No. 10-1482

IN THE

United States Court of Appeals

FOR THE FOURTH CIRCUIT

NOVELL, INCORPORATED,

Plaintiff-Appellant,

— v. —

MICROSOFT CORPORATION,

Defendant-Appellee.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF MARYLAND

MICROSOFT CORPORATION'S PETITION FOR PANEL REHEARING OR REHEARING *EN BANC*

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MICROSOFT CORPORATION'S
PETITION FOR PANEL REHEARING OR REHEARING *EN BANC*

Petitioner-Appellee Microsoft Corporation ("Microsoft") respectfully submits this petition pursuant to Fed. R. App. P. 35(b) & 40(a) and Fourth Circuit Local Rule 40(b) for panel rehearing or rehearing *en banc* of the May 3, 2011 Opinion (Dkt. No. 50 ("Op.")) and Judgment (Dkt. No. 51) entered in this action by a 2-1 decision of a panel of this Court (the "Panel").

STATEMENT OF PURPOSE OF PETITION

1. In Microsoft's counsel's judgment, a panel rehearing or rehearing *en banc* is proper because, in rejecting Microsoft's *res judicata* defense, the Panel applied an incorrect standard that squarely conflicts with this Court's well-established *res judicata* jurisprudence, thereby threatening the "uniformity of the court's decisions." Fed. R. App P. 35(b)(1); Local R. 40(b). Although the Panel at one point articulated the test correctly, it applied a different test — holding that for *res judicata* to apply, the harm alleged in a second lawsuit must be identical to the harm alleged in the first lawsuit. (Op. at 19.) The established law of this Circuit, as in all other Circuits, is that application of *res judicata* hinges on whether the causes of action, not the harms alleged, are identical in the two lawsuits. Thus, *res judicata* bars all causes of action that "arise out of the same transaction or series of transactions, even if they involve different harms or

different theories or measures of relief." *Harnett* v. *Billman*, 800 F.2d 1308, 1314 (4th Cir. 1986) (emphasis added).

2. In Microsoft's counsel's judgment, a panel rehearing or rehearing *en banc* is also appropriate under Fed. R. App. P. 35(b)(2) and Fourth Circuit Local Rule 40(b) because the Panel's decision undermines a judicial policy of "exceptional importance" by drastically narrowing the applicability of *res judicata*, a fundamental legal principle that "encourages reliance on judicial decisions, bars vexatious litigation, and frees the courts to resolve other disputes." *Pueschel* v. *United States*, 369 F.3d 345, 354 (4th Cir. 2004) (quoting *Brown* v. *Felsen*, 442 U.S. 127, 131 (1979)). The majority's decision, if left undisturbed, will enable litigants to "frustrate the goals of *res judicata* through artful pleading and claim splitting." *Pueschel*, 369 F.3d at 355.

BACKGROUND

In June 1994, Novell, Inc. ("Novell"), which already owned a personal computer ("PC") operating system called DR DOS, acquired certain office productivity applications, including WordPerfect (word processing software) and Quattro Pro (spreadsheet software). On July 23, 1996, Novell sold DR DOS (its PC operating system) and all causes of action associated directly or indirectly with DR DOS to Caldera, Inc. ("Caldera"). (Op. at 5.) The purpose of this sale

was to "obligate [Caldera] to sue Microsoft, allow Novell to share in the recovery, and also obscure Novell's role in the action against Microsoft." (Op. at 4-5.)

Caldera sued Microsoft on July 23, 1996, the same day the transaction closed, setting forth as its First Claim for Relief "Monopolization of DOS Market (Violation of Sherman Act, Section 2)." (JA-1954.)[1] On February 12, 1998, Caldera filed an amended complaint alleging that Microsoft unlawfully maintained its monopoly in the PC operating system market in the period 1992-98.[2] (JA-2114-15 ¶¶ 72-77; *see also* JA-2109 ¶ 59 ("Microsoft continued with its predatory practices throughout 1992 and up to the present day.").) Caldera alleged that Microsoft was able to unlawfully monopolize the PC operating system market by: (i) "changing APIs [application programming interfaces], or refusing to support certain APIs in newer versions of [Microsoft's] MS-DOS and Windows products" in order to "render competing DOS Software as well as complementary products technologically incompatible" (JA-2112 ¶ 67(c)); (ii) withholding technical

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[1] There is no dispute that Novell's DR DOS was a PC operating system. (JA-2096 ¶¶ 16-17.)

[2] As Microsoft stated in its September 17, 2010 Response Brief, "the district court held and Novell now concedes [that] the market at issue in the Caldera action and this action are the same, *i.e.*, the PC operating system market." (Microsoft Br. at 16 n.1 (citing JA-371& JA-372 n.3, and quoting Novell's September 7, 2010 Opening Brief to this Court at page 39).) Novell's Reply Brief did not challenge this proposition.

information from Novell about Microsoft's new PC operating systems, such as Windows 95, and thereby preventing Novell from releasing DR DOS in a timely manner (JA-2092 ¶ 3(g)-(i)); and (iii) giving Microsoft's own applications developers access to technical information about its PC operating systems that was unavailable to Novell or other independent software vendors ("ISVs") (JA-2112 ¶ 67(b)). The complaint sought money damages and injunctive relief, including an order requiring Microsoft to disclose the APIs exposed by its PC operating systems. There is no dispute that, as Judge Motz noted in this action, such injunctive relief would have addressed conduct that forms "an important part of Novell's claim asserted in Count I of this action." (JA-372 n.3; *see* p. 5, *infra*.)

Caldera settled its case against Microsoft in January 2000 for $280 million, of which $53.15 million eventually went to Novell. (Op. at 6 & n.4.)

On November 12, 2004, more than four years later, Novell brought the present action. Novell's complaint set forth six causes of action, of which five have now been dismissed. The remaining claim, Count I, for "Monopolization of the Intel-Compatible Operating System Market," is the same cause of action that Caldera asserted 15 years ago, *i.e.*, a claim under Section 2 of the Sherman Act for Microsoft's unlawful monopolization of the PC operating system market. Novell's complaint alleges misconduct by Microsoft during 1994-96, a subset of the period covered by Caldera's claim. In Count I, Novell even complains of the same types

of conduct that were the subject of Caldera's claim for unlawful monopolization of the PC operating system market: (i) Microsoft changing APIs in its Windows 95 operating system to render Novell's software products, including WordPerfect, technologically incompatible (JA-74 ¶ 76); (ii) Microsoft withholding APIs to delay Novell's development of applications simultaneously with the development of Windows 95 (JA-76 ¶ 79); and (iii) Microsoft giving its own applications developers access to technical information about its PC operating systems that was unavailable to Novell or other ISVs. (JA-76-77 ¶ 81; *see* pp. 3-4, *supra*.)

The principal difference between the two cases is that Caldera alleged that Microsoft's unlawful monopolization of the PC operating system market caused injury to DR DOS, the PC operating system that Caldera bought from Novell, whereas Novell's current action asserts that Microsoft's unlawful monopolization of the same market, during the same time period and by using the same methods, caused injury to Novell's word processing software (WordPerfect) and spreadsheet software (Quattro Pro). In other words, both cases assert the same cause of action for monopolization of the PC operating system market and the same types of alleged illegal conduct; the only difference is the alleged harm resulting from that conduct.

On March 30, 2010, the district court granted summary judgment to Microsoft, holding that Novell sold the claims at issue in this litigation to Caldera

in 1996 and could not bring those claims again now. (JA-371.) On May 3, 2011, in a 2-1 decision, the Panel reversed, holding that, under Utah contract law, Novell had not sold the claims asserted in this litigation to Caldera. (Op. at 18.)[3] More importantly for present purposes, the Panel also rejected Microsoft's argument that *res judicata* bars Novell's claim even if it did not sell that claim to Caldera. (Op. at 18-20.) The Panel determined that Novell's cause of action against Microsoft for unlawful monopolization did not involve "identical" harms to the causes of action asserted in the *Caldera* case and for that reason rejected the *res judicata* defense. (Op. at 19-20.) The Panel also rejected Microsoft's argument that Novell had engaged in claim-splitting, stating that Count I is not barred because "Caldera could not have sought damages for harm to the office productivity applications in its initial suit, as it did not own those applications." (Op. at 20 n.9.) Both of these holdings are wrong and at odds with this Court's prior jurisprudence.

ARGUMENT

I. The Standard Used by the Panel to Determine the Applicability of Res Judicata Conflicts With Prior Decisions by This Court.

The Panel's decision conflicts with the governing law in this Circuit on *res judicata* by requiring that the harms alleged in two separate actions be

[3] This Petition does not address the Panel's decision about the meaning of the contract between Novell and Caldera, but only the decision to reject Microsoft's *res judicata* defense. (*See* Op. at 18-20.)

identical before claim preclusion comes into play. A panel rehearing or rehearing *en banc* is necessary to maintain uniformity within the Circuit regarding the circumstances under which the doctrine of *res judicata* will apply.[4]

Under this Circuit's clear precedents, the requirements for applying *res judicata* are "(1) a judgment on the merits in a prior suit resolving (2) claims by the same parties or their privies, and (3) a subsequent suit based on the same cause of action." *Ohio Valley Envtl. Coal.* v. *Aracoma Coal Co.*, 556 F.3d 177, 210 (4th Cir. 2009); *see also Pittston Co.* v. *United States*, 199 F.3d 694, 704 (4th Cir. 1999) (same); *Pueschel*, 369 F.3d at 355 (same). Here, all three requirements are met, barring Novell's claim.

Prong one is satisfied because the stipulated judgment of dismissal following the settlement in *Caldera* constitutes a "judgment on the merits" for purposes of *res judicata*. *Arizona* v. *California*, 530 U.S. 392, 414 (2000). This is not in dispute.

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[4] Although the Panel's opinion is an "unpublished opinion," a court "may not prohibit or restrict the citation of federal judicial opinions, orders, judgments or other written dispositions that have been: (i) designated as 'unpublished,' 'not for publication,' 'non-precedential,' 'not precedent,' or the like; and (ii) issued on or after January 1, 2007." Fed. R. App. P. 32.1; *see also* Fourth Circuit Local R. 32.1. Because the Panel's opinion was issued after January 1, 2007, it can be freely cited by litigants throughout this Circuit and elsewhere.

Prong two is satisfied because of an exception to the general rule against non-party claim preclusion arising out of a "pre-existing substantive legal relationship between the person to be bound and a party to the judgment," *Taylor* v. *Sturgell*, 553 U.S. 880, 894 (2008), including "one in which the parties to the first suit are somehow accountable to nonparties who file a subsequent suit raising identical issues." *Pelt* v. *Utah*, 539 F.3d 1271, 1290 (10th Cir. 2008). It is undisputed that Caldera was accountable to Novell, in that it was contractually bound to bring an antitrust lawsuit against Microsoft and was bound to share the proceeds of any recovery against Microsoft with Novell. (Op. at 4-5.) Indeed, Novell successfully sued Caldera's successor in interest to obtain a larger share of the settlement. (Op. at 6 n.4.)

Prong three is satisfied because the causes of action at issue in the Caldera and Novell actions are identical. Novell and Caldera each sued Microsoft under Section 2 of the Sherman Act setting forth the same cause of action — Microsoft's unlawful monopolization of the PC operating system market — encompassing the same 1994-96 period. Indeed, even the types of conduct alleged to be wrongful were the same in both cases. (*See* pp. 3-5, *supra*.)

In its 2-1 decision, the Panel first recognized that "[t]he test for deciding whether the causes of action are identical for claim preclusion purposes is whether the claim presented in the new litigation arises out of the same transaction

or series of transactions as the claim resolved by the prior judgment." (Op. at 18 (quoting *Laurel Sand & Gravel, Inc.* v. *Wilson*, 519 F.3d 156, 162 (4th Cir. 2008)).) This is, of course, the correct test, which is applied in all Circuits.[5] The Panel nevertheless applied a different test, holding that *res judicata* did not apply because the two lawsuits did not raise "identical issues." (Op. at 19 (citing *Pelt*, 539 F.3d at 1290).) It reached this conclusion by imposing the additional requirement that the alleged harms be identical, finding that "Caldera's suit addressed a distinct set of harms from those addressed in Count I [of Novell's complaint]." (Op. at 19.) That was incorrect. The application of *res judicata* does not require that the harms alleged in both cases be identical. Instead, it requires only that the underlying cause of action be the same, which turns on "whether the suits and the claims asserted therein 'arise out of the same transaction or series of

[5] *See AVX Corp.* v. *Cabot Corp.*, 424 F.3d 28, 31 (1st Cir. 2005) ("[I]t is now enough to trigger claim preclusion that the plaintiff's second claim grows out of the same transaction or set of related transactions as the previously decided claim."); *Duane Reade, Inc.* v. *St. Paul Fire & Marine Ins. Co.*, 600 F.3d 190, 196 (2d Cir. 2010) (same); *Lubrizol Corp.* v. *Exxon Corp.*, 929 F.2d 960, 963 (3d Cir. 1991) (same); *Test Masters Educ. Servs.* v. *Singh*, 428 F.3d 559, 571 (5th Cir. 2005) (same); *Winget* v. *JP Morgan Chase Bank, N.A.*, 537 F.3d 565, 580 (6th Cir. 2008) (same); *Cole* v. *Bd. of Trs.*, 497 F.3d 770, 773 (7th Cir. 2007) (same); *Lane* v. *Peterson*, 899 F.2d 737, 742 (8th Cir. 1990) (same); *Western Sys.* v. *Ulloa*, 958 F.2d 864, 871 (9th Cir. 1992) (same); *Plotner* v. *AT&T Corp.*, 224 F.3d 1161, 1169 (10th Cir. 2000) (same); *Trustmark Ins. Co.* v. *ESLU, Inc.*, 299 F.3d 1265, 1269-70 (11th Cir. 2002) (same); *Capitol Hill Group* v. *Pillsbury, Winthrop, Shaw, Pittman, LLC*, 569 F.3d 485, 490 (D.C. Cir. 2009) (same); *Ammex, Inc.* v. *United States*, 334 F.3d 1052, 1055 (Fed. Cir. 2003) (same).

transactions or the same core of operative facts.'" *Pueschel*, 369 F.3d at 355 (quoting *In re Varat Enters., Inc*., 81 F.3d 1310, 1316 (4th Cir. 1996).

The rule applied by the Panel would allow litigants to circumvent *res judicata* by allowing multiple lawsuits arising out of one cause of action:

> Were we to focus on the claims asserted in each suit, we would allow parties to frustrate the goals of *res judicata* through artful pleading and claim splitting given that [a] single cause of action can manifest itself into an outpouring of different claims, based variously on federal statutes, state statutes, and the common law.

Pueschel, 369 F.3d at 355. This Court has squarely held that for *res judicata* purposes, claims "may arise out of the same transaction or series of transactions even if they involve different harms or different theories or measures of relief." *Harnett*, 800 F.2d at 1314 (emphasis added).

Instead of applying the proper test, the Panel held that Novell's claim was not barred by *res judicata* because the Caldera and Novell lawsuits did not involve "harms identical for purposes of claim preclusion." (Op. at 19.) The fact that the harms alleged in two separate lawsuits are "identical" has never been necessary for the application of *res judicata* in this Court. Rather, the critical question is whether the causes of action in the two lawsuits arise "out of the same core of operative facts." *Pueschel*, 369 F.3d at 355.

A simple hypothetical demonstrates the point. Suppose that Williams is injured as a result of an automobile accident and contends that the injury was

caused by Smith's negligent operation of his vehicle. Williams assigns her claim for injuries to her left elbow to Jones; Jones then sues Smith on that claim and recovers damages in a settlement.[6] Can Williams herself thereafter sue Smith for injuries to her right leg caused by the same accident? Of course not; fundamental principles of *res judicata* dictate otherwise. Once any part of a claim — that is, anything that forms part of the same transaction or occurrence — has been litigated, no other part of the same claim may be brought again. *Pueschel*, 369 F.3d at 355; *Pittston*, 199 F.3d at 704.

Under the test applied by the Panel, however, the answer to the question of whether Jones and Williams may bring separate lawsuits against Smith — the first for injury to Williams' left elbow and the second for injury to Williams' right leg — is yes: The harms alleged in each lawsuit are distinct, despite the fact that both arose out of the same occurrence and thus are part of the same claim for negligent operation of a motor vehicle.

In 1996, Novell owned a cause of action for Microsoft's unlawful monopolization of the PC operating system market, through conduct that allegedly

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[6] While in certain states "personal injury claims are not assignable absent a statute to the contrary," *Lexington Ins. Co*. v. *S.H.R.M. Catering Servs., Inc.*, 567 F.3d 182, 185 (5th Cir. 2009) (internal quotation marks omitted), our hypothetical assumes that such claims are assignable.

caused harm to DR DOS and also to WordPerfect and Quattro Pro.[7] The Panel's holding that *res judicata* does not apply because the two lawsuits did not involve identical harms has things exactly backward: The relevant test is whether the causes of action, not the harms alleged, are identical. *Harnett*, 800 F.2d at 1314 (rejecting argument that claims in the second action "were not for the identical injuries and remedies" because *res judicata* "asks only if a claim made in the second action involves a right arising out of the same transaction or series of connected transactions that gave rise to the claims in the first action"); *see also Ohio Valley*, 556 F.3d at 210; *Pueschel*, 369 F.3d at 355; *Pittston*, 199 F.3d at 704; *In re Varat*, 81 F.3d at 1316.

II. The Panel's Decision Undermines a Judicial Policy of Exceptional Importance by Encouraging Litigants to Engage in Claim-Splitting and Threatening the Viability of Res Judicata.

The Panel determined that Novell did not sell its claim for harm to WordPerfect and Quattro Pro to Caldera and, as a result, concluded that "Caldera could not have sought damages for harm to the office productivity applications in

[7] Novell itself recognized that it could bring an antitrust claim against Microsoft that included harm to DR DOS and also to Word Perfect and Quattro Pro. In April 1995, prior to assigning certain claims to Caldera, Novell's lawyers prepared a draft complaint against Microsoft stating an antitrust cause of action and alleging harm to both DR DOS and Novell's office productivity applications, including WordPerfect and Quattro Pro. (JA-1707-08 ¶¶ 38-40, JA-1717-21 ¶¶ 72-76, 79-83.)

its initial suit, as it did not own those applications." (Op. at 20 n.9.) On this basis, the Panel rejected Microsoft's argument that Novell had engaged in impermissible claim-splitting. (*Id*.)

This is, again, exactly backwards. The correct question is not whether Caldera owned both claims, but whether — prior to assigning certain claims to Caldera — Novell owned both. In 1996, Novell could have filed (and indeed contemplated filing) a single lawsuit setting forth a cause of action against Microsoft for unlawful monopolization of the PC operating system market and claiming that the offending conduct caused harm to DR DOS, WordPerfect and Quattro Pro. According to the Panel, although Novell sold the claim for harm to DR DOS, it silently retained the right to bring a claim for harm to the other two products many years later based on the same unlawful monopolization of the same PC operating system market. This is classic claim-splitting that courts have long forbidden. As this Court said just three years ago: "The rule against claim splitting prohibits a plaintiff from prosecuting its case piecemeal and requires that all claims arising out of a single wrong be presented in one action." *Sensormatic Sec. Corp.* v. *Sensormatic Elecs. Corp*., 273 Fed. Appx. 256, 265 (4th Cir. 2008) (internal citation omitted).

The Panel's focus on whether Caldera could have brought suit for harm to the office productivity applications is irrelevant to the critical question of

whether Novell's sale to Caldera and its subsequent suit "frustrate[d] the goals of *res judicata* through artful pleading and claim splitting." *Pueschel*, 369 F.3d at 355 (internal quotation marks omitted). Because Novell could have brought both claims together, but instead chose to sell only part of its cause of action for unlawful monopolization of the PC operating system market to Caldera, Novell has split its claims, and such claim-splitting is not allowed absent Microsoft's consent. *See Keith* v. *Aldridge*, 900 F.2d 736, 740 (4th Cir. 1990) (noting that an exception to the normal rule against claim-splitting only applies "when the parties have agreed to the splitting of a single claim").

The majority's decision would, in our hypothetical, permit Williams — the injured party who suffered multiple harms from an automobile accident — to sell her claim for injury to her left elbow to Jones, a third party, collect a portion of Jones' recovery when that suit is resolved, and years later sue Smith for injury to her right leg. This is exactly what the claim-splitting rule forbids. "[T]he whole tendency of our decisions is to require a plaintiff to try his whole cause of action and his whole case at one time. He cannot even split up his claim; and, *a fortiori*, he cannot divide the grounds of recovery." *United States* v. *Cal. & Or. Land Co.*, 192 U.S. 355, 358 (1904) (Holmes, J.) (internal citations omitted).

The Panel's decision involves an issue of "exceptional importance" for this Circuit, Fed. R. App. P. 35(b)(2) & Fourth Circuit Local R. 40(b), because

it threatens the very viability of *res judicata*, an important policy that "encourages reliance on judicial decisions, bars vexatious litigation, and frees the courts to resolve other disputes." *Pueschel*, 369 F.3d at 354; *see also Montana* v. *United States*, 440 U.S. 147, 153 (1979) (*res judicata* "is central to the purpose for which civil courts have been established, the conclusive resolution of disputes within their jurisdictions").

CONCLUSION

This Court should grant Microsoft's petition for rehearing *en banc* or panel rehearing.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I certify that on May 17, 2011 the foregoing document was served on plaintiff-appellant Novell, Inc.'s counsel of record through the CM/ECF system.

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