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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>Plaintiff/Counterclaim-Defendant,</p> <p>vs.</p> <p>NOVELL, INC., a Delaware corporation,</p> <p>Defendant/Counterclaim-Plaintiff.</p>	<p><b>REPLY MEMORANDUM IN SUPPORT OF SCO'S OBJECTIONS TO NOVELL'S PROPOSED JURY INSTRUCTIONS</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. (“SCO”), by and through the Chapter 11 Trustee in Bankruptcy, Edward N. Cahn, respectfully submits this Reply Memorandum in Support of SCO’s Objections to Novell’s Proposed Jury Instructions and Verdict Form.

**OBJECTION TO TITLES AND ORDER OF INSTRUCTIONS**

SCO submits that the order of its proposed instructions reflects the most logical order in which to match the law the jurors must apply with the evidence that will have come in at trial. SCO’s instructions first identify the elements of a false statement, including the undisputed issue of ownership embedded in those elements, and then proceed to identify for the jury the law they must apply in assessing those elements. SCO submits that Novell’s alternative – to walk through all of the formal elements and then offer instructions that return to the elements that have already been identified – is more confusing. A fair compromise might be for the Court to use titles that correspond exactly to the elements that will have been identified, but to give the instructions in the more sensible order that SCO has proposed:

1. The Element of a False Statement
2. The Element of a False Statement: Copyright Ownership and the Amended Asset Purchase Agreement
3. The Element of a False Statement: Prima Facie Evidence of Copyright Ownership
4. The Element of a False Statement: Copyright Ownership and the Interpretation of Contractual Terms
5. The Element of a False Statement: Copyright Ownership and Extrinsic Evidence
6. The Element of a False Statement: Relevance of Copyright Ownership

7. The First Amendment
8. The Defense of Privileges
9. Abuse of Privileges
10. The Element of Special Damages
11. Punitive Damages

**OBJECTIONS TO SCO'S PROPOSED INSTRUCTION NO. 1**

SCO offers the following responses to Novell's Objections:

A. SCO disputes Novell's proposal (at 3) to change the reference to "UNIX and UnixWare copyrights" to only "UNIX copyrights." Novell has admitted in its Answer, for example, that "Novell has registered its claim to UNIX and UnixWare copyrights with the United States Copyright Office," and that it has "publicly stated its belief that it owns UNIX and UnixWare copyrights." (Novell's Answer (Apr. 10, 2006) ¶¶ 7, 8.) Novell further admits "that on May 28, 2003 Jack Messman sent a letter to Darl McBride of SCO in order to assert Novell's claim to the UNIX and UnixWare copyrights." (Id. ¶ 37(a).)

B. SCO disputes Novell's request (at 3) to remove any instruction that informs the jury of what should be the uncontroversial notion that what Novell "intended" is relevant. Novell intends to place great weight on the argument that in its public statements it offered only an "opinion." Yet Novell proposes an instruction that would allow the jury to conclude that even where Novell in fact intended to make an assertion of fact, for purposes of the law no such assertion was made. That is not what the law provides. Novell places undue reliance on the Court's Order addressing what the recipients of Novell's statements must have "understood" Novell's statements to mean; the Court was not purporting to summarize the only legal standards relevant for a factfinder determining whether the claimant has made an assertion of fact.



C. As reflected in SCO's Objections, SCO will accept an instruction that contains the paragraph in Novell's Proposed Instruction No. 1 concerning "words or sentences in isolation."

D. SCO disputes Novell's request (at 4) to remove any instruction that informs the jury that a statement couched in the form of an opinion may constitute an assertion of fact. As reflected in SCO's Objections, SCO will accept an instruction that contains the following language in Novell's Proposed Instruction No. 2: "A statement is not slanderous if the context makes clear that the speaker is expressly a subjective view or an interpretation or theory, rather than an objectively verifiable fact."

Standing alone, however, such an instruction is both an incomplete description of the law and one that is unduly prejudicial to SCO. The necessary counterpart (and counter-balance) to such an instruction is one that explains to the jury that a party's "opinion" does not necessarily constitute a non-actionable "subjective view or an interpretation or theory." The first of the two sentences with which Novell takes issue, as explained in SCO's Objections, is taken directly from the Court's Order: "A statement of fact is not shielded from an action for defamation by being prefaced with the words 'in my opinion.'" The second sentence that SCO proposes is a critical addition, because the first sentence might be misinterpreted to speak only to statements that begin with the words "In my opinion." The law applies more broadly, and therefore it is necessary to inform the jury that "an expression of opinion or belief may imply an assertion of objective fact." (SCO thus will accept the removal of the word "often" from before "imply.")

SCO generally disputes Novell's recitation (at 4-5) of the law. The fact is that none of the cases Novell cites involves a claim for slander of title; none addresses the question of when a defendant's public statements, however couched, amount to the bottom-line assertion that the defendant claims to own the plaintiff's property. In that light, Novell's emphasis on an

instruction addressing “a subjective view, an interpretation, a theory, conjecture, or surmise” is potentially misleading and unduly prejudicial to SCO. Instead, the law also concerns the defendant’s state of mind in doing so. Novell’s proposed instruction improperly says otherwise. In sum, although SCO is willing to accept part of Novell’s instruction borrowed from the law of defamation and libel, SCO submits that where any such instructions are to be used, Novell cannot ask that only some of them be used. SCO’s proposed instruction properly fills out the law of defamation from which Novell has borrowed.

### **OBJECTIONS TO SCO’S PROPOSED INSTRUCTION NO. 2**

SCO offers the following responses to Novell’s Objections:

A. SCO will accept an instruction that omits the reference to the fact that SCO now stands in the shoes of Santa Cruz.

B. SCO disputes Novell’s request (at 7) to remove any instruction that informs the jury of the interrelationship between the APA and Amendment No. 2. There are important differences between this proposed instruction and the ones that Novell has proposed and that the Court has declined to treat under “judicial notice.” Jury instructions address the law governing the elements of the claim at issue. The Tenth Circuit has decided as a matter of law not only that the amended APA is ambiguous, but also that the APA and Amendment No. 2 must be read together as a unified document. The items that Novell proposed for “judicial notice,” in contrast, did not constitute any description of the law, but rather constituted a description of the factual record (even Novell called them “factual findings”), or else did not relate to any element of any claim at issue. Absent the instruction that SCO proposes, the jury could reach a verdict on the basis that the APA and Amendment No. 2 need not be read together, which would constitute an untenable, effective reversal of an issue Tenth Circuit resolved as a matter of law.

### **OBJECTIONS TO SCO'S PROPOSED INSTRUCTION NO. 3**

SCO offers the following response to Novell's Objections:

A. SCO disputes Novell's request (at 8-9) to remove this instruction. Contrary to Novell's argument, the well-established law, across jurisdictions, is that copyright registrations constitute prima facie evidence that the party who possesses the registrations owns the copyrights and that the copyrights are valid. La Resolana Architects, PA v. Clay Realtors Angel Fire, 416 F.3d 1195, 1202-03 (10th Cir. 2005); Scanlon v. Kessler, 11 F. Supp. 2d 44, 447 (S.D.N.Y. 1998); 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). Novell cites the Tenth Circuit's decision in La Resolana as if were helpful to Novell, but in that case the court explained that the "paper certificate does play an important role in judicial proceedings," which is that "the certificate is prima facie evidence of the validity of the copyright, a considerable benefit to a plaintiff in an infringement action," so that the certificate "has evidentiary value." La Resolana, 416 F.3d at 1203.

Novell argues that such certificates are not required to bring suit for copyright infringement, and are not required to evidence ownership, but that is different from saying that they are irrelevant; they are not. The instruction that SCO proposes is necessary for the jury fully to evaluate Novell's argument that the copyrights did not transfer under the amended APA. Novell notes (at 9 n.3) that SCO did nothing affirmative to obtain the certificates, but that misses the point. Only having received the instruction can the jury fully appreciate an important question in the trial: Where the copyright registration certificates do have "evidentiary value" in any copyright infringement action, and if Novell really were retaining the copyrights, why would

Novell not have bothered to keep the certificates? The operation of the copyright law here is thus relevant to assessing the parties' intent.<sup>1</sup>

#### **OBJECTIONS TO SCO'S PROPOSED INSTRUCTION NO. 4**

SCO offers the following responses to Novell's Objections:

A. Although SCO disputes part of Novell's reasoning, SCO agrees that the first paragraph of Instruction No. 4 should be slightly modified for clarity, including to conform to SCO's Proposed Instruction No. 2. Under SCO's Proposed Instruction No. 4, the Court will have already instructed the jury that Amendment No. 2 is ambiguous. Accordingly, SCO proposes that the Court state with respect to the first paragraph of Instruction No. 4: "Although Amendment No. 2 is ambiguous on the question of copyright transfer, with respect to your consideration of the other agreements at issue here, where contract terms are clear, they should be given their plain and ordinary meanings." Contrary to Novell's argument (at 10), the reference to "other agreements" is necessary, where the evidence will include and will require the jury to interpret contracts such as the Technology License Agreement and the Operating Agreement, both of which were executed in 1995 along with the APA.

B. SCO disputes Novell's proposal (at 11) to add the following language to the end of the instruction: "The starting point for your interpretation must be the actual words used in the contract, which are given their usual and ordinary meaning. Any type of evidence other than the words themselves is 'extrinsic evidence.'" Consistent with the modification SCO proposes above, the Court should not give any instruction suggesting that in relevant part the amended APA is unambiguous; the Tenth Circuit has determined as a matter of law that it is not. Novell

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<sup>1</sup> SCO thus submits that this instruction is appropriate even though this is not a copyright infringement action. It bears emphasis, moreover, that if Novell is permitted to argue its unclean hands/copyright misuse affirmative defense at trial – a defense that applies only to an action for copyright infringement – then it would be appropriate on that basis alone for the Court also to give the instruction regarding the certificates.

cites only the general standards of contract interpretation that govern a court's interpretation of a contract before it has been established that the language at issue is ambiguous. SCO explains in detail in its Objections to Novell's Proposed Instructions that no such standard should govern or even affect the jury's interpretation of the amended APA. In addition, Novell's proposed language redundantly refers to the "plain [or "usual"] and ordinary meaning" language in the first paragraph.

#### **OBJECTIONS TO SCO'S PROPOSED INSTRUCTION NO. 5**

SCO offers the following responses to Novell's Objections:

A. SCO disputes Novell's proposal (at 13) to eliminate portions of the first paragraph of the instruction concerning the role of extrinsic evidence. It is not accurate to say that extrinsic evidence is relevant only if the language of the contract is ambiguous. Novell lost that argument on appeal, not only with respect to the interpretation of the amended APA, but also more generally as a matter of California law. Extrinsic evidence is admissible to expose ambiguities in contractual language that might otherwise appear clear. The SCO Group, Inc. v. Novell, Inc., 578 F.3d 1201, 1209-10 (10th Cir. 2009). It makes no sense to tell the jury that the extrinsic evidence must be "consistent with the language used in the contract," where it is for the jury to decide the extent to which, if at all, the parties' actual intent was adequately reflected in the language used. SCO's proposed instruction properly captures the law, which is that the jury "should" consider the extrinsic evidence.

B. SCO disputes Novell's proposal (at 13-14) to eliminate the second paragraph instruction, concerning the circumstances under which the parties negotiated the contracts at issue. Novell's reasoning makes no sense. The controlling California law – both the Supreme Court of California and the codification of the principles in Section 1647 of the California Civil Code – provide that in determining the parties' intent the factfinder should consider "the

circumstances surrounding the making of the agreement.”<sup>2</sup> Ambiguity in the agreement cannot somehow eliminate the relevance of such considerations. To the contrary, it underscores their relevance. Novell does not cite any case suggesting otherwise, and in Universal Sales Corp. v. California Press Manufacturing Co., 128 P.2d 665, 671-72 (Cal. 1942), the California Supreme held to the contrary.

C. SCO disputes Novell’s proposal (at 14) to eliminate portions of the third paragraph of the instruction, concerning the role of the negotiators. There are important differences between this proposed instruction and the ones that Novell has proposed and that the Court has declined to treat under “judicial notice.” The Tenth Circuit has decided as a matter of law that the intent of the business negotiators is relevant, where the amended APA is (also as a matter of law) ambiguous. In addition, the interpretation of the amended APA relates to an element of SCO’s claim for slander of title. The items that Novell proposed for “judicial notice,” in contrast, did not constitute any description of the law, but rather constituted a description of the factual record (even Novell called them “factual findings”), or else did not relate to any element of any claim at issue in this case. Absent the instruction that SCO proposes, the jury could reach a verdict on the basis that the intent of the business negotiators of the amended APA is not relevant, which would constitute an untenable, effective reversal of an issue the Tenth Circuit resolved as a matter of law. SCO would not object, however, to changing “business negotiators” to “negotiators.”

D. SCO disputes Novell’s proposal (at 15) to eliminate the fourth and fifth paragraphs of the instruction. California law is clear that the parties’ course of performance is the best evidence of the parties’ intent. The language that SCO proposes and to which Novell

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<sup>2</sup> Novell elsewhere (as at 15-16) relies on the California Civil Code.

objects, including the explanatory language, is taken directly from the California Supreme Court's decision in Universal Sales, 128 P.2d at 672. Remanding for trial, the Tenth Circuit cited Universal Sales for the following proposition: “[P]ractical construction placed by the parties upon the instrument is the best evidence of their intention.” SCO, 578 F.3d at 1217.

So the only question is whether it is somehow improper to explain to the jury that course of performance is the best evidence of the parties' intention, and to explain why. The answer is “no” on both counts. The “course of performance” instruction is at least as appropriate as the instruction, to which the parties essentially agree, conveying general principles of contract interpretation. Novell's counter-part instruction is insufficient, as also explained above, because it is not optional for the jury to consider the parties' course of performance. Novell contends that the “best evidence” portion of the paragraph is “highly prejudicial,” but it is no different from the instruction, to which the parties essentially agree, that (where a contract has not already been determined to be ambiguous) the plain and usual meaning of the words are relevant. There is a hierarchy of considerations in interpreting a contract, and when it comes to extrinsic evidence with respect to an ambiguous contract like the amended APA, course of performance is at the top. As to the explanation, the jury should understand why they should care what the parties said, did, and understood after negotiations concluded. It may not be intuitive to them. SCO's language therefore is helpful to the jury.

E. SCO disputes Novell's proposal (at 15-16) to eliminate the sixth paragraph of the instruction. Contrary to Novell's argument, it is well established that the customs or practices within a particular field or industry are relevant extrinsic evidence of the parties' intent. See, e.g., Wolf v. Superior Ct., 114 Cal. App. 4th 1343, 1354-55 (2004) (trial court erred in failing to consider expert testimony of an attorney addressing his view of what it customarily means to

refer to “gross receipts”); Hayter Trucking, Inc. v. Shell W. E & P, Inc., 18 Cal. App. 4th 1, 17-20 (1993) (trial court erred in failing to consider the custom that certain contracts for services could be terminated only for good cause); S. Pac. Land Co. v. Westlake Farms, Inc., 188 Cal. App. 3d 807, 816 (1987) (trial court erred in failing “to receive extrinsic evidence regarding the purpose and effect of the lease” and “the custom and usage in the oil and gas industry”).

Novell contends that such evidence can only be relevant to interpret particular words in particular agreements. The foregoing cases do not set out so limited a standard, and it would not be a basis for precluding the instruction in any event. Concerning the language of Amendment No. 2, for example, the parties are going to argue over what it means for a copyright or copyrights to be “required” for SCO to exercise its rights. Testimony concerning customary views on the relevance of copyright ownership therefore are relevant. SCO’s instruction does not suggest that any expert or lay witness testimony can “determine” the intent of the parties. The jury should know that such evidence is relevant, and it is helpful to explain to them that although expert testimony on the issue is relevant, lay testimony may be admissible as well, if the jury believes that a witness’s experience is sufficient.

#### **OBJECTIONS TO SCO’S PROPOSED INSTRUCTION NO. 6**

SCO offers the following responses to Novell’s Objections:

A. SCO disputes Novell’s proposal (at 17) to eliminate the first paragraph of the instruction. The paragraph is not argument; it does not favor either side. There is no way around it: In order to resolve the claims in this case, the jury should consider the nature of a copyright. The premise of Novell’s objection – that both the parties and Court would be satisfied with the verdict if they knew that the jury had never even considered the nature of a copyright in its deliberations – is insupportable. What is more, Novell is sure to object to any testimony from any witness as to the nature of a copyright. The jury needs this guidance from the Court.



B. SCO disputes Novell’s proposal (at 17-18) to eliminate the second paragraph of the instruction. The paragraph seeks to strike a balance, which Novell’s counter-part instruction fails to do, between an instruction appropriate to a claim for copyright infringement and an instruction that briefly and accurately summarizes the nature of a copyright. With respect to Novell’s proposed “clarification” that a copyright owner may include a “licensee,” that is simply not accurate. SCO explains in its Objections to Novell’s Proposed Instructions (at 29-32), and further explains just below, that because a “licensee” does not necessarily possess the same rights that a copyright owner possesses, Novell’s language would be inaccurate and misleading.

C. SCO will accept an instruction that omits reference to the well-established law that implied licenses usually are found where one part has created a work at the other’s request and handed it over, intending that the other copy and distribute it.

D. SCO disputes Novell’s proposal (at 18-20) to eliminate the fourth, fifth, and eighth paragraphs of the instruction. It is well established that only an exclusive licensee possesses all of the exclusive rights of copyright ownership, including the right to sue for infringement. 1 Copyright Throughout the World § 19:29 (2009) (“Only an exclusive licensee therefore has the right to sue for infringement of copyright.”); 1 Copyright Law in Business and Practice § 9:1 (2009) (“When infringement exists, the copyright owner or beneficial owner, or exclusive licensee, is entitled to bring suit to enforce his rights.”); 2 Patry on Copyright § 5:1118 (2010) (“Because Section 501(a) permits only owners of exclusive rights to sue for infringement, nonexclusive licensees have no standing.”).

It is similarly well established that “an implied license can only be non-exclusive.” Robinson v. Buy-Rite Costume Jewelry, Inc., No. 03 Civ. 3619 (DC), 2004 WL 1878781, at \*4 (S.D.N.Y. Aug. 24, 2004); Gillespie v. AST Sportswear, Inc., No. 97 Civ. 1911 (PKL), 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); 2 Patry, supra, § 5:1118 (“Oral and implied licenses can only be nonexclusive.”); Copyright Litigation Handbook § 13:12 (2d ed. 2009) (explaining that “an oral license and an implied license can only be non-exclusive”).<sup>3</sup>

None of this is “argument.” The jury will be faced with (among other issues) what Amendment No. 2 means when it refers to the copyrights that are “required.” They might conclude that it reflects the parties’ intent to transfer all of the UNIX copyrights. They might also conclude that it reflects the parties’ intent to transfer the copyrights that are legally required for SCO to exercise its rights in the business it had acquired. It follows that the jury must have guidance from the Court on how to determine if the copyrights are legally required. SCO’s instructions accurately provide that guidance. Indeed, in its Daubert motion, Novell argued that Mr. Davis should be precluded from testifying because the Court would be instructing the jury on the law. Novell’s position cannot be squared with its objection to SCO’s jury instruction. As reflected in the Court’s Order on the issue, SCO cannot present any expert evidence that tells the jury how copyright law works. Where the jury’s understanding of such law is plainly relevant, the avenue for providing such guidance must be the jury instructions.

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<sup>3</sup> The authority Novell cites (at 19) does not provide otherwise. The court in Papa’s June Music, Inc. v. McLean, 921 F. Supp. 1154, 1159 (S.D.N.Y. 1996), did not address either whether an implied licensee has the right to sue for infringement or whether an implied license can be exclusive. Novell also cites Goldstein on Copyright, but in only one of the two cases the author cites did the court actually resolve whether a copyright owner is entitled to transfer its accrued copyright infringement claims without also transferring the copyrights, holding that it is not. Silvers v. Sonly Pictures Entmt., Inc., 402 F.3d 881, 885 (9th Cir. 2005). Indeed, SCO has proposed adding the relevant language from Silvers to SCO’s Proposed Instruction No. 6.

### **OBJECTIONS TO SCO'S PROPOSED INSTRUCTION NO. 7.1**

SCO offers the following responses to Novell's Objections:

A. As reflected in SCO's Objections, and Revised Proposed Instruction No. 7.1, SCO will accept an instruction that defines the standard for clear and convincing evidence. SCO submits, however, that such an instruction should be briefer than the version Novell proposes, and should state the following: "Clear and convincing evidence means that you must be left with no substantial doubt that the defendant acted with actual malice."

B. SCO disputes Novell's proposal (at 21-22) for having the instructions expressly distinguish between common law malice and "actual malice," because SCO will accept an instruction that, as Novell earlier suggests (at 21) as appropriate, defines the First Amendment standard without reference to "malice" at all. Masson v. New Yorker Magazine, Inc., 501 U.S. 496, 510-11 (1991); Harte-Hankes Commc'ns, Inc. v. Connaughton, 491 U.S. 657, 665-68 n.7 (1989). In consideration of the Court's order regarding the First Amendment, SCO proposes that the second, third, and fourth paragraphs of SCO's Proposed Instruction No. 7 should be included in SCO's instruction on Abuse of Privileges, to define "malice" for that purpose.

It would be the least confusing to the jury if the instructions do not refer to two different types of malice. It is easier and will be less confusing to remove any reference to "constitutional malice" or "actual malice" than to keep the reference and add the paragraph Novell proposes. The instruction without any reference to the words "constitutional malice" or "actual malice" would reflect the phrasing of the relevant question in SCO's proposed verdict form.

### **OBJECTIONS TO SCO'S PROPOSED INSTRUCTION NO. 8**

SCO offers the following responses to Novell's Objections:

A. SCO disputes Novell's proposal (at 23) to eliminate the reference to the defendant's burden of proof to demonstrate that a privilege exists. The Utah Supreme Court has

expressly referred to the “burden having shifted” to the plaintiff to demonstrate abuse of privilege. Ferguson v. Williams & Hunt, Inc., 221 P.3d 205, 212 (Utah 2009). The cases Novell cites do not suggest a contrary result for purposes here, because the Court has already determined that the question of the applicability of any privilege raises fact issues for trial, because there are “factual issues concerning whether these privileges apply” and “whether the scope of these conditional privileges have been transcended.” (Memorandum Decision and Order Denying Defendant’s Motion in Limine No. 7 to Determine That Common Law Privileges Apply to Allegedly Defamatory Publications, at 2.) The only sensible result is that Novell has the burden of proving the material facts necessary to support its claim of privilege.

B. SCO will accept an instruction that removes the first sentence of the second paragraph, referring to “a ‘conditional’ or ‘qualified’ privilege.”

C. SCO disputes Novell’s proposal to remove the first and last sentences of the fourth paragraph. Novell’s argument here raises fundamental issues, and so SCO addresses them in appropriate detail. Novell cites Hansen v. Kohler, 550 P.2d 186 (Utah 1976), for the proposition that a party’s “purpose” is irrelevant, but both the posture and facts in that case are fundamentally different from the facts here. In Hansen, the court determined that the defendant had an absolute privilege for filing a lis pendens in court. Id. at 190-91. In this case, in contrast, the question will be whether any absolute privilege should extend to Novell for making a series of statements both prior to and outside of any judicial proceeding.

In that particular context, twenty-five years after Hansen, the Utah Supreme Court emphasized the rationale for the privilege in determining whether statements made prior to any judicial proceeding should be protected. As reflected in SCO’s proposed instruction, the court explained: “The judicial proceeding privilege extends to statements made prior to the filing of a

lawsuit because it is intended to encourage reasonable efforts to resolve disputes prior to the filing of a complaint. ‘The policy behind the privilege is to encourage full and candid participation in judicial proceedings by shielding the participant from potential liability for defamation.’” Krouse v. Bower, 20 P.3d 895, 900 (Utah 2001) (quoting Price v. Armour, 949 P.2d 1251, 1256 (Utah 1997)). The court in Krouse concluded from the undisputed evidence before it that the privilege applied, where there was a “demand letter” in which the defendants’ attorney “suggested that he and his clients wished to avoid litigation, but that a judicial proceeding was an imminent possibility,” id. at 899 (emphasis added), and the attorney stated that “if their concerns were not resolved they would ‘have no choice but to file suit to enjoin the development.’” Id.

The Restatement on which Novell relies captures such considerations in addressing the standard a defendant must meet to show that the privilege applies:

As to communications preliminary to a proposed judicial proceeding, the rule stated in this Section applies only when the communication has some relation to a proceeding that is contemplated in good faith and under serious consideration. The bare possibility that the proceeding might be instituted is not to be used as a cloak to provide immunity for defamation when the possibility is not seriously considered.

Restatement (Second) of Torts § 587 cmt. e (1977) (emphasis added); accord Pratt v. Nelson, 164 P.3d 366, 379 (Utah 2007) (endorsing this specific standard).

Whether a prelitigation communication relates to litigation that is “under serious consideration is an issue of fact.” Monex Dep. Co. v. Gilliam, No. SACV 09-287 JVS (RNBx), 2010 WL 325570, at \*8 (C.D. Cal. Jan. 25, 2010) (quotations and citation omitted); see, e.g., First E. Bank, N.A. v. Hotz Corp., No. N-84-619 WWE et al., 1990 WL 150450, at \*1 (D. Conn. Sept. 28, 1990) (“Here, the jury clearly concluded that the letters circulated by the Bank’s

attorneys were not related to a proceeding brought in *good faith* and *under serious consideration* and therefore not absolutely privileged.”). In addition, the courts have often declined to apply the privilege on the ground that no litigation was “under serious consideration” at the time of the statement. See, e.g., Med. Informatics Eng’g, Inc. v. Orthopaedics Northeast, 458 F. Supp. 2d 716, 728 & n.12 (N.D. Ind. 2006) (declining to apply litigation privilege in the absence of sufficient evidence that litigation was “under serious consideration”); Irwin v. Mascott, 96 F. Supp. 2d 968, 980-81 (N.D. Cal. 1999) (finding that no litigation privilege applied because there was no litigation “under serious consideration” at the time letters were sent); Gregory Rockhouse Ranch, L.L.C. v. Glenn’s Water Well Serv., 191 P.3d 548, 554 (N.M. 2008) (citing the “under serious consideration” standard and explaining that “we find no authority to support extension of this privilege to communications” made “a period of months” from the judicial proceedings); A.F. Brown Elec. Contractor, Inc. v. Rhino Elec. Supply, Inc., 137 Cal. App. 4th 1118, 1128 (2006) (“Because defendants failed to establish that a lawsuit was under serious consideration, they failed to demonstrate the litigation privilege covered the challenged communications.”).

In light of the law and posture of this case, an instruction more detailed than the one Novell has proposed is necessary. This case involves neither a set of undisputed facts from which it can be said that the jury must apply the privilege, regardless of the rationale for determining when it should apply, nor undisputed facts from which the only conclusion to be drawn is that any litigation was “imminent” at the time Novell made its statements in 2003. What is undisputed is that Novell published its statements to the world, and the jury is entitled to conclude from that fact not only that there was excessive publication, but that by such incendiary action Novell plainly did not intend to try to resolve litigation.

In determining whether the privilege applies, the jury needs to consider the relevant written communications between SCO and Novell; the various e-mail and verbal communications between the companies beginning in the fall of 2002 and continuing thereafter; the fact that no lawsuit was filed until January 2004; and all of the inferences that might be drawn from its consideration of such evidence. The jury will be entitled to conclude that the facts here more closely resemble the facts in the many cases holding that pre-litigation statements do not qualify for the privilege. In short, where there are no hard-and-fast rules for determining when statements made prior to and outside of litigation qualify, an instruction that explains the rationale for the privilege provides helpful guidance for the jury in determining if the privilege applies.

SCO thus accepts that modification of the language it has proposed may be appropriate to reflect the application of the privilege where litigation has already commenced, but that will not be particularly relevant at trial. In consideration of that factor and the obvious importance of the possible application of this privilege, SCO now proposes that the instruction on the litigation privilege should track the Court's ruling on Novell's Motion in Limine No. 7, as well as the relevant standard, addressed above, reflected in the Restatement. SCO therefore proposes that the instruction on the litigation privilege should state the following:

The litigation privilege has three elements. The first element requires examination of whether the statement was made during or in the course of a judicial proceeding. The first element may be satisfied if litigation is not pending. The element is satisfied only when the communication has some relation to a proceeding that is contemplated in good faith and under serious consideration. The bare possibility that a proceeding might be instituted is not enough when the possibility is not seriously considered.

The second element requires that the statement have some reference to the subject matter of the proceeding. If the statement

is published to persons who have no connection to the judicial proceeding, the privilege does not apply.

The third and final element of the privilege requires that the party claiming the privilege was acting in the capacity of judge, juror, witness, litigant, or counsel. In considering all of the elements, you should consider that the purpose of the privilege is to promote candid and honest communication between the parties and their counsel in order to resolve disputes.

D. SCO accepts in part but disputes in part Novell's proposal (at 25) regarding SCO's proposed instruction. SCO will accept an instruction that refers to the "recipient's interest privilege" rather than the "legitimate interest" privilege. SCO also will accept an instruction that defines a "legitimate interest" as Novell proposes. As explained in SCO's Objections, however, the legitimate interest privilege applies only if the defendant is under a "legal duty" to the recipient to publish the statement or the defendant's publication is consistent with generally accepted standards of "decent conduct." O'Connor v. Burningham, 165 P.3d 1214, 1224 (Utah 2007). The jury should be so instructed.

E. SCO disputes Novell's proposal (at 25-26) to use its counter-part instruction rather than SCO's. The rival claimant's privilege applies only if the defendant has made a statement that would be of service in the lawful protection of an important interest to the defendant. In addition, under Utah law and this Court's prior orders (Docket No. 75 at 11), the privilege is abused if the defendant did not honestly believe he owned the claimed property or acted with malice. See, e.g., Simonis v. Simonis, 205 B.R. 939, 943 (Bankr. S.D. Cal. 1997) (explaining with respect to the rival claimant privilege that where malice is an element of the claim itself, "actual bad faith will support a slander of title actions regardless of the filer's privilege"). As to the reference to the requirement of "an inconsistent legally protected interest"



in the claimant, that language tracks the relevant case law, and is no more “legalese” than most of the other instructions are by necessity.

Novell’s counter-part instruction is not acceptable, because it states no legal standard at all. Instead, it just announces an entitlement on Novell’s behalf: “Finally, a party is privileged to publish slanderous statements asserting that it owns property, such as copyrights. Novell was privileged to assert ownership of the copyrights unless it abused that privilege. The rival claimant’s privilege is abused if the person claiming ownership does not believe that it owns the property.” This is very helpful to Novell, but not at all helpful to the jury.

F. SCO disputes Novell’s proposal (at 26-27) for an instruction concerning “Noerr-Pennington Privilege.” Novell essentially seeks reconsideration of the Court’s decision denying Novell’s Motion in Limine No. 8. (Docket No. 725.) In that Order, the Court rejected Novell’s argument that the statements it made in its applications for copyright registration were protected by its right to “petition the government.” Novell then filed another memorandum in support of the same argument, which the Court also denied. (Docket No. 781.) Novell’s objection should be overruled for three reasons.

First, in denying Novell’s motions, the Court has noted that Novell had not cited any case that holds that an application for copyright registration is conduct protected by the First Amendment right to petition government for the redress of grievances. Novell still has not cited a single case that so holds. Instead Novell cites In re Buspirone Patent Litig., 185 F. Supp. 2d 363, 369 (S.D.N.Y. 2002), which is neither controlling law nor a new case, for the proposition that the filing of copyright registrations is different from the recording of instruments claiming a property interest. Novell’s reliance on In re Buspirone is both unavailing and incorrect.

Trying to excuse the slanderous statements it made in its application for copyright registration, Novell argues that “applications for copyright registration are examined and evaluated for copyrightable subject matter,” but that misses the point. The Copyright Office “does not generally make comparisons of copyright deposits to determine whether or not particular material has already been registered, nor does the Copyright Office make findings of fact with respect publication or any other thing done outside the Copyright Office.” James E. Hawes and Bernard C. Dietz, Copyright Registration Practice § 22:2 (2d ed. 2009) (Ex. A) (emphasis added); see also Marshall Leaffer, Understanding Copyright Law § 7.5 (3d. ed. 1999) (citing Compendium II of Copyright Office Practices Section 108) (Ex. B). The Copyright Office also does not conduct any proceedings to determine ownership:

Should the Copyright Office receive separate applications by two or more claimants for registration of a claim to copyright the same work . . . [a]ll such claims will be registered if they are in order and confirmed . . . . The Copyright Office does not conduct ‘oppositions or interference’ proceedings, such as those conducted in the United States Patent and Trademark Office.

Dietz, supra, § 22:2; see also Leaffer, supra, Section § 7.5. In short:

The Copyright Office, as a matter of policy, will register a claim to copyright even though there is a reasonable doubt about the ultimate action which might be taken under the same circumstances by an appropriate court with respect to whether (1) the material deposited for registration constitutes copyrightable subject matter, or whether (2) the other legal and formal requirements of the statute have been met. This policy has long been followed. As a practical matter, it permits the Copyright Office to process applications more quickly, and shifts to the courts the resolution of such doubt.

Dietz, supra, § 22.3; see also Leaffer, supra, Section § 7.5. Novell’s statements with respect to its ownership of the copyrights, like the recording of instruments claiming a property interest,

thus properly form the basis for a slander of title action and are not protected by the right to “petition the government.” (Order Denying Novell’s Motion in Limine No. 8 at 2.)

Second, it is undisputed that Novell published to the world the fact that it had filed for its copyright registrations. The instruction Novell seeks therefore is misleading. Whatever the rationale that might exist for encouraging people freely to exercise their right to petition the government, that rationale would not extend to affording them protection for publishing to the world the fact that they had sought to exercise those rights. Novell cites no case that holds that publishing its copyright registrations to the world cannot constitute an act of slander of title. Thus even if Novell’s filing had been protected conduct under Noerr-Pennington, its publication of its statements to the world are a proper basis for SCO’s slander of title claim.<sup>4</sup>

### **OBJECTIONS TO SCO’S PROPOSED INSTRUCTION NO. 9**

SCO offers the following responses to Novell’s Objections:

A. SCO accepts in part but disputes in part Novell’s proposal (at 28) to use its instruction on abuse of privilege instead of SCO’s. SCO agrees that the instruction should more clearly state that if the absolute litigation privilege applies, a party does not abuse the privilege

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<sup>4</sup> In addition, if Noerr-Pennington were to apply, the jury is entitled to conclude that such conduct falls within the “sham exception” to that doctrine. “There may be situations in which [petitioning activity], ostensibly directed toward influencing governmental action, is a mere sham to cover what is actually nothing more than an attempt to interfere directly with the business relationships of a competitor.” E. R. R. Presidents Conference v. Noerr Motor Freight, Inc., 365 U.S. 127, 144 (1961). The jury therefore would need to be so instructed.

Accordingly, although SCO submits that there should be no Noerr-Pennington instruction, if the Court were to accept any such instruction, it should neutrally and accurately state the following: “A party’s application for copyright registration may be protected by the right to petition the government. Such applications are protected unless they were baseless and filed without regard to whether the party was entitled to the registration. No such protection applies to a party’s public statements that it has filed such applications. In addition, no such protection applies if the filings were an attempt directly to interfere with the business relationships of a competitor.”

by acting maliciously. As explained further below, however, the instruction Novell proposes on abuse of privilege is not appropriate.

B. SCO accepts Novell's proposal (at 28) to eliminate the language referring to the purpose of the privilege, but on the ground that the alternative instruction that SCO proposes above, concerning the litigation privilege, is to be given.

C. SCO disputes Novell's proposal (at 28-29) to have an instruction that states that a conditional privilege is abused only if the defendant has acted "solely" with malice. The plaintiff need not show that the statements at issue were made "solely" out of spite or ill will in order to show that the privilege has been abused. Utah law provides that the privilege is abused if the defendant has acted with "malice." (Docket No. 75 at 11-15 (citing authority).) The jury should be told that standard.<sup>5</sup>

Novell further argues that "excessive publication exposes the publisher only to liability for injury flowing from the excessive publication," but no Utah case so holds, the instruction is potentially very confusing and misleading, and it is an incomplete statement of the law. SCO proposed instructions that eliminated reference to the issue Novell raises because a full instruction on the issue may unduly confuse the jury. But if there is to be any instruction of the sort Novell proposes, it would need to state the actual and full standard taken directly from Section 604, comment c ("Extent of Liability") of the Restatement:

When a communication is made at the same time to persons who are within the defendant's conditional privilege, and to other persons who are not within it, it may be possible to sever the harm done by the one from that done by the other. The defendant may

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<sup>5</sup> Even taking the law from other jurisdictions, the general standard is the following: "It must be shown that the improper motive was predominant." Robert D. Sack, Sack on Defamation: Libel, Slander, and Related Problems § 9.3.1 (2004); accord Novecon Ltd. v. Bulgarian-American Enter. Fund, 190 F.3d 556, 567 (D.C. Cir. 1999) (speaking to "primary motive"). The jury should not be instructed otherwise.

then be subject to liability only for that part of the total harm that is found to have resulted from his communication to the improper persons, and not for his communication to those as to whom it is privileged. When for any reason severance of the harm is found to be impossible, the defendant's abuse of the occasion makes him subject to liability for the entire harm.

In particular, the fact that there is publication to improper persons may justify the conclusion, as a matter of fact, that the defendant has not acted for the purpose for which the privilege is given, but by reasons of some other motive not within the privilege. In that event the entire privilege is abused, even though there is publication to some persons who would otherwise be proper.

D. SCO disputes Novell's proposal (at 29) to have an instruction that states that the rival claimant's privilege is abused "only if the publisher did not believe in the possible validity of his claim." Under Utah law and this Court's prior orders (Docket No. 75 at 11), in addition to abuse if the defendant did not honestly believe he owned the claimed property, the privilege is abused if the defendant has acted with malice. See also Simonis v. Simonis, 205 B.R. 939, 943 (Bankr. S.D. Cal. 1997) (explaining with respect to the rival claimant privilege that where malice is an element of the claim itself, "actual bad faith will support a slander of title actions regardless of the filer's privilege"). Novell cites Section 647 of the Restatement as if it were controlling in place of Utah law, and as if it states otherwise, but it clearly states that it "permits the publisher to assert a claim to a legally protected interest of his own provided that the assertion is honest and in good faith," cmt. b, and further states: "Bad faith is treated as an abuse of the privilege stated in this Section," cmt. d. It has long been true under Utah law, as under the Restatement, that malice in the form of spite or ill will is "bad faith." See, e.g., Dowse v. Doris Trust Co., 208 P.2d 956, 958 (Utah 1949) (holding that one way to express the idea that someone is "without a privilege" to make claims of ownership is to say that the person did so with "ill will"). As to Novell's factual argument for not instructing the jury at all on "excessive publication," the Court

has already ordered that it may apply, and SCO shows in Section C just above that the instruction Novell seeks is incomplete and improper.

### **OBJECTIONS TO SCO'S PROPOSED INSTRUCTION NO. 10**

SCO offers the following responses to Novell's Objections:

A. SCO disputes Novell's proposal (at 30) to use its counter-part instruction on the question of special damages. The question comes down to whether the jury should be told that a plaintiff must show that the defendant's statements were a "substantial factor" in causing the plaintiff's special damages, and on that ground Novell's objection lacks any foundation. Novell invokes the Restatement but relies solely on Section 632, titled "Pecuniary Loss." Section 632, entitled "Legal Causation of Pecuniary Loss," is the obvious starting point in the Restatement on the question of legal causation of pecuniary loss.

Section 632 states that the "publication of an injurious falsehood is a legal cause of pecuniary loss if (a) it is a substantial factor in bringing about the loss." Restatement (Second) of Torts § 632 (1977) (emphasis added). The commentary explains:

In order for the false statement to be a substantial factor in determining the conduct of an intending or potential purchaser or lessee, it is not necessary that the conduct should be determined exclusively or even predominantly by the publication of the statement. It is enough that the disparagement is a factor in determining his decision, even though he is influenced by other factors without which he would not decide to act as he does. Thus many considerations may combine to make an intending purchaser decide to break a contract or to withdraw or refrain from making an offer. If, however, the publication of the disparaging matter is one of the considerations that has substantial weight, the publication of the disparaging matter is a substantial factor in preventing the sale and thus bringing financial loss upon the owner of the thing in question.

Id. cmt. c (emphasis added). Utah had adopted the “substantial factor” test as the standard for causation generally and has also applied the Restatement with respect to slander of title. See, e.g., Robinson v. All Star Delivery, Inc., 992 P.2d 969, 972-73 (Utah 1999) (Section 433A); McCorvery v. Utah State Dep’t of Transp., 868 P.2d 41, 45 n.10 (Utah 1993) (Section 431); Hall v. Blackham, 417 P.2d 664, 667 n.6 (Utah 1966) (Section 431); Jensen v. Mountain States Telephone & Telegraph Co., 611 P.2d 363, 365 (Utah 1980) (Section 447); Cox v. Thompson, 254 P.2d 1047, 1051-52 (Utah 1953) (Section 465); Dowse v. Doris Trust Co., 208 P.2d 956, 958 (Utah 1949); Bansine v. Bodell, 927 P.2d 675, 677-78 (Utah Ct. App. 1996) (Section 442B).

In addition, courts across the country have adopted and applied the “substantial factor” test in actions for injurious falsehood requiring special damages. See, e.g., Penn Warranty Corp. v. DiGiovanni, 810 N.Y.S.2d 807, 813 (Sup. Ct. 2005) (holding that trade libel plaintiff must establish “that the publication of the false material was a substantial factor in inducing others not to have business dealing with it”); GKC Mich. Theaters, Inc. v. Grand Mall, 564 N.W.2d 117, 120 (Mich. Ct. App. 1997) (nothing that “Courts in other states have adopted this ‘substantial-factor’ test for determining causation in slander of title claims” and adopting that test); Waste Distillation Tech., Inc. v. Blasland & Bouck Engineers, P.C., 136 A.D.2d 633, 634 (2d Dep’t 1988) (“The communications must play material and substantial part in inducing others not to deal with the plaintiff, with the result that special damages, in the form of lost dealings, are incurred.”); Bothmann v. Harrington, 458 So. 2d 1163, 1170 (Fla. Ct. App. 1984) (“[T]he special damages pled must have been foreseeable and normal consequences of the alleged wrongful conduct, and the conduct must be a substantial factor in bringing about the losses.”); Montgomery Props. Corp. v. Economy Forms Corp., 305 N.W.2d 470, 477 (Iowa 1981)

(affirming jury instruction modeled from Section 632); Fountain v. Mojo, 687 P.2d 496 (Colo. Ct. App. 1984) (quoting Section 632 and upholding attorneys' fees as special damages).

Section 633, on which Novell relies, obviously does not serve to contradict Section 632.

In fact Section 632 specifically cites Section 633 for the following proposition:

Thus the vendibility of land, chattels or intangible things that may be impaired when a statement makes them appear less desirable for purchase, lease or other dealings than they actually are. But the liability does not accrue until the publication of the disparaging matter operates as a substantial factor in determining the decision of a prospective purchaser or other interested person, to refrain from buying or otherwise acquiring the thing in question, or causes the owner to incur the expense of such legal proceedings as may be available or necessary to remove the cloud upon the vendibility that is cast upon it by the publication.

Restatement, supra, § 632 cmt. b (emphasis added). Addressing “loss caused by prevention of sales to unknown purchasers,” Section 633 then explains: “When the loss of a specific sale is relied on to establish pecuniary loss, it must be proved that the publication was a substantial factor influencing the specific, identified purchaser in his decision not to buy.” Id. § 633 cmt. g (emphasis added). The comment further explains with respect to the plaintiff: “Normally, therefore, he must establish his case by evidence that some specific person was substantially influenced by the publication in refusing to make a purchase that he otherwise would have made.” Id. (emphasis added). The comments that Novell cites borrow from the particular facts of particular cases and proceed to explain various ways in which the plaintiff “can prove” loss or “may be able to establish its loss.” They clearly do not set forth the sole or required standard for demonstrating loss. The instruction SCO has proposed is the appropriate and accurate one.

B. SCO will accept an instruction that omits the phrase “pecuniary loss” and replaces it with the phrase “economic loss.”



## **OBJECTIONS TO SCO'S PROPOSED INSTRUCTION NO. 11**

SCO offers the following response to Novell's Objections:

SCO disputes Novell's argument (at 33) for eliminating the instruction altogether and disputes in part its argument at (33-35) that SCO's proposed instructions fails to reflect the legal standard that should govern the jury's deliberations. Novell's opening argument for no instruction at all must fail under this Court's Order denying Novell's motion asking the Court to take judicial notice. The statement Novell cites does not bear on the elements of the claim at issue here, and – as the many prior instructions contemplate – the jury will be entitled to conclude that Novell has acted with the appropriate recklessness and malice.

With respect to Novell's objection on substance, SCO sought to provide the jury with a briefer and more readable version of the model instruction that Novell cites. In any event, SCO will accept an instruction with the additional language Novell proposes concerning the need for the jury to award such damages "with caution." With respect to Novell's argument about the "punitive damages standard," SCO's proposed instruction clearly does require the jury to reach a finding with respect to the "two forms" of malice to which Novell refers. SCO thus submits that its instruction on this front is less wordy and easier to follow, and eliminates some oddly formal language, but would not object to the Court giving the instruction Novell proposes.

DATED this 8th day of March, 2010.

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**CERTIFICATE OF SERVICE**

I, Brent O. Hatch, hereby certify that on this 8th day of March, 2010, a true and correct copy of the foregoing **REPLY MEMORANDUM IN SUPPORT OF SCO'S OBJECTIONS TO NOVELL'S PROPOSED JURY INSTRUCTIONS** was filed with the court and served via electronic mail to the following recipients:

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