink, Inc.*, 509 F. Supp. 2d 1209, 1216 (M.D. Fla. 2007)). Where ambiguity persists in the language of a parties’ shared agreement concerning a copyright transfer, the transfer is not invalidated; instead, we look to parol evidence to construe the terms of the agreement. See Nimmer on Copyright, § 10.08.

We think that Section 204’s writing requirement is best understood as a means of ensuring that parties intend to transfer copyrights themselves, as opposed to other categories of rights. See, e.g., *Papa’s-June Music, Inc. v. McLean*, 921 F. Supp. 1154,

1158-59 (S.D.N.Y. 1996) (although a writing need not explicitly mention “copyright” or “exclusive rights” to satisfy 204(a), the better practice is that it should). But when it is clear that the parties contemplated that copyrights transfer, we do not think that a linguistic ambiguity concerning which particular copyrights transferred creates an insuperable barrier invalidating the transaction. Thus, the majority of cases that Novell draws our attention to, in which alleged copyright transfers are found not to satisfy Section 204, involve transactions where it is not clear whether the parties intended that copyrights would transfer at all – not disputes over which specific copyrights were within the scope of an intended transfer. *See, e.g., Radio Television Espanola S.A. v. New World Entertainment, Ltd.*, 183 F.3d 922, 927-28 (9th Cir. 1995) (finding faxes referring to ongoing negotiations insufficient to confirm a finalized deal to transfer copyrights); *Playboy Enterprises, Inc. v. Dumas*, 53 F.3d 549, 564 (2d Cir. 1995) (finding check legend allegedly purporting to recognize past “assignment . . . of all rights, title and interest” insufficient to transfer copyrights); *Konigsberg Intern. Inc.*, 16 F.3d at 357 (letter written three and a half years after oral agreement did not constitute a writing sufficient to confirm parties’ intent to transfer copyrights in earlier agreement).

Notwithstanding the above, the district court found Amendment No. 2 insufficient to convey Novell’s copyrights under Section 204 for several additional reasons. It first determined that

Amendment No. 2 “[did] not include any provision that purports to transfer ownership of copyrights.” because it did not profess to “amend Schedule 1.1(a),” the Asset Schedule, and because “[u]nlike the APA, Amendment No. 2 was not accompanied by a separate ‘Bill of Sale’ transferring any assets.” Dist. Ct. Op. 59. We are not persuaded that either prevents our recognition of a copyright transfer.

Although Amendment No. 2 did not purport to amend Schedule 1.1(a), this does not mean that the balance of assets transferred to Santa Cruz remained unchanged. The transaction was structured such that Santa Cruz would acquire “all of Seller’s right, title and interest in and to the assets . . . identified on Schedule 1.1(a),” but that “the Assets to be so purchased not include those assets (the ‘Excluded Assets’) set forth on Schedule 1.1(b).” App’x 264-65. Schedule 1.1(a), in turn, provided that Santa Cruz would receive “[a]ll rights and ownership of UNIX and UnixWare . . . including all source code,” a broad set of assets limited only by Schedule 1.1(b). As a result, any change to the set of Excluded Assets in Schedule 1.1(b) necessarily implicated those copyrights actually transferred under Schedule 1.1(a).

Of course, it is not always the case that the absence of certain or all copyrights from an “excluded asset” schedule will suffice to indicate the inclusion of copyrights in the transaction. But a written asset transfer agreement may satisfy Section 204(a) even when it “does not mention the word ‘copyright’” itself. *Schiller & Schmidt, Inc. v. Nordisco Corp.*, 969 F.2d

410, 413 (7th Cir. 1992). And when a party acquires “[a]ll rights and ownership” in a set of items, as was the case here, courts have generally found such language sufficient to satisfy Section 204(a) in the absence of language excepting copyrights or other special circumstances. *See ITOFCA, Inc. v. Mega-Trans Logistics, Inc.*, 322 F.3d 928, 931 (7th Cir. 2003) (written intent to transfer “all assets” can indicate intent to transfer copyrights); *Chugrue v. Continental Airlines, Inc.*, 977 F. Supp. 280, 284-85 (S.D.N.Y. 1997) (written agreement to transfer “all right, title and interest” in software indicated intent to transfer copyrights); *Relational Design & Technology, Inc. v. Brock*, No. 91-2452-EEO, 1993 WL 191323 at *6 (D. Kan. May 25, 1993) (transfer of “all rights” in software program included copyright). *But see Playboy Enters. v. Dumas*, 53 F.3d 549, 564 (2d Cir. 1995) (check legend indicating that payment was for past transfer of “all right, title and interest” was insufficient, by itself, to indicate a copyright transfer under Section 204). Of course, under the language of the original agreement, copyrights were expressly excluded from the assets transferred. But here, where a written agreement to the contract excised certain copyrights from that exclusion, we think the Copyright Act’s writing requirement is satisfied.

We also do not see why the absence of a Bill of Sale is fatal to an alleged transfer under the Copyright Act. Section 204 makes clear that the writing requirement can be satisfied not only by “an instrument of conveyance” but also by “a note or

memorandum of the transfer.” 17 U.S.C. § 204(a). Amendment No. 2 was a writing signed by both parties evincing a clear intent to revise or clarify the formal schedule of copyrights transferred by Novell to Santa Cruz. The Copyright Act did not require more. For similar reasons, we reject the significance that the district court attributed to the fact that Amendment No. 2 revised the APA “[a]s of the 16th day of October, 1996” as opposed to the date of the Bill of Sale. App’x 374. The Copyright Act does not require its writing requirement be fulfilled concurrently with the production of a Bill of Sale.² *Cf. Eden Toys, Inc.*, 697 F.2d at 36 (“the ‘note or memorandum of the transfer’ need not be made at the time when the license is initiated; the requirement is satisfied by the copyright owner’s later execution of a writing which confirms the agreement”).

² We think the parties’ dispute over whether Amendment No. 2 retroactively changed the APA or affected a clarification as of October 16, 1996 is ultimately much ado about nothing. None of the claims in this litigation depend on the meaning of the APA during the time period prior to Amendment No. 2. Moreover, while both parties attribute different meanings to the APA and Amendment No. 2, neither party argues that Amendment No. 2 was meant to substantively change the intent of the APA; both SCO and Novell agree that it merely clarified or affirmed the original intent of the transaction. *Compare* Aplt. R. Br. 10 (“Amendment No. 2 *clarified* the APA to confirm that the copyrights had been transferred thereunder.”) with Aple. Br. 40 (Amendment No. 2 merely “*affirm[ed]* that Santa Cruz had a license under the original APA to use Novell’s UNIX and UnixWare copyrighted works in its business”) (emphasis added).

We therefore conclude that the APA, as revised by Amendment No. 2, satisfied the Copyright Act's writing requirement.

C. Is Summary Judgment Appropriate on the Ownership of the Copyrights?

We come finally to the question of whether the district court was correct to enter summary judgment on the issue of whether Novell or SCO owns the UNIX and UnixWare copyrights under the APA as revised by Amendment No. 2. In contract actions, the interpretation of a written agreement is a question of fact. *See Gomez v. American Elec. Power Service Corp.*, 726 F.2d 649, 651 (10th Cir. 1984). When a contract is ambiguous, and parties present conflicting evidence regarding their intent at the time of the agreement, a genuine issue of material fact exists which cannot be determined summarily by the court. *Id.* Of course, the party opposing summary judgment “must do more than simply show that there is some metaphysical doubt as to the material facts.” *Matsushita Elec. Industrial Co. v. Zenith Radio Corp.*, 475 U.S. 574, 586-87 (1986). But so long as sufficient evidence could lead a rational trier of fact to resolve the dispute in favor of either party, granting either party's dueling motions for summary judgment would be inappropriate. *See Anderson v. Liberty Lobby*, 477 U.S. 242, 248 (1986).

This case, involving a complicated, multi-million dollar business transaction involving ambiguous

language about which the parties offer dramatically different explanations, is particularly ill-suited to summary judgment. We recognize that Novell has powerful arguments to support its version of the transaction, and that, as the district court suggested, there may be reasons to discount the credibility, relevance, or persuasiveness of the extrinsic evidence that SCO presents. Moreover, we appreciate the difficulties that follow when the resolution of ambiguous language in a ten-year-old contract is left to trial. At trial in a case like this, the intention of the parties often “must be divined from self-serving testimony offered by partisan witnesses whose recollection is hazy from passage of time and colored by their conflicting interests.” *Trident Center v. Connecticut General Life Ins. Co.*, 847 F.2d 564, 569 (9th Cir. 1988). Even though the parties may have shared a common understanding of a transaction at the time of the deal, now that “circumstances have changed and new financial incentives have arisen, one side may wish it had a different agreement.” *Nimmer on Copyright*, § 10.08. Nevertheless, when conflicting evidence is presented such that the ambiguities in a contract could legitimately be resolved in favor of either party, it is for the ultimate finder of fact – not the court on summary judgment – to interpret the contract. As we now explain, Novell’s arguments do not convince us that the admissible evidence concerning the ambiguous contract language concerning contract ownership is so one-sided as to warrant summary judgment.

Novell contends that SCO has failed to establish a disputed issue of material fact as to copyright ownership for several reasons. It first claims that SCO has failed to present any evidence to support that the APA, as revised by Amendment No. 2, clarified the agreement to indicate that SCO received ownership of some or all UNIX and UnixWare copyrights as a result of the transaction. In the alternative, it argues that SCO has failed to present any evidence to suggest that ownership of UNIX and UnixWare copyrights was “required” for Santa Cruz to exercise its rights under the APA.

In support of its initial argument, Novell argues that it has introduced undisputed evidence that (1) Santa Cruz admitted that the initial APA excluded copyrights from the asset sale and that (2) Novell expressly rejected Santa Cruz’s proposal to use Amendment No. 2 to transfer copyrights to Santa Cruz. *See* Aple. Br. 39-42. As to the first point, Santa Cruz’s admission that the initial APA excluded copyrights is not inconsistent with SCO’s position that this exclusion was a mistake and failed to reflect the parties’ intent. Novell itself admits that the negotiations that led to the language of Amendment No. 2 concerning copyrights began when Santa Cruz’s attorney contacted Novell, informing them that “the Original APA explicitly excluded copyrights to UNIX and UnixWare as assets being sold by Novell to Santa Cruz and that it shouldn’t have.” App’x 6063.

As to the second point, Novell directs us to various pieces of evidence supporting its claim that

Amendment No. 2 was not intended to affirm that ownership of copyrights had transferred to Santa Cruz, but only “to affirm that Santa Cruz had a license under the Original APA to use Novell’s UNIX and UnixWare copyrighted works in its business.” App’x 6064. Novell primarily relies on evidence of the negotiations over Amendment No. 2. Santa Cruz initially proposed a draft of Amendment No. 2 that would have revised the Intellectual Property section of the Excluded Assets Schedule to read:

All copyrights and trademarks, except for the copyrights and trademarks owned by Novell as of the date of this Amendment No. 2, which pertain to the UNIX and UnixWare technologies and which SCO has acquired hereunder. However, in no event shall Novell be liable to SCO for any claim brought by any third party pertaining to said copyrights and trademarks.

App’x 6670. Novell rejected this language, and the final language of Amendment No. 2 instead reformed the Excluded Assets Schedule to read:

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

App'x 374. The revised language contains two relevant changes. Instead of excepting from the Excluded Assets Schedule “the copyrights . . . which *pertain* to UNIX and UnixWare technologies” the final language refers to “the copyrights . . . *required* for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies.” In addition, instead of referring to “the copyrights . . . owned by Novell as of the date of this Amendment No. 2 . . . and which SCO has acquired hereunder,” the final language refers to “the copyrights . . . owned by Novell as of the date of the Agreement.”

Novell contends that because it did not accept Santa Cruz's initial proposal, there is no basis for construing Amendment No. 2 as SCO would – an affirmation of the transfer of all UNIX and UnixWare copyrights. *See Apple Computer v. Microsoft Corp.*, 35 F.3d 1435, 1440-41 (no basis for construing agreement in line with draft proposal rejected by one of the parties). It insists that the language reflects its explanation of Amendment No. 2 as a mere affirmation of Santa Cruz's implied license to use the copyrights. SCO, in contrast, claims that the final language of Amendment No. 2 only represented “a different way” of saying what its initial draft proposed – a clarification that the parties' had intended for ownership of the UNIX copyrights to transfer. Aplt. Br. 44-45.

As an initial matter, we are skeptical of Novell's interpretation of the Amendment. Whatever the Amendment means, it refers to the ownership of copyrights, not to licenses. A rational trier of fact

could surely find that Amendment No. 2 clarified the APA so as to indicate that at least some copyrights transferred to SCO. It is true that the final language of Amendment No. 2, by referring to “required copyrights” rather than “copyrights that pertain to” UNIX, is narrower than that initially proposed by Santa Cruz. But is it plausible to think that Santa Cruz would have found the final language equally sufficient for its purposes, given its insistence that all the UNIX copyrights *were* required for it to exercise its rights under the deal. *See, e.g.*, Testimony of Steve Sabbath, Santa Cruz Attorney, App’x 10722 (“all of the [UNIX and UnixWare] copyrights” were “required” for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies.) Alternatively, the final language of Amendment No. 2 may have represented a compromise whereby Novell agreed to confirm that Santa Cruz obtained ownership only of those copyrights “necessary” for Santa Cruz to run its business.

Our conclusion that a rational trier of fact could find that Amendment No. 2 clarified the APA to affirm that the parties intended to transfer certain UNIX and UnixWare copyrights to Novell is bolstered by SCO’s extrinsic evidence of the transaction. SCO presents testimony from a variety of witnesses involved in the business negotiations on both sides of the deal, which generally supports its version of the transaction. *See, e.g.*, Aplt. Br. 13-15. It is true, as Novell points out, that many of these witnesses were involved in the business negotiations, as opposed to

the actual drafting of the contract. But because we cannot exclude the possibility that Amendment No. 2 was designed to restore the language of the transaction to the parties' actual intent during the business negotiations over the deal, such testimony is not irrelevant. *Cf. California Pac. Title Co., Sacramento Division v. Moore*, 40 Cal. Rptr. 2d 61, 63 (Cal. Dist. Ct. App. 1964) ("A conflict in the evidence does not preclude a court from finding that the two parties had a common intent which was incorrectly reduced to writing."). Moreover, SCO's extrinsic evidence extends not only to the business negotiations preceding the contract, but also to the parties' understanding of the contractual language itself. For instance, Novell points out that the Board resolution approving the transaction on its side of the deal stated that "Novell will retain all of its patents, copyrights and trademarks." App'x 5192. But SCO notes that Mr. Frankenberg, then Novell's CEO, testified that he understood the Board resolution's reference to Novell's retention of copyrights to refer to Netware copyrights, as opposed to the core UNIX intellectual property. Aplt. R. Br. 14.

Finally, SCO presents evidence of the parties' course of performance following the transaction. Under California law, "course of performance" evidence may be used to interpret an ambiguous contractual provision. Cal. Code Civ. Proc. § 1856. *See also Universal Sales Corp. v. Cal. Press Mfg. Co.*, 128 P.2d 665, 672 (Cal. 1942) ("[P]ractical construction placed by the parties upon the instrument is the best

evidence of their intention”). SCO points to a variety of steps taken by the parties following the signing of the APA and Amendment No. 2 that it claims supports its interpretation of the contract. These include Novell’s modification of copyright notices on certain UnixWare source code, *see* App’x 10303-13, certain statements related to the transfer of intellectual property within transition documents following the deal, *see, e.g.*, App’x 13362, and the publication of a press release in 1995 stating that “SCO will acquire Novell’s UnixWare business and UNIX intellectual property.”³ App’x 5626. Of course, such documents are not dispositive of the companies’ intent at the time of the transaction. But they illustrate the difficulties with granting summary judgment here.

Novell finally argues that SCO has failed to show what UNIX copyrights are “required” for Santa Cruz to exercise its rights under the APA. The parties each argue for plausible, but diametrically opposed, interpretations of the word “required.” SCO argues that the bulk of the UNIX and UnixWare copyrights are “required” in order for it to exercise its rights. For instance, the APA transferred to Santa Cruz “all of

³ Although SCO claims that this was a “joint press release,” it provides no evidence to support this assertion. The district court reasonably cast doubt on whether the press release cited to in the record is, in fact, a joint press release. In any case, it at least provides a contemporaneous view of Santa Cruz’s view of the transaction.

[Novell's] claims arising after the Closing Date against any parties relating to any right, property or asset included in the Business." App'x 313. SCO argues that it could not defend any of its intellectual property against software piracy or other business harm without ownership of the copyrights. Indeed, a key reason why this litigation is so important to SCO is that it has claimed that other companies, including IBM, are infringing on the proprietary technology that it supposedly received through its transaction with Novell.

Novell, in contrast, asserts that the class of "required" copyrights constitutes a null set. *See* Aple. Br. 40, 41 n.8 (arguing that Amendment No. 2 was not intended to transfer *any* copyright ownership, but merely to affirm its license to use certain copyrights). The district court agreed, noting amongst other things that "Santa Cruz had been able to pursue its UNIX business from December 6, 1995 until October 16, 1996 [the date of Amendment No. 2] without any problems due to its [alleged] lack of ownership of the copyrights." Dist. Ct. Op. 61. But the fact that SCO did not need to assert ownership of the UNIX copyrights publicly following the closing of the transaction does not indicate that the UNIX copyrights are unnecessary to SCO's full exercise of its rights under the agreement. Indeed, it would seem that neither party asserted public ownership of the copyrights until the events leading to the instant litigation, almost a decade after the closing of the transaction. *See, e.g.*, Aple. Br. 32 (noting that Novell and SCO did

not file their competing copyright registrations until after this dispute arose in 2003).

We need not determine at the summary judgment stage which copyrights were “required.” If the evidence presented on a dispositive issue is subject to conflicting, reasonable interpretations, summary judgment is improper. *Archuleta v. Wal-Mart Stores, Inc.*, 543 F.3d 1226, 1234 (10th Cir. 2008). Although the district court found that “there is . . . significant evidence that Santa Cruz did not ‘require’ the UNIX and UnixWare copyrights,” we think SCO has presented sufficient evidence to create a triable fact as to whether at least some UNIX copyrights were required for it to exercise its rights under the agreement. Although the district court acknowledged that “SCO has submitted testimony from witnesses stating generally that the copyrights were necessary to running a software business,” it found that “none of those witnesses give specific examples of how a lack of copyright ownership impeded Santa Cruz’s ability to exercise its rights under the APA.” Dist. Ct. Op. 61. But the documents detailing the actions of the transition team at least create ambiguity over whether the transfer of copyrights was required to support SCO’s rights under the APA. *See, e.g.*, App’x 13362 (“All of the technology and intellectual assets covered by the work outlined in this document will be transitioned to SCO after December 1, 1995”). And we think it a commonsense proposition that intellectual property at least *may* be required to protect the underlying assets in SCO software business should,

for instance, a UNIX licensee have attempted to resell technology licensed from SCO.⁴

Because we conclude summary judgment is inappropriate on the question of which party owns the UNIX and UnixWare copyrights, we must likewise reverse the district court's determination that "Novell is entitled to summary judgment [on SCO's claim] seeking an order directing Novell to specifically perform its alleged obligations under the APA by executing all documents needed to transfer ownership of the UNIX and UnixWare copyrights to SCO." Dist. Ct. Op. 62. We take no position on which party ultimately owns the UNIX copyrights or which copyrights were "required" for Santa Cruz to exercise its rights under the agreement. Such matters are for the finder of fact on remand.

⁴ For this reason, we fail to see why SCO's argument that copyright ownership would be necessary to bring "claims" under the agreement is "circular," as Novell argues. Aple. Br. 47. SCO indisputably acquired certain assets under the APA. SCO's claim, as we understand it, is that copyrights are necessary to protect the value of the assets themselves, and are therefore necessary to prosecute seller's claims "relating to any . . . asset" included in the Business. Novell has not explained, for instance, what recourse SCO had under Novell's theory of the transaction if a third party had copied and attempted to resell the core UNIX assets Santa Cruz received in the deal.

III. Novell's Waiver Rights under Section 4.16(b) of the APA

The other chief dispute between the parties concerns the extent of Novell's rights under the APA to waive or modify rights under SVRX Licenses. Section 4.16(a) of the APA provides that "Following the Closing, Buyer shall administer the collection of all royalties, fees and other amounts due under all SVRX Licenses (as listed in detail under item VI of Schedule 1.1(a) hereof an[d] referred to herein as "SVRX Royalties")." Section 4.16(b) preserved to Novell certain waiver rights with regard to SVRX Licenses. It states that:

Buyer shall not, and shall not have the authority to, amend, modify or waive any right under or assign any SVRX License without the prior written consent of Seller. In addition, at Seller's sole discretion and direction, Buyer shall amend, supplement, modify or waive any rights under, or shall assign any rights to, any SVRX License to the extent so directed in any manner or respect by Seller.

App'x 287. In 2003, after SCO had claimed that IBM and Sequent had violated certain software and sublicensing agreements, Novell directed SCO "to waive any purported right SCO may claim to terminate IBM's SVRX Licenses. . . ." Aple. Br. 19. The scope of Novell's waiver rights turns on the meaning of the term "SVRX License."

The APA provides some assistance in interpreting the meaning of an “SVRX License.” Section 4.16(a) of the APA indicates that SVRX Licenses are “listed in detail under item VI of Schedule 1.1(a) hereof.” Item VI of Schedule 1.1(a) states that among the assets transferred to SCO under the APA are “[a]ll contracts relating to the SVRX Licenses listed below.” As the district court recognized, however, the list provided in Item VI is not “a list of license agreements,” but instead “a list of SVRX software releases,” or products. Dist. Ct. Op. 77.

The parties principally contest whether Novell’s waiver rights extend to all three types of agreements bearing upon the licensing of SVRX technology – software agreements, sublicensing agreements, and product supplement agreements (or Product Schedule Licenses) – or just to product supplement agreements. Aple. Br. 17; Aplt. Br. 19. Software agreements specify a licensee’s rights to modify and prepare derivative works based on source code and binary code. *See* Dist. Ct. Op. 82; Aple. Br. 16. Sublicensing agreements set out the general conditions governing the licensee’s use of the product and grant certain rights to distribute binary code. *See* Dist. Ct. Op. 82; Aplt. Br. 18. According to SCO, both of these agreements required licensees to keep UNIX source code and derivatives confidential. *See* Aplt. Br. 18. Product supplement agreements, in contrast, actually identify the product the licensee has a right to use, the CPUs on which it has that right, and the fees that the licensor has a right to receive in exchange. These

agreements authorize licensees to sell a UNIX-derivative product in exchange for remitting certain royalties to the current owner of the UNIX business. As SCO points out, each licensee executed a single umbrella Software and Sublicensing agreement with AT&T (or later Novell), which purported to govern any product added to the relationship by a product supplement agreement. When a licensee secured a license to use a SVRX product, it would execute a product supplement agreement, and the software product would “become subject to” the previously executed umbrella agreements. *See, e.g., App’x 1471.*

Novell contends that the APA’s reference to *any* SVRX license “plainly means that the term ‘SVRX Licenses’ under the APA includes all contracts relating to the UNIX System V Releases listed in Item VI.” Dist. Ct. Op. 77 (emphasis added). SCO argues that the term SVRX Licenses is ambiguous on its face, but suggests that it refers only to product supplement agreements related to the products listed in Item VI. The district court agreed with SCO that there was “some ambiguity in the APA’s attempt to define SVRX licenses,” but found that Novell’s interpretation of the term – as referring to all System V Release licenses – was “the only reading that is consistent with all of the APA’s provisions, its Schedules, and its Amendments.” Dist. Ct. Op. 88. It also noted that “[e]ven if this court were to consider SCO’s extrinsic evidence, it does not uniformly support SCO’s interpretation as SCO claims. If the contract language was susceptible to SCO’s interpretation,

SCO's evidence would, at most, create only a question of fact for the jury." *Id.* at 86 n.6.

Of course, if SCO's evidence is sufficient to "create a question of fact for the jury," this is sufficient to enable SCO to survive summary judgment. But the district court found summary judgment appropriate, concluding that despite ambiguity in the meaning of "SVRX Licenses," "there is no support in the language and structure of the APA for SCO's interpretation of SVRX License to mean product supplements rather than the entire set of agreements relating to the licensing of SVRX code." Dist. Ct. Op. 86. We review the conclusions of the district court *de novo*.

A. Is the Scope of Novell's Waiver Rights Ambiguous?

As an initial matter, we agree with the district court that there is some ambiguity in the scope of the term "SVRX License." While the APA expressly indicates that SVRX Licenses are listed in Item VI of 1.1(a), that list refers only to products. While this product list may resolve ambiguity over the meaning of *SVRX*, it does not reveal what is intended by "rights under any . . . SVRX License" in Section 4.16 of the APA. Novell argues that "license" is "an ordinary word that needs no definition." Aple. Br. 52. But we are skeptical that this resolves its meaning for several reasons.

First, under California law, “[t]he words of a contract are to be understood in their ordinary and popular sense . . . *unless* used by the parties in a technical sense.” Cal. Civ. Code § 1644 (emphasis added). As SCO points out, the APA expressly made “SVRX License” a defined term, albeit one defined with some lack of clarity. Second, it is not clear to us that even the “ordinary meaning” of rights under a license is so broad as to encompass the kind of rights Novell seeks to assert. Black’s Law Dictionary (8th ed. 2004), for instance, defines license as “[a] permission, usually revocable, to commit some act that would otherwise be unlawful” or the “document evidencing such permission.” In line with this definition, the sublicensing and software agreements grant certain rights to licensees, for instance, enabling them to use, modify, and prepare derivative works based on a given software product. But as we understand Novell’s argument, it does not seek to waive rights given to the licensee in the licensing agreement – but rather the licensor’s (SCO’s) ability to enforce the *boundaries* of those rights extended to licensees. This would be a broad power indeed. For instance, the sublicensing agreements expressly provided that “no title to the intellectual property in the sublicensed product is transferred to [the licensee].” See App’x 1493 (Section II(a)(II): Grant of Rights). If we read Novell’s waiver rights as broadly as it asks us to, however, Novell could waive this limitation at its sole discretion, thereby divesting SCO of all title to any intellectual property in any UNIX product for which a sublicensing agreement

existed. Similarly, Novell's interpretation of Section 4.16 would mean it was free to waive limitations on a licensee's ability to copy, transfer, or sell the derivative products it created based on UNIX, *see* App'x 1472, something that would substantially limit the value to Santa Cruz of its UNIX ownership rights.

Given that the APA expressly provides Novell the power to direct SCO to "amend, supplement, modify, or waive any rights under any SVRX License," we cannot say that Novell's interpretation of Section 4.16 is foreclosed by the dictionary. But the California Supreme Court has made clear that the "dictionary definition[] of a word" does not necessarily yield "the 'ordinary and popular' sense of the word if it disregards the [contract's] context." *MacKinnon v. Truck Ins. Exchange*, 73 P.3d 1205, 1214 (Cal. 2003). To read Novell's rights as broadly as it asks would give it unlimited power not only to reduce or increase its *own* rights under an SVRX License after the APA (namely rights to royalties), but also to direct SCO to supplement a licensee's substantive rights "in any manner," even if by doing so, Novell forced SCO to divest rights unquestionably owned by SCO after the transaction.⁵ As SCO argues, this would enable Novell, at its sole discretion, to destroy a substantial

⁵ Section III.L of the Asset Schedule of the APA transferred to Santa Cruz "[a]ll of Seller's rights pertaining to UNIX and UnixWare under any software development contracts [or] licenses . . . and which pertain to the Business, including without limitation: . . . Software and Sublicensing Agreements."

part of the value of Santa Cruz's acquisition of the UNIX business. Although Novell argues that "the APA provided consideration to Santa Cruz independent of UNIX System V, including . . . the right to develop new products based on UNIXWare . . . [,] customer lists . . . [, and] office furniture," this misses the mark. The issue is not whether independent consideration existed, but whether it is consistent with the context of the deal to imagine that Santa Cruz would have paid the price that it did if this was the only value it obtained in the deal, unencumbered from Novell's powerful discretionary rights to control the underlying UNIX source code.

Finally, even if we considered "rights under . . . any SVRX License" to be unambiguous on its face, California law would still permit the introduction of extrinsic evidence to expose a latent ambiguity in the contract's language. *Dore*, 139 P.3d at 60. Similarly, California directs us to consider the parties' course of performance not only for purposes of "ascertaining the meaning of the parties' agreement," but also to "supplement or qualify the terms of the agreement." *Employers Reinsurance Co. v. Superior Court*, 161 Cal. Rptr. 3d 733, 745 (Cal. Ct. App. 2008) (citing Cal. Com. Code § 1303). As we now explain, this evidence at least creates ambiguity regarding the scope of Novell's waiver rights under the agreement.

B. Is the Scope of Novell's Waiver Rights Susceptible to SCO's Reading?

Although the parties present a variety of arguments concerning the extrinsic evidence bearing on the parties' intent at the time of the APA and the parties' course of performance, we think a discussion of the events leading to "Amendment No. X" between IBM, SCO, and Santa Cruz is sufficient to illustrate both that the scope of Novell's waiver rights is ambiguous and that Section 4.16 is at least susceptible to SCO's interpretation.

In April 1996, several months after the transaction closed, Novell entered into direct negotiations with IBM for the purpose of revising IBM's rights under its licensing agreement for SVRX technology. Although Novell acknowledged that all rights under the software and sublicensing agreements had been transferred to SCO under the APA, it professed the right to amend IBM's rights under its licensing agreement, stating:

Except for all right, title and interest to the Software Product royalties (less an administration fee to SCO for administering the collection of such royalties), SCO purchased the Related Agreements [the relevant software, sublicensing, and product supplement agreements] in an Asset Purchase Agreement between Novell and SCO dated September 19, 1995 (the "SCO Agreement"). In the SCO Agreement, Novell has the right to amend the Related Agreements on behalf of

SCO under certain circumstances applicable in this instance.

App'x 10400. The agreement enabled IBM to “buy out” its ongoing royalty obligations in exchange for a one time fee. In addition, Novell purported to expand IBM's freedom to share licensed technology with third parties. *See* App'x 10401 (describing “relief” of certain limitations on IBM's rights under the Related Agreements). As Novell prepared to enter into its agreement with IBM, it wrote SCO, requesting that it “revise the terms and conditions of IBM's Software License and Sublicense Agreements with Novell.” App'x 3876. Thus, Novell's asserted ability under the APA to require SCO to amend or waive rights under the Software and Sublicensing Agreements, even when it would expand a licensee's rights with regard to SVRX source code – the precise issue in controversy today – was implicated by Novell's 1996 negotiations with IBM and SCO.

Novell denied that its proposed agreement with IBM would have authorized IBM to “sub-license source code,” and suggested that it granted only limited additional rights to IBM, such as “allowing IBM's major accounts to make temporary fixes from AIX source code.” App'x 3887. SCO, however, interpreted the agreement as impinging on its asserted “ownership and exclusive rights to license the UNIX source.” App'x 3890. Ultimately, the parties agreed to revise Novell's proposed agreement with IBM, and SCO became a party to the agreement. Among other things, the final agreement excised the language that

“Novell has the right to amend the Related Agreements on behalf of SCO under certain circumstances applicable in this instance,” replacing it with the more general language, “SCO purchased, and Novell retained, certain rights with respect to the Related Agreements.”⁶ SCO also received a payment of \$1.5 million from Novell in exchange for a release of claims relating to the buy out of IBM’s royalty obligations. SCO contends that this payment definitively signaled Novell’s “capitulat[ion] to Santa Cruz’s claims” of ownership and exclusive licensing rights concerning UNIX source code. We agree with Novell that this reading goes too far. Parties may choose to settle claims for a variety of reasons unrelated to their merits, not the least to avoid expensive litigation or to maintain civility in an important commercial relationship. Indeed, the agreement expressly provided that the settlement should not “be deemed . . . an admission of the truth or falsity of any claims heretofore made.” App’x 3917; *see also* Fed. R. Evid. 408(a)(1) (Evidence of furnishing or accepting a valuable consideration in compromising a claim is not admissible on behalf of

⁶ As we noted with respect to the negotiations over Amendment No. 2’s revision to the Intellectual Property Excluded Assets Schedule, the fact that the final language of the agreement eliminated the specific language affirming Novell’s right under the APA to amend sublicensing and software agreements should not be construed as an admission by Novell that it does not have such rights.

any party, when offered to prove validity of a disputed claim.).

More relevant, however, is the amendment to the APA that followed after resolution of the tripartite negotiations. In addition to addressing the intellectual property exchanged through the APA, Amendment No. 2 also set out conditions for any future buy-out of a licensee's royalty obligations. It provided that:

[N]otwithstanding the provisions of Article 4.16 . . . any potential transaction with an SVRX licensee which concerns a buy-out of any such licensee's royalty obligations shall be managed as follows: . . .

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

App'x 374, ¶ B.5 (emphasis added).

The district court concluded that Amendment No. 2 "provides no insight into the source code rights SCO had or did not have under Section 4.16(b) of the original APA," because the heading for this section of the Amendment makes clear that it refers only to situations involving buyouts of royalty obligations. But at least some of SCO's extrinsic evidence

supports its assertion that this provision was meant to affirm that Novell's rights *under the APA* precluded Novell from unilaterally expanding a third party's rights to source code. *See, e.g., App'x 10725, 10730.* This would also explain why Amendment No. 2 took pains to clarify that the "Amendment does not give Novell the right to increase any SVRX licensee's rights to SVRX code." If Novell already had the right under the APA itself to force SCO to increase any SVRX licensee's rights to SVRX code, then this provision would be pointless and ineffectual. Of course, it is plausible to think that this provision merely preserved an ambiguous status quo – but that is consistent with our conclusion that neither party's interpretation of Novell's waiver rights is foreclosed by the language of the APA.

Novell resists the conclusion that Section 4.16's waiver rights are not susceptible to SCO's interpretation – that they apply primarily to the royalty provisions of the product supplement agreements – for several reasons. First, Novell asserts that the product supplement agreements "refer to the Software and Sublicensing Agreements, which in turn refer to the Supplements as part of the same integrated agreement." *Aple. Br. 52.* As parts of essentially integrated agreements, Novell argues that SVRX Licenses must refer to the entire set of agreements governing the license relationship. But several SCO witnesses, who had previously worked at Novell before the transaction testified that they "understood an SVRX license to be an SVRX product

supplement.” See App’x 4610, 4625; see also App’x 4609-10 (“While the software and sublicensing agreements described general rights and obligations that would apply if a licensee licensed a product, they did not themselves license any product.”).

The district court also found persuasive the argument that Section 4.16(b) indicates that an SVRX License must be something that grants rights. See App’x 287 (“at Seller’s sole discretion and direction, Buyer shall amend, supplement, modify or waive any *rights under* . . . any SVRX License.”). Novell argues that the software and sublicensing agreements, rather than the product supplement agreements, set out the licensee’s rights and obligations. Therefore, it contends that the “rights under” the SVRX License must refer to the rights in the software and sublicensing agreements. But it is clear that the product supplement agreements also grant rights – specifically the right to license and use a given product in exchange for financial compensation.

Finally, Novell argues, and the district court agreed, that its reading of SVRX Licenses to include all three sets of licensing agreements is most consistent with the APA’s use of broad language referring to “any” and “all” SVRX Licenses. But we think it plain that this only begs the question of the scope of what an “SVRX License” is.

Ultimately, we do not think that the language of Section 4.16 is so clear as to preclude SCO’s

interpretation of the scope of Novell's waiver rights. It is reasonable to think that the parties would have covenanted in such a manner as to protect Novell's substantial pecuniary interest in the revenue stream that, even under SCO's interpretation, financed the acquisition. It is less easy to accept that SCO would have consented to giving Novell the unilateral power to unravel its exclusive and undisputed ownership rights in the underlying source code of UNIX. Because we cannot say that the evidence is so one-sided as to preclude a rational finder of fact from agreeing with SCO's interpretation of the scope of Novell's waiver rights, we think summary judgment is premature.

IV. Limitations Imposed by the Covenant of Good Faith

SCO also argued below that the covenant of good faith and fair dealing independently limits the scope of Novell's waiver rights under the APA. Under California law, "[e]very contract imposes upon each party a duty of good faith and fair dealing in its performance and its enforcement." *Carma Developers (Cal.), Inc. v. Marathon Dev. Cal., Inc.*, 2 Cal. 4th 342, 371, 6 Cal. Rptr. 2d 467 (Cal. 1992). "The covenant of good faith finds particular application in situations," as here, "where one party is invested with a discretionary power affecting the rights of another." *Id.* "[B]reach of the covenant of good faith has been characterized as an attempt by the party holding the discretionary power to use it to recapture

opportunities forgone in contracting.” *Id.* at 372; see also Steven J. Burton, *Breach of Contract and the Common Law Duty to Perform in Good Faith*, 94 Harv.L.Rev. 369, 373 (1980). That said, “[i]t is universally recognized [that] the scope of conduct prohibited by the covenant of good faith is circumscribed by the purposes and express terms of the contract.” *Id.*

The district court concluded that the covenant of good faith was inapplicable to constrain Novell’s waiver rights, as a matter of law, reasoning that Novell would be “acting within an explicit grant of contractual authority.” Dist. Ct. Op. 87 (citing *Carma Developers, Inc.*, 2 Cal.4th at 374). Because we conclude that the scope of Novell’s waiver rights is not clarified expressly by the contract, we must reverse the district court’s judgment on this point.

On remand, however, we caution that it is not always the case that an express grant of contractual authority is not constrained by the operation of the covenant of good faith. California recognizes at least two exceptional situations where the covenant of good faith may inform the interpretation of even an express grant of contractual authority. First, where the express discretion makes the contract, viewed as a whole, “contradictory and ambiguous,” the implied covenant may be applied to aid in construction. *April Enterprises, Inc. v. KTTV*, 147 Cal. App. 3d 805, 816 (Cal. Ct. App. 1983). Thus in *April Enterprises*, by the express terms of a contract, one party had the right to syndicate episodes of a television show, while the

other had the right to erase episodes of the show. Both parties shared revenues from compensation. Although the contract expressly granted one party the right to erase episodes, the court applied the covenant of good faith, holding that the contract was contradictory and ambiguous as to whether tapes could be erased while the other party was negotiating for syndication. *Id.* Second, the covenant may aid in the interpretation of a contract seemingly expressly granting unbridled discretion “in those relatively rare instances when reading the provision literally would, contrary to the parties’ clear intention, result in an unenforceable, illusory agreement.” *Third Story Music, Inc. v. Waits*, 41 Cal. App. 4th 798, 808 (Cal. Ct. App. 1995).

On remand, the district court may consider the applicability of either of these exceptions to the general rule that an express grant of contractual authority is not susceptible to limitation by the covenant of good faith.

V. Novell’s Entitlement to SVRX Licenses Entered Into After the APA

The parties finally dispute Novell’s entitlement to royalties from an agreement entered into between SCO and Sun and Microsoft in 2003 concerning Sun’s rights to SVRX technology. Pursuant to the 2003 agreement, Sun paid SCO roughly \$9 million in exchange for an amendment to its rights under a 1994 SVRX License between Novell and Sun. In 1994,

Sun paid Novell \$83 million in exchange for a buy-out of its royalty obligations under its licensing agreement. Most importantly, the 2003 agreement purported to lift Sun's obligation under the 1994 agreement to keep licensed SVRX source code confidential. *See* Aple. Br. 66. These confidentiality restrictions would have prevented Sun from publicly releasing or "open sourcing" the source code for its proprietary, UNIX-based operating system, "Solaris," until 2014. After entering into its 2003 agreement with SCO, Sun released an open source version of Solaris that would have been barred under the 1994 agreement.

The district court ruled for several independent reasons that Novell was due a share of the revenues that SCO had obtained in exchange for the amendment to Sun's licensing rights. First, the court held as a matter of law that the 2003 agreement constituted an "SVRX License" within the meaning of the APA, to which Novell was due royalties under the APA. *See* Dist. Ct. Op. 100-01. Second, in a bench trial, the district court concluded that the 2003 agreement was an unauthorized amendment to an SVRX License (Novell and Sun's 1994 agreement), expressly prohibited by Article 4.16(b) of the APA. The court further noted that Amendment No. 2 to the APA provides that before entering into any potential transaction with an SVRX licensee which "concerns a buy-out of any such licensee's royalty obligations," SCO was obligated to notify Novell and engage it in the negotiations. Findings of Fact, July 16, 2008 at 35

(referencing App'x 374, ¶ B). Because the court concluded that SCO was without authority to enter into the 2003 Sun Agreement, it found SCO liable for breach of fiduciary duty, conversion, and unjust enrichment from its failure to pass through to Novell certain revenues that it received from its agreement with Sun. The court awarded Novell \$2,547,817. We review the district court's factual findings for clear error and its legal conclusions de novo. *Weyerhaeuser Co. v. Brantley*, 510 F.3d 1256, 1260 (10th Cir. 2007).

In its opening brief on appeal, SCO appeared to contest only the district court's finding that the 2003 agreement constituted an "SVRX License." SCO argued that the district court erred by concluding that a licensing agreement entered *after* the closing of the APA could constitute an SVRX License. Whatever the merits of this argument, SCO neglected to challenge the alternative, independently sufficient basis for the district court's ruling – that its 2003 agreement with Sun represented an impermissible amendment to an SVRX License. An issue or argument insufficiently raised in a party's opening brief is deemed waived. *Headrick v. Rockwell Int'l Corp.*, 24 F.3d 1272, 1277-78 (10th Cir. 1994). Although SCO addresses this issue in its reply brief, the general rule in this circuit is that a party waives issues and arguments raised there for the first time. *See M.D. Mark, Inc. v. Kerr-McGee Corp.*, 565 F.3d 753 (10th Cir. 2009).

Even if the issue were properly before us, we are skeptical of the merits of SCO's claim. Even if "SVRX

Licenses” include only those licenses entered into prior to the APA, as SCO argues, Sun’s 1994 agreement with Novell would qualify. Section 4.16(b) of the APA makes clear that SCO “shall not have the authority to[] amend [or] modify . . . any right under . . . any SVRX License without the prior written consent of Seller.” SCO does not dispute that the royalties provided by Sun under its licensing agreement constitute a right within the meaning of Section 4.16. Instead it contends that “the 1994 buyout was not modified in any way” because Novell was not required to relinquish any of the money it received from the 1994 buyout. But the 2003 agreement expressly purports to “amend and restate” the parties’ 1994 agreement, by increasing the value of Sun’s rights under its buyout. And even if Section 4.16 did not apply to the 2003 agreement, we agree with the district court that Amendment No. 2 would. Paragraph B of the Amendment sets out rules to govern “any potential transaction with an SVRX licensee which *concerns* a buy-out of any such licensee’s royalty obligations.” App’x 374 (emphasis added). SCO argues that “Section B does not apply when a licensee already has a buyout and now enters into a subsequent agreement that merely relates to the prior buyout agreement.” Aplt. R. Br. 30. But we fail to see any support in the language for this limitation. Indeed, were this so, Amendment No. 2 would only have obligated the parties to jointly negotiate an initial buyout agreement. But Amendment No. 2 would not have prevented the parties from taking unilateral action to expand or modify the

terms of that buyout thereafter. *See* Findings of Fact, July 16, 2008 at 35-36. This seems counterintuitive.

In any case, we also agree with the district court that agreements that postdate the APA may constitute SVRX Licenses. SCO presents a variety of evidence to suggest that SVRX referred only to existing licenses under the APA. *See* Aplt. Br. 66-68. This may have been consistent with the parties' intent at the time of the APA, which expressly provided that SCO "shall have no right to[] enter into future licenses or amendments of the SVRX Licenses." App'x 287. But the parties subsequently agreed to Amendment No. 2, which revised this section of the APA to provide that SCO "shall not, and shall have no right to[] enter into new SVRX Licenses *except* in [certain enumerated situations]." Thus, the clear language of the amended APA anticipates "new SVRX Licenses," indicating that an SVRX License can post-date the APA. To the extent that SCO argues that this amended language envisioning "new SVRX Licenses" is somehow inconsistent with the APA itself, we remind it that when "two contracts are made at different times, [but where] the later is not intended to entirely supersede the first, but only modif[y] it in certain particulars[,] [t]he two are to be construed as parts of one contract, the later superseding the earlier one wherever it is inconsistent therewith." *Hawes v. Lux*, 294 P. 1080, 1081 (Cal. Dist. Ct. App. 1931). What is sauce for the goose is sauce for the gander. Since SCO's challenge to the district court's ruling was premised only on its

argument that “SVRX License” is a term temporally limited to assets existing at the time of the APA,⁷ *see* Aplt. Br. 66, we are compelled to reject it.

For all these reasons, we affirm the district court’s ruling with respect to SCO’s liability from its 2003 agreement with Sun.

VI. Conclusion

For the foregoing reasons, we **AFFIRM** the district court’s judgment with regards to the royalties due Novell under the 2003 Sun-SCO Agreement, but **REVERSE** the district court’s entry of summary judgment on (1) the ownership of the UNIX and UnixWare copyrights; (2) SCO’s claim seeking specific performance; (3) the scope of Novell’s rights under Section 4.16 of the APA; (4) the application of the covenant of good faith and fair dealing to Novell’s rights under Section 4.16 of the APA. On these issues, we **REMAND** for trial.

⁷ SCO notes in its reply brief that the provision referring to “new SVRX licenses” provides that SCO retains the source code right-to-use fees thereunder. But the district court found that SCO was unjustly enriched not with regard to right-to-use fees, but by SCO’s willingness to provide Sun with relief from the confidentiality restrictions imposed by the 1994 agreement.

APPENDIX B

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

<p>THE SCO GROUP, INC., Plaintiff,</p> <p>vs.</p> <p>NOVELL, INC., Defendant.</p>	<p>MEMORANDUM DECISION AND ORDER</p> <p>Civil Case No. 2:04CV139DAK</p> <p>(Filed Aug. 10, 2007)</p>
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This matter is before the court on the following motions: Novell's Motion for Partial Summary Judgment or Preliminary Injunction [Docket No. 147]; SCO's Cross-Motion for Summary Judgment or Partial Summary Judgment on Novell's Third, Sixth, Seventh, Eighth and Ninth Counterclaims [Docket No. 180]; Novell's Motion for Summary Judgment on SCO's First Claim for Slander of Title for Failure to Establish Special Damages [Docket No. 277]; Novell's Motion for Partial Summary Judgment on SCO's Non-Compete Claims in its Second and Fifth Claims [Docket No. 273]; Novell's Motion for Partial Summary Judgment on Copyright Ownership of SCO's Second Claim for Breach of Contract and Fifth Claim for Unfair Competition [Docket No. 271]; Novell's Motion for Partial Summary Judgment on its Fourth Claim [Docket No. 171]; SCO's Cross-Motion for Partial Summary Judgment on Novell's Fourth Claim

[Docket No. 224]; SCO's Motion for Partial Summary Judgment on its First, Second, and Fifth Claims and Novell's First Claim [Docket No. 258]; and Novell's Motion for Summary Judgment on SCO's First Claim for Slander of Title and Third Claim for Specific Performance [Docket No. 275]. The court held hearings on these motions on January 23, 2007, May 31, 2007, and June 4, 2007, and took the motions under advisement. After carefully considering the memoranda and other materials submitted by the parties, and the law and facts applicable to these motions, the court issues the following Memorandum Decision and Order.

BACKGROUND

The SCO Group, Inc. ("SCO") began this action in state court asserting a single cause of action against Novell, Inc. ("Novell") for slander of title based on public statements Novell made claiming that it had retained the UNIX and UnixWare copyrights when it sold certain assets of its UNIX and UnixWare business to SCO's predecessor in interest. After Novell removed the case to this court, the parties proceeded to add several claims and counterclaims to the action. SCO added claims for breach of the parties' Asset Purchase Agreement and Technology License Agreement, specific performance, copyright infringement, and unfair competition. Novell added counterclaims against SCO for slander of title, breach of the Asset Purchase Agreement, declaratory relief regarding the parties' rights and obligations under the Asset

Purchase Agreement, restitution/unjust enrichment, and accounting.

UNIX was originally developed by AT&T. In 1983, AT&T developed a new version of UNIX called UNIX System V, Release 1. Other versions were also subsequently developed. These releases are referred to as SVR1, SVR2, SVR3, and SVR4, or generically SVRX. In 1993, Novell purchased UNIX-related assets from AT&T's subsidiary, UNIX System Laboratories, and paid over \$300 million for those assets. Decl. Tor Braham at ¶ 4.

A. The APA and Contemporaneous Agreements

(1) The APA

SCO's predecessor in interest, Santa Cruz Operations Inc.,¹ and Novell entered into an Asset Purchase Agreement ("APA") dated September 19, 1995. Decl. Mark James Ex. 1 ("APA"). The APA acknowledges in its "Recitals" section that Novell was "engaged in the business of developing a line of software products currently known as Unix and UnixWare, the sale of binary and source code licenses to various versions of Unix and UnixWare, the support of such products and the sale of other products which are directly related to Unix and UnixWare (collectively, the "Business")."

¹ Five years after the APA, Santa Cruz was purchased by Caldera. Caldera changed its name to The SCO Group.

APA Recital A. It is further stated in the APA that the Boards of Directors of Novell and Santa Cruz “believe it is in the best interests of each company . . . that [Santa Cruz] acquire certain of the assets of, and assume certain of the liabilities of [Novell] comprising the Business (the “Acquisition”). *Id.* Recital B. As part of the consideration for the Acquisition, Santa Cruz agreed to issue Novell 6,127,500 shares of Santa Cruz’s Common Stock, which some witnesses have approximated to be worth between \$125 to \$150 million at the time of the transaction. *Id.* Recital C.

Article I of the APA outlines the Acquisition by breaking it down into categories relating to the purchase of assets, payments, the transfer of customers, non-assignment of certain items, transitional contracts, the license back of assets, and the closing. *Id.* §§ 1.1-1.7. The APA’s provision entitled “Purchase and Sale of Assets” provides:

On the terms and subject to the conditions set forth in this Agreement, Seller will sell, convey, transfer, assign and deliver to Buyer and Buyer will purchase and acquire from Seller on the Closing Date (as defined in Section 1.7) all of Seller’s right, title, and interest in and to the assets and properties of Seller relating to the Business (collectively the “Assets”) identified on Schedule 1.1(a) hereto. Notwithstanding the foregoing, the Assets to be so purchased shall not include those assets (the “Excluded Assets”) set forth on Schedule 1.1(b).

Id. § 1.1(a). With respect to their “Intellectual Property” provisions, Schedule 1.1(a) and Schedule 1.1(b) are consistent. Schedule 1.1(b) sets forth as Excluded Assets the following “Intellectual Property”: “All copyrights and trademarks, except for the trademarks UNIX and UnixWare” and “All Patents.” *Id.* Sched. 1.1(b) § V.A, V.B. Schedule 1.1(a) sets forth as Assets to be transferred the following “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).” *Id.* Sched. 1.1(a) § V.

Another significant aspect of the APA is the agreement between the parties with respect to future SVRX Royalties. Under the payment provisions of the APA, Novell retained “all rights to the SVRX Royalties notwithstanding the transfer of the SVRX Licenses to [Santa Cruz].” *Id.* § 1.2(b). Santa Cruz agreed to pass through one-hundred percent of the SVRX Royalties to Novell, and Novell agreed to pay Santa Cruz a five percent administrative fee. *Id.* Santa Cruz obtained “legal title and not an equitable interest in such royalties within the meaning of Section 541(d) of the Bankruptcy Code.” *Id.* More specific details of the parties’ agreement regarding SVRX Royalties will be discussed later in this Background Section.

(2) *The Bill of Sale*

The APA itself did not transfer assets. Rather, it described the assets that would be transferred in the future when the transaction closed. The APA provided that at the transaction's Closing, Novell would deliver a "Bill of Sale" transferring Novell's title to the "Assets" described in the APA to Santa Cruz. Under Section 1.7 of the APA, Novell was to deliver to Santa Cruz "all bills of sale, endorsements, assignments, consents to assignments to the extent obtained and other instruments and documents as [Santa Cruz] may reasonably request to sell, convey, assign, transfer and deliver to [Santa Cruz] [Novell's] title to all the Assets." *Id.* § 1.7(b)(iii).

Accordingly, Novell and Santa Cruz executed a "Bill of Sale" on December 6, 2005, when the transaction closed. Decl. Mark James Ex. 3. The Bill of Sale stated that in accordance with Section 1.1(a) of the APA, Novell "does hereby transfer, convey, sell, assign, and deliver" to Santa Cruz "all of the Assets." *Id.* The Bill of Sale further stated that all capitalized terms had the meanings set forth in the APA as amended by Amendment No. 1. *Id.* Therefore, the Assets so transferred were those listed on Schedule 1.1(a) and not those listed on Schedule 1.1(b). *See* APA § 1.1(a). Moreover, the Bill of Sale recognized that it was intended only to document "the sale and assignment of the Assets to Buyer, and that the [APA] is the exclusive source of the agreement and understanding between Seller and Buyer respecting the Assets." Decl. Mark James Ex. 3.

(3) *The TLA*

The APA also required Santa Cruz to execute a separate license granting Novell the right to use technology included in the transferred Assets and derivatives, subject to certain limitations. APA § 1.6. Section 1.6 of the APA states that Santa Cruz must execute a license agreement concurrent with the Closing of the APA which grants Novell “a royalty-free, perpetual, worldwide license to (i) all of the technology included in the Assets and (ii) all derivatives of the technology included in the Assets.” *Id.*

Novell and Santa Cruz implemented this requirement by executing the Technology License Agreement (“TLA”) on December 6, 1995, in connection with the APA’s Closing. Decl. Mark James Ex. 4 (“TLA”). The TLA states that Novell retains a “non-exclusive, nonterminable, worldwide, fee-free license” to use “Licensed Technology” under certain conditions. TLA II.A. As with the parties’ Bill of Sale, the TLA states that certain defined terms, such as “Licensed Technology,” have the “meanings attributed to such terms in the Asset Purchase Agreement.” *Id.* I. The term “Licensed Technology” is defined in the APA as “all of the technology included in the Assets and all derivatives of the technology included in the Assets.” APA § 1.6.

With regard to internal business operations, the TLA granted Novell an unrestricted license to “use, reproduce and modify, and authorize its customers to use, reproduce, and modify, Licensed Technology.”

TLA II.A.(1). With regard to external use, the TLA granted Novell a license to “sublicense and distribute, and authorize its customers to sublicense and distribute, such Licensed Technology and modifications thereof, in source and binary form.” *Id.* II.A.(2). This license as to external use was subject to the following limitation: “provided, however, that (1) such technology and modifications may be sublicensed and/or distributed by Novell solely as part of a bundled or integrated offering (“Composite Offering”); (ii) such Composite Offering shall not be directly competitive with core application server offerings of SCO, and (iii) the Licensed Technology shall not constitute a primary portion of the value of such Composite Offering.” *Id.* SCO contends that these provisions constitute a non-compete provision, whereas Novell argues that they are merely a limitation on its license.

The TLA further stated that this limitation “shall cease to exist” in the event of a “Change of Control” of Santa Cruz. *Id.* B. The TLA states that “Change of Control” shall have the meaning attributed to it in the APA. *Id.* I. Under Section 1.6 of the APA, which provides for the license back of assets and which provides the basis for entering the TLA, it states that “the license agreement shall also provide [Novell] with an unlimited royalty-free, perpetual, worldwide license to the Licensed Technology upon the occurrence of a Change of Control of [Santa Cruz] described in Section 6.3(c) hereof.” APA § 1.6. Section 6.3(c) of the APA is entitled “Expansion of Seller’s

Rights Relating to the Licensed Technology upon a Change of Control” and provides that

[u]ntil two (2) years from the Closing Date, in the event [Santa Cruz] has merged with, sold shares representing 50% or more of the voting power of [Santa Cruz] to, sold all or substantially all of [Santa Cruz’s] assets to, or engaged voluntarily in any other change of control transaction with, any party identified by [Novell] on Schedule 6.3(a) hereof, or in the event any party identified by [Novell] on Schedule 6.3(a) hereof, shall acquire shares representing 50% or more of the voting power of [Santa Cruz], [Novell] shall automatically have unlimited, royalty-free, perpetual rights to the Licensed Technology.

Id. § 6.3(c).

Section 1.6 of the APA further provides that “[i]n the event of a Change of Control of [Novell] (as described in Section 6.6 hereof), the license granted pursuant to the license agreement shall be limited to [Novell’s] products either developed or substantially developed as of the time of the Change of Control.” *Id.* § 1.6. Section 6.6(c) of the APA is entitled “Change of Control” and provides that

For purposes of this Agreement, a “Change of Control” with respect to one party shall be deemed to have occurred whenever (i) there shall be consummated (1) any consolidation or merger of such party in which such party is not the continuing or surviving corporation, or pursuant to which shares of such

party's common stock would be converted in whole or in part into cash, other securities or other property, other than a merger of such person in which the holders of such party's common stock immediately prior to the merger have substantially the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (2) any sale, lease, exchange or transfer (in one transaction or a series of related transactions) of all or substantially all the assets of such party, or . . . (v) any other event shall occur with respect to such party that would be required to be reported in response to Item 6(e) (or any successor provision) of Schedule 14A of Regulation 14A promulgated under the Exchange Act."

Id. § 6.6(c)[.]

In 2001, Santa Cruz sold its UNIX business to Caldera Systems, Inc., the immediate predecessor to SCO. The assets sold by Santa Cruz included all of the UNIX assets that it had purchased from Novell in 1995, plus other assets that collectively accounted for 100% of Santa Cruz's operating income and 94.7% of its net revenues.

In the TLA, the parties recognized that the TLA and the APA "constitute the entire understanding between the parties with respect to its subject matter, and supersede all prior understandings, both written and oral, between them relating to such subject matter." TLA VIII.

(4) Amendment No. 1

On December 6, 1995, a few months after the APA was signed and the date the transaction closed, Novell and Santa Cruz signed Amendment No. 1. Decl. Mark James Ex. 2 (“Am. No. 1”). Amendment No. 1 made several clarifying amendments, including specific revisions to Schedule 1.1(a) and 1.1(b). Am No. 1 ¶¶ K, L. “All other terms and conditions of the [APA] remain[ed] in full force and effect.” Am. No. 1 at 10. Amendment No.1 did not change the description of Intellectual Property that was included and excluded from the transferred Assets under Schedules 1.1(a) and 1.1(b). *See id.* ¶¶ K, L.

Amendment No. 1 also made amendments to the APA with respect to the agreement regarding SVRX Licenses and Royalties that will be discussed in a later section.

(5) Extrinsic Evidence

Both parties have submitted a substantial amount of evidence in connection with the negotiation and execution of the APA and its amendments, as well as the parties’ conduct after the APA was signed.

(a) Purpose of Agreement

Santa Cruz’s stated purpose for entering the APA with Novell and acquiring the UNIX and UnixWare business was to be the supplier of Unix to the industry and to develop a future consolidated version of

Unix that ran on an Intel processor. Decl. Mark James Ex. 6 (“Mohan Dep.”) at 38-39. Beyond that, SCO has provided little evidence as to its intent with respect to specific provisions of the Agreement or its business strategy for structuring such a complex relationship between the parties. Novell, however, has produced significant evidence as to its business strategy and intent with respect to specific provisions.

In early 1995, Novell decided to divest itself of certain UNIX-related assets. Decl. James R. Tolonen at ¶ 4. Although Novell wanted to sell the entire UNIX and UnixWare business to focus on its Netware product, it became clear during negotiations with Santa Cruz that Santa Cruz could not afford to purchase the entirety of Novell’s UNIX and UnixWare assets and rights. *Id.* ¶ 4. Consequently, Novell and Santa Cruz focused on a more limited deal that also included a forward looking revenue stream for Novell.

Novell has submitted evidence that an important consideration for its sale of UNIX assets was Santa Cruz’s commitment to develop enhanced UnixWare products that were compatible with Novell’s Netware product. The APA required Santa Cruz to develop a merged product that would combine Novell’s version of the UNIX operating system with Santa Cruz’s version of UNIX. APA § 4.18. Novell and Santa Cruz hoped that the merged product would provide a commercially successful alternative to Microsoft’s Windows system. Decl. Tor Braham at ¶ 8. Novell’s Netware product needed an alternative operating

system if it was to compete with Microsoft. *Id.* Novell also had a strong interest in the development of a commercially successful UNIX operating system that would run on Intel's 64-bit processors because it would expand the market for Netware. *Id.* ¶ 13-14; Decl. David Bradford at ¶ 1, 3; Decl. James Tolonen at ¶ 12.

Novell had concerns about entrusting the future of UNIX and Novell's UNIX-related interests to Santa Cruz. Decl. David Bradford at ¶ 7. David Bradford, Novell's Senior Vice President and General Counsel, states that there were serious concerns about Santa Cruz's viability as a company, and Novell became focused on building in protections for Novell in the event that Santa Cruz went bankrupt. *Id.* ¶ 8.

First, Santa Cruz was given legal title to SVRX Licenses "and not equitable interest in such royalties within the meaning of Section 541(d) of the Bankruptcy Code." APA § 1.2(b). According to the principal drafter of the APA, Tor Braham, this provision was added to decrease the risk that Novell's receipt of SVRX revenues would be impacted if Santa Cruz went into bankruptcy. Decl. Tor Braham ¶ 10.

Second, Novell asserts that it intended to exclude all copyrights from the assets to be transferred in order to protect its future SVRX revenues. *Id.* at 18-19; Decl. David Bradford ¶¶ 11-12; Decl. James Tolonen ¶ 11. In the event Santa Cruz went into bankruptcy, the UNIX and UnixWare copyrights would not be part of the bankruptcy estate and the

bankruptcy trustee could not assert an interest in them. Decl. Tor Braham ¶ 14, Decl. David Bradford ¶ 9; Decl. James Tolonen ¶ 12. Excluding copyrights from the transferred assets also protected Novell's other UNIX-related interests. Retaining ownership of the copyrights would strengthen Novell's rights to negotiate buy-outs of the SVRX Licenses and to receive future revenues. Decl. Tor Braham ¶ 14; Decl. James Tolonen ¶ 12. Furthermore, it put Novell in a better position to ensure successful development of future versions of the UNIX operating system.

SCO's extrinsic evidence regarding Santa Cruz's inability to proceed with a cash deal appears to conflict. Many of SCO's witnesses refer to the value of the stock Santa Cruz provided as consideration as evidence that such a sum would purchase Novell's whole UNIX-related business. Such testimony, however, is at odds with other witness testimony stating that the deal would not have proceeded without the creation of a future revenue stream for Novell. Testimony that additional revenue was necessary is consistent with the amount Novell paid for its acquisition of UNIX assets from AT&T and the fact that the shares of stock Santa Cruz transferred were only part of the consideration provided in the APA.

The consideration provided through future royalties significantly complicated the agreement and the parties' ongoing relationship. SCO, however, has provided virtually no evidence from its perspective as to the purpose of or strategy behind the creation of a continuing stream of revenue for Novell other than

some testimony that it could not afford to acquire it and the deal would not have proceeded otherwise.

(b) Drafts of Agreement

The correspondence between Novell and Santa Cruz prior to the date the APA was signed shows that significant revisions were made to the agreement. A September 8, 1995 draft of Schedule 1.1(a), which listed the assets to be transferred, included “all patents, patent applications, copyrights . . . and all other intellectual property . . . that pertain to Unix or UnixWare.” Decl. Tor Braham at ¶ 15, Ex. 6.

Novell’s outside counsel drafted a new schedule of assets to be included in the asset transfer as well as a schedule of assets to be excluded from the transfer. *Id.* ¶ 15. The new Schedule 1.1(a) deleted copyrights, patents, and all other intellectual property from the assets to be transferred. The revised Schedule 1.1(a) included only the UNIX and UnixWare trademarks as the “Intellectual Property” included in the transaction. The new Schedule 1.1(b), which listed the assets excluded from the transfer, listed all copyrights, all patents, and all trademarks except for the UNIX and UnixWare trademarks.

Novell submitted evidence demonstrating that during the negotiations, David Bradford, Tor Braham, Aaron Alter, and Burt Levine all reviewed and approved the language in the Excluded Assets Schedule 1.1(b). *Id.* ¶ 16. 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.

(c) Parties' Conduct

Both parties have also submitted in support of their respective interpretations of the APA extrinsic evidence of the parties' conduct in relation to the APA.

The day before the APA was signed, David Bradford, Novell's Senior Vice President and General Counsel, presented the agreement to the Novell Board of Directors for approval and reviewed its terms with them. The minutes from that board meeting state: "RESOLVED . . . Pursuant to the Asset Purchase Agreement . . . Novell will retain all of its patents, copyrights, and trademarks (except for the trademarks UNIX and UnixWare). . . ." Decl. David Bradford at ¶¶ 13-14, Ex. 1.

On September 20, 1995, SCO claims that the parties issued a joint press release regarding the APA, stating that "[a]ccording to the terms of the agreement, SCO will acquire Novell's UnixWare business and UNIX intellectual property." Novell questions whether it was a "joint" press release because unlike a typical joint press release, the September 20, 1995 press release does not contain Novell's logo, contact information, or company description. Instead, it contains information only for Santa Cruz.

In any event, the press release does not provide specific information about whether copyrights transferred. It is undisputed that trademarks did transfer, which would account for a statement that intellectual property passed. However, the vague use of the term “intellectual property” could not be read to include *all* intellectual property because it is also undisputed that no patents were transferred. Therefore, the press release, whether a joint statement or not, provides little information in its reference to unspecified “intellectual property.” Novell also issued two press releases about the APA, which are on Novell’s website, and neither mention the transfer of copyrights or, more broadly, the transfer of intellectual property.

On October 4, 1995, two weeks after the signing of the APA, David Bradford certified a Notification and Report Form to the Federal Trade Commission. Decl. Mark James Ex. 84. The language used in the Form was consistent with the language of the APA’s “Recitals,” stating that Santa Cruz was acquiring “certain assets” of Novell’s UNIX and UnixWare business. *Id.* In a section of the Form entitled “Assets to be Acquired,” Novell stated: “The assets to be acquired by SCO are described with particularity in Schedule 1.1(a) of the Agreement.” *Id.* Schedule 1.1(a) was the list of assets included in the transfer. Novell also included specific portions of Schedule 1.1(a) in the Form which SCO claims could be read to mean that the whole business transferred. The Form, however, clearly directed the FTC to the Agreement for the details regarding the assets being transferred.

After the APA closed in December 1995, Santa Cruz came into physical possession of the UNIX copyright registrations because they were kept in the business files of the UNIX unit in New Jersey, which transferred to Santa Cruz under the APA. Decl. Mark James Ex. 23-25. The UNIX unit and its business files remained in New Jersey throughout the changes in ownership of the business – from AT&T to UNIX System Laboratories to Novell to Santa Cruz. Burt Levine Dep. at 19-20. SCO asserts that its possession of these registrations is evidence that the parties intended to transfer UNIX and UnixWare copyrights under the APA. Novell contests that this evidence is relevant or indicative of the parties' intent under the APA. Novell makes no assertion that it ever attempted to remove the registrations from the New Jersey facility or otherwise obtain physical possession of them. Greg Jones 30(b)(6) Dep. at 177-79. Rather, Novell comments only that the physical possession of the registrations was not a concern or viewed as a necessity to it.

Since 1995, Santa Cruz and SCO have shipped UNIX-related products with copyright notices affixed to them and entered into hundreds of license agreements for UNIX Products containing express representations and warranties of SCO's rights and ownership in the intellectual property required to provide the licensed product. Decl. Edward Normand Ex. 27, 28. Novell notes that products were shipped with joint copyright notices that indicated Novell's original UNIX and UnixWare code and SCO's

ownership of modifications to that code. For example, one of the joint copyright notices states: “Copyright 1996 The Santa Cruz Operation, Inc. All rights reserved. Copyright 1984-1995 Novell, Inc. All rights reserved.” Decl. James McKenna at ¶ 5. SCO claims that this copyright notice indicates that Novell transferred the copyrights in 1995 under the APA, and Novell contends that the notice indicates Novell’s continued ownership of the copyright to the original UnixWare code and SCO’s ownership only of the copyright to modifications to that code made the year after the APA (1996). Furthermore, Novell asserts that if Santa Cruz owned the copyright to both the original code and the derivative work, the copyright notice would not have mentioned Novell at all.

With respect to licenses containing any incorrect representations and warranties, Novell contends it was not aware of any such licenses. Novell claims that the first license agreement with Integration Design does not appear to involve UNIX and UnixWare licenses so it would not have been necessary to submit it to Novell for approval. Normand Decl. Ex. 30. SCO itself has admitted that the other two licenses, with Lucent Technologies and Samsung Electronics, also did not need to be shown to Novell for approval. Supp. Brakebill Decl. Ex. 25, Response No. 7. In any event, none of these three licenses contains any representation or warranty of SCO’s copyright ownership.

(d) Witness Testimony

There is extrinsic evidence from several individuals who were involved at different stages of the negotiations of the APA and from business people involved in the transition of the business to Santa Cruz. Interestingly, many of the witnesses who were on the Novell side of the APA transaction went to work for Santa Cruz as a result of the deal. The relevance of much of the testimony is questionable because few have a recollection of actual discussions regarding the transfer or retention of copyrights. Many witnesses give an opinion as to whether they think the copyrights should have transferred, but they fail to establish an adequate foundation to support their opinion. Given the volume of the testimony presented to the court and the number of attorneys and business people involved in the transaction, it is surprising that there is not more testimony on the drafting and negotiation of the intellectual property provisions from both sides of the deal.

Novell was represented in the transaction by the law firm of Wilson, Sonsini, Goodrich & Rosati (“Wilson Sonsini”). Tor Braham managed Wilson Sonsini’s team, was the primary negotiator with respect to the contract language, and was the primary drafter of the APA text.² Braham testified that the APA was not a

² The record is not clear as to whether Braham was the primary drafter of the APA for Novell or both parties. Nevertheless, in the APA, the parties agreed that they had both been represented by counsel during the negotiation and execution of

(Continued on following page)

“straight up asset purchase” because Santa Cruz did not have the cash to buy both the UNIX assets that Novell had purchased in 1993 plus Novell’s UnixWare business. Decl. Tor Braham ¶ 7. As a result, the deal became more complex, and Novell needed to negotiate provisions into the contract to protect its business and legal interests. *Id.*

Braham had regular communications with Novell’s General Counsel, David Bradford, and tried to achieve Novell’s goals as communicated by Bradford. *Id.* ¶ 6. During the negotiations, Bradford indicated to Braham that Novell was unwilling to transfer intellectual property rights in UNIX and UnixWare, including patents and copyrights. *Id.* ¶ 14. Accordingly, Braham’s team revised an early draft of a Schedule of Assets that had included patents, copyrights, and trademarks and drafted a new schedule of included assets and a schedule of excluded assets. *Id.* ¶ 15. Braham also made changes to Section 1.1(a) of the APA where the distinction between included and excluded asset schedules is made with respect to the assets transferred. *Id.* ¶ 19.

Braham testified that to his knowledge, and based on his review of the Wilson Sonsini files, at least four representatives of Novell reviewed and approved the excluded assets provision. *Id.* ¶ 16.

the agreement and waived the application of any law “providing that ambiguities in an agreement . . . will be construed against the party drafting such agreement.” APA § 9.9.

During the course of the negotiations, the Wilson Sonsini team transmitted drafts of the two schedules to Santa Cruz representatives, and drafts would be redlined to show changes. *Id.* ¶ 17. Braham testified that although the APA did not transfer copyright ownership to Santa Cruz, Santa Cruz received other rights and interests in UNIX and UnixWare that gave it a license to copy and use Novell's copyrighted code as needed to implement the activities contemplated by the APA. Furthermore, it was Braham's understanding that while Novell retained the copyrights in the original code, Santa Cruz would own the copyrights in any code that it wrote and Novell would need a license to such code. *Id.* ¶ 23. Therefore, Braham added the term "Licensed Technology" in Section 1.6 of the APA during the drafting process to refer to newly developed code and other technology in UNIX and UnixWare – such as trade secrets, software know-how, etc. – that were not excluded from the assets transferred to Santa Cruz. *Id.* ¶¶ 22, 23.

Robert Frankenberg, then-President and CEO of Novell, testified in a deposition that his initial intent in entering into negotiations, intent at the time the APA was signed, and intent when the transaction closed was that Novell would transfer copyrights to UNIX and UnixWare technology to Santa Cruz. Decl. Mark James Ex. 7 ("Frankenberg Dep.") at 7, 135. This testimony is obviously at odds with the minutes of the Board meeting and the testimony of the chief drafters of the APA for Novell. Somewhat self-contradictorily as well, Frankenberg also testified

that he had high-level discussions with the negotiating team and recalled discussing the fact that retaining UNIX copyrights would facilitate Novell's exercise of rights with respect to capitalizing the SVRX revenue stream and facilitate the negotiation of SVRX License buyouts. *Id.* at 65-66, 68. The evidence submitted as to Frankenberg's role shows that he was not intimately involved in the deal. Frankenberg testified that he was involved in high-level discussions but was not involved in the negotiation or drafting of the APA. He further stated that he did not review the details of the deal and he signed the APA on the basis of the recommendation of his team. *Id.* at 68.

David Bradford, Novell's Senior Vice President and General Counsel, oversaw the negotiation and drafting of a contract between Novell and Santa Cruz. Decl. David Bradford at ¶ 4. During the negotiations of the APA, he discussed with Braham the need to increase Novell's protections in the transaction, including but not limited to retaining Novell's intellectual property rights in UNIX and UnixWare. *Id.* ¶ 9. Bradford testified that the exclusion of copyrights was intentional and "should any person suggest otherwise, they are mistaken." *Id.* ¶ 12. Bradford reviewed the terms of the APA with the Novell Board of Directors at a meeting held on September 18, 1995, the day before the APA was signed. *Id.* ¶ 13. Bradford received the final APA on the day it was executed and was responsible for reviewing it and approving it for final signature by Frankenberg. *Id.* ¶ 17. Bradford

wrote a memorandum reflecting his approval of the APA. *Id.* He testified in this litigation that he still agrees with the statement that the APA is “an accurate reflection of the business and legal terms and conditions negotiated between the parties.” *Id.*

James Tolonen, Novell’s Chief Financial Officer from 1989 through 1998, testified that he was actively involved in the preparation of the APA. Tolonen Decl. ¶¶ 3, 7. Tolonen interacted with Bradford, who he described as the “point person” heading up Novell’s negotiation team, and Braham. *Id.* ¶¶ 8, 9. Tolonen reviewed drafts of the APA and reviewed the final version of the APA to ensure that its terms were consistent with the intent of the deal. *Id.* ¶¶ 9, 10. Tolonen testified that “[a]s reflected in the plain language of the executed [APA], Novell intended to retain and did retain, as an ‘Excluded Asset,’ all copyrights, including all UNIX and UnixWare copyrights.” *Id.* ¶ 11.

Ed Chatlos, Novell’s Senior Director for UNIX Strategic Partnerships and Business Development, was a primary negotiator for Novell during the business negotiation of the deal. Chatlos’ Declaration states that he left Novell voluntarily in 1996, but it does not indicate his current employment. Decl. Mark James Ex. 12 (“Chatlos Decl.”) at ¶ 4. He did disclose in his deposition, however, that his wife has been employed by SCO since the time of the APA in 1995. Decl. Mark James Ex. 13 (“Chatlos Dep.”) at 49. During the business negotiations of the APA, Chatlos recalled disputes over the price because SCO could

not pay the full purchase price as contemplated by Novell. *Id.* at 36. He testified that the royalty payments were used as a resolution to bridge the gap. *Id.* Chatlos also testified that there was no discussion about excluding or including copyrights because he believes it was implicit in the deal that the copyrights would be transferred. *Id.* at 122-24. He testified that he was not involved in any discussions with Novell's negotiation team regarding concerns of a potential bankruptcy by Santa Cruz. However, he also testified that he believes that the APA reflects the intent of the agreement. *Id.* at 130. Although he continued to review drafts of the agreement, his deposition testimony reflects that he had little recollection of the work done by Novell's legal team. *Id.* at 105. He could not recollect David Bradford's role in the deal or the names of the attorneys at Wilson Sonsini who worked on the APA. *Id.* at 37, 80.

Duff Thompson, a former Novell executive who now chairs SCO's litigation committee, testified that testified that [sic] his recollection of the deal was the initial direction from Frankenberg to sell the whole business. Decl. Mark James Ex. 10 ("Thompson Decl.") at ¶ 4. Thompson did not recall "any specific discussions around copyrights" or any "discussion with SCO about the excluded asset schedule" during negotiation of the deal. Decl. Mark James Ex. 11 ("Thompson Dep.") at 86. Ty Mattingly testified that Thompson was "not really involved in the details of the Novell, Santa Cruz transaction." Mattingly Dep. at 70-71. He stated that Thompson was "checked out"

during the drafting of the APA and was “not in the office that often.” *Id.* at 71-72. He also testified that he relied on Tor Braham and his team for the detail drafting of the agreement. *Id.* at 30-31. Braham confirmed that Thompson “was not involved in negotiating or drafting the APA contract language.” Decl. Tor Braham ¶ 24. However, Thompson testified that if Novell had intended to retain the copyrights, it would have said “you get all the business except the copyrights.” Thompson Dep. at 133.

Ty Mattingly, Novell’s Vice President for Strategic Relations at the time of the APA, testified in his deposition that it was his belief that Novell sold the Unix business to SCO, and that SCO paid roughly 125 million dollars because it bought the UNIX business from Novell “basically in its entirety.” Decl. Mark James Ex. 9 (“Mattingly Dep.”) at 10. He further explained that his view was that “[t]he only things that did not go with that was a kind of an agent relationship whereby SCO was collecting the SVRX royalties from existing OEMs at the time we sold that business and then giving the bulk of those moneys back to Novell.” *Id.* at 29-32. Mattingly, however, also testified that his role “related only to high level business strategy” and he was “not involved in the details of the legal document.” *Id.* at 66. He admitted that he was involved “very superficially” in the “last two or three weeks before the contract was executed,” which was “when the back and forth concerning the legal provisions was taking place.” *Id.* at 68-69.

Burt Levine, a former Novell in-house attorney who went to work for Santa Cruz after the APA, testified that he worked on some early drafts of the APA but cannot remember which specific provisions. Levine did testify, however, that during APA negotiations, he reviewed and marked up drafts of Schedules 1.1(a) and (b). Decl. Mark James Ex. 14 (“Levine Dep.”) at 72-74. He revised the list of included assets but did not add copyrights. *Id.* at 74. He then faxed his markup to outside counsel, who passed on his comments to Santa Cruz’s outside counsel, Brobeck Phleger. *Id.* at 72-73, 77-80. However, he testified that he would have been surprised to hear that Novell retained the UNIX and UnixWare copyrights. Assuming, however, that the copyrights were excluded from the APA, he testified that SCO would have an inherent license to use those copyrights in the business. *Id.* at 89.

William Broderick, a contract manager and member of the Novell APA transition team who is now the Director of Software Licensing for SCO, testified that his understanding of the sale of assets was that the UNIX copyrights were transferred. Decl. Mark James Ex. 15 (“Broderick Decl.”) ¶¶ 1, 6, 11. Although SCO claims that Broderick testified that his understanding was based on Novell’s explanation of the transaction during company-wide meetings and meetings of the transition team, he testified in his deposition that he did not recall any specific discussion about the transfer of copyrights. *Id.* Ex. 16 (“Broderick Dep.”) at 49-51.

Alok Mohan, CEO of Santa Cruz at the time of the APA, testified that he believes Santa Cruz bought the whole business, including copyrights. Mohan Dep. at 138-40. But he was not aware that the subject of UNIX copyrights was specifically addressed in the contract. *Id.* at 143-44. Mohan testified that he was involved in the negotiations “only at a high level,” not in the “detail level of negotiations.” *Id.* at 10-11. He was also not involved in the “specific drafting of the documents,” was not on a distribution list of individuals at Santa Cruz to receive drafts of the agreement, and did not recall the firm or attorneys Santa Cruz hired to represent it in the transaction. *Id.* at 10-11, 14-17. He testified that “the issue of copyrights in or out was not discussed with me.” *Id.* 261-62. Furthermore, he contends that Novell did not tell him that it had kept the copyrights, but he also admits that Novell did not tell him that it had given them to Santa Cruz either. *Id.* at 261-262. He did believe, however, that Santa Cruz “tried to make the document represent . . . the intent. . . . And we captured, I thought at that time, what the intent was.” *Id.* at 13.

Doug Michels, Senior Vice President of Santa Cruz at the time of the APA, stated in his deposition that “the only way that I know of, and anyone on my team knew of, to buy a software business is to buy the copyrights, and there is no way we would have ever done a deal to buy a software business where we didn’t get the copyrights and all the other intellectual property.” Decl. Mark James Ex. 18 (“Michels Dep.”) at 134. Michels testified that he was very involved in

the initiation of the APA, but that he was only involved in two or three meetings with Novell after the initial discussion about the deal. *Id.* at 11-12. He did not draft any language of the APA or review drafts of it. He does not recall “even vaguely” any debates in which he participated regarding the drafting of the APA. *Id.* at 12-13. He also does not recall any discussion by anyone either at Novell or Santa Cruz regarding the transfer or retention of UNIX copyrights. *Id.* at 50-52.

Jim Wilt, a business development executive at Santa Cruz, testified that it was his understanding and intent during the negotiations that SCO would acquire Novell’s entire UNIX and UnixWare business, including the copyrights. Decl. Mark James Ex. 19 (“Wilt Decl.”) ¶ 8. He viewed the copyrights as essential to the acquisition of a software company. *Id.* Ex. 20 (“Wilt Dep.”) at 76-80. Although SCO refers to Wilt as the lead negotiator for Santa Cruz, Ed Chatlos testified that Wilt “dropped out” in the latter half of the negotiations of the Santa Cruz-Novell deal and Wilt, himself, concurred that he was less active at the end of the negotiations when the APA was being drafted. Chatlos IBM Dep. at 184-185; Wilt Dep. at 20-21. He also testified that the lawyers did the drafting of the APA. Wilt testified that he did not recall anyone from Novell stating that copyrights were being transferred. Wilt Dep. 57-59.

SCO also relies on the understanding of Kimberlee Madsen, a paralegal in Santa Cruz’s legal department. Decl. Mark James Ex. 22 (“Madsen

Dep.”) at 6-7. She testified that she participated in the negotiations leading up to the drafting of APA and reviewed and drafted some of the agreement. Madsen Dep. at 13. She testified that it was always her understanding that the UNIX copyrights were part of the assets Santa Cruz purchased and she could not recall anyone in the negotiation team discussing the retention of copyrights. *Id.* at 79.

B. Amendment No. 2 to the APA

Approximately a year after the APA was signed, on October 16, 1996, Novell and Santa Cruz executed Amendment No. 2 to the APA. Decl. Mark James Ex. 5 (“Am. No. 2”). APA Amendment No. 2 amends the Schedule of Excluded Assets in Schedule 1.1(b) to exclude “All copyrights and trademarks, except for the copyrights and trademarks owned by Novell as of the date of the [APA] required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies.” Am. No. 2 § A.

Amendment No. 2 did not specify which copyrights, if any, were “required for SCO to exercise its rights with respect to the acquisition of the UNIX and UnixWare technologies.” Amendment No. 2 also did not contain any provision actually transferring ownership of copyrights or other assets from Novell to Santa Cruz. Amendment No. 2 states that the APA was amended “[a]s of the 16th day of October 1996.” *Id.* Therefore, it did not retroactively amend the APA as of the date the APA was signed or the date the

transaction closed. Furthermore, the parties did not execute a “Bill of Sale” or any similar document transferring copyrights from Novell to Santa Cruz in connection with Amendment No. 2, nor did they amend the previous Bill of Sale. Moreover, Amendment No. 2 did not make any corresponding amendment to the transferred assets on Schedule 1.1(a).

During negotiations on Amendment No. 2, SCO attempted to effectuate a transfer of the copyrights of UNIX and UnixWare, but Novell rejected the proposal. Decl. Allison Amadia at ¶¶ 6, 8, 10. During the summer of 1996, Steve Sabbath, Santa Cruz’s General Counsel, telephoned Allison Amadia, in-house counsel for Novell, about amending the APA. *Id.* ¶ 6. She testifies that Sabbath stated to her that the original APA explicitly excluded copyrights to UNIX and UnixWare and that Santa Cruz wanted to amend the original to give Santa Cruz those copyrights. *Id.*

Amadia had not been involved in the original deal. After her conversation with Sabbath, she reviewed the APA and contacted Novell’s outside counsel, Tor Braham, to gain his understanding of the transaction. *Id.* ¶ 7. Through these efforts, she learned that ownership of the UNIX and UnixWare copyrights did not transfer to Santa Cruz under the APA. *Id.*

Sabbath later sent Amadia a draft proposal revising Schedule 1.1(b) of the APA to read: “All copyrights and trademarks, except for the copyrights and trademarks owned by Novell as of the date of this

Amendment No. 2, which pertain to the UNIX and UnixWare technologies and which SCO has acquired hereunder. . . .” *Id.* ¶ 8, Ex. 1. Novell rejected the proposed amendment. *Id.* ¶ 10. Amadia told Sabbath that while Novell was willing to affirm that Santa Cruz had a license under the APA to use Novell’s UNIX and UnixWare copyrighted works in its business, Novell would not transfer ownership of any copyrights. *Id.*

Instead of a blanket exception for copyrights pertaining to UNIX and UnixWare technologies, the final version of Amendment No. 2 was limited to copyrights that were “required for SCO to exercise its rights with respect to the acquisition of the UNIX and UnixWare technologies.” Amend. No. 2 § A. The final version of Amendment No. 2 also deleted Santa Cruz’s proposed reference to copyrights “which SCO has acquired hereunder.” Amendment No. 2 does not include any reference to an acquisition or transfer of copyrights.

Jim Tolonen, Novell’s Chief Financial Officer and Novell’s business executive assigned to Amendment No. 2, confirms that it was never Novell’s intent to transfer copyrights by way of Amendment No. 2. Decl. Jim Tolonen at ¶ 13, 14. He states that he would not have signed it if he had believed it would do so. *Id.* ¶ 15. He testifies that Amendment No. 2 was also not meant to “clarify” what the parties intended to transfer in the original APA. *Id.* ¶ 14. Rather, he states that Novell intended to retain the UNIX and UnixWare copyrights in the APA, and Amendment

No. 2 confirmed that Santa Cruz would be allowed to continue to use the Novell-retained copyrights – as it had been doing – as was required to exercise its rights under the APA. *Id.* ¶ 16.

Sabbath has no recollection of negotiating the copyright portion of Amendment No. 2. SCO relies on the testimony of Robert Frankenberg and Ed Chatlos regarding Amendment No. 2. However, both men had left Novell before Amendment No. 2 was negotiated and had no involvement in the negotiation of the amendment. Frankenberg Dep. at 86; Chatlos Decl. ¶ 4. SCO relies on the testimony of several other individuals involved in the business, but none of them admits to being involved in the negotiations of Amendment No. 2 or to having any specific recollection of the negotiations with respect to the transfer of copyrights.

C. Santa Cruz/Caldera Assignment Agreement

Santa Cruz assigned various items of intellectual property to Caldera in an agreement dated May 7, 2001 (“Assignment Agreement”). Supp. Brakebill Decl. Ex. 1 (“Caldera Agreement”). That Assignment Agreement purports to transfer various UNIX and UnixWare copyrights. Caldera Agreement § 1, Sched. C. In the Assignment Agreement, Santa Cruz made representations and warranties with respect to the intellectual property rights being transferred. *Id.* § 8(v). The Assignment Agreement states that Santa Cruz “has no knowledge of any fact that would

prevent [Caldera's] registration of any Rights related or appurtenant to the Inventions and Works or recording the transfer of Rights hereunder (except that Assignor may not be able to establish a chain of title from Novell Inc. but shall diligently endeavor to do so as soon as possible)." *Id.*

The initial draft of the Assignment Agreement had provided an unlimited representation and warranty from Santa Cruz. Supp. Brakebill Decl. Ex. 5, at § 8(v). In transmitting the draft, Caldera's attorney proposed that Santa Cruz's assignment of intellectual property obtained from Novell would require the inclusion in the Assignment Agreement of "a single exhibit from the Novell/SCO Asset Purchase Agreement." *Id.* at 1. Four days later, an in-house attorney at Santa Cruz responded with a redlined draft that included an exception to Santa Cruz's representation and warranty stating "[e]xcept for the inability to obtain third party acknowledgments to establish a chain of title." *Id.* Ex. 6 at § 8(v). Four days later, Caldera's counsel circulated a final draft of the agreement with a cover email stating that Santa Cruz was "trying to get Novell to sign a global IP assignment, for chain of title purposes." *Id.* Ex. 7 at 1. But the final draft recognized that Santa Cruz may not be able to establish a chain of title from Novell. *Id.* Ex. 1 at § 8(v).

D. Private Communications Between SCO and Novell

In late 2002, Darl McBride, SCO's CEO, contacted Novell on several occasions seeking copies of records concerning SCO's intellectual property rights to UNIX. Greg Jones Decl. ¶ 13. On January 4, 2003, McBride received an email from Michael Anderer, a consultant for SCO retained to examine its intellectual property. Supp. Brakebill Decl. Ex. 12. Anderer stated that the APA "transferred substantially less" of Novell's intellectual property than Novell owned. Anderer noted that Santa Cruz's "asset purchase" from Novell "excludes all patents, copyrights, and just about everything else." *Id.* Anderer cautioned that "[w]e really need to be clear on what we can license. It may be a lot less than we think."

On February 4, 2003, McBride contacted Christopher Stone, Vice Chairman of Novell, and stated that he wanted Novell to "amend" the APA to give SCO "the copyrights to UNIX." Supp. Brakebill Decl. Ex. 17; *Id.* Ex. 18 ("Stone Dep." at 108-09). Then, on February 25, 2003, McBride twice called a Novell employee in business development, David Wright, and said, "SCO needs the copyrights." Wright passed on McBride's request to Novell's in-house legal department. Supp. Brakebill Decl. Ex. 13. McBride's request was memorialized in an email written that day by a Novell in-house attorney, Greg Jones. *Id.*

Also early in 2003, McBride and Chris Sontag of SCO contacted Greg Jones regarding the UNIX

copyrights. *Id.* Ex. 8 (“Decl. Greg Jones”) at ¶¶ 13, 14; Decl. Christopher S. Sontag ¶ 6. McBride stated that “the asset purchase agreement excluded copyrights from being transferred” and that it was a “clerical error.” Jones Dep. at 182. On February 20, 2003, Chris Sontag also sent a draft letter to Novell that sought to clarify the parties’ rights under the APA. Decl. Christopher S. Sontag Ex. [sic].

Again in March 2003, McBride called Stone to ask him if Novell would “give him some changes so he could have the copyrights.” Christopher Stone Dep. at 248-49. Ralph Yarro, Chairman of SCO, requested an in-person meeting with Stone. In that meeting, on May 14, 2003, Yarro told Stone that he wanted Novell to amend the APA to give SCO the copyrights. Supp. Brakebill Decl. Ex. 17 at 4; Stone Dep. at 137-8. Stone refused. *Id.* On May 19, 2003, McBride called Stone and Joe LaSala, Novell’s General Counsel, and again requested that Novell convey the copyrights to SCO. McBride said, “we only need you to amend the contract so that we can have the copyrights.” Stone Dep. 249-250. Stone made notes in June 2003 memorializing both conversations. Supp. Brakebill Decl. Ex. 17.

E. SCOsource Initiative

In approximately this same time frame, in January 2003, SCO launched its SCOsource initiative, which was an effort to obtain license fees from Linux users based on claims to Unix System V intellectual

property. McBride commented that “SCO owns much of the core UNIX intellectual property, and has full rights to license this technology and enforce the associated patents and copyrights.”

Under the SCOsource licensing program, SCO offered intellectual property licenses to Linux end-users. The purported purpose of these licenses is to allow UNIX vendors to use SCO’s UNIX intellectual property and to compensate SCO for the UNIX intellectual property that it claims is found in Linux. In May 2003, SCO sent 1500 end-user corporations a letter threatening suit based on SCO’s assertion that it owned the UNIX copyright and that Linux infringes on its UNIX intellectual property. Decl. Mark James Ex. 42. Novell and IBM were among the recipients of this letter.

SCO generated participation in and revenues from its licensing program. Decl. Mark James Exs. 80, 81. Despite success with some licensees, however, SCO’s campaign generated controversy that impacted its core software business. Internal SCO documents demonstrate that SCO’s sales force was having difficulties selling the SCOsource licenses for a variety of reasons.

F. Public Statements

On March 6, 2003, SCO filed suit against IBM alleging, among other things, that IBM had violated its UNIX Software and Sublicensing Agreements by disclosing UNIX-derivative source code. A few months

later, while the public was reacting to SCO's claim that the use of Linux required a UNIX license, Novell went public with a statement of its belief that it had not transferred the UNIX copyrights to SCO. On May 28, 2003, Novell's Chairman, President, and CEO Jack Messman announced publicly that Novell did not transfer the UNIX and UnixWare copyrights to SCO, and that SCO was not the owner of the copyrights. Decl. Mark James Ex. 36.

SCO and Novell continued the ownership dispute in a series of public statements over the next several months. On June 6, 2003, Novell issued a press release stating that SCO had sent Amendment No. to Novell the night before, that Novell was not aware of having the amendment in its files, and that the amendment "appears to support SCO's claim that ownership of certain copyrights for UNIX did transfer to SCO in 1996." *Id.* Ex. 38.

On June 26, 2003, Novell notified SCO that "[u]pon closer scrutiny . . . Amendment No. 2 raises as many questions about copyright transfers as it answers. Indeed, what is most certainly not the case is that 'any question about whether UNIX copyrights were transferred to SCO as part of the Asset Purchase Agreement was clarified in Amendment No. 2' (as stated in its June 6 press release)." *Id.* Ex. 43.

In June or July 2003, SCO registered certain copyrights in UNIX System V and UnixWare with the United States Copyright Office. In September and

October 2003, Novell submitted certifications to the United States Copyright Office claiming to be the owner of the same UNIX System V and UnixWare copyrights.

Because SCO alleges in its Complaint that it owns the copyrights to UNIX and UnixWare, it claims “Novell’s wrongful claims of copyrights and ownership in UNIX and UnixWare have caused, and continue to cause, irreparable harm to SCO.” In response to discovery, SCO maintained that Novell’s statements impeded its ability to make sales in its SCOSource business. Christopher Sontag Dep. at 117. SCO identifies approximately a dozen prospective customers who mentioned the cloud over SCO’s title to UNIX copyrights as one of its reasons not to purchase a SCOSource license. Decl. Mark James Exs. 49, 57, 58, 62, 79, 88. Several customers also stated that their reasons for not entering into a SCOSource license was due to their skepticism as to the necessity of obtaining a Unix license to operate Linux.

G. SVRX Licenses

Apart from the dispute with respect to copyright ownership, the parties have had ongoing disagreements as to their respective roles concerning SVRX licenses and royalties. A significant part of the consideration for the APA came from Novell’s receipt of future SVRX Royalties and royalties from the transfer of and future sales of UnixWare products. APA § 1.2(b).

Under the APA, Novell and SCO agreed to an arrangement whereby Novell would continue to receive one hundred percent of the SVRX Royalties. *Id.* Santa Cruz was to collect and pass through these royalties to Novell, and Novell, in turn, would pay Santa Cruz an administrative fee of five percent of the SVRX Royalties. Novell retained “all rights to the SVRX Royalties notwithstanding the transfer of the SVRX Licenses to [Santa Cruz].” *Id.* Santa Cruz “only has legal title and not equitable interest in such royalties within the meaning of Section 541(d) of the Bankruptcy Code.” *Id.*

Section 1.2(b) states that SVRX Royalties are “defined and described in Section 4.16.” Under Section 4.16(a), Santa Cruz was to “administer the collection of all royalties, fees and other amounts due under all SVRX Licenses (as listed in detail under Item VI of Schedule 1.1(a) hereof and referred to herein as “SVRX Royalties”).” *Id.* § 4.16(a). Item VI of Schedule 1.1(a), in turn, states, “All contracts relating to SVRX Licenses listed below.” Instead of providing a list of license agreements with various other parties, however, the Schedule then provides a list of UNIX System V software releases, including UNIX System V Release Nos. 2.0, 2.1, 3.0, 3.1, 3.2, 4.0, 4.1, and 4.2, and “[a]ll prior UNIX System releases and versions preceding UNIX System V Release No 2.0.” *Id.* Sched. 1.1(a)(VI).

Schedule 1.1(b) to the APA, the Excluded Assets schedule, specifically memorializes that the APA did not transfer any rights to the SVRX Royalties to

Santa Cruz. Listed as an excluded asset in Schedule 1.1(b) is “[a]ll right, title and interest to the SVRX Royalties, less the 5% fee for administering the collection thereof pursuant to Section 4.16.” *Id.* Sched.. 1.1(b)(VIII).

Section 4.16(b) of the APA also contains a significant provision regarding the parties’ authority with respect to SVRX Licenses. This section provides that Santa Cruz “shall not, and shall not have the authority to, amend, modify, or waive any right under or assign any SVRX License without the prior written consent of [Novell].” APA § 4.16(b). Under this section, Novell retained the sole discretion to direct Santa Cruz to amend, supplement, modify, waive, or assign any rights under or to any SVRX Licenses. *Id.* Novell was also granted authority to take any action on Santa Cruz’s behalf that Santa Cruz may fail to take concerning the SVRX Licenses. *Id.* Furthermore, Santa Cruz acknowledged that it had no right to “enter into future licenses or amendments of the SVRX Licenses, except as may be incidently involved through its rights to sell and license the Assets or the Merged Product . . . or future versions thereof of the Merged Product.” *Id.*

With respect to UnixWare royalties, Section 1.2(b) of the APA states: “In addition, [Santa Cruz] agrees to make payment to [Novell] of additional royalties retained by [Novell] in respect of the transfer of UnixWare and on account of [Santa Cruz]’s future sale of UnixWare products.” *Id.* § 1.2(b). The parties agreed that “[t]he amounts and timing of additional

royalties to be paid in connection with [Santa Cruz]’s sale of the UnixWare products are identified in detail on Schedule 1.2(b) hereto.” *Id.* Schedule 1.2(b) identifies the “Royalty Bearing Products” for which Santa Cruz was to pay royalties on and provides a structure for the payment of the royalties. *Id.* Sched. 1.2(b). Schedule 1.2(b) also states that the royalty obligation set forth in this schedule would terminate after Novell received payments equal to \$84 million or December 31, 2002, whichever is sooner. *Id.* Sched. 1.2(b)(c). Schedule 1.2(b)(f) also recognized that Santa Cruz had the right to convert existing SVRX-based customers to a UnixWare derived product. *Id.* Sched. 1.2(b)(f). The Schedule then sets forth a process for determining if a customer is validly converted from SVRX to UnixWare. *Id.*

(a) Amendments Relating to SVRX Licenses

Amendment No. 1 to the APA further obligated Santa Cruz to give Novell: (1) an estimate of the total SVRX Royalties amount within six days following the calendar month when the royalties are received; and (2) a “report detailing all such royalties” within one calendar month following each calendar month in which SVRX Royalties are received by Novell. Decl. Mark James Ex. 2 (“Am. No. 1”) ¶ E(f). “Such monthly reports shall be separately broken down by revenue type (i.e. source code right to use fees, gross and net binary per copy fees, and support fees), by product, by customer, by quarterly period by

which distribution occurs, and by country . . . of distribution.” *Id.*

Amendment No. 1 expands SVRX licenses to include those contracts relating to certain “Auxiliary Products” expressly identified in Attachment A to that Amendment. *Id.* ¶ K.4(i). The first line of Schedule 1.1(a)(VI) was amended to read “All contracts relating to the SVRX Licenses and Auxiliary Product Licenses (collectively “SVRX Licenses”) listed below.” *Id.*

Amendment No. 1 also modifies Section 4.16(b) to create two limited exceptions where Santa Cruz has “the right to enter into amendments of the SVRX Licenses.” *Id.* ¶ J. Santa Cruz could enter into amendments of SVRX Licenses (1) as may be incidentally involved through its rights to sell and license UnixWare software or the Merged Product or (2) to allow a licensee under a particular SVRX License to use the source code of the relevant SVRX products on additional CPUs or to receive additional distribution from Santa Cruz of such source code. *Id.*

Amendment No. 1 further amended the APA to permit Santa Cruz to retain 100% of four “categories of SVRX Royalties”: (1) fees attributable to stand-alone contracts for maintenance and support of SVRX products listed under Item VI of Schedule 1.1(a) of the APA; (2) source code right to use fees under existing SVRX Licenses from the licensing of additional CPU’s and from the distribution by Buyer of additional source code copies; (3) source code right to use

fees attributable to new SVRX licenses approved by Novell pursuant to Section 4.16(b); and (4) royalties attributable to the distribution by Santa Cruz and its distributors of binary copies of SVRX products, to the extent such copies are made by or for Santa Cruz pursuant to Santa Cruz's own licenses from Novell acquired before the APA through previous agreements. *Id.* ¶ E.(e).

Approximately one year later, Amendment No. 2 to the APA also made amendments to Section 4.16 of the APA. Decl. Mark James Ex. 5 (Am. No. 2"). Amendment No. 2 was entered the same day as the parties agreed to a buy-out agreement with IBM with respect to SVRX Licenses. Under Section B of Amendment No. 2, Novell and Santa Cruz agreed to a procedure that would govern "any potential transaction with an SVRX licensee which concerns a buy-out of any such licensee's royalty obligations." Am. No. 2 at ¶ B(1)-(5). The parties agreed to provide written notification to each other upon becoming aware of any potential buy-out transaction, to both attend any meetings or negotiations with the licensee unless agreed otherwise, to jointly consent to any written proposals to be presented to licensees prior to its delivery to the licensee, and to meet to discuss any potential buy-out transaction. *Id.* The parties further agreed that a buy-out transaction should not occur without the prior written consent of both parties. *Id.*

As part of this section regarding the newly-agreed process for managing buy-out transactions, Amendment No. 2 provides that "[t]his Agreement

does not give Novell the right to increase any SVRX licensee's rights to SVRX source code, nor does it give Novell the right to grant new SVRX source code licenses. In addition, Novell may not prevent SCO from exercising its rights with respect to SVRX source code in accordance with the Agreement." *Id.* ¶ B(5).

(b) SVRX Buyout Agreements with IBM and Sequent

Between 1985 and 1996, IBM entered into various agreements, supplements, and amendments concerning its rights to use UNIX System V software products. Decl. Kenneth Brakebill Ex. 5-12. On February 1, 1985, IBM and AT&T entered into a software agreement, sublicensing agreement, substitution agreement, and side letter. *Id.* Ex. 5-8. Between April 21, 1986 and January 25, 1989, IBM and AT&T executed numerous supplements to the agreements entered in 1985. *Id.* Ex. 9-12. These supplements granted IBM additional rights to UNIX SVRX releases listed in Item VI of Schedule 1.1(a) of the APA. *Id.*

Novell became the successor-in-interest to AT&T's rights under these agreements when it purchased UNIX Systems Laboratories in 1993. AT&T and its subsidiaries, and then Novell, used a combination of agreements in licensing its SVRX technology, including software agreements, sublicensing agreements, and product supplements. *See id.* Ex. 5, 6. The software and sublicensing agreements set forth rights

and obligations for the use and distribution of the technology. While each agreement had a given purpose, the agreements referred to and incorporated each other. For example, the IBM and Sequent Software Agreements provide that “additional supplements may be added to this Agreement. . . . Each such additional Supplement shall be considered part of this Agreement.” *Id.* Ex. 5, 15. Furthermore, the Software Agreement provides that “[t]his Agreement and its Supplements set forth the entire agreement and understanding between the parties as to the subject matter hereof.” *Id.* The IBM and Sequent Sublicensing Agreements provide that “[t]his Sublicensing Agreement, together with the Software Agreement and its Supplement(s), set forth the entire agreement and understanding between the parties as to the subject matter hereof.” *Id.* Ex. 6, 17.

On October 17, 1996, IBM entered into Amendment No. X, which was executed by Novell and Santa Cruz on October 16, 1996. *Id.* Ex. 13. Amendment X modified the terms of IBM’s previous agreements and supplements thereto, referring to them collectively as Related Agreements. Amendment X granted IBM additional source code rights and an “irrevocable, fully paid-up, perpetual right to exercise all of its rights under the Related Agreements beginning January 1, 1996 at no additional royalty fee.”³ *Id.* at

³ IBM did agree, however, to pay for any additional copies of source code of the software product – UNIX System V, Release 3.2 – according to the fees listed in a prior product supplement.

§ 1. The irrevocable nature of these rights, however, are not to “be construed to limit Novell’s or SCO’s rights to enjoin or otherwise prohibit IBM from violating any and all of Novell’s or SCO’s rights under this Amendment No. X, the Related Agreements, or under general patent, copyright, or trademark law.” *Id.*

In Amendment No. X, the parties explicitly recognized that although SCO had purchased the Related Agreements, Novell “retained certain rights with respect to” that set of agreements. *Id.* Recitals. As consideration for the rights granted by Amendment No. X, IBM paid Santa Cruz \$10,125,000 in two installments – one payment of \$4,860,000, and a second payment of \$5,265,000. *Id.* § 4. In November 1996 and January 1997, when Santa Cruz received these payments, it treated 100% of the money as SVRX Royalties payable to Novell, subject to the 5% administrative fee that Santa Cruz would pay itself. *Id.* Ex. 14 at 1; 43 at 1, 3.

Novell and Santa Cruz separately executed a General Release Agreement on October 16, 1996, which settled all disputes between the parties concerning IBM’s buyout of royalty obligations.

Between April 18, 1985 and November 9, 1989, AT&T also entered into various agreements for licensing rights to UNIX System V software products with Sequent. In particular, on April 18, 1985, AT&T entered into a Software Agreement giving Sequent the right to, among other things, use, modify, and

prepare derivative works of an SVRX product identified in Item VI of Schedule 1.1(a) to the APA. *Id.* Ex. 15, 16. On January 28, 1986, AT&T and Sequent entered into a Sublicensing Agreement that gave Sequent the right to sublicense the software products designated in the 1985 agreement. *Id.* Ex. 17. Between 1986 and 1989, Sequent and AT&T executed several supplements to the previous agreements. *Id.* Ex. 18-22.

Novell became the successor-in-interest to AT&T's rights under the Sequent agreements in 1993. Santa Cruz administered collection of revenue to be passed on to Novell from these agreements with Sequent. For example, in January of 1997, Santa Cruz passed along revenue to Novell in the amount of \$6,560.49, and noted a five percent administrative fee. *Id.* Ex. 43 at 3. In July of 1999, IBM purchased Sequent in a stock transaction and assumed its rights and obligations under the Sequent agreements.

(c) Termination of IBM SVRX License

In March of 2003, as part of SCO's SCOSource campaign, SCO sent a letter to IBM notifying it that it would terminate IBM's license to SVRX technology as of June 13, 2003, if IBM did not remedy certain alleged breaches of that license. Decl. Kenneth Brakebill Ex. 25. On June 9, 2003, Novell wrote to SCO explaining that Section 4.16(b) of the APA gave Novell the right to require SCO to waive any rights under any SVRX License and authorized Novell to take such

action on behalf of SCO should SCO fail to so act. *Id.* Ex. 27.

On June 11, 2003, SCO responded to Novell, refusing to take the action requested by Novell but making reference to the IBM agreements as “IBM’s SVRX Licenses.” *Id.* Ex. 28. On June 12, 2003, Novell sent SCO a letter explaining the legal basis for Novell’s waiver, including Novell’s right to take action at its sole discretion. *Id.* Ex. 30. When SCO failed to take the action demanded by Novell, Novell sent another letter to SCO that waived “any purported right SCO may claim to terminate IBM’s SVRX Licenses enumerated in Amendment No. X or to revoke any rights thereunder.” *Id.* Ex. 31. Notwithstanding Novell’s directive, SCO publicly announced on June 16, 2003, that it had terminated IBM’s Software and Sublicensing Agreements as of June 13, 2003. *Id.* Ex. 32.

On October 7, 2003, in response to public positions being taken by SCO concerning code developed by IBM, Novell again sent SCO a letter notifying it of Novell’s Section 4.16(b) authority and directing SCO to waive any purported right it may claim. *Id.* Ex. 33. SCO responded stating that “[y]our analysis of the obligations that IBM . . . owe[s] to SCO pursuant to the relevant Software Agreements is incorrect. However, we need not debate the incorrectness of your views, particularly Novell’s purported ability to waive any and all licensees’ obligations under the Software Agreements, because, as you are well aware, we are

currently litigating these issues with IBM.” *Id.* Ex. 34.

The next day, Novell again wrote to SCO stating that because SCO had failed to take the action directed by Novell, Novell was waiving any claim SCO was making to require IBM to treat IBM code as subject to the confidentiality obligations or use restrictions of the IBM agreements. *Id.* Ex. 35. SCO responded that Novell was without authority to make such a waiver and thus it had no force and effect. *Id.* Ex. 36.

At no point during the written correspondence between SCO and Novell in 2003 did SCO argue that the IBM agreements were not SVRX Licenses under the APA or that the SVRX licenses are limited to binary licenses or binary royalty streams. SCO did not state the reasoning behind its actions or inactions.

(d) Termination of Sequent License

On May 29, 2003, SCO sent a letter to Sequent notifying it that SCO intended to terminate the Sequent agreements relating to SVRX technology as of September 2, 2003, for, among other things, allegedly violating the source code restrictions on Sequent’s Dynix software product which SCO said was subject to Sequent’s System V Release 4.0 License. Decl. Kenneth Brakebill Ex. 26. On August 11, 2003, SCO sent another letter to Sequent purporting to

terminate the Sequent License, retroactively as of July 30, 2003. *Id.* Ex. 37.

On August 14, 2003, IBM, acting on behalf of Sequent, responded to SCO's termination notice by stating that it did not believe it had breached the Sequent License and requesting more information on the alleged breach. *Id.* Ex. 38. IBM also rejected SCO's claim that it had any right to terminate the Sequent License. On February 6, 2004, Novell sent a letter to SCO outlining the lack of support for SCO's position and directing SCO to waive any purported right it may claim to require Sequent to treat Sequent Code as subject to the confidentiality obligations or use restrictions of Sequent's System V Release 4.0 License. *Id.* Ex. 38. SCO refused to waive its purported rights, and Novell purported to waive them on SCO's behalf. *Id.* Ex. 39-41.

(e) Sun and Microsoft Agreements

Another dispute between the parties relating to the SVRX royalty and license provisions of the APA focuses on SCO's execution of agreements with Sun Microsystems ("Sun") and Microsoft in 2003. On February 25, 2003, SCO executed an agreement with Sun in which Sun paid SCO approximately \$10 million for the right to use, reproduce, prepare derivative works, market, disclose, make, and sell certain UNIX technology, including source and object (binary) code. Decl. Michael Jacobs, Ex. 9 ("2003 Sun Agreement"). The 2003 Sun Agreement purports "to

amend and restate” a Software License and Distribution Agreement, signed March 17, 1994, between Sun and Novell. *Id.* Recitals. In the 1994 Sun Agreement, Sun obtained a license that included certain UNIX System V technology. The 2003 Sun Agreement re-licenses the SVRX technology licensed in the 1994 Sun Agreement and licenses additional SVRX technology to Sun. *Id.* Ex. 10.

SCO also executed an agreement with Microsoft on April 30, 2003, and several amendments to that agreement over the following three months. *Id.* Ex. 11, 12 (“2003 Micros[oft] Agreement”). Microsoft paid SCO \$16,750,000 for the license rights, a liability release, and for options to purchase additional licenses. *Id.* §§ 1, 3.5, 4.1. Under the Agreement, Microsoft received various rights to UNIX System V technology. SCO agreed to deliver to Microsoft this UNIX System V software in both binary and source form, which includes the same versions of Unix System V software that are expressly referenced as SVRX Licenses in the APA.

SCO did not contact Novell for approval before executing the 2003 Sun Agreement or the 2003 Microsoft Agreement. And Novell did not authorize either agreement. The agreements gave SCO its first profitable year in history. *Id.* Ex. 7 at 9. SCO never remitted to Novell any monies it received from either of the agreements. Decl. Joseph LaSala at ¶ 4.

On July 11, 2003, when Novell had not received any royalty reports from SCO for over half a year, it

sent SCO a letter demanding royalty reports and payments as required by the APA. *Id.* ¶ 6, Ex. 1. In response, on July 17, 2003, SCO submitted limited royalty payments from November 2002 through May 31, 2003. *Id.* Ex. 2. These payments did not mention any royalties from the 2003 Sun or Microsoft Agreements. *Id.* ¶ 6.

Novell conducted an audit of SCO's compliance with the APA's agency provisions at the end of 2003. On November 21, 2003, Novell demanded copies of the Sun and Microsoft Agreements. Decl. Michael Jacobs Ex. 13 at 2. SCO did not respond. On December 29, 2003, Novell again contacted SCO requesting copies of the agreements. *Id.* Ex. 14. On January 7, 2004, SCO replied that it anticipated being in a position to respond in the near future. *Id.* Ex. 15. Novell sent subsequent inquiries in February, March, April, and November of 2004. SCO did not produce the agreements. *Id.* Ex. 16-19.

On February 7, 2006, Novell finally received the Sun and Microsoft Agreements from SCO in a production of documents pursuant to a discovery request in this litigation. SCO has had financial problems, posting operational losses for all years except 2003 when it entered into the Sun and Microsoft Agreements. Decl. Michael Jacobs Ex. 7, 21, 22. Because of the decrease in SCO's revenues and assets, Novell fears that it will be unable to collect on its claim for royalties.

DISCUSSION

I. Cross Motions on Copyright Ownership

The cross motions on the copyright ownership issue include: (1) SCO's motion for complete summary judgment on Novell's First Claim for slander of title on the basis that SCO purportedly owns the copyrights at issue; (2) SCO's motion for partial summary judgment on its slander of title claim, breach of contract claim, and unfair competition claim on the issue of whether SCO owns the UNIX and UnixWare copyrights; and (3) Novell's motion for summary judgment on SCO's slander of title and specific performance claims asserting that the plain language of the relevant contracts demonstrates that Novell owns the copyrights at issue.

As in all contract disputes, the court must begin its analysis of whether the UNIX and UnixWare copyrights were transferred to SCO with the language of the contract.⁴ Both parties argue that the plain language of the APA supports their respective positions.

The APA's provision entitled "Purchase and Sale of Assets" provides:

⁴ Pursuant to the terms of the APA, the agreement "shall be governed by and construed in accordance with the laws of the State of California regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof." APA § 9.8.

On the terms and subject to the conditions set forth in this Agreement, Seller will sell, convey, transfer, assign and deliver to Buyer and Buyer will purchase and acquire from Seller on the Closing Date (as defined in Section 1.7) all of Seller's right, title, and interest in and to the assets and properties of Seller relating to the Business (collectively the "Assets") identified on Schedule 1.1(a) hereto. Notwithstanding the foregoing, the Assets to be so purchased shall not include those assets (the "Excluded Assets") set forth on Schedule 1.1(b).

APA § 1.1(a).

SCO asserts that the APA provided for the transfer of the copyrights where it provided for the transfer of all of Novell's "right, title, and interest in and to" the Assets on Schedule 1.1(a), and Schedule 1.1(a), in turn, identifies "all rights and ownership of UNIX and UnixWare, including but not limited to all versions of UNIX and UnixWare and all copies of UNIX and UnixWare." *Id.* APA § 1.1(a), Sched. 1.1(a).

SCO's analysis of the transfer of copyrights, however, completely ignores the Excluded Assets on Schedule 1.1(b). Section 1.1(a) specifically states that the "Assets to be so purchased shall not include those assets (the "Excluded Assets[") set forth on Schedule 1.1(b). Because Section 1.1(a) of the APA transfers the Assets on Schedule 1.1(a) and excludes the assets on Schedule 1.1(b), the proper course of analysis is to examine both schedules.

Not surprisingly in the transfer of a software business, the schedules both contain sections on intellectual property. With respect to their “Intellectual Property” provisions, Schedule 1.1(a) and Schedule 1.1(b) are consistent. Schedule 1.1(b) excludes from transfer “[a]ll copyrights and trademarks, except for the trademarks UNIX and UnixWare” and “[a]ll Patents.” *Id.* APA Sched. 1.1(b) § V.A, V.B. Schedule 1.1(a) transfers only “[t]rademarks 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).” *Id.* APA Sched. 1.1(a) § V.

SCO claims that it is improper to rely on the Intellectual Property provision of the Excluded Asset Schedule in the original APA, because Amendment No. 2 revised that provision to read “All copyrights and trademarks, except for *the copyrights and trademarks owned by Novell as of the date of the Agreement required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies.*” APA Amend. No. 2 (emphasis added to demonstrate amendment). Throughout this litigation, SCO has vacillated between arguing that the transfer of copyrights was effectuated by the APA and contending that the transfer was effectuated instead by Amendment No. 2. It now argues that the court must look only to the APA as amended by Amendment No. 2. Novell, however, contends that the court must analyze whether the APA as amended when the transaction closed transferred the copyrights and also

whether Amendment No. 2, which was entered a year later, effectuated a transfer of the copyrights retroactively or at that time.

Novell takes issue with SCO's argument that the "all copyrights" exclusion in Schedule 1.1(b) of the APA no longer exists for purposes of construing the APA because the exclusion was subsequently modified by Amendment No. 2. Amendment No. 2, executed a year after the APA, states that it amends the APA as of October 16, 1996, not the date of the original APA or the Closing date of the original APA. The APA does not constitute an instrument of conveyance because it merely describes the assets that Novell "will" sell in the future. The instrument of conveyance for the APA was the Bill of Sale that the parties signed on the date the APA closed. When the parties executed Amendment No. 2 a year later, it was not made retroactive, did not amend the previous Bill of Sale, did not refer to a new Bill of Sale, and did not itself contain any language of conveyance to transfer any copyrights. Novell contends that there is no basis for concluding that the Bill of Sale, executed on December 6, 1995, could have transferred any assets contained in an amendment executed ten months later without some language in the amendment allowing that to occur.

SCO cites to *Nish Noroian Farms v. Agricultural Labor Relations Board*, for the proposition that "[a] written instrument must be construed as a whole, and multiple writings must be considered together when part of the same contract." 35 Cal. 3d 726, 735

(Cal. 1984). In *Nish Noroian*, the court concluded that a waiver provision in an earlier settlement had to be examined in light of the formal agreement entered later which incorporated and superseded it. *Id.* The court referred to Sections 1641 and 1642 of the California Civil Code, which also provide basic contractual interpretation rules. Rule 1641 states that a contract is to be interpreted to give effect to every provision of the contract, when practicable. Cal. Civ. Code § 1641. And Rule 1642 states that contracts relating to the same matters, between the same parties, and made as parts of substantially one transaction, are to be taken together. *Id.* § 1642.

These legal principles, however, do not suggest that the court should analyze the transfer of copyright issue without giving any consideration to the text of the original APA. Rather, the court must consider the original APA, the agreement executed in connection with the APA's closing, Amendment No. 2, and Amendment No. 2's relationship to the original APA and the agreements executed in connection with its closing. The court concludes that the proper way to analyze the issue, therefore, is to look at the Agreements in turn in the same chronological order that the parties entered the agreements. *See Universal Sales Corp. v. Cal. Press Mfg. Co.*, 128 P.2d 665, 671-72 (Cal. 1942) (suggesting that the court place itself in the same situation in which the parties found themselves at the time of contracting).

A. Did Copyrights Transfer Under the APA and Contemporaneous Agreements?

SCO's plain language argument relies on cases holding that "[i]n a non-consumer setting such as this, a transfer of all right, title and interest to computer programs and software can only mean the transfer of the copyrights as well as the actual computer program or disks." *Shugrue v. Continental Airlines Inc.*, 977 F. Supp. 280, 285-86 (S.D.N.Y. 1997); see also *Relational Design & Tech., Inc. v. Brock*, 1993 WL 191323, at *6 (D. Kan. May 25, 1993); *Schiller & Schmidt, Inc. v. NordiscoCorp.*, 969 F.2d 410, 413 (7th Cir. 1992). These cases, however, do not support SCO's contention. Each of these cases recognized that the terms "all right, title, and interest" transferred copyrights when there was no other language addressing copyrights.

In *Shugrue*, the court found a transfer of the copyrights based on the language "all right, title, and interest" because "[n]o exception was carved out for copyrights" and "no rights, titles, or interests were retained." 977 F. Supp. at 285. Similarly, in *Schiller & Schmidt*, the court noted that "the agreement does not mention the word 'copyright.'" 969 F.2d at 413.

Furthermore, the *Relational Design* case, cited by SCO, does not actually support SCO's position. The court concluded that where a contract stated that a party would own "all rights to the completed program with no licensing or royalties fees due," the contract transferred only ownership in a material object – the

source code – not the copyright embodied in the object. 1993 WL 191323, at *6 (“Ownership of a copyright, or of any exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied.”).

In any event, because there is specific language in the APA regarding the inclusion and exclusion of copyrights, the cases SCO relies upon are factually distinguishable from this case. Even if this court were to accept SCO’s contention that Schedule 1.1(b) of the original APA should not be considered because it was later amended, Schedule 1.1(a) of the original APA specifically addresses intellectual property and includes only trademarks. It is unlikely that any of the cases SCO relies upon would have agreed that a transfer of other intellectual property rights, such as copyrights and patents, occurred when only trademarks are identified under the heading of “Intellectual Property.” In interpreting the plain language of the APA in this case, Schedule 1.1(a), itself, represents a limitation of the intellectual property the parties intended to transfer.

SCO’s plain language arguments also focus on Recitals A and B and Section 1.3(a)(i) of the APA. SCO claims that these provisions demonstrate the parties’ intent that “all of the Business” be transferred to Santa Cruz and, therefore, that the APA transferred copyrights. Recital A defines Novell’s UNIX and UnixWare “Business” to include the development of a line of software, the sale of binary and source code licenses to the various versions of UNIX

and UnixWare, the support of such products, and the sale of other products which are directly related to UNIX and UnixWare. Recital B defines the “Acquisition” contemplated by the parties to mean that Santa Cruz would “acquire certain of the assets of, and assume certain of the liabilities of [Novell] comprising the Business.” Section 1.3(a)(i), which provides the intent of the parties with respect to the transfer of customers, states that “[i]t is the intent of the parties hereto that all of the Business . . . be transferred to Buyer.”

These general provisions provide little insight into whether the parties intended to transfer the UNIX and UnixWare copyrights to Santa Cruz. The Business is not defined specifically enough to include copyrights. And the definition of the Acquisition of the Business merely states that Santa Cruz would acquire *certain of the assets* comprising the Business. Where there are specific provisions of the document detailing the assets being transferred and the assets being excluded, such as Schedules 1.1(a) and 1.1(b), the more specific provisions control. *National Ins. Underwriters v. Maurice Carter*, 17 Cal. 3d 380, 386 (1976) (“[W]hen a general and particular provision are inconsistent, the latter is paramount to the former.”). Schedule 1.1(a) provides that the only intellectual property Santa Cruz was acquiring were the UNIX and UnixWare trademarks. Moreover, there is nothing inconsistent with the provisions cited by SCO and the more specific schedules provided for

in the APA. Recital B specifically defines the Acquisition as certain assets comprising the Business.

SCO further argues that the agreements executed by the parties in connection with the Closing of the APA support its position that copyrights transferred under the APA. “It is a general rule that several papers relating to the same subject matter and executed as parts of substantially one transaction, are to be construed together as one contract.” *Harm v. Frasher*, 181 Cal. App. 2d 405, 412-13 (Ct. App. 1960). On the Closing Date, Novell and Santa Cruz executed the Bill of Sale which provides that it “does hereby transfer, convey, sell, assign, and deliver to Buyer . . . all of the Assets” in accordance with Section 1.1(a) of the APA. SCO asserts that the Bill of Sale expressly effectuated the transfer of all assets identified in Section 1.1(a) of the APA, which included “all rights and ownership” of UNIX and UnixWare. Again, however, SCO fails to recognize that the term “Assets” in the APA is a defined term that does not include any of the assets on the Excluded Assets schedule. Moreover, the Bill of Sale specifically states that the defined terms have the meanings given in the APA and that the provisions of the APA control. Therefore, the Bill of Sale did not grant additional rights to any party, does not create an ambiguity with respect to any term in the APA, and did not effectuate a transfer of assets that was not provided for in the APA.

In addition, SCO contends that the TLA confirms that Novell transferred the copyrights to Santa Cruz on the Closing Date because Section 1.6 of the APA

expressly provided for a license back to Novell of the technology transferred to Santa Cruz. Under the TLA, Santa Cruz granted a license to Novell with certain restrictions and specified that SCO owned the “Licensed Technology.” SCO contends that Section 1.6 and the TLA would be senseless had Novell retained the ownership of the copyrights because Novell would not have needed a license to the Licensed Technology.

SCO, however, does not recognize that the TLA provided that the term Licensed Technology had the meaning given to it in the APA. The APA defines “Licensed Technology” as “all of the technology included in the Assets and all derivatives of the technology included in the Assets.” The term Assets is defined in the APA as those assets included on Schedule 1.1(a) but not those assets excluded from transfer on Schedule 1.1(b). Novell would need a license to be able to use these other aspects of the technology sold to Santa Cruz and derivatives of the transferred assets. Because the “Licensed Technology” included rights distinct from Novell’s UNIX and UnixWare copyrights, it makes sense that Novell would need a license back with respect to those assets. Furthermore, the same logic would imply that Novell transferred ownership of UNIX-related patents because Novell would not have needed a license to these patents if it retained ownership. SCO’s admission that Novell did not transfer ownership of the patents refutes SCO’s argument that the TLA implies that Novell must have transferred ownership of all UNIX-related technology to Santa Cruz. The plain language

of the APA, therefore, is in harmony with the plain language of the TLA.

Furthermore, SCO's attempt to rewrite "all copyrights" in Schedule 1.1(b) to mean "NetWare Copyrights Only" is contrary to the plain language of the Schedule 1.1(a) and Schedule 1.1(b). Schedule 1.1(b) clearly distinguished UNIX and UnixWare trademarks as assets being transferred. Schedule 1.1(a) also clearly transferred only UNIX and UnixWare trademarks. If the parties intended to transfer UNIX and UnixWare copyrights as well, they could have easily demonstrated that intent while they were making the distinction for UNIX and UnixWare trademarks. There is nothing in the text of the APA that would support an interpretation of "all copyrights" to mean only Netware copyrights.

In *Blumenfeld v. R.H. Macy & Co.*, 92 Cal. App. 3d 38 (1979), the California Court of Appeals rejected a similar attempt to interpret "all" to mean "less than all." The trial court relied on extrinsic evidence to interpret a contract assigning "all claims against third parties relating to the [shopping] Center" as limited to claims against current tenants of the Center. The court of appeals reversed, holding that the "all-inclusive language of the agreement is not reasonably susceptible of the meaning advanced." *Id.* at 46.

The language of Schedule 1.1(b) is not reasonably susceptible to being interpreted to mean "all copyrights except for UNIX and UnixWare copyrights."

The parties clearly delineated that the UNIX and UnixWare trademarks were exceptions and they clearly chose not to make a similar exception for the copyrights. There is also no basis for reading the language to mean that the only copyrights excluded were NetWare copyrights. If the parties had intended to exclude only NetWare copyrights, it would have been simple to use “NetWare copyrights” instead of “all copyrights.[”] However, the parties used “all copyrights.” The exclusion of “all copyrights” was all inclusive. Interestingly, SCO does not argue that Schedule 1.1(b)’s exclusion of “all patents” means “only Netware patents.” The use of “all patents” after “all copyrights” clearly shows that “all copyrights” cannot be interpreted to mean “only Netware copyrights” while “all patents” means “all patents.”

The court concludes that the APA as amended by Amendment No. 1 excluded UNIX and UnixWare copyrights from the Assets transferred to Santa Cruz by the Bill of Sale. The Bill of Sale executed by the parties on December 6, 1995, transferred ownership to Santa Cruz of the Assets as defined by the APA and Amendment No. 1. Thus, the scope of the Assets transferred by the Bill of Sale is determined by the definition of Assets set forth in the APA and Amendment No. 1. Amendment No. 1 made some revisions to Schedules 1.1(a) and (b) but did not change the description of the Intellectual Property included and excluded from the transfer. A review of Schedule 1.1(a) listing transferred assets and Schedule 1.1(b) listing Excluded Assets demonstrates that the

transferred assets did not include the UNIX and UnixWare copyrights. The only “Intellectual Property” listed in the Schedule 1.1(a) list of assets to be transferred are the UNIX and UnixWare trademarks. Schedule 1.1(a) did not identify UNIX or UnixWare copyrights as an asset to be transferred. Conversely, the Schedule 1.1(b) list of “Excluded Assets” expressly excluded from the transferred assets “[a]ll copyrights and trademarks, except for the trademarks UNIX and UnixWare.” Thus, the language of the APA and Amendment No. 1 at the time of the Bill of Sale is clear: all copyrights were excluded from the transfer.

Apart from the language of the agreements, SCO maintains that it has provided the court with extrinsic evidence that the parties intended the APA to transfer the UNIX and UnixWare copyrights to Santa Cruz. Under California law, extrinsic evidence is admissible both to support interpretations of contracts to which the language at issue is reasonably susceptible and to demonstrate the parties’ intent under contractual provisions that the court deems to be ambiguous. *Universal Sales Corp. v. Call Press Mfg. Co.*, 128 P.2d 665, 671-72 (Cal. 1942). Therefore, oral testimony and other extrinsic evidence are not admissible to support an interpretation of a contract that is contrary to the plain language. The critical issue is “whether the offered evidence is relevant to prove a meaning which the language of the instrument is reasonably susceptible.” *Dore v. Arnold Worldwide, Inc.*, 39 Cal. 4th 384, 391 (2006). If the contract is not reasonably susceptible to the proposed

interpretation, extrinsic evidence is inadmissible and does not create a triable issue of fact that would defeat summary judgment. *Id.* at 388, 391-93.

When a contract is integrated, “extrinsic evidence is admissible only to supplement or explain the terms of the agreement – and even then, only where such evidence is consistent with the terms of the integrated document.” *EPA Real Estate Partnership v. Kang*, 12 Cal. App. 4th 171, 175-77 (1992). The APA includes an express integration clause stating that the “Agreement, and the Schedules and Exhibits” “constitute the entire agreement among the parties with respect to the subject matter . . . and supersede all prior agreements and understanding, both written and oral.” APA § 9.5. Novell and Santa Cruz further agreed, in connection with the Bill of Sale, that the APA is an integrated agreement not to be altered by any other understandings: “It is acknowledged and agreed . . . that the Agreement is the exclusive source of the agreement and understanding between the Seller and Buyer respecting the Assets.” Bill of Sale ¶ 5.

The 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. Moreover, even if the court considered the extrinsic evidence, there is significant evidence that the exclusion “all copyrights” was deliberate and consistent with the basic objectives of the APA. While there is no specific evidence

that business executives negotiated the issue of copyrights, the changes to the drafts of the agreement show that a significant change occurred. Novell has provided extrinsic evidence supporting the change in the language and the fact that it was relayed to SCO, whereas SCO has failed to present any evidence from witnesses on its side of the transaction who had any involvement with the actual drafting or negotiation of the language in the contract.

Attorneys for Novell and Santa Cruz exchanged specific communications about the scope of the assets to be transferred. The initial draft of the APA included “all patents, patent applications, copyrights . . . and all other intellectual property . . . that pertain to Unix or UnixWare” in the list of assets to be transferred to Santa Cruz. Novell then revised the list of assets to be transferred by deleting patents and copyrights, leaving only UNIX and UnixWare trademarks as intellectual property to be transferred. These revisions were sent to SCO sometime before September 18, 1995, because the September 18, 1995 draft, which ultimately became the final versions of Schedule 1.1(a) and Schedule 1.1(b), already included such changes.

Extrinsic evidence of business negotiators prior to the finalization of the agreement is not probative of the issue regarding copyrights because it is obvious that the deal changed over time. The extrinsic evidence demonstrates that Santa Cruz did not have the cash necessary to complete the deal. Therefore, the parties constructed a fairly complex mechanism

to ensure Novell a future revenue stream. Novell has presented evidence that the transaction evolved as it became necessary for Novell to protect its future stream of revenue. Novell deliberately excluded the UNIX and UnixWare copyrights to protect its retained right to receive 95% of future SVRX revenues. Braham testified that the exclusion of UNIX and UnixWare copyrights ensured that copyrights would not be part of the bankruptcy estate if Santa Cruz went into bankruptcy and the retention of the UNIX and UnixWare copyrights strengthened Novell's legal basis for receiving royalties and negotiating buy-outs of SVRX licenses. SCO, however, provides no extrinsic evidence regarding the final negotiations of the deal that would contradict Novell's evidence.

In its attempt to argue that extrinsic evidence is necessary, SCO repeatedly overstates its case. SCO contends that the exclusion of the UNIX and UnixWare copyrights would render the APA meaningless because it would prevent Santa Cruz from pursuing its UNIX business. Braham testified that Novell's sale of UNIX and UnixWare products to Santa Cruz under the APA necessarily conferred a license on Santa Cruz to use the copyrights as needed to implement the APA. Contrary to SCO's assertions, there is evidence that SCO did not need to own the UNIX and UnixWare copyrights to pursue its UNIX business.

It is well established that a contract involving copyrighted works confers an implied license to use the copyrights as needed to implement the transaction. In *Food Consulting Group, Inc. v. Musil Govan*

Azalino, 270 F.3d 821 (9th Cir. 2001), the defendant's predecessor paid \$175,000 to plaintiff to prepare a preliminary plot plan and final engineering drawings for a proposal to build a shopping center. *Id.* at 824. When defendant hired a different firm to complete the project using a modified version of plaintiff's plan, plaintiff claimed that the defendant had no right to use or modify plaintiff's copyrighted drawings. *Id.* at 824-25. The Ninth Circuit rejected this claim, holding that the contractor granted "an implied license to use the revised plot plan to build the project." *Id.* at 828. The Ninth Circuit emphasized that "[t]he central purpose of the contract" was the production of engineering documents for the shopping center and given this purpose and the amount of money paid, "it would have been surprising if the parties had intended for [defendant] to seek [plaintiff's] permission before using the plans to build the project." *Id.*

In this case, while copyrights were excluded from the transferred assets, Santa Cruz did acquire ownership of other rights in multiple versions of UNIX and UnixWare. Moreover, a central purpose of the APA was to enable Santa Cruz to develop and distribute an improved version of UNIX that combined Novell's "UnixWare" product with Santa Cruz's "OpenServer." Implementing this purpose required Santa Cruz to copy, modify, distribute, and sublicense code in Novell's UnixWare products. Thus, Novell's sale of its UNIX and UnixWare products necessarily conferred a license on Santa Cruz to use the related copyrights as

needed to carry out the business activities contemplated by the APA.

The conclusion that Santa Cruz had a license to the UNIX copyrights is reinforced by the fact that Santa Cruz indisputably did not acquire ownership of Novell's UNIX-related patents. Santa Cruz needed to use these patents to be able to distribute and modify UNIX products. Therefore, Novell's sale of its UNIX products to Santa Cruz necessarily conveyed a license to use the patents as needed to implement the APA.

Burt Levine, a former paid consultant to SCO and in-house attorney for AT&T, USL, Novell, and Santa Cruz, acknowledged that the APA "convey[ed] enough of a patent license under Novell's patents that would be necessary for SCO to conduct its business." Similarly, he agreed that if Novell had retained the copyrights, SCO would have had an inherent license to use those copyrights as necessary in the business.

Furthermore, there is extrinsic evidence that during the period of time between the signing of the APA on September 19, 1995, and its closing on December 6, 1995, the parties spent considerable time going through the documents and determining what amendments should be made. While there may be some claims that the original signing of the APA was rushed, there were months of further negotiations regarding certain provisions before the Closing. This resulted in the changes made in Amendment No. 1. Although changes to Schedule 1.1(a) and 1.1(b)

were made in Amendment No. 1, there were no changes made to the intellectual property provisions.

SCO also argues that there is no evidence that Novell publicly asserted ownership of the UNIX copyrights between the APA's Closing and May 28, 2003. While the court fails to appreciate why SCO believes that Novell would have had a reason for publicly announcing its ownership of copyrights before that date, there is substantial evidence that Novell privately asserted its right to the copyrights during that time period. When SCO contacted Novell to enter into Amendment No. 2, Novell asserted its ownership of the copyrights and it refused to transfer them. There is evidence that when Santa Cruz sold its business to Caldera, Santa Cruz was unable to obtain a chain of title to the copyrights. In addition, there is evidence that in response to several telephone calls from Darl McBride to various individuals at Novell, Novell refused to transfer copyrights to SCO. A failure to publicly announce its ownership is not particularly probative of whether the copyrights transferred.

In addition, the evidence with respect to joint copyrights being used on products does not demonstrate that copyrights transferred under the APA. Novell's explanation for the joint reference of both Novell's and Santa Cruz's copyrights is consistent with the fact that the copyrights in the original UNIX and UnixWare products remained with Novell, and SCO retained the copyright in the newly produced derivative products.

Therefore, even relying on the extrinsic evidence from the time the APA was signed and closed, the court is convinced that the UNIX and UnixWare copyrights did not transfer under the APA or the agreements executed in connection with the APA's Closing.

B. Did Copyrights Transfer Under Amendment No. 2 to the APA?

SCO contends that Amendment No. 2 clarified that the UNIX and UnixWare copyrights were not Excluded Assets. Amendment No. 2 amended the Excluded Asset schedule to read: "All copyrights and trademarks, except for *the copyrights and trademarks owned by Novell as of the date of the Agreement required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies.*" APA Amend. No. 2 (Emphasis added to demonstrate amendment.) SCO asserts that it is plain that the UNIX and UnixWare copyrights were so required because of the substantial rights to the Business Santa Cruz received in the transaction. Obviously, this contention is rebutted by the evidence above demonstrating that SCO could conduct its business with a license to the copyrights.

Novell argues that Amendment No. 2 did not transfer UNIX and UnixWare copyrights because (1) it does not constitute an instrument of conveyance under the Copyright Act, (2) it did not include any provisions transferring ownership of copyrights nor

did it purport to retroactively amend the Bill of Sale to transfer copyrights, (3) it did not specifically identify which copyrights, if any, should be transferred, and (4) Santa Cruz did not “require” ownership of the UNIX and UnixWare copyrights for its business because it already had a license to use these copyrights as needed to implement the APA.

The Copyright Act requires a signed written instrument to transfer ownership of copyrights. Section 204(a) states: “A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner’s duly authorized agent.” 17 U.S.C. § 204(a). This requirement is meant to “enhance[] predictability and certainty of copyright ownership.” *Effects Assoc. v. Cohen*, 908 F.2d 555, 557 (9th Cir. 1990).

Section 204 is a prerequisite to a valid transfer of copyright ownership, and not merely an evidentiary rule. A transfer of copyright is simply “not valid” without the required written instrument. *Konisberg Int’l, Inc. v. Rice*[], 16 F.3d 355, 357 (9th Cir. 1994). Further, unlike a statute of frauds, Section 204 is not subject to equitable defenses, such as estoppel, because such defenses would “undermine the goal of uniformity and predictability in the field of copyright ownership and transfer.” *Pamfiloff v. Giant Records, Inc.*, 794 F. Supp. 933, 937 (N.D. Cal. 1992).

“As with all matters of contract law, the essence of the inquiry here is to effectuate the intent of the parties. Accordingly, even though a written instrument may lack the terms ‘transfer’ and [‘]copyright,’ it still may suffice to evidence their mutual intent to transfer the copyright interest.” *Nimmer on Copyrights* § 10.03[2]. SCO contends that, under the applicable authority, the language identifying the Assets by reference in Section 1.1(a) of the APA, as amended by Amendment No. 2, meets the statutory requirements.

Amendment No. 2 does not include any provision that purports to transfer ownership of copyrights. It merely revised the definition of the intellectual property category of the Excluded Assets schedule. Unlike the APA, Amendment No. 2 was not accompanied by a separate “Bill of Sale” transferring any assets. Nor did Amendment No. 2 purport to retroactively change the scope of the assets transferred by the Bill of Sale that was executed in connection with the APA in December 1995. Amendment No. 2 states that it “amended” the APA “[a]s of the 16th day of October, 1996.” Thus, Amendment No. 2 did not retroactively cause the Bill of Sale to transfer copyrights that were expressly excluded from transfer by the APA and Amendment No. 1.

Furthermore, Amendment No. 2 also did not amend Schedule 1.1(a). It is undisputed that the Bill of Sale transferred the Assets contained on Schedule 1.1(a). Even after the execution of Amendment No. 2,

however, Schedule 1.1(a) did not include any language regarding copyrights.

Also, significantly, Amendment No. 2 did not identify which copyrights, if any, were “required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies.” The written instrument required by Section 204 should contain sufficient information “to serve as a guidepost for the parties to resolve their disputes.” *Konisberg Int’l*, 16 F.3d at 357. Amendment No. 2 does not meet these standards. SCO now claims that Santa Cruz required ownership of all of Novell’s UNIX and UnixWare copyrights to exercise its rights regarding the UNIX assets it acquired under the APA. Novell, in contrast, contends that Santa Cruz did not need to own these copyrights because Santa Cruz already had a license to the copyrights.

Where the plain language does not resolve the issue, among the relevant extrinsic evidence courts review to determine such “mutual intention” is “the surrounding circumstances under which the parties negotiated or entered into the contract” and “the object, nature and subject matter of the contract.” *Morey v. Vannucci*, 64 Cal. App. 4th 904, 912 (1998). The contract may be explained by reference to the circumstances under which it was made. Cal. Civ. Code § 1647.

In this case, the extrinsic evidence surrounding Amendment No. 2 strongly favors Novell’s position that Amendment No. 2 was merely affirming Santa

Cruz's implied license to use the UNIX and UnixWare copyrights. Santa Cruz's in-house counsel, Steve Sabbath, approached Novell's in-house counsel, Allison Amadia, about obtaining the UNIX and UnixWare copyrights. Amadia testifies that she then reviewed the APA and spoke with Braham to learn about the history of the agreement and the intent of the parties.

Santa Cruz's first proposed draft of Amendment No. 2 referred to copyrights "owned by Novell as of the date of this Amendment, which pertain to the UNIX and UnixWare technologies and which SCO has acquired hereunder." This proposed language clearly intended to transfer the UNIX and UnixWare copyrights through the amendment. However, Novell rejected Santa Cruz's proposed language. Amadia testifies that she told Sabbath that while Novell was willing to affirm that Santa Cruz had a license under the original APA to use the UNIX and UnixWare copyrights in its business, it was not willing to transfer ownership of the copyrights. As a result, the final version of Amendment No. 2 does not refer to any specific copyrights and does not refer to Santa Cruz's "acquisition" of any copyrights.

This extrinsic evidence is consistent with the language of the Amendment, which reads like an implied license. It is also consistent with the fact that the parties did not amend Schedule 1.1(a) when they executed Amendment No. 2. No specific copyrights were, therefore, included as Assets to be transferred on Schedule 1.1(a). As in interpreting the original APA, "the whole of a contract is to be taken together,

so as to give effect to every part, if reasonably practicable, each clause helping to interpret the other.” Cal. Civ. Code § 1641. Construing the language of Amendment No. 2 to be an affirmation of an implied license to the copyrights does not put the amended Excluded Assets Schedule at odds with the transferred Asset Schedule 1.1(a).

There is also significant evidence that Santa Cruz [sic] did not “require” the UNIX and UnixWare copyrights. 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. While SCO has submitted testimony from witnesses stating generally that the copyrights were necessary to running a software business, none of those witnesses give specific examples of how a lack of copyright ownership impeded Santa Cruz’s ability to exercise its rights under the APA. The APA conferred an implied license on Santa Cruz to use Novell’s copyrights as needed to implement the purposes of the APA. That implied license allowed SCO to license the copyrights to others. Because Santa Cruz already had that license, it did not require ownership of the copyrights. Therefore, even if Amendment No. 2 had a means of conveyance or conveyance language, Amendment No. 2 would not have transferred the UNIX and UnixWare copyrights as there is no evidence that any of the copyrights were “required.”

For these reasons, the court concludes that Amendment No. 2 did not transfer the UNIX and UnixWare copyrights to SCO. Even 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 original APA. Furthermore, SCO has not provided evidence that it required ownership of the copyrights to exercise its rights under the APA. Accordingly, the court concludes that Novell is the owner of the UNIX and UnixWare copyrights.

This court's conclusion that Novell owns the UNIX and UnixWare copyrights impacts several of the claims asserted by both parties and several pending motions. Novell's motion on the copyright issue is brought with respect to SCO's First Claim for Relief for slander of title and Third Claim for Relief for specific performance. Novell is entitled to summary judgment on SCO's First Claim for Relief for slander of title because SCO cannot demonstrate that Novell's assertions of copyright ownership were false. *First Sec. Bank of Utah v. Banberry Crossing*, 780 P.2d 1253, 1256-57 (Utah 1989). In addition, Novell is entitled to summary judgment in its favor on SCO's Third Claim for Relief seeking an order directing Novell to specifically perform its alleged obligations under the APA by executing all documents needed to transfer ownership of the UNIX and UnixWare copyrights to SCO. Neither the original APA nor Amendment No. 2 entitle SCO to obtain ownership of the UNIX and UnixWare copyrights.

SCO's motion for summary judgment on copyright ownership is brought with respect to its First Claim for Relief for slander of title, its Second Claim For Relief for breach contract, its Fifth Claim for Relief for unfair competition, and Novell's First Claim for Relief for slander of title. SCO's motion for partial summary judgment on its own claims is denied. SCO's motion with respect to Novell's slander of title claim focuses only on the title/ownership issue. A slander of title claim involves a false statement disparaging title, that is made with malice and that causes actual or special damages. *First Sec. Bank of Utah*, 780 P.2d at 1256-57. Because SCO has not moved on the elements of malice or special damages, the court has no present basis for dismissing Novell's claim. Accordingly, the court denies SCO's motion for summary judgment on the Novell's slander of title claim.

II. Novell's Summary Judgment Motions on Special Damages and the Copyright Ownership Portions of SCO's Unfair Competition Claim and Breach of Implied Covenant

Novell's motion for summary judgment on SCO's slander of title claim for failure to establish special damages is now moot because the claim has been dismissed on other grounds. Novell is also entitled to summary judgment on the copyright ownership portion of SCO's unfair competition and implied covenant of good faith claims because SCO cannot

establish that Novell's assertion that it owns the UNIX and UnixWare copyrights was false.

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

Utah common law does not recognize an unfair competition claim based on allegedly defamatory statements. *See Proctor & Gamble Co. v. Haugen*, 947 F. Supp. 1551 (D. Utah 1996), *aff'd in part, rev'd in part*, 222 F.3d 1262 (10th Cir. 2000). Recognizing that "no Utah court has extended unfair competition . . . to include defamation in the marketplace," the court declined to "create a new cause of action under the umbrella of unfair competition which would essentially be identical to an already well-established cause of action and would offer no further protection of commercial values." *Id.* at 1554. Similarly, in this case, SCO's unfair competition claim is duplicative of its slander of title claim and there is no need to expand Utah law to create a new cause of action.

Even though SCO argues that Novell did not publicly claim ownership in the copyrights until it

was presented with an opportunity to garner financial and strategic benefit in the market, there is no evidence that Novell's public statements were based on anything but its good faith interpretation of the contracts. The evidence in this case demonstrates that on several occasions, between the time the APA was signed and Novell made its public statements, Novell privately refused to transfer the copyrights to Santa Cruz and SCO. Santa Cruz attempted to gain the copyrights under Amendment No. 2 to the APA, Santa Cruz attempted to get a chain of title from Novell when it sold its assets to Caldera, and McBride repeatedly attempted to get Novell to transfer the copyrights when SCO began its SCOSource initiative. Whether or not SCO acquired those copyrights under the APA, it was aware that the parties disagreed about the ownership of the copyrights. Therefore, there is no basis in the evidence before this court for finding that Novell's public claims of ownership were a misappropriation or seizure of SCO's property.

Furthermore, Novell's allegedly false statements do not meet the statutory definition of "unfair competition." Unfair competition is defined as "an intentional business act or practice" that falls within the categories of "(A) cyber-terrorism; (B) infringement of a patent, trademark, or trade name; (C) a software license violation; or (D) predatory hiring practices." Utah Code Ann. § 13-5a-102(4)(ii) (2006). Novell's alleged statements claiming ownership of copyrights based on its interpretation of the parties' contracts do

not fall within any of these categories. Novell's statements are not a breach of Section 3 of the TLA, which states that SCO owns the Licensed Technology. Section 3 does not prohibit the parties from making statements about whether or not copyrights were a part of the Licensed Technology that was transferred.

SCO's breach of contract claim alleges that Novell "breached the covenant of good faith and fair dealing under the APA and TLA" by "numerous acts of bad faith," including "making false and misleading statements denying SCO's ownership of the copyrights in UNIX and UnixWare." Sec. Am. Compl. ¶ 99. SCO has cited to no California case holding that the implied duty of good faith and fair dealing prohibits a party to a contract from making statements related to its understanding of the rights that are conferred or not conferred by the contract.

A breach of the implied covenant requires "objectively unreasonable conduct, regardless of the actor's motive." *Carma Developers Inc. v. Marathon Dev. Cal., Inc.*, 2 Cal. 4th 342, 374 (1992). A comment to Section 205 of the Restatement Second of Contracts states that the implied covenants are violated "by dishonest conduct such as conjuring up a pretended dispute, asserting an interpretation contrary to one's own understanding, or falsification of facts." *Id.* comment e.

Even if this court had ruled in SCO's favor on the copyright ownership issue, there is no evidence to demonstrate that Novell's position was contrary to its

own understanding of the contractual language or objectively unreasonable given the history of the dispute between the parties.

III. Novell's Summary Judgment Motion on SCO's Non-Compete Claims

Novell seeks summary judgment on the non-compete claims in SCO's Second Claim for breach of contract and Fifth Claim for unfair competition. SCO's non-compete claims allege that Section II.A(2) of the TLA and Section 1.6 of the APA contained non-compete provisions prohibiting Novell from using the Licensed Technology to compete with SCO's core server operating systems. Novell asserts that the provisions in the APA and TLA are limitations on the scope of Novell's license to the Licensed Technology rather than non-compete clauses. Novell also argues that it is entitled to summary judgment on the alternative ground that Santa Cruz's sale of substantially all of its assets to SCO's predecessor in 2001 constituted a "Change of Control" that terminated any non-compete obligations under the APA and TLA. Finally, Novell contends that any covenant not to distribute competing products would be void under California law.

A. The APA and TLA Provisions

Section 1.6 of the APA states that Santa Cruz must execute a license agreement concurrent with the Closing of the APA which grants Novell "a

royalty-free, perpetual, worldwide license to (i) all of the technology included in the Assets and (ii) all derivatives of the technology included in the Assets.” APA § 1.6. This licensed back technology is referred to collectively as “Licensed Technology.” *Id.* Consistent with the court’s conclusion above, however, this Licensed Technology does not include the UNIX and UnixWare copyrights. Therefore, to the extent that SCO’s non-compete claims are based on its ownership in the UNIX and UnixWare copyrights, which this court has concluded were retained by Novell, SCO’s noncompete claims are dismissed.

The parties, however, have not specifically addressed whether any of SCO’s copyright infringement claims are based on copyrights SCO may have obtained in derivatives of the technology included in the Assets. In the copyright ownership discussion, Novell recognized that SCO would have the copyright to the new merged product. Novell also recognized that joint copyright notices are used that demonstrate a copyright ownership by SCO as of 1996. SCO’s non-compete and copyright infringement claims also relate to SUSE Linux. The SUSE Linux claims have been stayed pending arbitration. Although those claims are stayed, Novell asserts in its motion that it should not be precluded from raising a motion relating to the meaning and interpretation of the TLA. Assuming that SCO has a basis for asserting a copyright infringement action other than based on ownership in the UNIX and UnixWare copyrights, the court will address the merits of Novell’s motion.

Under Section 1.6 of the APA, Novell has a license to “use the Licensed Technology without restriction for internal purposes and for resale in bundled or integrated products sold by [Novell] which are not directly competitive with the core products of [Santa Cruz] and in which the Licensed Technology does not constitute a primary portion of the value of the total bundled or integrated product.” *Id.* Under the TLA, Novell retains a “non-exclusive, non-terminable, worldwide, fee-free license” in the Licensed Technology to “sublicense and distribute, and authorize its customers to sublicense and distribute, such Licensed Technology and modifications thereof, in source and binary form.” This license as to external use was subject to the following restrictions:

provided, however, that (1) such technology and modifications may be sublicensed and/or distributed by Novell solely as part of a bundled or integrated offering (“Composite Offering”); (ii) such Composite Offering shall not be directly competitive with core application server offerings of SCO, and (iii) the Licensed Technology shall not constitute a primary portion of the value of such Composite Offering.

TLA § II(A)(2).

Novell asserts that the clauses are limitations on the scope of the license, and if it has exceeded the scope of the license, then SCO can only assert a copyright infringement claim, and not a non-compete breach of covenant claim. SCO argues that Novell

presents a false choice between license limitations and covenants not to compete because it can bring state law claims for breach of contract and unfair competition based on the same conduct as its copyright infringement claim.

“Generally, a ‘copyright owner who grants a nonexclusive license to use his copyrighted material waives his right to sue the licensee for copyright infringement’ and can sue only for breach of contract.” *Sun Microsystems, Inc. v. Microsoft Corp.*, 188 F.3d 1115, 1121 (9th Cir. 1999) (citation omitted). “If, however, a license is limited in scope and the licensee acts outside the scope, the licensor can bring an action for copyright infringement.” *Id.* The *Sun* court stated that “[w]hether this is a copyright or a contract case turns on whether the compatibility provisions help define the scope of the license.” *Id.*

The language and the structure of the APA and the TLA suggest that the restrictions are a limitation on the scope of the license. The restriction immediately follows the description of the license in both agreements. The restriction necessarily limits how Novell was entitled to use the Licensed Technology and appears to define the scope of Novell’s rights to use the Licensed Technology. License limitations, such as the restrictions here, set the boundaries of the agreement.

SCO, however, claims that the restrictions are covenants, and it cites to cases recognizing that “[c]ourts have held a breach of an independent

covenant of a copyright license, such as a promise to pay royalties, is not a copyright infringement action, but a breach of contract action.” *Kabehie v. Zoland*, 102 Cal. App. 4th 513, 527-28 (2002) (holding state law claims not preempted by Copyright Act when based on something qualitatively different from copyright). In *Fantastick Fakes Inc. v. Pickwick Int’l, Inc.*, 661 F.2d 479, 483-84 (5th Cir. Unit B 1981), the court found that the “mere breach of a covenant may support a claim of damages for breach of contract but will not disturb the remaining rights and obligations under the license including the authority to use the copyrighted material.”

SCO argues that the restrictions are a contractual covenant because they constitute an agreement between the parties that is separate from the scope of the license grant. Regardless of the scope of the license, if Novell had not agreed to the restrictions, SCO would not have consented to Novell’s retention of any license in the Licensed Technology. Furthermore, “conduct that may give rise to a federal suit for copyright infringement may also give rise to a state law claim in tort for unfair competition, tortious interference, or breach of contract.” *La Resolana Architects, PA v. Clay Realtors Angel Fire*, 416 F.3d 1195, 1199 n.2 (10th Cir. 2005).

The Copyright Act, however, preempts such claims if the “work is within the scope of the ‘subject matter of copyright’” and the “rights granted under state law are equivalent to any exclusive rights within the scope of federal copyright.” *Id.* (citations

omitted). Nonetheless, the court also recognized that a state law claim is “qualitatively different from, and not subsumed within, a copyright infringement claim[”] if the “state cause of action requires an extra element, beyond mere copying, preparation of derivative works, performance, distribution or display.” *Id.*

Novell contends that it has not made an argument that the Copyright Act preempts SCO’s state law causes of action and the preemption issue has no relevance to whether the language at issue is a license limitation or a covenant. Although SCO cites to several Ninth Circuit cases for the proposition that a failure to comply with the terms of a license to use copyrighted material can give rise to both copyright and breach of contract claims, Novell claims that the cases do not support SCO’s position. *Germaine Music v. Universal Songs of Polygram*, 130 Fed. Appx. 153, 155 n.1 (9th Cir. 2005) (stating in dicta that “If [defendant] was using songs without paying royalties, it was likely both a breach of contract and a violation of the copyright.”); *Grosso v. Miramax Film Corp.*, 383 F.3d 965, 967-68 (reversing district court’s holding that plaintiff could not bring a breach of contract claim when copyright infringement claim was dismissed); *Guthy-Renker Corp. v. Bernstein*, 39 Fed. Appx. 584, 587 (9th Cir. 2002) (upholding district court’s damage award for breach of contract and copyright infringement); *Rano v. Sipa Press, Inc.*, 987 F.2d 580, 586 (9th Cir. 1993) (stating claims available to plaintiff where claim was preempted).

The court finds the analysis in *Nimmer's Information Law*, cited by SCO, helpful on the issue of whether SCO can have a claim under both copyright and contract law. "Breach of the license creates the potential of liability for contract breach and also the possibility of liability under property rights law. Subject to considerations that preclude double recovery for the same act, both forms of action may exist in a given case. The two claims entail completely different remedy structures." Raymond T. Nimmer, 2 *Information Law* § 11:154.

"An infringement claim exists, in addition to the contract claim, however, if the licensee's actions involve conduct prohibited by applicable property law and are either outside the scope of the license or occur after the license was cancelled or terminated. In effect, the infringement claim requires that the conduct not be protected by the license." *Id.* "A conclusion that a particular act constitutes a copyright (or patent) infringement does not indicate that there can be no contract law remedies with that same act. Both an infringement and a contract breach may occur in the same act and be subject to remedies brought under one or both bodies of law." *Id.*

Nimmer's discussion of *Kepner-Tregoe, Inc. v. Vroom*, 186 F.3d 283 (2d Cir. 1999) is also instructive:

the court held that a party who transferred rights to use a copyrighted executive management system, retaining only the right to use it in his own classes, did not have the right to use the system in a software product.

Thus, doing so exceeded the scope of the license and was copyright infringement. Nevertheless, the court awarded both copyright infringement damages and contract damages. The infringement statutory damages stemmed from the author's willful acts of copyright infringement, while the contractual damage award represented the company's consequential damages of having to enforce its copyright rights stemming from the author's breach of the licensing agreement.

2 Information Law § 11:154.

In this case, SCO's breach of contract claims is based on Novell's alleged distribution of Licensed Technology as part of Linux, which is a directly competitive system. Sec. Am. Compl. ¶¶ 97-98. SCO's copyright infringement claim also alleges that Novell infringed SCO's copyrights by copying, reproducing, modifying, sublicensing, and/or distributing Linux products containing unauthorized contributions of SCO's copyrighted intellectual property. *Id.* ¶ 116. SCO also claims copyright infringement based on Novell's alleged use of the Licensed Technology in an operating system that competes with SCO's core application server products or in a product wherein the intellectual property constitutes a primary portion of the value of the product. *Id.* ¶ 118. Therefore, SCO alleges that Novell exceeded the scope of its license and breached the non-compete restrictions.

Even though the restrictions are limitations on the scope of Novell's license, there appears to be no

restriction under the case law precluding SCO, as a matter of law, from pursuing a claim for an alleged breach of those restrictions and copyright infringement. Outside the context of determining whether the irreparable harm presumption in a copyright infringement action applies for purposes of analyzing a preliminary injunction, as was the case in *Sun*, the distinction appears to be meaningless because a party can obtain separate damages based on the same alleged conduct.

Novell did not bring its motion based on the factual merits of SCO's copyright and contract claims. Rather, its only position was that, as a matter of law, SCO could not state a separate contract claim on the same provisions and conduct as its copyright infringement claim. The court concludes that it is possible to have both claims. Therefore, the court denies Novell's motion for summary judgment on this basis.

B. Change of Control

Novell's next basis for dismissing SCO's claims based on the TLA and APA noncompete restrictions is that the license restrictions ceased to exist as a result of Santa Cruz's sale of its UNIX assets to Caldera in 2001, which constituted a "Change of Control" as defined in the APA. SCO does not dispute the fact that Santa Cruz sold substantially all of its assets to Caldera in 2001. SCO asserts, however, that Santa Cruz's sale of assets to Caldera did not constitute a Change of Control, as that term is defined in the APA,

that would terminate the non-compete covenants at issue.

The TLA states that the restrictions on Novell's license "shall cease to exist" in the event of a "Change of Control" of Santa Cruz. *Id.* § II(B). The TLA states that "Change of Control" shall have the meaning attributed to it in the APA. *Id.* Under Section 1.6 of the APA, which provides for the license back of assets and provides the basis for entering the TLA, it states that "the license agreement shall also provide [Novell] with an unlimited royalty-free, perpetual, worldwide license to the Licensed Technology upon the occurrence of a Change of Control of [Santa Cruz] described in Section 6.3(c) hereof." APA § 1.6. Section 6.3(c) of the APA is entitled "Expansion of Seller's Rights Relating to the Licensed Technology upon a Change of Control" and provides that

Until two (2) years from the Closing Date, in the event [Santa Cruz] has merged with, sold shares representing 50% or more of the voting power of [Santa Cruz] to, sold all or substantially all of [Santa Cruz's] assets to, or engaged voluntarily in any other change of control transaction with, any party identified by [Novell] on Schedule 6.3(a) hereof, or in the event any party identified by [Novell] on Schedule 6.3(a) hereof, shall acquire shares representing 50% or more of the voting power of [Santa Cruz], [Novell] shall automatically have unlimited,

royalty-free, perpetual rights to the Licensed Technology.

Id. § 6.3(c).

Novell argues that based on the provisions of the TLA, Section 6.6 of the APA should apply because it is the only provision that defines a “Change of Control.” Novell claims that because the TLA was entered after the APA, its provisions should control. Section 6.6(c) of the APA is entitled “Change of Control” and provides that

For purposes of this Agreement, a “Change of Control” with respect to one party shall be deemed to have occurred whenever (i) there shall be consummated (1) any consolidation or merger of such party in which such party is not the continuing or surviving corporation, or pursuant to which shares of such party’s common stock would be converted in whole or in part into cash, other securities or other property, other than a merger of such person in which the holders of such party’s common stock immediately prior to the merger have substantially the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (2) any sale, lease, exchange or transfer (in one transaction or a series of related transactions) of all or substantially all the assets of such party, or . . . (v) any other event shall occur with respect to such party that would be required to be reported in response to Item 6(e) (or any successor

provision) of Schedule 14A of Regulation 14A promulgated under the Exchange Act.

Id. § 6.6(c)[.]

Section 1.6 of the APA, however, states that Section 6.6 is the provision for determining a change of control of Novell: “In the event of a Change of Control of [Novell] (as described in Section 6.6 hereof), the license granted pursuant to the license agreement shall be limited to [Novell’s] products either developed or substantially developed as of the time of the Change of Control.” *Id.* § 1.6.

The court disagrees with Novell’s position that the TLA conflicts with the APA. The TLA states that it and the APA “constitute the entire understanding between the parties with respect to its subject matter.” TLA § VIII. “Several contracts relating to the same matters, between the same parties, and made as parts of substantially one transaction, are to be taken together.” Cal. Civ. Code § 1642. The TLA does not identify which Change of Control in the APA applies. Section 1.6 of the APA, however, clearly directs that Section 6.3 applies to a change of control of Santa Cruz, and Section 6.6 applies to a change of control for Novell. The TLA merely codified the license agreed to in the APA, and the court finds no conflict between it and the APA. While the language of Section 6.6 broadly states “For purposes of this Agreement” and uses language that makes it appear that the provision would apply to both parties, the court concludes that Section 6.3 is the applicable

provision for determining whether a Change of Control of Santa Cruz occurred for purposes of eliminating the license restrictions in Section 1.6 of the APA and the TLA. The court, therefore, concludes that the license restrictions did not cease to exist when Santa Cruz sold its assets to Caldera in 2001. Accordingly, Novell's motion for summary judgment on these grounds is denied.

C. California Business and Professions Code § 16600

Novell further argues that the non-compete restrictions in the APA and the TLA are void under California law. California Business and Professions Code Section 16600 declares that “[e]xcept as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade or business of any kind is to that extent void.” California courts have strictly construed Section 16600 as requiring non-compete clauses to be stricken unless they meet one of the narrow exceptions provided for in the statute. *See Hill Med. Corp. v. Wycoff*, 86 Cal. App. 4th 895, 899 & n.4 (2001). The only exceptions set forth in the statute relate to the sale of the goodwill of a business, § 16601, and dissolution of a partnership or limited liability company, §§ 16602, 16602.5.

SCO asserts that the covenants not to compete in the license are valid under California law. SCO contends that California Business and Professions

Code Section 16600 does not apply to limitations on grants of rights that Novell would not otherwise have to SCO's property. In *King v. Gerold*, 109 Cal. App. 2d 316, 318 (1952), the court held that Section 16600 did not apply to a non-compete clause where the licensee is not "prohibited from carrying on his lawful business" but is limited only in particular aspects of how he runs his business.

Other courts have also recognized that non-compete clauses used in the employment, supplier-distributor, and franchisor-franchisee context during the term of the relationship, are not void under Section 16600. *Shaklee U.S., Inc. v. Giddens*, 934 F.2d 324 (9th Cir. 1991) (allowing restrictions to scope of distributor's activities); *Great Frame Up Sys. Inc. v. Jazayeri Enterprises*, 789 F. Supp. 253, 255-56 (N.D. Ill. 1992).

The license in the APA and the TLA does not preclude Novell from pursuing [sic] its business. Rather, the license merely restricts Novell's ability to use SCO's property and is part of an ongoing relationship between the parties. Therefore, the court finds that there is no restraint on trade and the restrictions are not void under Section 16600. The court, therefore, denies Novell's motion for summary judgment on SCO's non-compete claims on the grounds asserted by Novell. To the extent that SCO's non-compete claims are based on ownership of the UNIX and UnixWare copyrights, SCO's claims are dismissed as a result of this court's conclusion that Novell owns the copyrights.

IV. Cross Motions on Novell's Fourth Counter-claim re: SVRX Licenses

The cross motions on Novell's Fourth Counter-claim seek a declaration from the court on (1) whether Section 4.16(b) of the APA authorizes Novell to direct SCO to waive its purported claims for breaches of SVRX license agreements with IBM and Sequent, (2) whether Section 4.16(b) of the APA authorizes Novell to take action on SCO's behalf when SCO refuses to waive the claims, and (3) whether the IBM and Sequent Sublicensing Agreements are "SVRX Licenses" under the APA.

Novell argues that a declaration of rights is proper in this case because SCO's purported termination of IBM's and Sequent's licenses to SVRX technology creates an actual controversy as to the parties' rights, authority, and obligations with respect to SVRX Licenses under the APA. To determine the parties' rights and authority under Section 4.16(b), the court must begin by analyzing the language of that provision. Section 4.16(b) provides

[SCO] shall not, and shall not have the authority to, amend modify or waive any right under or assign any SVRX License without prior written consent of [Novell]. In addition, at [Novell's] sole discretion and direction, [SCO] shall amend, supplement, modify or waive any rights under, or shall assign any rights to, any SVRX License to the extent so directed in any manner or respect by [Novell]. In the event that [SCO] shall fail to

take any such action concerning the SVRX Licenses as required herein, [Novell] shall be authorized, and is hereby granted, the rights to take any action on [SCO's] own behalf. [Santa Cruz] shall not, and shall have no right to, enter into future licenses or amendments of the SVRX Licenses, except as may be incidently involved through its rights to sell and license the Assets or the Merged Product . . . or future versions thereof of the Merged Product.

APA § 4.16(b). Therefore, these rights state that they apply to “any” SVRX License. The scope of Novell’s authority, therefore, turns on the meaning of SVRX License.

The APA appears to set out a clear roadmap for determining the meaning of SVRX License. Section 4.16(a) defines SVRX Licenses as those licenses “listed in detail under item VI of Schedule 1.1(a)” of the APA. Item VI of Schedule 1.1(a) states “All contracts relating to the SVRX Licenses listed below.”⁵ Item VI then provides a list of SVRX software releases, including UNIX System V Release Nos. 2.0, 2.1, 3.0, 3.1, 3.2, 4.0, 4.1, 4.2 and “[a]ll prior UNIX System releases and versions preceding UNIX System V Release No. 2.0.” Item VI, however, does not provide a list of license agreements.

⁵ This introductory language was amended by Amendment No. 1 to also include Auxiliary Product Licenses, which would be collectively referred to as “SVRX Licenses.”

Novell argues that this wording plainly means that the term “SVRX Licenses” under the APA includes all contracts relating to the UNIX System V releases listed in Item VI. This would include contracts relating to UNIX System V Release Nos. 2.0, 2.1, 3.0, 3.1, 3.2, 4.0, 4.1, 4.2 and “[a]ll prior UNIX System releases and versions preceding UNIX System V Release No. 2.0.” Novell, therefore, claims that its Section 4.16(b) authority extends to all licenses relating to each of the listed software products.

SCO contends that the term “SVRX Licenses” in the relevant APA provisions is ambiguous on its face. Section 4.16 directs one to Item VI in Schedule 1.1(a) for a detailed list of SVRX Licenses. Item VI has an introductory provision stating “all contracts relating to the SVRX Licenses listed below,” but then it lists SVRX releases, not licenses. These listed SVRX releases are products to which a party would obtain a license.

The court agrees that there appears to be some ambiguity in the APA’s attempt to define SVRX Licenses. But an ambiguity only exists if the language is reasonably susceptible to more than one meaning. *Dore v. Arnold Worldwide, Inc.*, 39 Cal. App. 4th 384, 391 (2006). Both parties assert definitions for the term SVRX License. Thus, the court must determine whether the contract language is reasonably susceptible to both interpretations. “When a contract is reduced to writing, the intention of the parties is to be ascertained from the writing alone, if possible.” Cal. Civ. Code § 1639.

A. Novell's Interpretation

Novell does not believe that Item VI in Schedule 1.1(a) creates an ambiguity because it contends that it is still clear that the intent of the language is that SVRX Licenses are all licenses relating to the software releases listed in Item VI. That meaning requires a minor inferential step, but it reconciles the ambiguity created by the listing of software releases instead of licenses. This proposed meaning is also consistent with the APA's explanation that Novell was engaged in developing a software product called UNIX System V, or SVRX, and selling binary and source code licenses to the various versions of SVRX software. Novell contends, therefore, that the natural meaning of SVRX License includes any license to the listed SVRX releases. This interpretation is also consistent with the APA's repeated use of the broad language "any" and "all" SVRX Licenses.

SCO contends that Novell's interpretation that SVRX License means all licenses related to the listed SVRX products is not consistent with the text of the APA and is predicated on a fundamental misinterpretation of the limited rights Novell retained under Section 4.16 of the APA. As with the copyright issue, the court does not agree with SCO's characterization that Novell retained only limited rights under the APA. It is undisputed that the royalty stream Novell retained under the APA consisted of substantial future revenue and was a significant part of the consideration for the APA. Moreover, the language of Sections 1.2 and 4.16 of the APA does not suggest that

Novell retained only limited rights. Section 1.2 states that while SCO acquired the SVRX Licenses and the legal title to SVRX Royalties, Novell retained *all rights* to SVRX Royalties. *Id.* § 1.2(b). SVRX Royalties are defined as “all royalties, fees and other amounts due under all SVRX Licenses.” *Id.* § 4.16(a). Furthermore, the APA does not limit Novell’s rights under Section 4.16(b) to “certain” SVRX Licenses, it unambiguously extends Novell’s authority to direct SCO’s actions as to “any SVRX License.”

By interpreting SVRX License to mean all contracts related to the software releases listed in Item VI of Schedule 1.1(a), SCO contends that Novell would be able to negate the intent and purpose of transferring the entire UNIX and UnixWare business as set forth in the APA’s other provisions. SCO interprets the APA’s provisions regarding its acquisition of assets too broadly. Specifically, SCO fails to acknowledge that it acquired only “certain of the assets” comprising Novell’s UNIX and UnixWare business and that the transfer of assets was subject to specific exclusions on the Excluded Asset schedule. The transfer of assets under the APA was also subject to the rights and obligations of Sections 1.2 and 4.16. The court finds no conflict between the provisions describing the assets SCO acquired and Novell’s retention of rights with respect to all contracts relating to SVRX software releases.

SCO further argues that Novell’s proposed interpretation for the definition of SVRX License is at odds with the APA’s license back provision and the TLA

executed in connection with the APA's Closing. SCO claims that the TLA license relates to the SVRX products listed in Schedule 1.1(a)(VI) and would constitute an SVRX License under Novell's interpretation. If the TLA is an SVRX License, SCO contends that Novell could breach the license and require SCO to waive its breach. Section 1.6 and the TLA, however, grant Novell a license in the "Licensed Technology." As this court concluded above, the Licensed Technology does not include the UNIX and UnixWare copyrights – it includes only the technology included with the Assets listed on Schedule 1.1(a). The TLA also gave Novell a license to derivatives of the technology in the included Assets, which included the derivative works that Santa Cruz was to develop pursuant to the terms of the APA.

B. SCO's Interpretation

SCO argues for limiting the definition of SVRX License to product supplement agreements because it asserts that those agreements are the only agreements that generated the SVRX Royalties to which Novell was entitled. Section 4.16 describes SVRX Royalties as "all royalties, fees, and other amounts due under SVRX Licenses." Accordingly, SCO asserts that Novell's interests in protecting its royalty stream would be accomplished by retaining rights to direct SCO's activities with respect to those product supplements. Novell, however, disputes that the royalty stream comes only from product supplements because no fees would be due and no license would be in place

without the software and sublicensing agreements that make those product supplements operative.

SCO's contention that SVRX Licenses are limited to only agreements that collect royalties instead of SVRX software agreements, which specify the restrictions on a licensee's source code rights, appears to conflict with the language of the APA and the integrated nature of the licensing agreements entered into by AT&T and Novell. Given that AT&T, and then Novell, would typically enter into a set of agreements in connection with each license of SVRX technology – a software agreement, a sublicensing agreement, and product supplements – the APA would need to make a clear distinction between such agreements in its definition of SVRX License if it intended to exclude one or more of the agreements in the set. In Section 4.16 and Item VI of Schedule 1.1(a), the parties made no attempt to carve out a distinction between different types of agreements within the set.

Rather, Item VI states “all contracts” relating to the SVRX Licenses. The use of “all contracts” is consistent with Novell's interpretation that all of the agreements in the set comprise the SVRX License. The only ambiguity in Item VI is that it states that SVRX Licenses are listed below, but SVRX products, to which licenses are obtained, are listed instead. To incorporate a binary royalty distinction into the language of Section 4.16 and Item VI, however, would require a complete rewriting of those provisions.

The language of Section 4.16(b) also indicates that an SVRX License must be something that grants rights. Section 4.16 refers to “rights under” and “rights to” an SVRX License. SCO admits that product supplements did not by themselves grant rights. The software and sublicensing agreements set forth the rights and obligations for the use and distribution of the technology. Because the software and sublicensing agreements set forth the general rights and obligations for the licensee’s use of any software product, the product supplements identify only the product the licensee had a right to use, the CPUs on which it had that right, and the fees the licensor had a right to receive in exchange. The product supplement, therefore, serves only to give content to terms defined in the software and sublicensing agreements – “software product” and “designated CPU.”

Moreover, the set of agreements refer to and incorporate each other. The software and sublicensing agreements state that the product supplement is a part of the agreement. The ability to assign, amend, modify, supplement, or waive any right under any product supplement, as is provided for in Section 4.16 for any SVRX License, would necessarily amend, modify, or supplement the other agreements. Therefore, SCO’s attempt to distinguish product supplements from the other agreements used to license SVRX technology creates a distinction that is not supported by the license agreements or the terms of the APA.

If the parties had intended to limit SVRX Royalties to only those revenues generated by product supplements and to limit SVRX Licenses to only product supplement, they obviously could have used far less sweeping terms than “all SVRX Royalties” and “all SVRX Licenses.” In Section 1.2, the parties could have merely stated that SCO had acquired “all product supplements” but had only legal title in the royalties generated by such product supplements, whereas Novell retained rights to receive royalties under “all product supplements.” And, if Section 4.16 was only intended to give Novell powers over the explicit subset of product supplements, it clearly could have been written that way as well. It was not. SCO’s interpretation runs contrary to the language of Section 4.16(b).

SCO’s narrow interpretation of SVRX License produces a result that is contrary to SCO’s own conclusion that Novell’s Section 4.16(b) authority extends to binary agreements. SCO claims that SVRX source code licenses are not SVRX Licenses because “software agreements” governing SVRX source code are not mentioned in Item VI of Schedule 1.1(a) but are expressly referred to in Item III.L of that Schedule. SCO’s interpretation, however, would exclude so called binary licenses from the universe of SVRX Licenses as well because Item VI does not mention “sublicensing agreements” governing SVRX binary code either. Sublicensing agreements, like software agreements, are expressly referred to in Item III.L. Therefore, SCO’s interpretation would mean that

Section 4.16(b) does not apply to source or binary licenses – a result that is at odds with the whole purpose and structure of the parties’ agreement.

Reviewing other provisions of the APA demonstrates that the parties knew how to specifically distinguish between matters relating to source and binary code, including source and binary agreements. In Schedule 1.1(a)(III)(M), the parties recognized binary licensing agreements and in Schedule 1.1(b) there are several items with “Binary only” included in a parenthetical after the item. Yet, in regard to SVRX Licenses under Section 4.16(b), the APA makes no distinction whatsoever. And Schedule 1.1(a) refers to “all contracts” when it easily could have stated binary only contracts.

SCO argues that Amendment No. 1 to the APA, which added Section 1.2(e), supports its conclusion that there is a distinction between source and binary licenses. The introductory language of Section 1.2(e) states that Santa Cruz is “entitled to retain 100% of the following categories of SVRX Royalties.” Amend. No. 1 ¶ E(e). Section 1.2(e)(iv) then provides that, notwithstanding its obligation to remit to Novell the SVRX Royalties due under SVRX Licenses, Santa Cruz could keep royalties formerly due under “its own licenses from [Novell] acquired before the Closing Date through Software Agreement . . . and Sublicensing Agreement. . . .” *Id.*

According to SCO, Section 1.2(e)(iv) thus expressly identifies the multiple “licenses” that Santa

Cruz had acquired “through” its software and sublicensing agreements, and the only such licenses to which “royalties” could be “attributable” were the numerous SVRX supplements that Santa Cruz had executed with Novell. SCO’s attempt to make a distinction based on the fact that it entered the software and sublicensing agreements with AT&T and its product supplements with Novell is meaningless because Novell acquired all rights to the software and sublicensing agreements when it acquired the UNIX business from AT&T. Moreover, Section 1.2(e)(iv) recognizes that royalties come from software agreements and sublicensing agreements, which does not help SCO’s position.

Amendment No. 1 also added Section 1.2(f), which details the process and form of Santa Cruz’s obligation to submit monthly reports regarding SVRX Royalties. Section 1.2(f) states that the “monthly reports shall be separately broken down by revenue type (i.e. source code right to use fees, gross and net binary per copy fees, and support fees), by product, by customer. . . .” Amend. No. 1 ¶ E(f). This language further demonstrates that SVRX Royalties include fees other than merely binary fees.

Section 1.2, as amended, actually helps demonstrate that the parties intended SVRX Royalties to apply to all of the agreements associated with licenses to SVRX technology. It also demonstrates that when the parties intended to make a distinction regarding binary and source code fees, they specifically identified the distinction. This section expressly

refers to certain “source code right to use fees” as a category of SVRX Royalties. If, as SCO suggests, SVRX License refers only to binary agreements, the APA’s use of the modifiers “source” and “binary” in particular instances and its use of “all” and “any” in connection with SVRX Licenses payment obligations must be ignored. While the APA makes distinctions between source and binary code in other provisions, it makes no such distinction in relation to SVRX Licenses under Section 4.16.

SCO also relies heavily on the language of Amendment No. 2 to the APA regarding source code. In fact, SCO claims that the court can deny Novell’s motion based on Amendment No. 2 alone. Paragraph B of Amendment No. 2 states that “notwithstanding the provisions of Article 4.16, Sections (b) and (c) of the [APA], any potential transaction with an SVRX licensee which concerns a buy-out of any such licensee’s royalty obligations shall be managed as follows.” Subparagraph 5 of Paragraph B then provides: “This Amendment does not give Novell the right to increase any SVRX licensee’s rights to SVRX source code, nor does it give Novell the right to grant new SVRX source code licenses. In addition, Novell may not prevent SCO from exercising its rights with respect to SVRX source code in accordance with the [APA].”

Although SCO claims that the language of subparagraph 5 has a different tone than the subparagraphs that proceed it, all of the subparagraphs of paragraph B are limited to buy-out transactions. These additional provisions do not amend Novell’s

rights under Section 4.16(b) of the original APA. In fact, the amendment states that “notwithstanding the provisions of 4.16,” the parties have agreed to the following procedures with respect to future potential buy-out transactions. Because 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 Section 4.16(b) of the original APA. The amendment only states that those source code rights will not be altered in the context of any future buy-out transaction.

Therefore, the court concludes that there is no support in the language and structure of the APA for SCO’s interpretation of SVRX License to mean product supplements rather than the entire set of agreements relating to the licensing of SVRX code.

C. Role of Extrinsic Evidence

SCO seeks to introduce extrinsic evidence to help prove its interpretation that SVRX License should be limited to product supplements. “Where the contract is integrated, parol evidence still might be admissible if it is relevant to prove a meaning to which the language of the instrument is reasonably susceptible.” *Haggard v. Kimberly Quality Care, Inc.*, 39 Cal. App. 4th 508, 519-20 (1995). However, because SCO’s interpretation is a meaning to which the language of the APA is not reasonably susceptible, there

is no amount of extrinsic evidence that would change the result. Therefore, the extrinsic evidence SCO seeks to introduce is immaterial.⁶

⁶ Even if this court were to consider SCO's extrinsic evidence, it does not uniformly support SCO's interpretation as SCO claims. If the contract language was susceptible to SCO's interpretation, SCO's evidence would, at most, create only a question of fact for the jury.

Prior to this litigation, SCO had publicly announced that its administrative duties under the APA extend to "customers who deploy SVRX technology." SCO did not report that its administrative duties are limited to a more narrow set of SVRX customers licensing binary SVRX products. In addition, in May 1996, Bill Broderick of Santa Cruz wrote a letter to Novell recognizing that the APA "requires prior written approval from Novell for all new agreements or changes to current agreements relating to UNIX System V."

SCO claims the circumstances surrounding the IBM buyout support its position because it demonstrates that Novell's rights under Section 4.16 were limited. The dispute focused on Novell's unilateral right to grant the buyout of binary royalties. But SCO concedes that Amendment No. X to the IBM SVRX Licenses involved a grant of additional source code rights to IBM. Also, significantly, SCO does not dispute that it treated all of the SVRX revenue from Amendment No. X as subject to the 95/5 split that the APA applied exclusively to SVRX Licenses. In addition, Amendment No. X states that under the APA "Novell retained certain rights with respect to the Related Agreements." Amendment No. X defined the "Related Agreements" as certain software and sublicensing agreements. Thus, Santa Cruz agreed in Amendment No. X that Novell's APA-retained rights extended to all those agreements.

Even when SCO purported to terminate IBM's System V license agreements and SCO's CEO wrote to Novell refusing to waive its purported claims against IBM, he specifically called IBM's System V license agreements "IBM's SVRX License."

(Continued on following page)

D. Breach of Covenant of Good Faith and Fair Dealing

Finally, SCO argues that Novell's motion should fail because of Novell's breach of the covenant of good faith and fair dealing. SCO's Second Claim for Relief alleges that Novell breached the covenant by, among other things, purporting to waive and revoke SCO's rights and claims against IBM. SCO claims that Novell is not entitled to summary judgment on either declaration it seeks in this motion because there are material issues of fact indicating that Novell's waiver is in breach of the covenant of good faith and fair dealing.

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. In *Carma Developers, Inc. v. Marathon Development Cal. Inc.*, 2 Cal. 4th 342, 374 (1992), the court stated that it was "aware of no reported case in which a court has held that the covenant of good faith may be read to prohibit a party from doing that which is expressly permitted by an agreement. On the

This evidence regarding the parties' conduct is close in time to the execution of the APA and, therefore, more persuasive as to the meaning of the agreement. However, even the witness testimony, which is less reliable given the passage of years and witnesses' mistaken beliefs, does not, as SCO claims, entirely support its interpretation. There is substantial testimony supporting Novell's position as well.

contrary, as a general matter, implied terms should never be read to vary express terms.”

The actions Novell took were pursuant to an express contractual provision granting it authority to so act. Therefore, SCO’s covenant of good faith and fair dealing argument is contrary to California law. Accordingly, SCO’s claim for breach of the covenant of good faith and fair dealing does not preclude this court from granting Novell’s motion with respect to its rights and authority under Section 4.16(b) of the APA.

The court concludes that Novell’s reading of Section 4.16(b) is the only reading that is consistent with all of the APA’s provisions, its Schedules, and its Amendments. SCO’s attempt to narrowly interpret SVRX License to include only product supplements is not tenable under the language of the APA. A comparison of the SVRX License language in the APA with the IBM and Sequent Licenses leaves no doubt that the IBM and Sequent Licenses are SVRX Licenses as a matter of law. The IBM and Sequent Licenses are contracts that license the UNIX System V software that is listed in Item VI of Schedule 1.1(a) of the APA. Therefore, the court grants partial summary judgment to Novell on its Fourth Claim for Relief and declares that it was and is entitled, at its sole discretion, to direct SCO to waive its purported claims against IBM and Sequent, and SCO is obligated to recognize Novell’s waiver of SCO’s claims against IBM and Sequent.

Accordingly, Novell's Motion for Partial Summary Judgment on its Fourth Claim for Relief for declaratory judgment is granted and SCO's Cross-Motion for Summary Judgment on Novell's Fourth Claim for Relief is denied.

V. Cross Motions Regarding Sun and Microsoft Agreements

Novell argues that SCO received payments under SCO's 2003 license agreements with Sun and Microsoft which constitute SVRX Royalties that SCO was obligated to remit to Novell pursuant to Sections 1.2(b) and 4.16 of the APA. Based on this conduct, Novell seeks partial summary judgment on its Sixth, Seventh, Eighth and Ninth Claims for Relief, which allege claims for breach of fiduciary duty, conversion, constructive trust, and accounting. SCO has filed a cross-motion for summary judgment on those same claims as well as on Novell's Third Claim for Relief for breach of contract.

The APA expressly created an agency relationship between the parties with respect to SVRX Royalties. Section 1.2(b) provides that Novell retained "all rights to the SVRX Royalties notwithstanding the transfer of the SVRX Licenses" to Santa Cruz, who has only "legal title and not an equitable interest in such royalties." APA § 1.2(b). Under Section 1.2, Santa Cruz agreed "to collect and pass through to [Novell] one hundred percent of the SVRX Royalties as defined and described in Section 4.16 hereof." *Id.*

Section 4.16 further provides that SCO “shall administer the collection of all royalties, fees and other amounts due under all SVRX Licenses.” Those revenues are defined as SVRX Royalties. *Id.* § 4.16(a).

A. Breach of Fiduciary Duty and Conversion

Novell seeks summary judgment on its Seventh and Eight [sic] Claims for Relief for breach of fiduciary duty and conversion, alleging that SCO wrongfully retained payments made by Sun and Microsoft that constitute SVRX Royalties under the APA. Because California law governs actions arising from the APA, and Novell’s claim arises from the agency relationship created by the APA, California law governs. *Nedlloyd Lines B.V. v. Superior Ct.*, 3 Cal. 4th 459, 468, 470 (1992).

To establish a breach of fiduciary claim under California law, Novell must show “the existence of a fiduciary relationship, its breach, and damages proximately caused by that breach.” *Roberts v. Lomanto*, 112 Cal. App. 4th 1553, 1562 (2005). A conversion claim is based on “the wrongful exercise of dominion over another’s personal property in denial of or inconsistent with his rights in the property.” *Kasdan, Simonds, McIntyre, Epstein & Martin v. World Sav. & Loan Ass’n*, 317 F.3d 1064, 1069 (9th Cir. 2003). To establish conversion, therefore, Novell must establish: (1) its “ownership or right to possession of the property;” (2) SCO’s “conversion by wrongful act

inconsistent with the property rights of the plaintiff; and (3) damages.” *Id.* at 1069.

Novell asserts that the undisputed facts establish that: (1) the APA creates an agency relationship between Novell and SCO; (2) as Novell’s agent, SCO has a fiduciary duty to diligently collect, administer, and deliver to Novell any SVRX Royalties; (3) Novell is the equitable owner of the SVRX Royalties and holds all right, title, and interest to them; (4) SVRX Royalties are amounts due under all SVRX Licenses as defined in the APA; (5) the 2003 Sun and Microsoft Agreements are SVRX Licenses because they license the same UNIX System V technology listed in Item VI of Schedule 1.1(a) to the APA; and (6) SCO improperly retains the monies it collected from the 2003 Sun and Microsoft Agreements.

SCO does not dispute the agency relationship created by the APA, but it contends that the payments it retained under the 2003 Sun and Microsoft Agreements are not SVRX Royalties under the APA. SCO asserts that the 2003 Sun and Microsoft Agreements are not SVRX Licenses because “SVRX License” refers only to binary licenses in existence at the time of the APA. SCO also asserts that the 2003 Sun and Microsoft Agreements are primarily Unixware licenses with only incidental licensing of SVRX.

(1) *Temporal Requirement on SVRX License*

The court has already determined that there is not a binary limitation on the definition of SVRX License. However, SCO's arguments on this motion require the court to consider whether the term "SVRX License" refers only to licenses in existence at the time of the APA.

In the prior discussion, this court concluded that the only possible interpretation of the APA was that SVRX Licenses mean all contracts relating to the list of SVRX products provided in Item (VI) of Schedule 1.1(a). Item VI has no express temporal requirement on "all contracts." Therefore, there is no facial ambiguity. SCO seeks to introduce extrinsic evidence that the parties intended the royalties to be limited to SVRX licenses in existence at the time of the APA. SCO must, therefore, demonstrate that the language of the APA is reasonably susceptible to such an interpretation. *Dore v. Arnold Worldwide, Inc.*, 39 Cal. 4th 384, 391 (2006).

SCO first argues that nothing in the APA suggests that "all contracts relating to the SVRX Licenses" extends to any future agreement that Santa Cruz or its successors might execute. Section 1.2(b) refers to Novell "*retaining* all rights to the SVRX Royalties notwithstanding the *transfer of the SVRX Licenses* to Santa Cruz." APA § 1.2(b) (emphasis added). SCO contends that this language indicates that the licenses are those transferred at the time of the APA.

But Novell's retention of rights places no temporal restriction on the exercise of that right. Furthermore, if Novell's argument that the licenses had to be "the" licenses in existence at that time of the APA focuses on the use of the term "the" before SVRX Licenses, SCO's assumptions are contradicted by the many instances in which the agreement refers to "any" and "all" SVRX Licenses. Specifically in connection with SCO's obligations to collect royalties, Section 4.16(a) refers to all royalties under "all SVRX Licenses."

Next, SCO points to Section 1.2(b), which requires SCO to pay royalties to Novell with respect to SCO's "future sale of UnixWare products." *Id.* There is no similar language in Section 1.2(b) referring to future sales of SVRX Licenses. SCO posits that no reference is made to future SVRX Licenses because Section 4.16 states that SCO "shall not, and shall have no right 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 or the Merged Product . . . or future versions thereof of the Merged Product." *Id.* 4.16(b).

Section 4.1(b) was amended, however, to include language stating that Santa Cruz "shall not, and shall have no right to, enter into new SVRX Licenses except in the situation specified in (i) of the preceding sentence or as otherwise approved in writing in advance by [Novell] on a case by case basis." Amend. No. 1 ¶ J. Contrary to SCO's interpretation, this language demonstrates that there are certain instances in which SCO was allowed to enter into new

SVRX Licenses. There are no additional provisions that would exclude these new SVRX Licenses from the category of “all SVRX Licenses.”

SCO further contends that Amendment No. 1 to the APA clarifies that Santa Cruz was obligated to remit to Novell only the royalties that were being paid and that would continue to be paid under the existing SVRX licenses. Amendment No. 1 added Section 1.2(e), which provided certain categories of SVRX Royalties that SCO was entitled to retain. *Id.* ¶ E(e). Subsection (ii) refers to “source code right to use fees under existing SVRX Licenses.” Subsection (iii), however, refers to “source code right to use fees attributable to *new* SVRX licenses approved by” Novell. *Id.* (emphasis added). Therefore, Section 1.2(e) actually demonstrates that SVRX Royalties include payments under existing and new SVRX Licenses.

If, as SCO suggests, SVRX License refers only to those licenses in existence at the time of the APA, the modifiers “new” and “existing” used in Sections 1.2(e) and 4.16(b) to modify that term are rendered meaningless. Under general rules of contract interpretation, this court is required to give effect to every part of the contract, if reasonably practicable. *See* Cal. Civ. Code § 1641 (“The whole of a contract is to be taken together, so as to give effect to every part, if reasonably practicable, each clause helping to interpret the other.”)

The court concludes, therefore, that there is no limitation in the APA to “then-existing” SVRX Licenses. Such an interpretation would be contrary to express terms in the agreement and render some express terms meaningless. Accordingly, the court rejects SCO’s interpretation as a matter of law.

(b) UnixWare Licenses

SCO further argues that the 2003 Sun and Microsoft Agreements are licenses for UnixWare which license SVRX only incidentally. The parties dispute whether the SVRX component of these licenses is only incidental. Nevertheless, it is undisputed that the 2003 Sun and Microsoft Agreements have some SVRX component.

The language and structure of the APA’s Royalties provision in Section 1.2(b) makes a clear distinction between royalties from SVRX Licenses and UnixWare licenses. SVRX Royalties are governed by Sections 1.2 and 4.16, and UnixWare royalties are governed by Section 1.2 and Schedule 1.2(b). While SCO’s obligation to pay royalties for the sale of UnixWare products expired on December 31, 2002, its obligation with respect to SVRX Royalties does not expire.

Particularly relevant to this motion are the provisions in Schedule 1.2(b) regarding the conversion of an SVRX customer to UnixWare and Section 4.16(b) regarding the incidental licensing of SVRX technology with UnixWare. It is undisputed that Sun had

previous UNIX-related agreements with AT&T and Novell because the 2003 Sun Agreement purports to amend and restate a 1994 agreement between Sun and Novell.

First, Schedule 1.2(b) addresses the conversion of existing SVRX customers to a UnixWare derived product. APA Sched. 1.2(f). The process to determine if a customer “is validly converted” is as follows:

The conversion of an SVRx customer to UnixWare will validly occur and result in the UnixWare based revenue flowing to SCO, without giving rise to a continued obligation to make payment to Seller of royalties due under the SVRx licenses, only if the following are true (note: if the customer continues to sell their SVRx based product separately, then these SVRx revenues continue to flow to Novell):

....

(ii) The product is derived from a source version of UnixWare . . . and (i) none of the original SVRx code provided by Novell to the customer, under the SVRx license, is included in the new product or (ii) [Santa Cruz] shall demonstrate to [Novell]’s reasonable satisfaction that an insignificant amount of original SVRx code is so included and the adoption of UnixWare is so substantial as to constitute a valid conversion.

Id. Therefore, even where a customer moves to a UnixWare product, SCO’s SVRX Royalty obligations

to Novell can continue unless there is no SVRX code or only an insignificant amount of SVRX code in the product. It is undisputed that some of the original SVRX code is included in the Sun and Microsoft Agreements. And, based on the arguments presented in this motion, it is also clear that SCO has not demonstrated to Novell's satisfaction that the amount of original SVRX code in these licenses is insignificant. Moreover, whether or not Novell's present satisfaction is reasonable, which could present a question of fact, the language suggests that SCO was obligated to present the information to Novell before the customer would be considered validly converted. The facts here demonstrate that Novell was not made aware of the 2003 Sun and Microsoft Agreements. Therefore, SCO never attempted to validly convert Sun or Microsoft. Under Schedule 1.2(b), then, Sun and Microsoft would not be considered validly converted.

The court must then analyze SCO's obligations with respect to incidental licenses of SVRX under Section 4.16. Section 4.16(b) is amended in Amendment No. 1 to allow SCO "to enter into amendments of the SVRX Licenses (i) as may be incidentally involved through its rights to sell and license UnixWare Software or the Merged Product." Amend. No. 1 ¶ J. This amendment further allows SCO to enter into "new SVRX Licenses . . . in the situation specified in (i)." *Id.*

Although this amendment allows SCO to enter into new SVRX Licenses and amendments of SVRX

Licenses incidental to its license of UnixWare, nothing in the language releases SCO from the obligation to remit “all royalties, fees, and other amounts due” under those SVRX Licenses. The use of the defined term SVRX License in this section demonstrates that even incidental licenses of SVRX are considered an SVRX License.

The APA only permits SCO to keep SVRX Royalties in the narrow circumstances outlined in Section 1.2(e). Although SCO references Section 1.2(e)(ii)’s exception as applicable to the Sun and Microsoft Agreements, Novell disputes that it applies. But, even if this exception applies, it does not relieve SCO of its obligation to account for those fees. SCO agreed to administer the collection of all amounts due under all SVRX Licenses. APA § 4.16(a). Section 1.2(f) specifically states that SCO’s monthly reports are to be “separately broken down by revenue type (i.e. source code right to use fees, gross and net binary per copy fees, and support fees) . . . ” Amend. No. 1 ¶ E(f). And under Section 1.2(e), even those fees SCO retains are considered “categories of SVRX Royalties.” *Id.* ¶ E(e). Those fees, therefore, as still SVRX Royalties. Section 1.2(e) merely provides that in those instances SCO may retain 100% of them instead of passing them through to Novell. SCO’s right to retain all of those fees, which may account for a portion of the SVRX Royalties under the 2003 Sun and Microsoft Agreements, does not relieve SCO of its administrative duties to account for and report all SVRX Royalties according to the provisions of the APA.

The court concludes SCO was required to account for and pass through to Novell the appropriate SVRX Royalties according to the SVRX portions of the 2003 Sun and Microsoft Agreements. The parties dispute what portion of the payments SCO received from the 2003 Sun and Microsoft Agreements would relate to the products SVRX licensed. Although this type of allocation and accounting is a part of SCO's duties under the APA, such scrutiny of the Sun and Microsoft Agreements by the court presents a question of fact.

As a matter of law, the court concludes that SCO breached its fiduciary duties to Novell by failing to account for and remit the appropriate SVRX Royalty payments to Novell for the SVRX portions of the 2003 Sun and Microsoft Agreements. Accordingly, Novell is entitled to summary judgment on its Seventh Claim for Relief for breach of fiduciary duty, and SCO's cross-motion on this claim is denied. To the extent that SCO has failed to pass through the appropriate amount of SVRX Royalties under the 2003 Sun and Microsoft Agreements to which Novell was entitled, Novell is also entitled to summary judgment on its Eight [sic] Claim for Relief for conversion. Consequently, SCO's cross-motion for summary judgment on Novell's conversion claim is denied.

C. Constructive Trust and Accounting

Novell contends that a constructive trust is an appropriate remedy for a breach of fiduciary duty and

conversion. Novell's Sixth and Ninth Claims for Relief for constructive trust and accounting seek remedies available at the court's discretion. *Callery v. United States Life Ins. Co.*, 392 F.3d 401, 408 (10th Cir. 2004). Under California law, the constructive trust cause of action arises from California Civil Code §§ 2223 and 2224. Section 2223 provides that "[o]ne who wrongfully detains a thing is an involuntary trustee thereof, for the benefit of the owner." And Section 2224 provides that "[o]ne who gains a thing by fraud, accident, mistake, undue influence, the violation of a trust, or other wrongful act, is, unless he or she has some other and better right thereto, an involuntary trustee of the thing gained, for the benefit of the person who would otherwise have had it."

Courts interpret these statutes broadly and apply them to "practically any case where there is a wrongful acquisition of property to which another is entitled." *Ornbaun v. Main*, 198 Cal. App. 2d 92, 99 (1961). To prove a constructive trust cause of action, Novell must demonstrate the "existence of a res (some property or some interest in property), the plaintiff's right to that res, and the defendant's gain of the res by fraud, accident, mistake, undue influence or other wrongful conduct." *Pegg*, 782 F.2d at 1500.

In this case, the *res* is the SVRX Royalties, to which Novell retains "all right, title, and interest." This *res* is traceable to the monies received from the Sun and Microsoft Agreements. SCO's conduct also amounts to a breach of fiduciary duty, conversion,

unjust enrichment, and breach of express contract, all of which are sufficient “wrongful conduct” to impose a constructive trust.

In *GHK Assoc. v. Mayer Group Inc.*, the trial court imposed a constructive trust based on breach of obligations flowing from a contract. 224 Cal. App. 3d 856, 878 (1990). The appellate court explicitly recognized the lower court’s power to grant equitable relief in the form of a constructive trust and held that the imposition of the constructive trust was proper to ensure the owner received its damages. *Id.* Like the defendants in GHK, SCO breached its fiduciary obligations by failing to remit the SVRX Royalties it collected from the SVRX License portions of the 2003 Sun and Microsoft Agreements.

Although the court finds that Novell meets the requirements for the imposition of a constructive trust, the question of fact as to the SVRX portion of the 2003 Sun and Microsoft Agreements precludes the court from imposing a trust for the appropriate amount. Furthermore, despite Novell’s fears regarding its ability to collect its royalties, the appropriate amount of SVRX Royalties can be determined at trial. Because of the question of fact, the court denies both Novell’s and SCO’s motions for summary judgment on Novell’s Sixth Claim for Relief for constructive trust.

Novell also seeks the equitable remedy of accounting under its Ninth Claim for Relief. The APA obligates SCO to give detailed monthly reports and to comply with audits. APA §§ 1.2(b), (f). To the extent

that SCO has failed to comply with these requirements with respect to the 2003 Sun and Microsoft Agreements, the court notes that it has a continuing duty to fulfill its contractual obligations. Novell also has continuing rights under the APA to conduct audits as to SVRX Royalties.

The court assumes that, through discovery in this action, Novell has actually obtained the information it needs to demonstrate its damages with respect to the SVRX Royalties it is due under the 2003 Sun and Microsoft Agreements. The imposition of an accounting usually arises where “the facts are peculiarly within the knowledge of one of the parties.” *Van de Kamp*, 204 Cal. App. 3d 819, 864 (1988). In this case, Novell acknowledges that it received copies of the 2003 Sun and Microsoft Agreement during discovery. It is also apparent that Novell has received relevant financial records and documentation from SCO because it is aware of how SCO accounted for the payments under the 2003 Sun and Microsoft Agreements. Because Novell has the information that it would otherwise obtain through an accounting, the court denies Novell’s Ninth Claim for Relief for an accounting.

VI. Novell’s Motion for Preliminary Injunction

As an alternative to its Motion for Partial Summary Judgment on these claims, Novell seeks a preliminary injunction imposing a constructive trust and an accounting on the wrongfully withheld

revenues from the 2003 Sun and Microsoft Agreements. The court views this motion as essentially moot given its rulings above. The question of fact that precludes the court from imposing a constructive trust for the appropriate amount of SVRX Royalties due to Novell under the 2003 Sun and Microsoft Agreements also precludes the granting of a preliminary injunction. Therefore, the court denies Novell's motion for a preliminary injunction.

CONCLUSION

For the reasons stated above, the court concludes that Novell is the owner of the UNIX and UnixWare copyrights. Therefore, SCO's First Claim for Relief for slander of title and Third Claim for Relief for specific performance are dismissed, as are the copyright ownership portions of SCO's Fifth Claim for Relief for unfair competition and Second Claim for Relief for breach of the implied covenant of good faith and fair dealing. The court denies SCO's cross-motion for summary judgment on its own slander of title, breach of contract, and unfair competition claims, and on Novell's slander of title claim. Accordingly, Novell's slander of title claim is still at issue.

The court also concludes that, to the extent that SCO has a copyright to enforce, SCO can simultaneously pursue both a copyright infringement claim and a breach of contract claim based on the non-compete restrictions in the license back of the Licensed Technology under APA and the TLA. The

court further concludes that there has not been a change of control that released the non-compete restrictions of the license, and the non-compete restrictions of the license are not void under California law. Accordingly, Novell's motion for summary judgment on SCO's non-compete claim in its Second Claim for breach of contract and Fifth Claim for Relief for unfair competition is granted to the extent that SCO's claims require ownership of the UNIX and UnixWare copyrights, and denied in all other regards.

Furthermore, the court concludes, as a matter of law, that the only reasonable interpretation of the term "SVRX License" in the APA is all licenses related to the SVRX products listed in Item VI of Schedule 1.1(a) to the APA. Therefore, Novell is entitled to a declaration of rights under its Fourth Claim for Relief that it was and is entitled, at its sole discretion, to direct SCO to waive its claims against IBM and Sequent, and SCO is obligated to recognize Novell's waiver of SCO's claims against IBM and Sequent. Accordingly, Novell's motion for partial summary judgment on its Fourth Claim for Relief for declaratory judgment is granted, and SCO's cross-motion for summary judgment on Novell's Fourth Claim for Relief is denied.

Finally, the court concludes, as a matter of law, that the only reasonably [sic] interpretation of all SVRX Licenses includes no temporal restriction of SVRX Licenses existing at the time of the APA. The court further concludes that because a portion of SCO's 2003 Sun and Microsoft Agreements indisputably

licenses SVRX products listed under Item VI of Schedule 1.1(a) to the APA, even if only incidental to a license for UnixWare, SCO is obligated under the APA to account for and pass through to Novell the appropriate portion relating to the license of SVRX products. Because SCO failed to do so, it breached its fiduciary duty to Novell under the APA and is liable for conversion.

The court, however, is precluded from granting a constructive trust with respect to the payments SCO received under the 2003 Sun and Microsoft Agreements because there is a question of fact as to the appropriate amount of SVRX Royalties SCO owes to Novell based on the portion of SVRX products contained in each agreement. Furthermore, because Novell has obtained the information that it would otherwise obtain through an accounting during the course of this litigation, the court denies Novell's Ninth Claim for Relief for an accounting. However, the court also notes that SCO has a continuing contractual obligation to comply with the accounting and reporting requirements set forth in the APA.

Accordingly, Novell's Motion for Partial Summary Judgment or Preliminary Injunction [Docket No. 147] is GRANTED IN PART AND DENIED IN PART; SCO's Cross-Motion for Summary Judgment or Partial Summary Judgment on Novell's Third, Sixth, Seventh, Eighth and Ninth Counterclaims [Docket No. 180] is GRANTED IN PART AND DENIED IN PART; Novell's Motion for Partial Summary Judgment on its Fourth Claim [Docket No. 171] is

GRANTED; SCO's Cross-Motion for Partial Summary Judgment on Novell's Fourth Claim [Docket No. 224] is DENIED; SCO's Motion for Partial Summary Judgment on its First, Second, and Fifth Claims and Novell's First Claim [Docket No. 258] is DENIED; Novell's Motion for Partial Summary Judgment on Copyright Ownership of SCO's Second Claim for Breach of Contract and Fifth Claim for Unfair Competition [Docket No. 271] is GRANTED; Novell's Motion for Partial Summary Judgment on SCO's Non-Compete Claims in its Second and Fifth Claims [Docket No. 273] is GRANTED IN PART AND DENIED IN PART; Novell's Motion for Summary Judgment on SCO's First Claim for Slander of Title and Third Claim for Specific Performance [Docket No. 275] is GRANTED; and Novell's Motion for Summary Judgment on SCO's First Claim for Slander of Title for Failure to Establish Special Damages [Docket No. 277] is MOOT.

Dated this 10th day of August, 2007.

BY THE COURT:

/s/ Dale A. Kimball

DALE A. KIMBALL,
United States District Judge

APPENDIX C
UNITED STATES COURT OF APPEALS
FOR THE TENTH CIRCUIT

THE SCO GROUP, INC., Plaintiff-Appellant, v. NOVELL, INC., Defendant-Appellee.		No. 08-4217 (D.C. NO. 2:04-CV-00139-DAK) (Filed Oct. 20, 2009)
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ORDER

Before **LUCERO**, **BALDOCK** and **McCONNELL**,
Circuit Judges.

Appellant's petition for rehearing is denied.

The petition for rehearing en banc was transmitted to all of the judges of the court who are in regular active service. As no member of the panel and no judge in regular active service on the court requested that the court be polled, that petition is also denied.

Entered for the Court,
/s/ Elisabeth A. Shumaker
ELISABETH A. SHUMAKER,
Clerk

APPENDIX D

UNITED STATES CODE

TITLE 17. COPYRIGHTS

**CHAPTER 2. COPYRIGHT OWNERSHIP
AND TRANSFER**

**§ 204. Execution of transfers of copyright
ownership**

(a) A transfer of copyright ownership, other than by operation of law, is not valid unless an instrument of conveyance, or a note or memorandum of the transfer, is in writing and signed by the owner of the rights conveyed or such owner's duly authorized agent.

(b) A certificate of acknowledgement is not required for the validity of a transfer, but is prima facie evidence of the execution of the transfer if –

(1) in the case of a transfer executed in the United States, the certificate is issued by a person authorized to administer oaths within the United States; or

(2) in the case of a transfer executed in a foreign country, the certificate is issued by a diplomatic or consular officer of the United States, or by a person authorized to administer oaths whose authority is proved by a certificate of such an officer.
