# EXHIBIT F

# No. 08-4217

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

### THE SCO GROUP, INC.,

**Plaintiff-Appellant,**

v.

### NOVELL, INC.,

**Defendant-Appellee.**

On Appeal from the United States District Court for the District of Utah
Hon. Dale A. Kimball, Presiding
No. 2:04-CV-00139-DAK

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## CORPORATE DISCLOSURE STATEMENT

Appellant, The SCO Group, Inc. ("SCO"), is not owned by a parent

corporation.  No publicly held corporation owns 10% or more of SCO's stock.

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# JURISDICTIONAL STATEMENT

This is an appeal from a Final Judgment entered on November 20, 2008. SCO filed timely its notice of appeal on November 25, 2008. The Final Judgment incorporated two earlier orders: a Memorandum Opinion and Order entered August 10, 2007, granting summary judgment for the defendant, Novell, Inc. ("Novell"), on certain of SCO's claims and Novell's counterclaims; and Findings of Fact, Conclusions of Law, and Order entered July 16, 2008. Jurisdiction was founded under 28 U.S.C. §§ 1331 and 1338(a). Appellate jurisdiction lies in this Court under 28 U.S.C. § 1291.

# ISSUES ON APPEAL

**(1)** SCO's predecessor-in-interest, The Santa Cruz Operation, Inc. ("Santa Cruz"), purchased the UNIX operating system business from Novell under an Asset Purchase Agreement ("APA"). Did the district court err in concluding, as a matter of law, that Santa Cruz did not obtain the copyrights to the UNIX and UnixWare source code under the APA, but only an implied license?

**(2)** Did the district court err in concluding, as a matter of law, that if the APA did not itself transfer the copyrights, then SCO is not entitled to specific performance, requiring the transfer of the copyrights now?

**(3)** Did the district court err in concluding, as a matter of law, that Novell has the right under the APA to force SCO to waive legal claims against IBM for its breach of Software and Sublicensing Agreements that Novell had sold to Santa Cruz under the APA?

**(4)** Did the district court err in concluding that if Novell has the right under the APA to waive SCO's rights against IBM, then Novell did not have to comply with the implied covenant of good faith and fair dealing in exercising that right?

**(5)** Did the district court err in concluding, as a matter of law, that Novell retained an interest in royalties from SCO's 2003 agreement with Sun Microsystems ("Sun") and other post-APA contracts related to SVRX technology?

## STATEMENT OF THE CASE

### A.     Nature of the Case.

SCO owns the UNIX source code and licensing business, including the current versions of UNIX known as UnixWare.  (00264;00266;00374;10415-10522;07422-07447;05626;13870-71;1594-95;15974;16539.)  UNIX is a computer operating system originally developed by AT&T in the 1960s.  (00123.)  Over decades, AT&T built a business around the operating system by licensing its source code to many of the world's leading institutions, including government agencies, universities, and all major computer manufacturers.  (Id.)

In 1993, Novell purchased the UNIX business from AT&T for $300 million. (06100.)  In 1995, Santa Cruz purchased the UNIX business from Novell under the APA, for consideration to date of approximately $250 million.  (00265;06101; 04637.)  In 2001, SCO purchased the UNIX business from Santa Cruz.  (10415-10522;07422-07447.)

This case arises from Novell's public claims in 2003 that it had retained the UNIX copyrights when it sold the UNIX business to Santa Cruz, and Novell's actions seeking to prevent SCO from pursuing legal claims against IBM for breaching contractual agreements acquired as part of the business.  (00076-78.)

In 2002, SCO had concluded that IBM and others were violating their Software and Sublicensing Agreements by publicly disclosing UNIX source code and related information for use in the development of a competing operating system known as Linux. (09406-07.) By that time, Novell had become "an ardent supporter of Linux" and IBM had committed vast resources to transforming Linux from an "open source" program developed by volunteers into a competitive, enterprise-grade alternative to UNIX. (05874;00071.)

In March 2003, SCO brought copyright and contract claims against IBM in a case pending before the district court. (09407.) Novell then publicly claimed that it had retained ownership of the UNIX copyrights and purported to waive SCO's contract claims against IBM, leading SCO to initiate this litigation. (05875;01920.) Soon thereafter, IBM paid Novell $50 million to acquire SuSE, a leading Linux distributor. (16682;04695;04397;04400.)

## B.    Proceedings and Disposition Below.

In 2004 and 2005, the district court denied Novell's first attempts to dismiss SCO's claim for slander of title to the UNIX copyrights. The court reasoned that there were "ambiguities in the APA as amended" that precluded the court from ruling as a matter of law that Novell had retained the copyrights under the APA. (16713;16722;16707.) When ruling on summary judgment in August 2007,

however, the court reversed course and reasoned that the contract language unambiguously did not transfer the copyrights, but rather had granted Santa Cruz only an "implied license" to use the copyrights. (12044;12036-37.)

The district court also granted (at 12082) Novell's motion for summary judgment with respect to its counterclaim seeking a declaration that it could force SCO to waive, or waive on SCO's behalf, SCO's asserted rights and claims against IBM. Notwithstanding the presence of what the court characterized as "some ambiguity" in the APA's attempt to define the licenses over which Novell had retained any rights and the need for a "minor inferential step" in reaching its conclusion (12060), the court held (at 12068) that "there was no amount of extrinsic evidence that would change the result," because it viewed the APA as not reasonably susceptible to SCO's position. The court also ruled (at 12070) that Novell had no obligation to exercise its waiver rights in accord with the implied covenant of good faith and fair dealing.

Finally, the district court granted (at 12082-83) Novell's motion for summary judgment seeking revenues from post-APA contracts SCO had executed in 2003, notwithstanding the ambiguity the court had noted in the APA concerning which licenses gave rise to Novell's rights to collect revenues from SCO and overwhelming extrinsic evidence that such licenses did not include post-APA

agreements. Based on this ruling, the court found SCO liable for conversion and

breach of fiduciary duty for not remitting such amounts from revenues it had

received under its 2003 agreement with Sun (the "Sun Agreement"). After

conducting a bench trial to determine the amount owed to Novell, the court

awarded Novell $2,547,817, plus prejudgment interest.[1]

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[1]    The Court also made other findings in its August 2007 and July 2008 orders
not discussed in text as they are not the subject of this appeal.

<center>**STATEMENT OF FACTS**</center>

I.    **THE APA.**

    A.    **The UNIX Business.**

After UNIX was originally developed by AT&T in the 1960s and became an

operating system of choice for business (00123;03957-04378), AT&T and the

subsequent owners of UNIX, including Novell and SCO, continually developed

and released updated versions of the operating system derived from and including

the source code from prior versions.  (03957-04378;02398¶27;02411¶31.)

Starting in the early 1980s, AT&T built a business on licensing the source

code to releases of the then-current version of UNIX known as UNIX System V to

all the major computer manufacturers, also known as Original Equipment

Manufacturers.  (03957-04378.)  Source code is the human-readable form of a

computer program, in contrast to binary code, which runs on computers and cannot

be read by people.  (12256-57.)  Manufacturers such as IBM, Sun, and Hewlett-

Packard used the System V source code to develop their own UNIX-derived

"flavors" best suited for use on their respective computers.  (15327-

29;15196;02393¶14;04015;04098;04005.)  A licensee paid one-time fees for the

rights to use the source code of a particular release to create and distribute its

flavor, and continuing royalties for each binary copy of the flavor sold to end-

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users.  (02393¶13;15328-29;02406¶16;14299.)  While licensees could distribute

their flavors to end-users in binary form, the Software and Sublicensing

Agreements required licensees to keep the UNIX source code confidential.  (See,

e.g., 01472;01475;13142.)  IBM was such a licensee and developed its own flavor

of UNIX, which it named AIX.  (01577;01618.)

### B.    The Sale of Novell's UNIX Business.

In 1995, then Novell President and CEO Robert Frankenberg directed Senior

Vice President Duff Thompson "to sell the complete UNIX business" so that

Novell could cut costs and increase shareholder values.  (08610¶4.)  In the summer

of 1995, Novell started negotiations with Santa Cruz, a software company that was

itself a UNIX licensee.  (08610-11¶5.)  Novell sought to sell everything it owned

related to UNIX, but after initial negotiations, the parties realized that Santa Cruz

could not afford to pay the full price in cash or stock.  (08611-12¶¶6-7.)

Accordingly, as a financing device, the parties agreed that Novell would retain an

interest in 95% of "SVRX Royalties," defined as the per-copy fees that existing

licensees paid to Novell for distributions of certain pre-UnixWare versions of

UNIX System V designated in the APA as "SVRX" for "System V Release __."

(00265-66;00287;00315-16;00360-63.)  In addition, Novell received a conditional

interest of up to $84 million in UnixWare sales through 2002 (00265-66;00321¶c) – an interest that expired without ever vesting (04638¶15).

On September 19, 1995, Santa Cruz agreed to purchase the UNIX business, and Novell and Santa Cruz executed the APA. (00257-353.) The parties amended the agreement on the Closing Date of the transaction, December 6, 1995 (Amendment No. 1), and on October 16, 1996 (Amendment No. 2). (00355-72;00374-76.)

## II. THE UNIX AND UNIXWARE COPYRIGHTS.

### A. <u>The Language of the APA.</u>

The APA identifies "all of Seller's right, title, and interest in and to the assets" listed in the Assets Schedule, and not listed in the Excluded Assets Schedule, as assets transferred in the transaction. (00264.) Item I of the Assets Schedule summarizes the transferred "assets and properties of Seller" as "<u>All rights and ownership of UNIX, UnixWare and Auxiliary Products</u>, including but not limited to" the assets and properties listed in the Schedule, "without limitation." (00313;00361) (emphasis added).) The schedule then lists all source code and binary code versions of UNIX, both old and new with no distinction drawn between SVRX and UnixWare, including all prior and existing versions of UNIX.

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(00313.)  Item V.A of the Excluded Assets Schedule, as amended by Amendment

No. 2, identifies:

> All copyrights and trademarks, <u>except for the copyrights</u>
> <u>and trademarks owned by Novell as of the date of the</u>
> <u>Agreement required for SCO to exercise its rights with</u>
> <u>respect to the acquisition of UNIX and UnixWare</u>
> <u>technologies</u>.

(00374 (emphasis added).)

Prior to Amendment No. 2, Item V.A excluded:  "All copyrights and

trademarks, except for the trademarks UNIX and UnixWare."  (00318.)  But

Amendment No. 2 expressly excised that language from the APA by stating that

"Subsection A [of Item V] shall be revised to read" the language set forth in the

Amendment.  (00374.)

In a section entitled "License Back of Assets," the APA also provided for a

Technology License Agreement (the "TLA") under which Santa Cruz granted

Novell a restricted license to the "Licensed Technology" in connection with SCO's

concurrent purchase of the UNIX business under the APA.  (00268;03690.)  The

APA and TLA define the Licensed Technology as "all of the technology included

in the Assets" and "all derivatives" of that technology.  (00268;03690.)  The

"technology included in the Assets" includes all UNIX and UnixWare source code,

products, versions, and copies.  (00313;00361.)

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**B.** **Novell's Slander of Title.**

On May 28, 2003, the day on which SCO announced its quarterly earnings and a few weeks after SCO had sued IBM over violations of its Software and Sublicensing Agreements, Novell publicly claimed that it – not SCO – owned the UNIX copyrights, an assertion that Novell had not made in any context since signing the APA more than seven years earlier. (05875;10026;04695;05896.) In an open letter published on its website, Novell CEO Jack Messman described Novell as "an ardent supporter of Linux" and asserted that "SCO is not the owner of the UNIX copyrights." (05874-75.)

Nine days later, after SCO had faxed a copy of Amendment No. 2 to Mr. Messman, Novell immediately issued a press release, admitting:

> Amendment #2 to the 1995 SCO-Novell Asset Purchase
> Agreement was sent to Novell last night by SCO. To
> Novell's knowledge, this amendment is not present in
> Novell's files. The amendment appears to support
> SCO's claims that ownership of certain copyrights for
> UNIX did transfer to SCO in 1996.

(05889 (emphasis added).) Novell has admitted that it had made its initial announcement without considering the APA as amended by Amendment No. 2 and without consulting the people who had negotiated the APA or its amendments. (05895-96.) Novell subsequently sought to retract the retraction, and stated that

Amendment No. 2 "raises as many questions about copyright transfers as it answers." (07895.)

Within two hours of Novell's public claim that it owns the UNIX copyrights, SCO's stock plummeted, even though SCO had announced record revenues that day. (13137-38¶¶6-9.) In discovery, SCO learned that the timing of Novell's announcement was not "entirely coincidental," as Mr. Messman had claimed. (13800;10025-26;10029.) Novell Vice Chairman Chris Stone had informed Maureen O'Gara, a journalist who has covered the computer industry since 1972, that Novell intentionally was making the announcement on the day of SCO's earnings report to "confound SCO's stock position" and "upset the stock price." (10025-26;10029.) According to her testimony, Mr. Stone leaked this information "with laughter" and "chortling." (10029.)

Novell's claim that Amendment No. 2 was "not present in Novell's files" also proved to be false. Mr. Messman later admitted that a signed copy of Amendment No. 2 had been present in Novell's files all along, and that Novell had published its initial ownership claims knowing that it had, at least, an unsigned copy of the Amendment. (09379.)

## C.      Intent of the Asset Purchase Agreement.

Amendment No. 2, as noted above, specified that copyrights "required for

[SCO] to exercise its rights with respect to the acquisition of UNIX and UnixWare

technologies" are not excluded from the Assets Schedule – the assets transferred to

Santa Cruz.  (00374.)

Santa Cruz General Counsel Steven Sabbath, who negotiated and signed

Amendment No. 2, testified that it was <u>never</u> his understanding "during the

negotiations leading up to the APA or thereafter that copyrights in the UNIX

business were being excluded from the asset transfer" and that Santa Cruz

therefore understood the revision of the Excluded Assets Schedule "to be a

clarification" of the APA.  (10719;10764-65.)

Novell's senior executives at the time of the asset purchase held similar

views.  Robert Frankenberg, President and CEO of <u>Novell</u> at the time of the APA,

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."  (08563.)  Ed Chatlos, who served as <u>Novell's</u> lead

negotiator for the asset purchase and who participated in "detailed discussions"

with Santa Cruz lead negotiator Jim Wilt, testified to the same intent to sell the copyrights to Santa Cruz as part of the transaction. (08661-63¶¶ 9-11;08674-75.)

The following ten witnesses on both sides of the deal uniformly testified that the transaction was intended to transfer the UNIX and UnixWare copyrights to Santa Cruz:

| NOVELL SIDE | SANTA CRUZ SIDE |
|---|---|
| **Robert Frankenberg**, President and CEO | **Alok Mohan**, President and CEO |
| **Ed Chatlos**, Senior Director for UNIX Strategic Partnerships and Business Development and Lead Negotiator of the APA | **Jim Wilt**, Vice President and Lead Negotiator of the APA |
| **Duff Thompson**, Senior Vice President | **Doug Michels**, Founder and Vice President |
| **Burt Levine**, In-House Counsel | **Steven Sabbath**, General Counsel |
| **Ty Mattingly**, Vice President for Strategic Relations | **Kimberlee Madsen**, Assistant Negotiator |

(08563;08661-63¶¶9-11;08674-75;05646;05663-65;05631-32;05616;05715;05712;
08914-15;10719;10764-65;07827-28¶¶9-11;03938¶16;05727-29.)

In addition, Messrs. Frankenberg, Chatlos, Thompson, Mattingly, Wilt, Michels, and Sabbath, and Ms. Madsen testified that the license back of the UNIX source code to Novell under the TLA would have been unnecessary had the parties intended to exclude the copyrights and that they therefore understood the TLA to reflect the shared understanding that Santa Cruz was purchasing the copyrights under the APA. (08546;08555;08663¶12;08612¶8;08605;08924¶16;08904;10726; 03937¶12.) In discovery, even Novell admitted that "it would be reasonable for someone to read the technology license agreement as inconsistent with a reading of the APA that the UNIX copyrights were retained by Novell." (09313.)

## D. **The Parties' Course of Performance.**

Contemporaneous with the APA and its amendments, Novell:

- Transferred its UNIX copyright registrations to Santa Cruz, which transferred them to SCO in 2001. (See, e.g., 05731-44.) SCO has possession of the registrations. (Id.)

- Modified the copyright notices on the UnixWare source code existing at the time of the APA to reflect the change in ownership of the copyrights from Novell to Santa Cruz. (10303-13.)

- Reported to the APA transition team that "the following changes have been made" to existing UnixWare code at the request of Santa Cruz: "SCO copyrights added to documentation and software." (10320.)

- Admitted that "All of the technology and intellectual assets" in existing UNIX source code "will be transitioned to SCO sometime after December 1, 1995." (13362;13368-69.)

- Announced in a joint press release that "SCO will acquire Novell's UnixWare business and UNIX intellectual property." (05626.)

- Admitted that Santa Cruz had purchased the UNIX business "lock, stock and barrel." (10330.)

There is no evidence that Novell exercised or enforced any UNIX or UnixWare copyrights after the APA, or that Novell told or represented to anyone that it owned those copyrights between September 19, 1995, and May 28, 2003.

Contemporaneous with the APA and its amendments, Santa Cruz:

- Shipped countless UnixWare products with a Santa Cruz copyright notice on the product discs, without objection from Novell. (See, e.g., 09036¶3;09038;09040.)

- Announced in its 1995 Annual Report that it had acquired "certain assets related to the UNIX business including the core intellectual property

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from Novell." (13870.) Wilson Sonsini, the law firm that represented Novell in the APA, was Santa Cruz's counsel in connection with the 1995 Annual Report. (07463-64;13905.)

- Stated through its investment banker that, under the APA, Santa Cruz "will obtain the IP" for UNIX, UnixWare, and all UNIX-related products. (10274 (emphasis added).)

- Recited in a 1998 agreement with Microsoft that "SCO has acquired AT&T's ownership of the copyright in the UNIX System V operating system." (12196.)

- As UNIX copyright holder, brought a complaint against Microsoft before the European Commission in 1997, representing that it had "acquired ownership of the copyright to UNIX," and referring to itself as "the copyright owner of UNIX." (09114§4.9;09112§3.4;09119§8.1.)

## III. NOVELL'S WAIVER RIGHTS REGARDING SVRX LICENSES.

Article 4.16(b) of the APA grants Novell rights to "amend, supplement, modify or waive any rights" under certain licenses called "SVRX Licenses" in the APA. (00287.) The issues concerning the identity of the "SVRX Licenses" over which Novell had retained rights became meaningful when Novell purported in 2003 to waive SCO's claims against IBM under its Software and Sublicensing

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Agreements.  (01937;01950;01965.)  Those Agreements provided IBM access to the valuable UNIX source code but required IBM to keep that source code and derivatives thereof strictly confidential in order to maintain the value of the UNIX technology and licensing business.  (See 01472;01475;13142.)

Believing that IBM had violated those restrictions by releasing UNIX technology to the Linux operating system, SCO filed suit against IBM in March 2003.  (09407.)  Novell then claimed that the "SVRX Licenses" over which it had retained rights under the APA included the Software and Sublicensing Agreements that SCO alleged IBM had violated, and Novell proceeded to direct SCO to waive its rights to pursue those claims against IBM.  (01920;01960.)  When SCO contested Novell's position that it had retained authority over those agreements, Novell purported to act on SCO's behalf in waiving IBM's violations.  (01937;01950;01965.)

## A.    The Licensing of UNIX Products.

A UNIX licensee executed a Software Agreement that gave the licensee the right to develop a UNIX derivative product, and a Sublicensing Agreement that gave it the right to compile its derivative product in binary format, for distribution.  (04624-26¶¶10-14;04609-11¶¶13-17.)  Those Agreements required licensees to keep the UNIX source code and derivatives thereof confidential.  (See, e.g.,

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01472;01475;13142.)  If a licensee wished to sell a UNIX-derivative product, it

entered into a Product Schedule License, which permitted the licensee to do so in

exchange for its remitting to the UNIX business owner a residual share in the

proceeds of such sales – royalty rights.  (<u>See, e.g.</u>, 14298-99;01577.)

As a means of financing Santa Cruz's purchase of the UNIX licensing

business from Novell, Santa Cruz had agreed to allow <u>Novell</u> to continue to

receive the residual royalties paid under Product Schedule Licenses for SVRX

releases.  (08611-12¶¶6-7;00265-66;00287;00315-16;00360-63;04624-26¶¶10-

14;04609-11¶¶13-17.)  To resolve the obvious problem that resulted from the

parties' agreement to leave Novell with such royalty rights while the licenses that

governed payment of those royalties were being sold to Santa Cruz in the asset

purchase, Santa Cruz agreed in Section 4.16(b) to give Novell certain rights over

those licenses that governed such payments – the Product Schedule Licenses.

(00287;02472-73¶¶6-7;08537.)

B.      **"SVRX Licenses" Under the APA.**

Article 4.16 identifies the "SVRX Licenses" by pointing to a list in Item VI

of the Assets Schedule:

> Following the Closing, Buyer shall administer the
> collection of all royalties, fees and other amounts
> due under the SVRX Licenses (<u>as listed in detail</u>

under Item VI of Schedule 1.1(a) hereof and
referred to herein as "SVRX Royalties).

(00287 (emphasis added).)  In turn, the introductory sentence of Item VI also refers

to a forthcoming list of SVRX Licenses:

All contracts relating to the SVRX Licenses and
Auxiliary Product Licenses (collectively "SVRX
Licenses") listed below:

(00315;00363 (emphasis added).)  The ensuing list in Item VI, however, is a list of

products, not a list of licenses.  (00315-16;00366-69.)

The Software and Sublicensing Agreements, such as those executed by IBM,

are separately listed as assets sold to Santa Cruz without any reservation of rights

for Novell, under Item III of the Assets Schedule:

All of Seller's rights pertaining to UNIX and
UnixWare under any software development
contracts, licenses and any other contracts to which
Seller is a party or by which it is bound and which
pertain to the Business . . . including without
limitation . . . Software and Sublicensing
Agreements.

(00314-15.)

C.      **Intent of the Parties Regarding Novell's Waiver Rights.**

Messrs. Frankenberg, Chatlos, Thompson, Mattingly, Mohan, Wilt, Michels,

and Sabbath, and Ms. Madsen all testified that the intent of Article 4.16(b) was to

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provide Novell rights over those licenses that gave rise to the royalties for sales of SVRX products in which Novell had retained an interest – and not to provide Novell with the right to control Santa Cruz's actions under other agreements, such as the Software and Sublicensing Agreements with IBM at issue. (08540-41;05653¶13;03553-54¶7;08592; 03929-30¶4;03677-78¶10;03561¶9;03858-59¶¶4-5;03937¶13.) William Broderick and John Maciaszek, executives in Novell's UNIX licensing group, specifically testified that Novell used the term SVRX Licenses to refer to Product Schedule Licenses that licensed SVRX products. (04624-26¶¶10-14;04609-11¶¶13-17.)

### D. Novell's Unauthorized Amendment of IBM's Software and Sublicensing Agreements.

Novell and Santa Cruz previously resolved the same dispute over whether Novell's 4.16(b) rights extend to IBM's Software and Sublicensing Agreements. On April 26, 1996, less than four months after the APA closed, Novell and IBM entered into an "Amendment" of IBM's Software and Sublicensing Agreements (the "Unauthorized Amendment") – without telling Santa Cruz about the amendment. (10400-03.) Novell, "on behalf of itself and The Santa Cruz Operation," purported to grant IBM a buyout and rights to distribute UNIX source code. (10400-01.)

When Santa Cruz learned of the Unauthorized Amendment, it immediately

objected, and Santa Cruz CEO Mr. Mohan asserted to Novell that "our agreements

provide SCO with ownership and exclusive rights to license the UNIX source

code." (03890.) Santa Cruz further wrote: "As to source code, Novell must

recognize that it has no interest whatsoever and must not engage in any buyout or

grant of expanded rights." (13546.)

Novell's CEO, Mr. Frankenberg, did not challenge Mr. Mohan's assertions,

and indeed, over the ensuing six months of negotiations, Novell did not once

invoke its Article 4.16(b) rights, as it did in 2003. (03887;03879-901;13538-49.)

Instead, Novell and Santa Cruz resolved the issue by executing Amendment No. 2

to the APA and two related agreements, pursuant to which Novell:

- Paid Santa Cruz $1.5 million for a release of its claims against Novell for

  Novell's execution of the Unauthorized Amendment, which had

  attempted to expand Novell's Article 4.16(b) rights by granting IBM the

  right to distribute source code. (03915.)

- Agreed that it "may not prevent SCO from exercising its rights with

  respect to SVRX source code in accordance with" the APA. (03695.)

- Agreed that it could not unilaterally grant buyouts even of its interest in

  SVRX Royalties. (Id.)

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Mr. Sabbath testified that Amendment No. 2 "clarifies the fact that Santa Cruz Operation owned the source code, all UNIX source code, including SVRX; that Novell could not give any future SVRX source code licenses to anybody, and that Novell couldn't prevent us . . . from taking whatever actions we wanted with regard to that source code."  (10725;10730.)  Ms. Madsen testified that Amendment No. 2 was intended to "confirm that Novell had received no rights with respect to UNIX source code under the APA."  (07829¶16.)  And Novell Sales Director Larry Bouffard, who had conceived the Unauthorized Amendment, understood Amendment No. 2 "to preclude Novell from undertaking the precise type of unilateral conduct with respect to the UNIX license agreements that [he] had undertaken with respect to the IBM-Novell buyout."  (03871¶33.)

## IV.   NOVELL'S RIGHTS IN SVRX ROYALTIES.

In 1994, Sun paid Novell $83 million for a buyout of Sun's royalty-payment obligations under its pre-APA license to SVRX.  (00889-911.)  In 2003, SCO entered into a UnixWare agreement with Sun that also granted rights to old SVRX technology included in UnixWare.  (00874-87.)  The district court concluded (at 12082-83) that those rights constituted an "SVRX License" and ordered SCO (at 12131) to pay $2,547,817 as "SVRX Royalties" due to Novell under that license.

Article 1.2(b) of the APA sets forth Novell's retained interest in UnixWare

sales and SVRX Royalties:

> Except as otherwise provided in paragraph (e) of this
> Section 1.2, Buyer agrees to collect and pass through to
> Seller one hundred percent (100%) of the SVRX Royalties
> as defined and described in Section 4.16 hereof . . . .
> Seller and Buyer further acknowledge and agree that Seller
> is retaining all right to the SVRX Royalties
> notwithstanding the transfer of SVRX Licenses to Buyer
> pursuant hereto, and that Buyer only has a legal title and
> not an equitable interest in such royalties . . . . For the
> purposes of administering the collection of SVRX
> Royalties, the parties acknowledge that the royalties shall
> continue to be recognized as royalties by Seller on an
> ongoing basis and the parties shall take such commercially
> reasonable steps as may be necessary to effectuate the
> foregoing for financial accounting and tax purposes. In
> addition, Buyer agrees to make payment to Seller of
> additional royalties retained by Seller in respect of the
> transfer of UnixWare and on account of Buyer's future
> sale of UnixWare products.

(00265.)

Article 4.16(a) in turn describes the SVRX Royalties in which Novell

retained an interest as "all royalties, fees and other amounts due under the SVRX

Licenses" listed in the Assets Schedule. (00287.) The meaning of "SVRX

Royalties" thus depends on the meaning of "SVRX Licenses." The district court

concluded (at 12075) as a matter of law that even post-APA contracts relating to

SVRX, such as the Sun Agreement in part, are "SVRX Licenses" under the APA.

Ten witnesses on both sides of the transaction testified that "SVRX Licenses" refers to licenses that existed at the time of the APA. (08537-38;08518;02472¶7;08760;08588;02431¶4;02438¶4;08888-89;10729;02483¶12.) In a press release announcing the closing of the APA transaction, Novell described the twin interests it was retaining as follows:

> The agreement also calls for Novell to receive a revenue stream from SCO based on revenue performance of the purchased UnixWare product line. This revenue stream is not to exceed $84 million net present value, and will end by the year 2002. In addition, Novell will continue to receive revenue from existing licenses for older versions of UNIX System source code.

(07853 (emphasis added).) Novell made this same admission verbatim in its 1995 and 1996 Annual Reports and its 1996 Quarterly Reports. (02182;02232;02302;02320;02341.)

The parties already resolved the dispute over the scope of Novell's rights to SVRX Royalties in 1996, as part of the dispute over Novell's attempt to grant IBM an unauthorized buyout. At that time, Mr. Mohan told Mr. Frankenberg that the APA "provided for Novell to receive the residual royalties from the in-place SVRX license stream." (02488 (emphasis added).) In the six months of negotiations that followed, Novell did not once challenge that assertion. (03887;03879-901;13538-49.)

Novell's former UNIX contract manager, Jean Acheson, testified that – until SCO filed this lawsuit in 2004 – Novell never requested revenues from certain post-APA SVRX agreements and did not audit such agreements or revenues in its 1998 audit of Santa Cruz. (04635-36¶¶2-9.)

## SUMMARY OF ARGUMENT

The district court's ruling that, as a matter of law, the UNIX and UnixWare copyrights were not transferred with the sale of the UNIX and UnixWare business should be reversed for at least three independent reasons.

First, the district court interpreted the APA without considering Amendment No. 2, the very Amendment that expressly clarified the issue of copyright transfer and ownership by replacing the exclusion of "all copyrights." It is fundamental error to rely on language of a contract that has been expressly replaced. It was also error to conclude that Amendment No. 2 did not independently suffice to transfer the copyrights. Clearly, the Amendment must be read together with the provisions of the APA that transferred "[a]ll rights and ownership" in UNIX and UnixWare.

Second, the district court's finding that SCO had obtained only an "implied license" to the copyrights simply cannot be squared with the relevant provisions of the APA that deal with the sale of assets. If Amendment No. 2 was intended only to affirm an "implied license," the Amendment would have said that and would not have changed the language regarding copyrights in the Schedules of Assets being sold. Amendment No. 2 also would have been entirely unnecessary if the APA had already conferred an implied license.

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Third, although it had previously found the APA to be ambiguous on the subject of copyright transfers, the district court disregarded the probative extrinsic evidence of numerous witnesses and documents drawn from both sides of the transaction and the subsequent course of performance. The court then improperly drew inferences in favor of Novell in resolving what both it and Novell had previously recognized to be ambiguities.

The district court also erred in concluding as a matter of law that Novell retained the absolute right to waive SCO's claims against IBM for breaching the UNIX Software and Sublicensing Agreements. The court acknowledged that there was "ambiguity" in the relevant language and that it needed to take what it called a "minor inferential step" to adopt Novell's position. In taking this "step," the court rejected competent extrinsic evidence defeating Novell's interpretation. The court further decided that the implied covenant of good faith and fair dealing does not apply to Novell's actions under Article 4.16(b), cementing an interpretation of the APA that gives Novell the unfettered right, for whatever reasons Novell chooses, to take away from SCO all of the rights under the licenses and agreements Novell had transferred. Under the court's interpretation, Novell retained the unlimited right to destroy the economic value of the business it had sold and for which it has received more than $250 million of consideration.

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Finally, the district court erred in concluding as a matter of law that, notwithstanding the ambiguity in the APA and overwhelming extrinsic evidence to the contrary, the "SVRX Licenses" under which Novell retained "SVRX Royalties" included all contracts relating to SVRX, including post-APA contracts such as the 2003 Sun Agreement.

# LEGAL STANDARDS

"At the summary judgment stage the judge's function is not himself to weigh the evidence and determine the truth of the matter but to determine whether there is a genuine issue for trial." Anderson v. Liberty Lobby, Inc., 477 U.S. 242, 249 (1986). "The evidence of the non-movant is to be believed, and all justifiable inferences are to be drawn in his favor." Id. at 255. "It is axiomatic that a judge may not evaluate the credibility of witnesses in deciding a motion for summary judgment." Seamons v. Snow, 206 F.3d 1021, 1026 (10th Cir. 2000). The Court reviews the district court's grant of summary judgment de novo. Davidson v. Am. Online, Inc., 337 F.3d 1179, 1182 (10th Cir. 2003).

# ARGUMENT

## I. THE DISTRICT COURT ERRED IN CONCLUDING, AS A MATTER OF LAW, THAT THE APA AS AMENDED DID NOT TRANSFER THE EXISTING UNIX AND UNIXWARE COPYRIGHTS TO SANTA CRUZ.

### A. The District Court Erred in Interpreting the APA and Amendment No. 2 As Separate and Independent.

"A written instrument must be construed as a whole, and multiple writings must be considered together when part of the same contract." Nish Noroian Farms v. Agric. Labor Relations Bd., 35 Cal. 3d 726, 735 (1984). "A contract may not be interpreted in a manner which would render one of its terms meaningless." Kavruck v. Blue Cross of Cal., 108 Cal. App. 4th 773, 783 (2003). Under California law, which governs the APA, the district court clearly erred in interpreting the APA without Amendment No. 2, and then Amendment No. 2 standing alone, instead of reading the APA as amended as a single coherent document.

The APA as amended calls for the inclusion, not exclusion, of the UNIX and UnixWare copyrights from the asset sale. The APA transfers "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." (00264.) Item I of Schedule 1.1(a), the Assets Schedule, includes:

> All rights and ownership of UNIX and UnixWare,
> including but not limited to all versions of UNIX and
> UnixWare. . . including source code . . . such assets to
> include without limitation . . ."

(00313 (emphasis added).) The schedule then lists all source code and binary

products, including all releases of UNIX System V and UnixWare, and all prior

versions. (Id.) The Bill of Sale, in turn, transfers "all of the Assets" to Santa Cruz.

(05602.)

The specific, catch-all phrase "All rights and ownership of UNIX and

UnixWare" (00313) clearly includes the copyrights of UNIX and UnixWare – the

core intellectual property on which the UNIX licensing business depends. 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."[2] Shugrue v. Cont'l Airlines, Inc., 977 F. Supp. 280, 286 (S.D.N.Y. 1997)

(emphasis added); see also ITOFCA, Inc. v. Megatrans Logistics, Inc., 322 F.3d

928, 931 (7th Cir. 2003) (transfer of "all assets" to a business includes copyrights);

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[2] Witnesses in the software business testified that purchasing a software
business is synonymous with purchasing the copyrights. (08914;08940-
41;10722;08638.) Mr. Michels, who had worked in the software business for
twenty years, testified: "[T]he only way that I know of, and anyone on my team
knew of to buy a software business is to buy the copyrights . . . . Every single
person on my team understood that. The lawyers understood. The business
development people understood it. The people at Novell understood it." (08914.)
Mr. Michels likened this proposition to "breathing oxygen." (Id.)

Relational Design & Tech., Inc. v. Brock, No. 91-2452-EEO, 1993 WL 191323, at

*6 (D. Kan. May 25, 1993) (transfer of "all rights" in a program includes

copyrights).  In addition, the "without limitation" language makes clear that the list

of Items in the Assets Schedule is non-exhaustive.  (00313;00361.)

Schedule 1.1(b) as amended, the Excluded Assets Schedule, excludes from

the transaction several listed assets.  It carves out only those copyrights that Santa

Cruz did not need to exercise its rights with respect to the UNIX and UnixWare

business it was acquiring:  "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."  (00374.)

It is undisputed that Santa Cruz acquired the rights to (1) develop "a line of

software products known as Unix and UnixWare," (2) sell "binary and source code

licenses to various versions of Unix and UnixWare," (3) provide support to Unix

and UnixWare products, and (4) bring "claims arising after the Closing Date

against any parties relating to any right, property or asset included in the

Business."  (00264;00314.)  SCO presented uncontroverted evidence that Santa

Cruz could not exercise those rights without also owning the copyrights to UNIX

and UnixWare.  (10722;10762;08676;08905-06;08606;09017;09816.)

Amendment No. 2 expressly revises the Excluded Assets Schedule of the

APA. (00374.) "A written instrument must be construed as a whole, and multiple

writings must be considered together when part of the same contract." Nish, 35

Cal. 3d at 735. Once Amendment No. 2 removed the carve-out of UNIX and

UnixWare copyrights, those copyrights were within the purview of the Assets

Schedule and were transferred by the Bill of Sale. Novell's argument, accepted by

the district court (at 12040-41), that the amendment was not intended to apply

"retroactively" to the transfers effectuated upon the closing of the APA is illogical.

As an amendment to the schedules of assets sold in the transaction, Amendment

No. 2 only makes sense as a clarifying amendment to that transaction. Moreover,

Amendment No. 2 makes express reference to "the copyrights and trademarks

owned by Novell as of the date of the Agreement." (00374 (emphasis added).)

The very language of the Amendment thus reaches back to the transaction that

occurred as a result of the APA.

At minimum, there was ambiguity created by Amendment No. 2, as Novell

has publicly and repeatedly admitted: "The amendment appears to support SCO's

claims that ownership of certain copyrights for UNIX did transfer to SCO in

1996." (05889.) Novell acknowledged "that a reader of this language, you know –

you know, might be able to conclude that SCO's claim of ownership did transfer,

that SCO's claim of ownership was supported by this language." (10598 (emphasis added).) Indeed, the district court itself recognized "the ambiguities of the APA as amended" with respect to the transfer of copyrights in denying Novell's motions to dismiss. (16713;16707.) Yet the court subsequently concluded that the language in Amendment No. 2 was unambiguous as a matter of law in Novell's favor.

The district court's conclusion is also undermined by the Technology Licensing Agreement, through which Santa Cruz licensed back to Novell the "Licensed Technology," which is defined to include all UNIX and UnixWare "source code," "versions," "products," and "copies." (00268;00361;03690;00313.) The license-back provided Novell with only a limited license, restricting Novell from using the Licensed Technology in competition with Santa Cruz. (00268;03690.) Such restrictions are inconsistent with Novell's claim that it did not intend to transfer its ownership of the UNIX and UnixWare copyrights in the first place, which obviously would have permitted Novell to use the Licensed Technology freely and without any license-back from Santa Cruz. Indeed, Novell admitted in discovery that "it would be reasonable for someone to read the technology license agreement as inconsistent with a reading of the APA that the UNIX copyrights were retained by Novell." (09313.)

**B.    The District Court Erred in Finding an "Implied License" From the Text of the APA and Amendment No. 2.**

Seeking to explain how Santa Cruz could purchase the UNIX business

"lock, stock, and barrel" (10330), in a 50-page Asset Purchase Agreement, without

acquiring its core intellectual property, the district court stated (at 12036 and

12043) that the APA must have conferred "an implied license to use the copyrights

as needed to implement the transaction."  Forced then to explain the purpose of

Amendment No. 2, the court concluded (at 12042-44) that it merely "affirmed" the

implied license that had already been granted.  Without citation to any authority, or

any explanation, the court even opined that the Amendment "reads like an implied

license."  (12043.)

The doctrine of "implied license" has no application here.[3]  The law

recognizes implied licenses <u>only</u> in the specific case where a defendant needs an

affirmative defense to a claim of copyright infringement where "(1) a person (the

licensee) requests the creation of a work, (2) the creator (licensor) makes that

particular work and delivers it to the licensee who requested it, and (3) the licensor

intends that the licensee-requestor copy and distribute his work."  I.A.E., Inc. v.

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[3]      As a threshold matter, the finding of an implied license presents a "classic question of fact."  Axcess Broadcast Servs., Inc. v. Donnini Films, No. Civ.A. 3:04-CV-2639, 2006 WL 1115430, at *5 (N.D. Tex. Apr. 26, 2006) (unpublished).

Shaver, 74 F.3d 768, 776 (7th Cir. 1996). The Second Circuit has similarly held

that implied licenses are found "only" in those "narrow circumstances."

SmithKline Beecham Consumer Healthcare, L.P. v. Watson Pharms, Inc., 211 F.3d

21, 25 (2d Cir. 2000) (emphasis added). This case does not include any of those

facts – Santa Cruz was purchasing a software licensing business, not merely a

work that it had commissioned from Novell.

In order to cram the square peg of an "implied license" into the round hole

of an "asset purchase agreement," the district court also had to disregard the clear

provision giving Santa Cruz the right to bring claims relating to any right, property,

or asset in the UNIX business. (00314.) An implied license would not permit

SCO to exercise that right, since an "implied license can only be non-exclusive,"[4]

and "[h]olders of a non-exclusive license lack standing to sue." R. Ready Prods.,

Inc. v. Cantrell, 85 F. Supp. 2d 672, 684 n.11 (S.D. Tex. 2000).

In addition, the district court's independent conclusion (at 12042-44) that

Amendment No. 2 "was merely affirming" an implied license is implausible on its

face. No language in Amendment No. 2 refers to any "license," to any rights that

Santa Cruz supposedly already had, or to any license rights that were being

"affirmed." This was an asset purchase agreement, and Amendment No. 2

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[4]      Gillespie v. AST Sportswear, Inc., No. 97 Civ. 1911 (PKL), 2001 WL
180147, at *7 (S.D.N.Y. Feb. 22, 2001) (unpublished).

expressly amended and clarified the schedule of <u>assets</u> being <u>purchased</u>, not

licensed. Why would anyone affirm in writing an implied license with language

that never mentions the alleged license?[5]

**C.**     **The District Court Erred in Its Limited Consideration of the Extrinsic Evidence of the Parties' Intent to Sell the UNIX Copyrights to Santa Cruz Under the Amended APA.**

Under governing California law, the goal of contract interpretation is to give

effect to the mutual intention of the parties. <u>City of Atascadero</u>, 68 Cal. App. 4th

at 473. California law has "turned its back on the notion that a contract can ever

have a plain meaning discernible by a court without resort to extrinsic evidence."

<u>Trident Ctr. v. Conn. Gen. Life Ins. Co.</u>, 847 F.2d 564, 568 (9th Cir. 1988).

The California Supreme Court has set out a broad standard for consideration

of extrinsic evidence: "Even if a contract appears unambiguous on its face, a latent

ambiguity may be exposed by extrinsic evidence which reveals more than one

possible meaning to which the language of the contract is yet reasonably

susceptible." <u>Dore v. Arnold Worldwide, Inc.</u>, 39 Cal. 4th 384, 391 (2006).

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[5]     In addition, the Amendment cannot properly be read as an "affirmation" without improperly gutting Paragraph A of Amendment No. 2 of any independent meaning or significance. See <u>City of Atascadero v. Merrill Lynch</u>, 68 Cal. App. 4th 445, 473 (1998); <u>Dietrich v. Albertsons Inc.</u>, No. 94-2103, 1995 WL 355246, at *5 (10th Cir. June 14, 1995) (unpublished).

If "there is a conflict in the extrinsic evidence, the factual conflict is to be resolved by the jury." Wolf v. Walt Disney Pictures and Television, 162 Cal. App. 4th 1107, 1127 (2008). A trial court commits reversible error when it considers only some of the extrinsic evidence. Halicki Films, LLC v. Sanderson Sales and Mktg., 547 F.3d 1213, 1223 (9th Cir. 2008); Morey v. Vannucci, 64 Cal. App. 4th 904, 912 (1998).

The trial court should consider evidence of "the circumstances surrounding the making of the agreement, including the object, nature and subject matter of the writing, and the preliminary negotiations between the parties, and thus place itself in the same situation in which the parties found themselves at the time of contracting." Universal Sales Corp., Ltd. v. Cal. Press Mfg. Co., 20 Cal. 2d 751, 761 (1942); Cal. Civ. Code § 1647. In addition, the parties' course of performance is crucial. Employers Reinsurance Co. v. Sup. Ct., 161 Cal. App. 4th 906, 922 (2008) (reversing trial court). The California Supreme Court has emphasized that the "practical construction placed by the parties upon the instrument is the best evidence of their intention." Universal Sales, 20 Cal. 2d at 761-62.

Here there is overwhelming evidence in SCO's favor regarding the negotiation to the APA and how the parties performed thereunder, which should have caused the district court to deny Novell's motion for summary judgment.

1.      The Testimony Concerning the Negotiation of the APA
        Demonstrates that Amendment No. 2 Conformed
        The APA to the Intent of the Principals Who Had
        Negotiated the APA.

This is the extraordinary situation where SCO presents not only testimony

from Santa Cruz executives supporting its position, but testimony from numerous

Novell executives, including Novell's then CEO and chief negotiator for the sale of

the UNIX business.  In order to conclude that Santa Cruz had not purchased the

UNIX and UnixWare copyrights under the APA as amended, the district court

needed to discredit on summary judgment all ten of those witnesses, who

uniformly testified that the parties intended to sell the copyrights to Santa Cruz in

the asset purchase.  (08563;08661-63¶¶9-11;08674-75;05646;05663-65;05631-

32;05616;05715;05712;08914-15; 10719;10764-65;07827-28¶¶9-

11;03938¶16;05727-29.)

The district court also minimized or even discredited (as at 12007-08 and

12042) the testimony of Mr. Sabbath, who negotiated and signed Amendment No.

2 and specifically testified that the intent of the Amendment was to bring the

Schedules of the APA into conformity with the intent of the transaction by making

clear that the Assets Santa Cruz purchased included all "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." (10719; 10721;03938¶14;10764-65;03938¶16.)

Instead of drawing all inferences in SCO's favor by crediting these witnesses, the district court disregarded the standards on summary judgment and committed reversible error by straining to find ways to discredit them. The court marginalized the testimony and negatively weighed the credibility of:

- Novell chief negotiator Ed Chatlos (at 12001), on the grounds that "his wife has been employed by SCO since the time of the APA in 1995."

- Novell CEO Robert Frankenberg (at 12000), on the purported grounds that he supposedly testified "somewhat self-contradictorily" and that his testimony was supposedly "at odds" with other evidence.

- Novell senior executive Duff Thompson (at 12002), who signed Amendment No. 1 and the TLA, on the purported grounds that he "checked out" during the drafting of the APA.

The district court not only was wrong about the substance of these observations, but obviously erred in making them part of its summary judgment analysis in the first place. See Seamons, 206 F.3d at 1026.

The district court also afforded little or no weight to the testimony of several witnesses. The court (at 12005) had to acknowledge Jim Wilt's key role in the

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negotiations of the APA, for example, yet completely ignored his highly relevant

testimony in considering the parties' intent, even though he was Santa Cruz's chief

negotiator and was unwavering in his testimony that the parties intended to transfer

the copyrights. (05706¶7;05715;05712.) The court also disregarded the testimony

of Novell contract manager William Broderick, whose recollection is important

evidence that during the transition meetings, no one on either side of the

transaction <u>ever</u> suggested that Novell would be retaining any UNIX or UnixWare

copyrights and that the parties in fact discussed "changing the copyright notices in

the source code to Santa Cruz." (05684-85; <u>see also</u> 10303-13;10320.) The court

also essentially ignored the testimony of Santa Cruz senior executive Doug

Michels, who testified that "there is no way we would have ever done a deal to buy

a software business where we didn't get the copyrights." (08914.)

Having disregarded all of this probative testimony, the district court then

credited Novell's witnesses and drew inferences in Novell's favor. Novell cited

declarations from two of its former attorneys, David Bradford and Tor Braham,

who both testified that, at the eleventh hour and unbeknownst to their principals

and contractual counterparties, they had inserted an exclusion of all copyrights into

the now inoperative version of the Excluded Assets Schedule and, without any

discussion of the term between the parties, gave Santa Cruz a license to those

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copyrights instead.  (06095-97¶¶10-14;06078¶¶11-12;06106¶¶18-19.)  Even if (contrary to law) the court were permitted to weigh this evidence against the overwhelming conflicting evidence on summary judgment, Novell's declarants' testimony cannot remotely govern the interpretation of the revised APA, as they addressed only the former, defunct version of the agreement.

In contrast to its treatment of SCO's witnesses, moreover, the district court credited the testimony of Messrs. Bradford (at 12000-01) and Braham (at 12036 and 11998-99) even in the face of evidence directly undermining their credibility. The court did not even acknowledge that, prior to executing his declaration in 2007, Mr. Bradford had repeatedly stated that he had played no significant role in the negotiation of the APA and did not have any view as to whether the copyrights had been transferred.  (10660-62¶¶6-11.)  Similarly, the district court credited (at 12036) Mr. Braham's testimony that Novell supposedly sought to retain the copyrights to strengthen its rights <u>to do buyouts</u>, but ignored the ensuing protracted dispute between Novell and Santa Cruz in 1996 regarding Novell's attempt <u>to do a buyout</u> with IBM, throughout which Novell <u>never</u> raised – either internally or externally – a claim of copyright ownership, let alone held it up as a ground for its rights to do the buyout.  (<u>See</u> Statement of Facts, Section III.D, above.)

The district court also compounded its error by crediting the declarations of Novell's former CFO, James Tolonen, and its former attorney, Allison Amadia, Novell's witnesses about their understanding of the intent of Amendment No. 2. (12001;12007-08;12042.) They testified that the Amendment merely "affirmed" an implied license that had already been granted. (06097¶¶14-16;03311-12¶¶17-18;06065¶14.) Even if (contrary to law) a court were permitted to weigh such evidence against the conflicting evidence on summary judgment, these witnesses say nothing about the plain language of the amended Assets Schedule. Moreover, as argued above, there was no need for any amendment if an "<u>implied</u> license" was all that SCO was entitled to, and if there was a need to affirm an "implied license," that is what the amendment would have expressly done.

In order to make sense of the purported affirmation of an implied license, the district court impermissibly drew even further inferences against SCO and in favor of Novell:

- The court concluded (at 12007 and 12042) that, because the language of Amendment No. 2 differs from draft language Mr. Sabbath sent Novell, Amendment No. 2 must not have achieved the result that he intended. The obvious inference in SCO's favor, however, is that the revised language of Amendment No. 2 was a different way of saying what he

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proposed to say in his initial draft, precisely as Mr. Sabbath testified. Mr.

Sabbath's testimony leaves no doubt that he did not understand or agree

that the difference in language between drafts had the significance that

the court inferred in Novell's favor. (10719;10722;10738;10764-66.)[6]

- The court further reasoned (at 12037) that the copyright exclusion made

    sense because "Santa Cruz indisputably did not acquire ownership of

    Novell's UNIX-related patents." But the evidence showed that patents

    that may have implicated UNIX in some way did not transfer because

    Novell did not own any such patents. (10739;08638;08893-94;08978.)

    The same was clearly not true of the UNIX and UnixWare copyrights

    that cover the length and breadth of the UNIX code – the core technology

    at the center of the UNIX business being sold to Santa Cruz.

- Observing that the Assets Schedule did not use the word "copyrights,"

    the court mistakenly assumed (at 11986) that the Schedule should have

    specifically enumerated all of the "Intellectual Property" included in the

    "Assets." It does not. The specific assets listed on the Assets Schedule

    do not purport to be exhaustive; to the contrary, the schedule expressly

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[6]    The district court also imposed a double-standard: If Ms. Amadia's and Mr.
Tolonen's understandings of what Amendment No. 2 accomplished are relevant, as
noted above, then Mr. Sabbath's understanding must similarly be relevant, thus
creating a fact issue for the jury.

states that the transferred assets are "not limited to" the list, which is "without limitation." (00313.) Novell concedes, moreover, that the transferred "Assets" included the "trade secrets" and "know-how" in UNIX and UnixWare, even though Schedule 1.l(a) did not use any of those words. (06003-04.) The "Intellectual Property" sections of Schedules 1.1(a) and 1.1(b) simply do not have the neat symmetry that the court (at 11986, 11990-91, 12026 and 12029) attributed to them, and to whatever extent symmetry existed, if at all,[7] in the original APA, it did not exist in the APA as amended.

- Contrary to the court's finding (at 12010-11, 12038-39, and 12046), SCO witnesses expressly denied having asked Novell to transfer the UNIX or UnixWare copyrights during conversations in late 2002 or early 2003. Quite the contrary, they testified that Novell had in fact "agreed" that SCO owned the copyrights and that Novell would undertake to find documents related to the APA. (04698-700¶¶7-16;09778;09751;

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[7]    The unamended APA itself reflects an ambiguity. Because the core ownership rights to an operating system are its copyrights, the transfer of "All rights and ownership" of UNIX and UnixWare plainly includes the UNIX and UnixWare copyrights. In juxtaposition, the Assets and Excluded Assets Schedules cannot reasonably be read to include and exclude those copyrights at the same time. At minimum, the exclusion of "All copyrights" makes hollow the simultaneous transfer of "All rights and ownership of UNIX and UnixWare."

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10316¶3.)  In Novell's own internal documents memorializing those

communications and at deposition, Novell admitted that SCO had sought

only "documents that helped give the history of SCO's rights to UNIX"

to clarify what SCO considered to be a "clerical error" in the unamended

APA.  (07529;11488.)

2.    The Parties' Course of Performance.

Overwhelming extrinsic evidence of Novell's and Santa Cruz's course of

performance demonstrates both parties' mutual understanding that Santa Cruz had

purchased the UNIX and UnixWare copyrights.

For one, SCO, as Santa Cruz's successor, has possession of the UNIX

copyright registrations that Novell had in its possession prior to the APA.  (See,

e.g., 05731-44.)  The registrations are prima facie evidence of the ownership and

validity of the copyrights.  La Resolana Architects, PA v. Clay Realtors Angel

Fire, 416 F.3d 1195, 1202-03 (10th Cir. 2005).  The district court observed (at

11996), without pursuing the point, that Novell transferred the UNIX copyright

registrations to Santa Cruz.  But the court then failed to draw the reasonable and

required inference that Novell transferred the registrations to Santa Cruz because it

had purchased the copyrights.

In addition, contemporaneous with the APA and its amendments, Novell:

- Changed the copyrights notices on existing UNIX and UnixWare source code and documentation to reflect the change in ownership of the copyrights from Novell to Santa Cruz. (10303-13;10320.)

- Reported to the APA transition team that "the following changes have been made" to existing UnixWare code at the request of Santa Cruz: "SCO copyrights added to documentation and software." (10320.)

- Admitted that "All of the technology and intellectual assets" in existing UNIX source code "will be transitioned to SCO sometime after December 1, 1995." (13362;13368-69.)

- Announced in a joint press release that "SCO will acquire Novell's UnixWare business and UNIX intellectual property." (05626.)

- Notified its customers that Novell had transferred "its existing ownership interest in UNIX System-based offerings and related products" to Santa Cruz and referred to Santa Cruz "the owner" of the UNIX software. (See, e.g., 10645;10652;10657;10710;03838;03843;03845.) These UNIX assets were identified as "All Releases of UNIX System V and prior Releases of the UNIX System." (03847.)

**D. The Amended APA and Bill of Sale Exceed The Requirements of the Copyright Act.**

The Copyright Act requires a signed written instrument of conveyance or a note or record of the transfer.  17 U.S.C. § 204.  The district court ruled (at 58-59) that Amendment No. 2 does not constitute an instrument of transfer because it does not include a provision that purports to transfer copyrights, does not expressly amend the schedule of assets that transferred at the closing, and does not specify which copyrights were conveyed.  The court arrived at this erroneous conclusion by attempting to construe Amendment No. 2 independently of the APA it amended.  The APA, as amended by Amendment No. 2, and the Bill of Sale, easily satisfy the Copyright Act's requirements.

Those requirements are intended to effectuate, not frustrate, the intent of the parties.  "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] (2006) (collecting cases); Kenbrooke Fabrics, Inc. v. Soho Fashions, Inc., 690 F. Supp. 298, 301 (S.D.N.Y. 1988) (invoice and short letter transferring ownership of products without mention of copyrights suffice).  No particular language or "magic

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words" are required.  Radio Television Espanola S.A. v. New World Entm't, Ltd., 183 F.3d 922, 927 (9th Cir. 1999).  Even the word "copyright" is not required. See, e.g., ITOFCA, Inc. v. Megatrans Logistics, Inc., 322 F.3d 928, 931 (7th Cir. 2003) (transfer of "all assets" to a business suffices).

The amended APA unambiguously provided for the transfer to Santa Cruz of all of Novell's "right, title, and interest" and "all rights and ownership of UNIX and UnixWare."  (00264;00313.)  The Bill of Sale unambiguously effectuated that transfer and complied with the Copyright Act.  (05602.)  Amendment No. 2, by clarifying the Excluded Assets Schedule, allowed for the transfer of copyrights along with "[a]ll rights and ownership" of UNIX and UnixWare transferred through the Assets Schedule.  No further revision of that schedule was required, as the language was sweeping and expressly labeled "without limitation."  (00313.) Nor, as argued above, is there any real question – and certainly none resolvable against SCO as a matter of law – that the UNIX and UnixWare copyrights were necessary to Santa Cruz's conduct of the business and thus were not excluded from the sale.  (10722;10762;08676;08905-06;08606;09017;09816.)

In addition, "the requirements of 17 U.S.C. § 204(a) can be satisfied by an oral assignment later ratified or confirmed by a written memorandum of the transfer."  Arthur Rutenberg Homes, Inc. v. Drew Homes, 29 F.3d 1529, 1532

(11th Cir. 1994); accord Imperial Residential Design, Inc. v. Palms Dev. Group,

Inc., 70 F.3d 96, 99 (11th Cir. 1995); Nimmer, supra, § 10.03[3].  Here,

Amendment No. 2 confirms not just an oral agreement, but the written agreement

in the APA to transfer all rights and ownership of UNIX and UnixWare.  Neither

the district court nor Novell could cite a single case that even suggests that a full-

blown asset purchase agreement, such as the one here, does not suffice as a transfer

instrument under the Copyright Act.

The amended APA and the Bill of Sale thus plainly provided for and

effectuated the transfer of the UNIX and UnixWare copyrights consistent with the

Copyright Act.

**II.     THE DISTRICT COURT ERRED IN CONCLUDING, AS A
         MATTER OF LAW, THAT IF THE APA DID NOT TRANSFER
         THE EXISTING UNIX AND UNIXWARE COPYRIGHTS, THEN
         SCO IS NOT ENTITLED TO SPECIFIC PERFORMANCE,
         REQUIRING THE TRANSFER OF THOSE COPYRIGHTS NOW.**

In dismissing SCO's alternative claim for specific performance of an

agreement to convey copyrights, the district court cursorily ruled (at 12044) that

"neither the original APA nor Amendment No. 2 entitle SCO to obtain ownership

of the UNIX and UnixWare copyrights."  The court's decision thus follows from

its error in interpreting the original APA and Amendment No. 2 as separate,

standalone documents.  If the APA, as amended, somehow failed to transfer the

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UNIX and UnixWare copyrights, SCO clearly would be entitled to compel the transfer of copyrights "required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies." (00374.)

If, as the district court concluded (at 12042-43), SCO only received an implied license to the copyrights, SCO would not be able to exercise the rights it indisputably acquired under Items II and III of the Assets Schedule to bring claims under the UNIX and UnixWare Software and Sublicensing Agreements. (00314.) SCO needed ownership of the copyrights to bring such claims, as Novell itself acknowledged by asserting ownership of the copyrights precisely to foreclose SCO's claims against IBM. (09212-14.) SCO presented competent evidence that (1) SCO's capacity to bring claims to enforce the UNIX and UnixWare copyrights is an integral and necessary component of operating the UNIX and UnixWare licensing businesses, (2) SCO's copyright claims against IBM were premised on UNIX and UnixWare copyrights existing as of the execution of the APA, and (3) such copyrights covered all of the technology in UNIX and the majority of the technology in UnixWare. (10722;10762;08905-06;09017;09815-16;08834;08676;13045-13128;12981-13043;15540-41;15447-50;02398¶27;

02411¶31.) Such evidence was more than sufficient to preclude summary

judgment on SCO's claim for specific performance.[8]

## III.  THE DISTRICT COURT ERRED IN CONCLUDING, AS A MATTER OF LAW, THAT NOVELL HAS THE RIGHT TO "WAIVE" SCO'S RIGHTS UNDER ALL CONTRACTS RELATING TO SVRX INCLUDING THE SOFTWARE AND SUBLICENSING AGREEMENTS.

### A.  The Term "SVRX Licenses" Is Ambiguous.

Article 4.16(b) of the APA grants Novell rights over only those licenses that

are supposedly "listed in detail" in Item VI of the Assets Schedule and called

"SVRX Licenses" in the APA.  (00287.)  The scope of Novell's rights to force

SCO to waive its contractual rights against IBM thus turns on the meaning of the

term "SVRX Licenses."  In concluding (at 12062-63 and 12070) that the term

unambiguously includes "all contracts relating to SVRX," including Software and

Sublicensing Agreements, the district court erred for several related textual

reasons.

First, the term "SVRX Licenses" is obviously ambiguous, as it is not

defined, except in a circular reference to itself.  Article 4.16(a) identifies the

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[8]      SCO is also entitled to the transfer of copyrights under three other provisions of the APA, which expressly require Novell to perform "all actions" required to effectuate the intent of the deal (00268§1.7;00285§4.9;00286§4.12), which was to transfer the copyrights.  (See Statement of Facts, Section II.C, above.)

"SVRX Licenses" by pointing to a supposed list in Item VI of the Assets Schedule. (00287.) The introductory sentence of Item VI also refers to a forthcoming list of SVRX Licenses – "All contracts relating to the SVRX Licenses and Auxiliary Product Licenses (collectively 'SVRX Licenses') listed below" – but the definition runs into a dead-end, as no list of licenses follows, only a list of products. (00315-16;00366-69.) The "SVRX Licenses" are thus defined as a list of "SVRX Licenses" that is supposed to appear in Item VI, but that does not appear anywhere in the APA. The absence of any definition supports a finding of ambiguity. Bay Cities Paving & Grading, Inc. v. Lawyers' Mut. Ins. Co., 5 Cal. 4th 854, 867 (1993). Since the APA does not identify the licenses under which Novell retained waiver and royalty rights, the district court should have looked outside the four corners of the Agreement – under even the traditional standard for use of extrinsic evidence and certainly under the broader standard adopted by the California Supreme Court and that governs interpretation of the APA. (Part I, above.)

The district court (at 12060) in fact acknowledged that there "appears to be some ambiguity in the APA's attempt to define SVRX Licenses," but decided to resolve the ambiguity on summary judgment anyway. The court's acknowledgment of any ambiguity underscored the need both to consider the potential meaning of "SVRX Licenses" within the context of the APA as a whole

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and to consider the extrinsic evidence of the meaning of the term, both of which the court failed reasonably to do.

Recognizing the ambiguity, the district court turned that ambiguity against SCO and took an "inferential step" (at 12060) in favor of Novell. The court reasoned (at 12065) that the parties could have used clearer language to define "SVRX Licenses" to mean only those licenses in which Novell was retaining a financial interest, as SCO proposed. Of course, the parties also could have used clearer language if they intended "SVRX Licenses" to include the Software and Sublicensing Agreements – they could have properly defined the term, or defined the term with references to actual "licenses."

Second, by adopting Novell's reading, the district court erred by confusing the introductory sentence of Item VI with the list that appears under that sentence. Like all other Items in the Asset Schedule, Item VI identified assets being transferred to Santa Cruz under the APA. In that context, Item VI identifies "all contracts relating to the SVRX Licenses" listed below it as assets that Santa Cruz was purchasing. (00315-16;00363.) Instead of independently listing the "SVRX Licenses" over which Novell was retaining royalty and waiver rights, Article 4.16 cross-referenced a portion of Item VI – the list. (00287 (describing the SVRX Licenses as being "listed in detail under Item VI of Schedule 1.1(a)").) By its own

terms, the clear language of Article 4.16(b) applies only to the SVRX Licenses "listed below" the introductory sentence of Item VI – not to "all contracts relating to" the list. That broader category of all contracts relating to the list – in contrast to the list itself – defines the <u>assets</u> that were being <u>transferred to Santa Cruz</u>.

The district court thus confused Item VI, which identifies the assets Santa Cruz was purchasing, with the portion of Item VI that Article 4.16 cross-references as licenses over which Novell was retaining waiver rights.

### B. The APA Separately Transfers the Software and Sublicensing Agreements to Santa Cruz Without <u>Any Reservation of Rights for Novell.</u>

The Assets Schedule lists several separately numbered "items" being sold to Santa Cruz. (00313-16.) In Item III.L of the Assets Schedule, Novell sold to Santa Cruz "All of Seller's rights" in a list of assets, including the "Software and Sublicensing Agreements" with IBM at issue, without any reservation of rights. (00314-15.) The "SVRX Licenses" in Item VI, by contrast, are assets over which Novell retained rights under Article 4.16. The district court's conclusion that the "SVRX Licenses" in Item VI include the Software and Sublicensing Agreements expressly sold under a separate Item would mean that the APA transferred the Software and Sublicensing Agreements twice. (12063;12070;12082.) It is error to read an agreement in a way that renders a term or provision redundant. <u>Boghos v.</u>

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<u>Certain Underwriters at Lloyd's of London</u>, 36 Cal. 4th 495, 503 (2005); <u>accord</u>

<u>United States v. Gonzalez-Garcia</u>, 85 Fed. Appx. 160, 164 (10th Cir. 2004).  Since

the Software and Sublicensing Agreements are already transferred by name in <u>Item</u>

<u>III.L</u> of the Assets Schedule, the term "SVRX Licenses" in <u>Item VI</u> cannot

properly be read to include the Software and Sublicensing Agreements with IBM.

**C.     The District Court's Interpretation of Article 4.16(b) Destroys
        The Value of the Assets Santa Cruz Purchased.**

As a means of financing Santa Cruz's purchase of the UNIX licensing

business from Novell, Santa Cruz had agreed to allow Novell to continue receiving

the residual royalty payments under the Product Schedule Licenses.  (08611-

12¶¶6-7;00265-66;00287;00315-16;00360-63;04624-26¶¶10-14;04609-11¶¶13-

17.)  To protect that limited right, Novell retained certain rights over the licenses

that governed such payments – the Product Schedule Licenses.  (00287;02472-

73¶¶6-7;08537.)

The district court, however, broadened the list of SVRX Licenses over

which Novell had maintained 4.16(b) rights to also include the Software and

Sublicensing Agreements, such as those with IBM.  Those agreements protected

the UNIX licensing business by providing its owner protections against disclosure

of the UNIX source code upon which the value of the licensing business was

predicated. (See, e.g., 01472;01475;13142.) By including even agreements that do not impose any royalty obligations (such as the Software and Sublicensing Agreements) in the "SVRX Licenses" over which Novell retained rights, the court thus destroyed the value of the assets that Santa Cruz purchased under the APA.

Under the district court's interpretation, Novell can grant IBM, and any other UNIX licensees of Novell's choosing, the right to distribute, export, or even open source the valuable UNIX source code, without any protection or compensation for SCO. Since UNIX products are derived progressively from prior releases, moreover, UnixWare contains all the commercially valuable features of predecessor SVRX source code. (15540-41;15447-50;02398¶27;02411¶31.) Under the court's interpretation of Article 4.16, Novell thus could empower IBM and others to destroy the value of UnixWare, which even Novell concedes was sold to Santa Cruz without limitation.

The district court's interpretation also obviously destroys the value of the independent asset that Santa Cruz indisputably purchased from Novell – "claims arising after the Closing Date against any parties, relating to any right, property or asset included in the Business." (00314.) Under the court's interpretation, Novell could waive any such claims to suit its purposes, as Novell in fact purported to do when it came to IBM's defense in 2003.

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(01920;01937;01950;01960;01965.)  Novell thus could empower IBM and other licensees to breach UNIX agreements and leave SCO without recourse, even though Santa Cruz had purchased all rights under those agreements.

The district court's interpretation raises other absurd results.  Since the technology licensed back to Novell under the TLA includes SVRX products (00268;00361;03690;00313), under the court's reading, the TLA is an SVRX License.  As such, Novell could have waived Santa Cruz's rights under the agreement, abolishing the non-compete and other protections that Santa Cruz had negotiated and secured from Novell.  (00268;03690.)  In addition, since Santa Cruz was itself an SVRX licensee whose business was the development and sale of a UNIX flavor known as OpenServer (00357;05626-27), Novell could have revoked Santa Cruz's rights under its own Software and Sublicensing Agreements, destroying the business Santa Cruz had built <u>prior</u> to the APA.

**D.  Overwhelming Extrinsic Evidence Confirms that Novell Did Not Retain Any Rights Over Software and <u>Sublicensing Agreements.</u>**

Nine witnesses on both sides of the transaction, including Messrs. Frankenberg and Mohan, testified that the parties did not intend for Novell to have the rights over the Software and Sublicensing Agreements, or over subsequent claims based on those Agreements, that the district court afforded Novell; these

same witnesses testified that the APA was intended to limit Novell's 4.16(b) rights to its interest in SVRX Royalties.  (08540-41;05653¶13;03553-54¶7;08592; 03929-30¶4;03677-78¶10;03561¶9;03858-59¶¶4-5;03937¶13.)  In addition, John Maciaszek, Bill Broderick, and Jean Acheson, who have managed UNIX licensing and revenues since prior to the APA, testified that they implemented the APA with their Novell counterparts in accordance with that intent without controversy. (02394-96¶¶15-21;02407-09¶¶19-24;02418-19¶¶5-6.)

In 1996, Novell and Santa Cruz already resolved the same dispute over whether Novell's 4.16 rights extended to IBM's Software and Sublicensing Agreements.  Only months after the APA closed, Novell's worldwide sales director purported to amend IBM's Software and Sublicensing Agreements to grant IBM a royalty buyout and rights to sublicense UNIX source code.  (03871¶¶31-32;10400-03.)  When Santa Cruz objected that it had "ownership and exclusive rights to license the UNIX source code" and that "[a]s to source code, Novell must recognize that it has no interest whatsoever," Novell did not even mention the rights it now purports to have, even though those rights would have resolved the entire dispute.  (03879-99;13908-36;04883-93;13511-21;13546.)  Instead, after more than six months of negotiations, Novell agreed in Amendment No. 2 that it "may not prevent SCO from exercising its rights with respect to SVRX source

code in accordance with" the APA. (03695.) Novell also paid Santa Cruz $1.5 million for a release of its claims against Novell for Novell's unauthorized attempt to expand its Article 4.16(b) rights, capitulating to Santa Cruz's claim that it had acquired "ownership and exclusive rights to license the UNIX source code." (03915;03890.)

Extrinsic evidence confirms that Amendment No. 2 clarified that Santa Cruz owned and could take whatever actions it wanted with regard to the UNIX source code. (10725;10730.) Novell's subsequent course of performance further confirms that the parties intended Novell's 4.16(b) rights to be limited to its royalty interest and not to the agreements that governed the UNIX licensing business. (01432;10645;10652;10657;10710;03838;03843;03845;02384-86;02970;02972; 02974.) If Novell believed during any of this time that it had retained unfettered rights over the Software and Sublicensing Agreements that governed the UNIX licensing business, it would not have announced the unqualified transfer of its rights under those agreements or sought authorization <u>from</u> Santa Cruz to conduct UNIX licensing.

The district court declined (at 12068) to consider the foregoing evidence on the grounds that "it does not uniformly support SCO's interpretation" and "would, at most, create only a question of fact for the jury" – which, of course are grounds

for <u>denying</u> a motion for summary judgment, not granting it. Where the court

addressed the extrinsic evidence (at 12068-69), it improperly drew inferences from

evidence against SCO.

    <u>First</u>, the district court appears to have been confused about the split of

revenues from Amendment No. X – the 1996 Agreement with IBM that replaced

the Unauthorized Amendment that Novell had purported to execute without telling

Santa Cruz. The court observed (at 12069) that "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." The court was

factually mistaken. The undisputed evidence is that, of the $10.125 million that

IBM paid in 1996, Santa Cruz retained $1.5 million for the rights to sublicense

source code granted in the amendment, <u>in addition to</u> the 5% it was entitled to

under the split. (04380;04384;03915.)

    <u>Second</u>, the district court improperly weighed the evidence. Pointing to

certain instances of Santa Cruz's conduct in 1996, the court maintained (at 12069)

that "[t]his 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"

and that the witness testimony "is less reliable given the passage of years and

witnesses' mistaken beliefs." The court did not apply the same standard for

credibility to Novell's witnesses and behavior.  Regardless, the court's attribution

of different weight to documentary evidence and witness testimony was error.

Employers Reinsurance, 161 Cal. App. 4th at 922.

**IV.     THE DISTRICT COURT ERRED IN CONCLUDING THAT
         NOVELL DID NOT HAVE TO COMPLY WITH THE IMPLIED
         COVENANT OF GOOD FAITH AND FAIR DEALING IN
         EXERCISING ITS ARTICLE 4.16(b) RIGHTS.**

In the alternative, if Novell had the right to force SCO to abstain from

enforcing its rights, Novell was required to exercise such vast authority in

conformity with the implied covenant of good faith and fair dealing.  "Every

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 (1992).  The district court erroneously held that

Novell had no such obligation.

"The covenant of good faith finds particular application in situations where

one party is invested with a discretionary power affecting the rights of another."

Id. at 372.[9]  Provisions granting a party "discretion" (even "sole discretion") differ

from express contractual rights.  See, e.g., Locke v. Warner Bros. Inc., 57 Cal.

App. 4th 354, 367 (1997).  The "discretion" afforded Novell under Article 4.16(b)

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[9]     Accord Perdue v. Crocker Nat'l Bank, 38 Cal. 3d 913, 923 (1985); see, e.g.,
Cal. Lettuce Growers v. Union Sugar Co., 45 Cal. 2d 474, 484 (1955); Badie v.
Bank of Am., 67 Cal. App. 4th 779, 795-96 (1998).

is "a discretionary power affecting the rights of another" and thus must be exercised in accordance with the implied covenant of good faith and fair dealing.

"In the case of a contradictory and ambiguous contract," moreover, "the implied covenant may be applied to aid in construction." April Enters., Inc. v. KTTV, 147 Cal. App. 3d 805, 816 (1983). In KTTV, the contract at issue contained an express provision allowing one party to erase tapes of a television show produced by the other after broadcast, but another provision gave the producer the right to sell those same shows in syndication. The court reasoned: "Taken literally, the contract would allow respondents to erase a video tape either at the same time appellant was negotiating a syndication agreement, or after such an agreement had been reached. Obviously it would be senseless for appellant to negotiate syndication if it could not be assured availability of the tapes." Id. at 816. The court concluded: "These conflicting terms of the 1965 contract can be reconciled by construing the erasure clause to be limited by the implied covenant of fair dealing." Id. at 817.

Taken literally (in light of the district court's ruling on the scope of SVRX Licenses), the APA would allow Novell to destroy the business Santa Cruz had purchased, and solely with the goal of impeding Santa Cruz's rights and hurting it financially – which the evidence shows is exactly what Novell did in this case.

Such an interpretation is disfavored.  See, e.g., Leo F. Piazza Paving Co. v. Found Constr., Inc., 128 Cal. App. 3d 583, 591 (1981).  Indeed, courts must imply a covenant of good faith, even if at odds with an express grant of discretionary power, where "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 (1995) (emphasis added).

Under the district court's interpretation, the 4.16(b) waiver provisions should not be interpreted so broadly as to mean Santa Cruz paid what has amounted to approximately $250 million for rights that Novell could abrogate at its whim by, among other things, allowing licensees to violate contract and intellectual property rights.  Whether Novell was motivated to exercise its purported waiver rights due to IBM's $50 million payment or for some other reason, it is clear that the action damaged SCO, interfered with its rights to manage the UNIX business that it had purchased under the APA, and thus cannot be accepted, beyond factual dispute, as a good-faith exercise of discretion.

## V. THE DISTRICT COURT ERRED IN CONCLUDING, AS A MATTER OF LAW, THAT NOVELL IS ENTITLED TO ROYALTIES FROM POST-APA CONTRACTS RELATED TO SVRX.

The APA defines "SVRX Royalties" as certain payments due under "SVRX Licenses." (00287.) The district court concluded as a matter of law (at 12082-83) that even post-APA contracts relating to SVRX, such as the Sun Agreement, are "SVRX Licenses" under the APA. The language of the APA makes clear, however, that the term "SVRX Licenses" refers to then-existing assets.

First, the SVRX Licenses are expressly "listed" in the Assets Schedule among the "assets and properties of Seller," that is, the assets and properties that Novell actually owned and could sell at the time. (00264;00313.)

Second, Article 1.2(b) provides that "Seller is retaining all rights to the SVRX Royalties notwithstanding the transfer of SVRX Licenses to Buyer pursuant hereto, and that Buyer only has legal title" in such royalties. (00265 (emphasis added).) This language suggests that that the royalties and licenses are existing assets – one a revenue stream being kept by Novell, the other the revenue-generating licenses being transferred to Santa Cruz. The use of the present tense "has" indicates existing royalties; Santa Cruz could not have had "title" in non-existing assets.

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Third, Article 1.2(b) provides that "[f]or purposes of administering the collection of SVRX Royalties, the parties acknowledge that the royalties shall continue to be recognized as royalties by Seller on an ongoing basis," clearly indicating that the SVRX Royalties were an existing revenue stream. (Id. (emphasis added).) In contrast, Article 1.2(b) provides for conditional UnixWare payments "on account of Buyer's future sale of UnixWare products." (Id. (emphasis added).) The contrast shows that the drafters knew how to provide for royalties from future licenses.

Fourth, the reading of "SVRX Licenses" limited to existing licenses fits the financial structure of the deal. The APA contemplated that Santa Cruz would not typically enter into new SVRX Licenses. (00287.) Instead, to protect Novell's interest in SVRX Royalties, existing OEM licensees needed to "convert" to the current version of UnixWare. (00321.) Each licensee thus represented a single source of royalties for Novell, under either its conditional interest in UnixWare sales or its existing interest in SVRX Royalties, but not both. (See 08537-38.)

Fifth, Novell is not entitled to any revenues from the Sun agreement specifically for the additional reason that Sun had already paid Novell $83 million in 1994 for a buyout of Sun's royalty-payment obligations. (00889-911.) Accordingly, Novell was not entitled to any SVRX Royalties even under Sun's

pre-APA license to SVRX.  Ten witnesses on both sides of the transaction testified

that, consistent with the language of the APA, Novell's rights in SVRX Royalties

were limited to the royalty stream being paid by licensees under existing licenses.

(08537-38;08518;02472¶7;08760;08588;02431¶4;02438¶4;08888-

89;10729;02483¶12; see also 02488.)

The district court reasoned (at 12074-75) that the term SVRX Licenses must

include post-APA licenses because Amendment No. 1 provides that Santa Cruz

would retain several "categories of SVRX Royalties," including "fees attributable

to new SVRX licenses."  But that language creates an ambiguity in the APA, as it

conflicts with other language in the APA that unambiguously identifies SVRX

Licenses and royalties as existing assets.  (See, e.g., 00265;00315.)  Amendment

No. 1 thus incongruously removes from the scope of "SVRX Royalties" assets that

are not included in the scope of the term in the first place.  This inherent conflict

within the APA thus creates an ambiguity as to whether fees from "new SVRX

licenses" are SVRX Royalties.

Ten witnesses on both sides of the transaction testified that the term "SVRX

Licenses" was intended to refer to then-existing licenses.  (08537-38;08518;

02472¶7;08760;08588;02431¶4;02438¶4;08888-89;10729;02483¶12.)  As noted

above, upon the closing of the APA, Novell described the SVRX Royalties as

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"revenue from <u>existing</u> licenses for older version of UNIX" in a press release and in multiple SEC filings in 1995 and 1996.  (02182;02232;02302;02320;02341.)

Moreover, the parties already resolved the dispute over the scope of Novell's rights to SVRX Royalties in 1996, as part of the settlement of Novell's attempt to grant IBM an unauthorized buyout.  At that time, Mr. Mohan told Mr. Frankenberg that the APA "provided for Novell to receive the <u>residual royalties from the in-place SVRX license stream</u>."  (02488 (emphasis added).)  In the ensuing months of negotiations, Novell did not once challenge that assertion.  (03887;03879-901;13538-49.)  Indeed, Novell's former UNIX contract manager, Jean Acheson, testified that – until SCO filed this lawsuit in 2004 – Novell never requested revenues from certain post-APA SVRX agreements and did not even audit such agreements or revenues in its 1998 audit of Santa Cruz.  (04635-36¶¶2-9.)

## CONCLUSION

For the foregoing reasons, SCO respectfully requests that the Court reverse the district court's summary judgment rulings that (1) Santa Cruz did not acquire the UNIX and UnixWare copyrights under the APA; (2) in the alternative, SCO is not entitled to specific performance, requiring the transfer of those copyrights now; (3) Novell has the right under the APA to force SCO to waive claims against IBM for its breach of UNIX Software and Sublicensing Agreements; (4) Novell is not required to comply with the covenant of good faith and fair dealing in exercising its 4.16(b) rights under the APA; and (5) Novell is entitled to royalties from post-APA licenses related to SVRX, including the Sun Agreement, and that the Court remand the case for further proceedings consistent with its decision.[10]

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[10] Based on the guidance of the Clerk's Office, in addition to the expedited briefing schedule that this Court has set, SCO respectfully requests that oral argument be scheduled in this matter for either the May 2009 panel or a special panel to convene in June 2009. SCO is willing to file its reply brief earlier than otherwise required in order to facilitate that scheduling.

Respectfully submitted on this 4th day of March, 2009.


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32(a)(7)(B) because this brief contains 13,948 words, excluding the parts of the

brief exempted by Fed. R. App. P. 32(a)(7)(B)(iii).

2.      This brief complies with the typeface requirement of Fed. R. App. P.

32(a)(5), and the type style requirements of Fed. R. App. P. 32(a)(6) because this

brief has been prepared in a proportionally spaced typeface using Microsoft Word

2002 in 14-point Times New Roman.

Dated: March 4, 2009

/s/ Edward Normand
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# CERTIFICATE OF SERVICE

I, Edward Normand, hereby certify that on this 4th day of March, 2009, a

true and correct copy of the foregoing **BRIEF OF APPELLANT, THE SCO**

**GROUP, INC.** was filed with the court and served by hand delivery in accordance

with Fed. R. App. P. Rule 25(c)(1)(A), in accordance with the exception

enumerated in Fed. R. App. P. Rule 26(c), to the following recipient:

> David E. Melaugh
> MORRISON & FOERSTER
> 425 Market Street
> San Francisco, CA 94105-2482
>
> *Counsel for Defendant-Appellee Novell, Inc.*

A true and correct copy of the above mentioned **BRIEF OF APPELLANT,**

**THE SCO GROUP, INC.** was also served via electronic mail to the following

recipients:

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> Heather M. Sneddon
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# CERTIFICATE OF SERVICE

I, Edward Normand, hereby certify that on this 3rd day of March, 2009, a

true and correct copy of **APPELLANT'S APPENDIX** was served via Federal

Express Priority Overnight service for delivery on the morning of March 4, 2009,

to the following recipients:


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## CERTIFICATE OF SERVICE

I, Alexander Marr, hereby certify that on this 4th day of March, 2009, I

served via hand delivery, a true and correct copy of the foregoing **BRIEF OF**

**APPELLANT, THE SCO GROUP, INC.** in accordance with Fed. R. App. P.

Rule 25(c)(1)(A), in accordance with the exception enumerated in Fed. R. App. P.

Rule 26(c), to the following recipient:

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# CERTIFICATE OF DIGITAL SUBMISSION

The undersigned certifies with respect to this filing that no privacy redactions were necessary.  This **BRIEF FOR APPELLANT, THE SCO GROUP, INC.** submitted in digital form is an exact copy of the written document filed with the Clerk.  The digital submission has been scanned for viruses with the most recent version of a commercial virus scanning program (using Symantec Antivirus which is updated weekly) and, according to the program, is free of viruses.

Dated: March 4, 2009

<div style="text-align:right">

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