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

<p>THE SCO GROUP, INC., by and through the Chapter 11 Trustee in Bankruptcy, Edward N. Cahn,</p> <p style="text-align: center;">Plaintiff/Counterclaim-Defendant,</p> <p>vs.</p> <p>NOVELL, INC., a Delaware corporation,</p> <p style="text-align: center;">Defendant/Counterclaim-Plaintiff.</p>	<p><b>SCO'S TRIAL BRIEF</b></p> <p>Civil No. 2:04 CV-00139</p> <p>Judge Ted Stewart</p>
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Plaintiff/Counterclaim-Defendant, The SCO Group, Inc., by and through the Chapter 11 Trustee in Bankruptcy, Edward N. Cahn, respectfully submits this Trial Brief. SCO sets forth at Appendix A hereto a summary of the prospective testimony of its witnesses.

## **INTRODUCTION**

In September 1995, after several months of discussions and negotiations, Novell and Santa SCO's predecessor-in-interest Santa Cruz executed a lengthy "Asset Purchase Agreement" (the "APA"). SCO claims that the APA, as clarified by amendment, transferred the copyrights to the UNIX and UnixWare software programs that Santa Cruz had acquired. Novell retained a royalty stream and certain limited rights to protect that royalty stream. Novell claims that the APA is only an "implied license" and that Novell retained unfettered rights to direct SCO to take actions that would render SCO's rights to the UNIX business a nullity. To date, including stock and royalties, Novell has received over \$200 million in consideration for the transaction.

All of the business negotiators on both sides of the transaction, including Novell's senior executives and chief negotiator, agree both that SCO acquired the copyrights and that Novell's waiver rights do not remotely include the rights Novell has purported to exercise against SCO. Indeed, in conjunction with the APA, the parties executed a Technology Licensing Agreement that licenses back to Novell the technology to the UNIX business. If Novell had retained the copyrights and the broad waiver rights it claims here, the license agreement would be from Novell to SCO, not the exact opposite.

Novell claims that its lawyers changed the deal in the last few days to retain the copyrights and expand Novell's waiver rights beyond what the business executives agreed to or understood. Amendment No. 2 clarified the intent of the negotiators, however, and the parties' course of performance – which the courts have explained is the "best evidence" of the parties' intent –

establishes that Novell's position here is one of recent vintage, and one that Novell adopted only after SCO began exercising the rights that it had purchased from them years ago.

Beginning in May 2003, Novell proceeded, as set forth below, to slander SCO's ownership of the copyrights. This was done recklessly and maliciously, as reflected by the evidence that Novell disregarded Amendment No. 2, which was in its own files. Novell sought to retract their slander on June 6, 2003, only to turn around and then retract the retraction and pursue a campaign of slander through false copyright registrations and repeated public statements which remain on Novell's website to this day. The evidence will also show that Novell timed its statements intentionally to inflict maximum harm on SCO.

## **SUMMARY OF SCO'S CASE**

### **I. THE ASSET PURCHASE AGREEMENT**

#### **A. The UNIX Business.**

UNIX was originally developed by AT&T in the 1960s and became an operating system of choice for business. 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.

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 the major computer manufacturers, also known as Original Equipment Manufacturers (referred to at times as "OEMs") 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. 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.

A licensee executed a Software Agreement, which set forth the terms and conditions under which the licensee could use any UNIX source code it would receive under a Product Schedule License to develop a derivative product, and a Sublicensing Agreement, which set forth the terms and conditions under which a licensee could compile its derivative product in binary format, for distribution. 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-users. While OEM licensees could distribute their UNIX flavors to end-users in binary form, the Software and Sublicensing Agreements required licensees to keep the UNIX source code, and the source code of the flavors, confidential. IBM was such a licensee and developed its own flavor of UNIX, which it named AIX.

B. The Sale of Novell's UNIX Business.

In 1995, only two years after Novell had acquired the UNIX business from USL for approximately \$300 million, then Novell President and CEO Robert Frankenberg directed Senior Vice President Duff Thompson “to sell the complete UNIX business.” The UNIX business consisted of historical versions of UNIX and the more current version of UNIX, called UnixWare. In the summer of 1995, Novell started negotiations with Santa Cruz, a software company based in California that was itself a UNIX licensee. 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.

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 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 \_\_\_\_.” Novell had been receiving those royalties as the owner of

the UNIX business, but would not have been entitled to any of those royalties after it sold the UNIX business to Santa Cruz. Thus, Santa Cruz agreed that with respect to the ongoing royalty stream, Novell would retain an interest, to account for the gap in purchase price. In addition, Novell received a conditional interest of up to \$84 million in UnixWare sales through 2002 – an interest that expired without ever vesting.

On September 19, 1995, Santa Cruz agreed to purchase the UNIX business, and Novell and Santa Cruz executed the APA. 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). The APA provides that it is to be governed by California law.

## **II. THE UNIX AND UNIXWARE COPYRIGHTS**

### **A. The Language of the APA.**

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. Item I of the Assets Schedule summarizes the transferred “assets and properties of Seller” as “All rights and ownership of UNIX, UnixWare and Auxiliary Products, including but not limited to” the assets and properties listed in the Schedule, “without limitation.” 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. Item V.A of the Excluded Assets Schedule, as amended by Amendment No. 2, identifies:

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.



(emphasis added.) Prior to Amendment No. 2, Item V.A excluded: “All copyrights and trademarks, except for the trademarks UNIX and UnixWare.” 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.

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. The APA and TLA define the Licensed Technology as “all of the technology included in the Assets” and “all derivatives” of that technology. The “technology included in the Assets” includes all UNIX and UnixWare source code, products, versions, and copies. The technology covered by the TLA is not limited in any way to future versions or releases of the UNIX technology.

B. 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.

Santa Cruz General Counsel Steven Sabbath, who negotiated and signed Amendment No. 2, testified that it was never 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.

Novell’s senior executives at the time of the asset purchase held similar views. Robert Frankenberg, President and CEO of Novell 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.” Ed Chatlos, who served as Novell’s 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.

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:

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

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. 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.”

C. 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. SCO has possession of the registrations.
- 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.
- 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.”
- Admitted that “All of the technology and intellectual assets” in existing UNIX source code “will be transitioned to SCO sometime after December 1, 1995.”
- Announced in a joint press release that “SCO will acquire Novell’s UnixWare business and UNIX intellectual property.”
- Admitted that Santa Cruz had purchased the UNIX business “lock, stock and barrel.”
- Sent letters to its important customers stating that it had transferred to SCO its “existing ownership interest” in all releases of UNIX System V and UnixWare.

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.

In addition, 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.
- Announced in its 1995 Annual Report that it had acquired “certain assets related to the UNIX business including the core intellectual property from Novell.”
- Wilson Sonsini, the law firm that represented Novell in the APA, was Santa Cruz’s counsel in connection with that 1995 Annual Report.
- Stated through its investment banker that, under the APA, Santa Cruz “will obtain the IP” for UNIX, UnixWare, and all UNIX-related products.
- 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.”
- 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.”

In its recent decision, the Tenth Circuit held that the APA and Amendment No. 2 must be read together as a “unified document”; that Amendment No. 2 operates “merely to clarify or affirm” the intent of the APA; that the amended APA is ambiguous; that it satisfies Section 204 of the Copyright Act; that whatever Amendment No. 2 means, it “refers to the ownership of copyrights, not to licenses”; that extrinsic evidence of the parties’ intent is relevant and admissible; that the parties’ course of performance is the “best evidence” of their intent; and that “it is a commonsense proposition that intellectual property at least *may* be required to protect the underlying assets in SCO software business should, for instance, a UNIX licensee have attempted

to resell technology licensed from SCO.” The SCO Group, Inc. v. Novell, 578 F.3d 1201, 1210-18 (10th Cir. 2009).

### **III. NOVELL’S WAIVER RIGHTS REGARDING SVRX LICENSES.**

Because Novell was retaining an interest in the SVRX binary royalty stream, the parties agreed to provide Novell rights with respect to those licenses under which such royalties were paid. 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.

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 Agreements. Believing that IBM had violated those restrictions by dumping proprietary UNIX technology into the Linux operating system, SCO filed suit against IBM in March 2003. IBM was not paying any royalties to Novell, as it had already paid Novell a full buyout of that license. Novell nevertheless 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. 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.

#### **A. The Licensing of UNIX Products.**

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. 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 to receive the residual royalties paid under Product Schedule Licenses for SVRX releases. 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 Article 4.16(b) to give Novell certain rights over those licenses that governed such payments – the Product Schedule Licenses that listed pre-UnixWare versions and releases of SVRX.

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 (as listed in detail under Item VI of Schedule 1.1(a) hereof and referred to herein as “SVRX Royalties).

(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:

(emphasis added.) The ensuing list in Item VI, however, is a list of products, not a list of licenses.

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.

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

Messrs. Frankenberg, Chatlos, Thompson and Mattingly from Novell and Mohan, Wilt, Michels, and Sabbath, and Ms. Madsen, from SCO all testified that the intent of Article 4.16(b) was to provide Novell rights over those licenses that gave rise to the royalties for sales of SVRX products in which Novell had retained an interest (the SVRX Product Schedules Licenses) – 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. 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.

D. The Parties' Course of Performance

Novell and Santa Cruz previously resolved the same dispute over whether Novell's Article 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. Novell, "on behalf of itself and The Santa Cruz Operation," purported to grant IBM a buyout and rights to distribute UNIX source code.

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." 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."

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 even mention the rights it now purports to have under Article 4.16(b) rights, even though the rights it claimed to have in 2003 would have resolved the entire dispute. Instead, after more than six months of negotiation, 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. 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."

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." 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."

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. 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. 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, for example, it would not have announced the unqualified transfer of its rights under those agreements or sought authorization from Santa Cruz to conduct UNIX licensing.



In its recent decision, the Tenth Circuit held that there is “some ambiguity in the scope of the term ‘SVRX Licenses’”; that the “scope of Novell’s waiver rights is not clarified expressly by the contract”; that extrinsic evidence, including the parties’ course of performance, is relevant and admissible “not only for purposes of ascertaining the meaning of the parties’ agreement, but also to supplement or qualify the terms of the agreement”; that the “covenant of good faith finds particular application in situations, as here, where one party is invested with a discretionary power affecting the rights of another”; and that the covenant informs the interpretation of even an “express grant of contractual authority” where “the express discretion makes the contract, viewed as a whole, contradictory and ambiguous, the implied covenant may be applied to aid in construction,” and that “the covenant may aid in the interpretation of a contract seemingly expressly granting unbridled discretion in those relatively rare instances when reading the provision literally would, contrary to the parties’ clear intention, result in an unenforceable, illusory agreement.” SCO, 578 F.3d at 1216-19.

The Tenth Circuit further observed that Novell argues for a right of waiver that “would be a broad power indeed”; that under the waiver right Novell claims, Novell could “divest[] SCO of all title to any intellectual property in any UNIX product for which a sublicensing agreement existed,” and “Novell’s interpretation of Section 4.16 would mean it was free to waive limitations on a licensee’s ability to copy, transfer, or sell the derivative products it created based on UNIX, something that would substantially limit the value to Santa Cruz of its UNIX ownership rights”; that “[t]o read Novell’s rights as broadly as it asks would give it unlimited power not only to reduce or increase its own rights under an SVRX License after the APA (namely rights to royalties), but also to direct SCO to supplement a licensee’s substantive rights ‘in any manner,’ even if by doing so, Novell forced SCO to divest rights unquestionably owned by SCO after the

transaction. As SCO argues, this would enable Novell, at its sole discretion, to destroy a substantial part of the value of Santa Cruz's acquisition of the UNIX business"; that with respect to Novell's transfer of "the right to develop new products based on UnixWare," "customer lists," and "office furniture," "[t]he issue is not whether independent consideration existed, but whether it is consistent with the context of the deal to imagine that Santa Cruz would have paid the price that it did if this was the only value it obtained in the deal, unencumbered from Novell's powerful discretionary rights to control the underlying UNIX code"; that SCO's extrinsic evidence "would also explain why Amendment No. 2 took pains to clarify that the 'Amendment does not give Novell the right to increase any SVRX licensee's rights to SVRX code.' If Novell already had the right under the APA itself to force SCO to increase any SVRX licensee's rights to SVRX code, then this provision would be pointless and ineffectual"; and that "[i]t is reasonable to think that the parties would have covenanted in such a manner as to protect Novell's substantial pecuniary interest in the revenue stream that, even under SCO's interpretation, financed the acquisition. It is less easy to accept that SCO would have consented to giving Novell the unilateral power to unravel its exclusive and undisputed ownership rights in the underlying source code of UNIX." Id. at 1218-23.

#### **IV. 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 violating its Software and Sublicensing Agreements by dumping proprietary UNIX technology into the Linux operating system, Novell publicly claimed that it – not SCO – owned the UNIX and UnixWare copyrights, an assertion that Novell had not made in any context since signing the APA more than seven years earlier. 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.” Novell made its statement that day despite seeing a copy of Amendment No. 2, but (it claims) without having found the signed copy of the Amendment.

Nine days later, on June 6, SCO faxed a copy of Amendment No. 2 to Mr. Messman, and 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.

(Emphasis added.) Novell made its initial announcement without considering the APA as amended by Amendment No. 2 and without consulting the people who had negotiated the amended APA. Novell subsequently sought to retract the retraction, and stated that Amendment No. 2 “raises as many questions about copyright transfers as it answers.”

Yet Novell’s conspicuous failure to confront its own conduct following the discovery of Amendment No. 2 has been telling. After its press release on June 6, 2003, Novell tried to un-ring the bell. “We acknowledge,” explained Novell General Counsel Joseph LaSala, “as noted in our June 6 public statement, that Amendment No. 2 to the Asset Purchase Agreement appears to support a claim that Santa Cruz Operation had the right to acquire some copyrights from Novell.” But that is not what Novell had said in its “June 6 public statement,” in which Novell candidly admitted that copyrights “did transfer to SCO” – not that Amendment No. 2 merely set up a prospective process for a potential transfer.

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. In discovery, SCO learned that the timing of Novell’s announcement was not “entirely coincidental,” as Mr.

Messman had claimed. Novell Vice Chairman Chris Stone had informed Maureen O’Gara, a journalist who has covered the computer industry since 1972, that Novell intentionally and maliciously was making the announcement on the day of SCO’s earnings report to “confound SCO’s stock position” and “upset the stock price.” According to her testimony, Mr. Stone leaked this information “with laughter” and “chortling.”

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 recklessly published its initial ownership claims knowing that it had, at least, an unsigned copy of the Amendment. In addition, although Novell has repeatedly tried to argue that SCO contacted Novell in 2002 or 2003 “seeking a transfer of copyrights,” Novell’s own in-house counsel admitted that SCO never sought such a transfer, and the testimony of three SCO witnesses showed that SCO witnesses did not ever make such request.

The SCOSource division that SCO had created, before it failed, had offered licenses to Linux users as well as vendors of hardware and software. These licenses enabled companies to use Linux and to implement often expansive Linux strategies with the assurance that their programs and ongoing business would not be interrupted by litigation over Linux. The licenses sometimes also bundled expanded UnixWare source code rights with the right-to-use license. Ownership of the UNIX copyrights was essential to this licensing business because it was the copyrights that were being licensed.

Novell’s slander impaired the vendibility of the SCOSource licenses, directly and immediately costing SCO millions of dollars of lost profits. Numerous potential customers identified Novell’s claims as a substantial reason for not purchasing a SCOSource license, and actual customers used Novell’s claims as leverage to bargain lower prices. Such potential

customers included Merrill Lynch, Morgan Stanley, Sherwin Williams, Ford, Google, Raytheon, and the Department of Defense. In addition to these customers, many potential licensees never contacted SCO at all because of Novell's false claims, or did not identify Novell even though they were deterred by Novell's false claims. These SCOSource profits have been irreparably lost, not deferred temporarily, as a result of Novell's longstanding campaign to undermine SCO's title to the copyrights. SCO's experts Dr. Christine Botosan and Dr. Gary Pisano will testify to the damages that SCO has suffered, and to the fact that even if SCO were to obtain a verdict that it owns the UNIX and UnixWare copyrights, SCO could not resuscitate the SCOSource division.

## **V. SCO'S ALTERNATIVE CLAIM FOR SPECIFIC PERFORMANCE**

If the APA, as amended, somehow failed to transfer the 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." If 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. 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 contract claims against IBM.

The evidence will show 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.

Contrary to Novell's prior argument, moreover, Amendment No. 2 does not compel SCO to show that it was unable to operate its business without suing IBM in particular, but even if it did, SCO easily meets the standard. If SCO were unable to pursue or recover on those claims against IBM, SCO would be unable to exercise the rights in the entire UNIX business, which includes the right to pursue claims to protect misuse of the UNIX and UnixWare source code.

## **VI. NOVELL'S BREACH OF THE IMPLIED COVENANT OF GOOD FAITH AND FAIR DEALING**

As the Tenth Circuit observed, Article 4.16(b) of the APA, if taken literally based on Novell's proposed definition of "SVRX Licenses," would allow Novell to destroy the business Santa Cruz had purchased, and to do so 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. Article 4.16(b) waiver provisions cannot be interpreted so broadly as to mean Santa Cruz paid what has amounted to over \$200 million for rights that Novell could abrogate at its whim by, among other things, allowing licensees to violate contract and intellectual property rights. Novell was motivated to exercise its purported waiver rights due to a business arrangement with IBM, and 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 as a good-faith exercise of discretion. The evidence at trial will show that Novell's exercise of its supposedly broad waiver rights caused SCO to suffer damages.

## **SUMMARY OF RELEVANT LEGAL AND FACTUAL ISSUES**

There are a number of legal issues that relate to the case, and that are likely to arise at trial, that may be useful to summarize here.

Prima Facie Evidence. Copyright 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); Novell, Inc. v. Network Trade Ctr., Inc., 25 F. Supp. 2d 1218, 1229 (D. Utah 1997); Motorola, Inc. v. Pick, 2005 WL 5918849, at \*3 (C.D. Cal. May 26, 2005); Scanlon v. Kessler, 11 F. Supp. 2d 44, 447 (S.D.N.Y. 1998). SCO indisputably has possession of the UNIX copyright registrations that Novell had in its possession prior to the APA. Novell has tried to explain away SCO's possession of these registrations, but no copyright owner would allow the party from whom it supposedly was withholding the transfer of the copyrights to take possession of the registrations.

Contract Interpretation. The Court and jury should interpret any contract to give meaning to all of its provisions, instead of leaving a portion of the writing useless or inexplicable. The Court and jury should not interpret a contract to render one of its terms meaningless. The Court and jury should interpret a contract as a whole, with each clause helping to interpret the other. SCO, 578 F.3d at 1210-11, 1223; Kavruck v. Blue Cross of Cal., 134 Cal. Rptr. 2d 152, 159 (Cal. App. 2003); Cooper v. Mart Assocs., 225 Cal. App. 2d 108, 114-16 (1964); Heidlebaugh v. Miller, 271 P.2d 557, 559 (Cal. Ct. App. 1954).

Extrinsic Evidence. The practical construction the parties placed upon the combined Asset Purchase Agreement and Amendment No. 2 is the best evidence of their intention. That is because parties are far less likely to have been mistaken as to the intention of their contract during the period while harmonious and practical construction reflects that intention, than they are when subsequent differences have impelled them to resort to law, and when one of them then seeks a construction at variance with the practical construction they have placed upon it. Another type of relevant extrinsic evidence is the customs or practices within a particular field or industry. SCO,

578 F.3d at 1210-11, 1217; Universal Sales Corp., Ltd. v. Cal. Press Mfg. Co., 128 P.2d 665, 671-72 (Cal. 1942); Cal. Civ. Code § 1647. The parties' course of performance makes absolutely clear that Santa Cruz and SCO owned the UNIX and UnixWare copyrights. In addition, consistent with the custom in the industry, software companies did not acquire the right to own and operate a sophisticated software business through merely an "implied license," whose terms would provide little or no transparency to either the licensee or to third parties concerning the scope of the licensee's "implied" rights.

Relevance of Copyright Ownership. There are different types of licenses. One distinction is between "express" and "implied" licenses. An "express" license is found in a contract that clearly states that one party to the contract has a "license." An "implied" license is found in a contract that does not use the word "license," but from whose terms you can conclude that one party has the right to use the copyrighted material. Implied licenses usually are found where one party has created a work at the other's request and handed it over, intending that the other copy and distribute it. Another distinction, which is related to the difference between an "express" and an "implied" license, is the difference between an "exclusive" and a "non-exclusive" license to use copyrighted material. An exclusive license means that only the exclusive licensee can use the copyrighted material, whereas an implied license means that several licensees can use the copyrighted material. The distinction between an "exclusive" and a "non-exclusive" license to use copyrighted material is relevant for two main reasons. First, an implied license can only be non-exclusive. Second, an implied licensee, because he is a non-exclusive licensee, cannot bring lawsuits to enforce the copyrights against people who may be violating them. Gillespie v. AST Sportswear, Inc., 2001 WL 180147, at \*7 (S.D.N.Y. Feb. 22, 2001); SHL Imaging, Inc. v. Artisan House, Inc., 117 F. Supp. 2d 301, 316 (S.D.N.Y. 2000); Schiller v. Schmidt, Inc. v. Nordisco



Corp., 969 F.2d 410, 413 (7th Cir. 1992); SmithKline Beecham Consumer Healthcare, L.P. v. Watson Pharms., Inc., 211 F.3d 21, 25 (2d Cir. 2000); R. Ready Prods., Inc. v. Cantrell, 85 F. Supp. 2d 672, 684 n.1 (S.D. Tex. 2000); I.A.E., Inc. v. Shaver, 74 F.3d 768, 775 (7th Cir. 1996).

Both parties agree that Santa Cruz acquired all claims “relating to any right, property or asset” in the UNIX business, and both parties agree that the UNIX and UnixWare source code was one of the assets that SCO acquired. Under any reasonable interpretation of the provision, the transferred claims included copyright infringement claims for unauthorized use of the source code. But if Santa Cruz received only an “implied license,” Santa Cruz could not bring any such claims. In this plain sense the copyrights were “required.”

False Statement. The jury may determine that the plaintiff intended to convey that message even if the defendant has couched its statements in the form of an opinion, such as by conveying its “opinion” or “belief.” That is because an expression of opinion or belief may often imply an assertion of objective fact. “False” means that the statement is either directly untrue or that an untrue inference can be drawn from the statement. The jury is to determine the truth or falsity of the statement according to the facts as they existed at the time Novell made the statements. The statement, to be true, must be substantially true. A statement is considered to be true if it is substantially true or the gist of the statement is true.; Milkovich v. Lorain Journal Co., 497 U.S. 1, 11-19 (1990); Russell v. Thomson Newspapers, Inc., 842 P.2d 896, 902 (Utah 1992); Model Utah Jury Instructions – Civil § 10.4.

Novell clearly and repeatedly claimed to own the UNIX and UnixWare copyrights, regardless of how Novell now claims to have couched its public statements. In addition to claiming falsely to own the copyrights, moreover, by repeatedly omitting important information

concerning its views on the question of copyright, Novell failed to make “substantially true” statements concerning that issue.

Abuse of Any Privileges. Novell intends to invoke several privileges at trial. Novell has abused any such privilege if it published its false statements maliciously or in bad faith or has otherwise transcended the scope of the privilege. A defendant transcends the scope of the privilege if it excessively publishes the statement at issue or acts inconsistent with the purpose of the privilege. A statement is excessively published if it is published to more persons than the scope of the privilege requires to effectuate its purpose. (Court’s Memorandum Decision and Order dated June 27, 2005, at 11-15 (citing authority).) The evidence will show that the privileges do not apply, that Novell acted with malice, that Novell acted inconsistently with the scope of the privilege, and/or that Novell excessively published its statements on the issue of copyright ownership.

The Implied Covenant of Good Faith and Fair Dealing. The implied covenant applies to effectuate the intention of the parties and to protect their reasonable expectations. The duty is violated where the party acts in an objectively unreasonable way, regardless of the actor’s motive. Under the objective test, the covenant requires the party holding such power to exercise it for any purpose within the reasonable contemplation of the parties at the time of forming the contract, to capture opportunities that were preserved upon entering into the contract. Implied covenants are violated by dishonest conduct, asserting a contractual interpretation contrary to one’s own understanding, or evading the spirit of the bargain. SCO, 578 F.3d at 1210-11, 1224-25; Carma Developers (Cal.), Inc. v. Marathon Dev. Cal., Inc., 2 Cal. 4th 342, 372 (1992); Foley v. Interactive Data Corp., 47 Cal. 3d 6454, 683-84 (1988); Egan v. Mut. of Omaha Ins. Co., 24 Cal. 3d 808, 818 (1979); Aguilar v. Millot, 2007 WL 1806860, at \*7 (Cal. Ct. App. June 25, 2007);

Restatement (Second) of Contracts § 205. Novell (as noted) was motivated to exercise its purported waiver rights due to a business arrangement with IBM, and 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 as a good-faith exercise of discretion.

DATED this 1st day of March, 2010.

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**CERTIFICATE OF SERVICE**

I, Brent O. Hatch, hereby certify that on this 1st day of March, 2010, a true and correct copy of the foregoing **SCO'S TRIAL BRIEF** was filed with the court and served via electronic mail to the following recipients:

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