

Brent O. Hatch (5715)  
[bhatch@hjdllaw.com](mailto:bhatch@hjdllaw.com)  
 Mark F. James (5295)  
[mjames@hjdllaw.com](mailto:mjames@hjdllaw.com)  
 HATCH, JAMES & DODGE, PC  
 10 West Broadway, Suite 400  
 Salt Lake City, Utah 84101  
 Telephone: (801) 363-6363  
 Facsimile: (801) 363-6666

David Boies (admitted pro hac vice)  
[dboies@bsfllp.com](mailto:dboies@bsfllp.com)  
 Robert Silver (admitted pro hac vice)  
[rsilver@bsfllp.com](mailto:rsilver@bsfllp.com)  
 Edward Normand (admitted pro hac vice)  
[enormand@bsfllp.com](mailto:enormand@bsfllp.com)  
 BOIES SCHILLER & FLEXNER LLP  
 333 Main Street  
 Armonk, New York 10504  
 Telephone: (914) 749-8200  
 Facsimile: (914) 749-8300

Stuart Singer (admitted pro hac vice)  
[ssinger@bsfllp.com](mailto:ssinger@bsfllp.com)  
 Sashi Bach Boruchow (admitted pro hac vice)  
[sboruchow@bsfllp.com](mailto:sboruchow@bsfllp.com)  
 BOIES SCHILLER & FLEXNER LLP  
 401 East Las Olas Blvd.  
 Suite 1200  
 Fort Lauderdale, Florida 33301  
 Telephone: (954) 356-0011  
 Facsimile: (954) 356-0022

*Attorneys for Plaintiff, The SCO Group, Inc.*

**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>JOINT PROPOSED JURY          INSTRUCTIONS</b></p> <p>Civil No. 2:04 CV-00139</p> <p>Judge Ted Stewart</p>
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Plaintiff, The SCO Group, Inc. (“SCO”), and Defendant, Novell, Inc. (“Novell”), respectfully submit the following jointly proposed jury instructions in connection with the trial scheduled to conclude on March 26, 2010.

This joint filing summarizes the relevant arguments the parties made in their previous briefs on the jury instructions and is not intended to supersede those briefs. The instructions offered here cover the claims and elements in general terms. As trial progresses, the presentation of evidence may require additional, pin-point instructions.<sup>1</sup>

## **OVERALL ORDER AND TITLES OF JURY INSTRUCTIONS**

### **SCO’s Proposed Order**

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 slanderous statement and falsity, including the undisputed issue of ownership embedded in those elements. SCO’s instructions then proceed to identify for the jury the law they must apply in assessing those elements. After that, SCO’s instructions identify the element of malice and introduce the jury to the defense of privileges. Finally, SCO’s instructions address damages. 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.<sup>2</sup>

### **Novell’s Proposed Order**

The jury’s primary task is to reach a verdict on the competing slander of title claims. As stated in Novell’s Objections to SCO’s Proposed Jury Instructions, Novell believes that the jury

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<sup>1</sup> It is SCO’s position, and Novell understands, that the jury will not be instructed on unclean hands, which is an equitable defense for the Court to decide. Novell continues to maintain that its unclean hands defense applies. (*See* Novell’s Reply In Support of Proposed Jury Instructions at 16, Dkt. No. 786; Order at 2-3, Dkt. No. 761.)

<sup>2</sup> The titles of SCO’s instructions refer to each element, where appropriate.

should be advised first of the tort claim that they must decide – slander of title – followed by a separate instruction for each of the elements laid out in the first, overall instruction. In addition, Novell proposes that since the unprivileged nature of the publication is not an affirmative defense but rather an element of the tort itself under both Utah case law and the Restatement, an instruction on privilege should fall after the instructions on disparagement and falsity. The remaining instructions do not explicitly explain the enumerated elements of a slander of title claim but are relevant to the jury’s deliberation of these elements (such as contract interpretation, copyright ownership, punitive damages, etc.). These instructions should follow the slander of title and elements instructions.

**OVERVIEW OF INSTRUCTIONS**

<b>SCO's Proposed Ordering of Jury Instructions</b>	<b>Novell's Proposed Ordering of Jury Instructions</b>
<b>1. The Elements of Slander of Title</b>	<b>1. The Elements of Slander of Title</b>
<b>2. Element 1: Slanderous Statement</b>	<b>2. Element 1: Slanderous Statement</b>
<b>3. Element 2: Falsity</b>	<b>3. Element 2: Falsity</b>
-	<b>4. Unprivileged Publication</b>
-	<b>5. Element 3: Constitutional Malice</b>
-	<b>6. Element 4: Special Damages</b>
<b>4. Legal Principles for Interpreting the Amended Asset Purchase Agreement</b>	<b>7. Unprivileged Publication</b>
<b>5. Copyright Ownership</b>	<b>8. Interpretation of Contractual Terms and Extrinsic Evidence</b>
<b>6. Element 3: Constitutional Malice</b>	<b>9. Copyright Ownership</b>
<b>7. Privileges and Abuse of Privileges</b>	
<b>8. Element 4: Special Damages</b>	
<b>9. Punitive Damages</b>	

## I. THE ELEMENTS OF SLANDER OF TITLE

### JOINT PROPOSED INSTRUCTION NO. 1

In this case, as I have said, both SCO and Novell have brought claims against each other.

SCO and Novell have each alleged that the other has slandered its title regarding ownership of copyrights over the UNIX [SCO #1: *and UnixWare*] computer operating system[s].

Slander of title requires you to find that:

- (1) there was [Novell #1: *an unprivileged*] publication of a statement disparaging claimant's title,
- (2) the statement was false,
- (3) the statement was made with constitutional malice, and
- (4) the publication caused special damages.

I will now explain these four elements in more detail.

#### **SCO's Argument**

SCO disputes Novell's proposal to remove two words from, and add another word to, the agreed-upon joint instruction that the parties submitted to the Court on March 1, 2010. (Docket No. 739 at 3.)

1. UNIX and UnixWare Copyrights. SCO disputes Novell's proposal to change the reference to "UNIX and UnixWare copyrights" to only "UNIX copyrights." SCO's claims clearly concern Novell's assertions of copyright ownership over the "UNIX and UnixWare copyrights." (SCO's Second Amended Complaint (Feb. 3, 2006) ¶¶ 9, 10, 21, 36, 37, 38, 39, 90, 91, 92, 94, 95.) The evidence will show that the distinction Novell attempts to draw is an artificial one and that a claim to own the UNIX copyrights is a claim to own UnixWare copyrights as well.

Furthermore, Novell has admitted in its Answer that it has claimed to own the “UNIX and UnixWare copyrights,” 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).) There is no basis for Novell’s request now to omit any reference to UnixWare in its instructions to the jury.

2. Burden of Proof. SCO disputes Novell’s addition of the word “unprivileged” into this instruction regarding the elements of a slander of title claim that SCO must prove. 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.

The fact is that across jurisdictions, the defendant bears the burden of proving that a privilege applies to a defamatory statement. See, e.g., Sawheny v. Pioneer Hi-Bred Int’l, Inc., 93 F.3d 1401, 1410 (8th Cir. 1996) (Iowa law); Keenan v. Computer Assocs. Int’l, Inc., 13 F.3d 1266, 1269-70 (8th Cir. 1994) (Minnesota law); Esmark Apparel, Inc. v. James, 10 F.3d 1156,

1161 (5th Cir. 1994) (Mississippi law); Elbanna v. Captain D's, LLC, No. 3:07-cv-926-J-32MCR, 2009 WL 435051, at \*14 (M.D. Fla. Feb. 17, 2009) (Florida law); Dealer Computer Servs., Inc. v. Fullers' White Mountain Motors, Inc., No. CV07-00748-PCT-JAT, 2008 WL 462448, at \*8 (D. Ariz. Oct. 17, 2008) (Arizona law); Gordon v. Dalrymple, No. 3:07-CV-00085-LRH-RAM, 2008 WL 2782914, at \*5 (D. Nev. July 8, 2008) (Nevada law); Emiabata v. Marten Transport, Ltd., 574 F. Supp. 2d 912, 919 (W.D. Wis. 2007) (Wisconsin law); Jackson v. Kan. County Ass'n Multiline Pool, No. 03-4181-JAR, 2006 WL 963838, at \*23 (D. Kan. Apr. 10, 2006) (Kansas law); Stevens v. Target Stores, No. 96 C 2291, 1997 WL 779090, at \*7 n.31 (N.D. Ill. Dec. 11, 1997) (Illinois law); Zeevi v. Union Bank of Switzerland, No. 89 Civ. 4637 (MGC), 1992 WL 8347, at \*5 (S.D.N.Y. Jan. 1992) (New York law).

### **Novell's Argument**

The parties have a principled disagreement about two aspects of this instruction. Novell believes that the jury should be instructed that, as part of the cause of action for slander of title, the publication must be “unprivileged.” Accordingly, Novell proposes adding this word to the first element so that it reads: “(1) there was an unprivileged publication of a statement disparaging claimant’s title.”

Lack of privilege is an element of the claim for slander of title and must be proven by the party asserting the claim. *See West v. Thomson Newspapers*, 872 P.2d 999, 1007-08 (Utah 1994) (“To state a claim for defamation, he must show . . . that the statements were . . . not subject to any privilege”); *Dowse v. Doris Trust Co.*, 208 P.2d 956, 958 (Utah 1949) (publication “without privilege” is an element of the claim).

Second, in Joint Proposed Instructions 1 and 2, SCO improperly seeks to characterize Novell's allegedly slanderous statements as asserting ownership of both the UNIX and UnixWare

copyrights. As the evidence demonstrates, however, Novell did not claim ownership of the UnixWare copyrights in the allegedly actionable public statements. Novell's press release of May 28, 2003 states only that "SCO is not the owner of the UNIX copyrights." (Ex. 669.) Novell's press release of December 22, 2003 states that "Novell believes it owns the copyrights in Unix." (Ex. X23.) The copyright registrations that Novell filed in October 2003 were for UNIX only. (See Exs. S21, U21, V21, W21, X21, Y21, Z21, A22, C22, J23, K23, M23.) In his March 2004 address, Novell executive Chris Stone stated only that "[w]e still own Unix." (Ex. A27.)

Because the allegedly actionable statements only asserted ownership of the UNIX copyrights, the references to "UnixWare" in Instructions 1 and 2 should be removed. To instruct the jury that Novell's statements referenced the "UnixWare" copyrights would misrepresent the facts and would be highly prejudicial to Novell.



## II. ELEMENT #1: SLANDEROUS STATEMENT

### JOINT PROPOSED INSTRUCTION NO. 2

The first element is whether the [SCO: *defendant*] [Novell: *party accused of slander*] published a statement that disparaged the [SCO: *plaintiff's*] [Novell: *claimant's*] title or ownership of the UNIX [SCO: *or UnixWare*] copyrights. SCO alleges that Novell made several slanderous statements in 2003 and 2004. Novell alleges that SCO made several slanderous statements in 2003 and 2004.

For the statement to have been published, it must have been communicated to someone other than the [SCO: *plaintiff*] [Novell: *claimant*].

A statement is not slanderous if the context makes clear that the speaker is expressing a subjective view or an interpretation or theory, rather than an objectively verifiable fact. You may determine, however, that the [SCO: *defendant*] [Novell: *speaker*] intended to convey a statement of fact even if the [SCO: *defendant*] [Novell: *speaker*] has couched its statements in the form of an “opinion” or “belief.”

In deciding whether a publication [SCO: *by defendant*] disparaged the [SCO: *plaintiff's*] [Novell: *claimant's*] title, you should not view individual words or sentences in isolation. Rather, each statement must be considered in the context in which it was made, giving the words their most common and accepted meaning. You should also consider the surrounding circumstances of the statement, and how the intended audience would have understood the statement in view of those circumstances.

#### **Statement of Issues**

The only disputes between the parties with respect to this instruction are:

- (1) the disputes regarding whether SCO's claims concern UNIX and UnixWare or merely UNIX (see Joint Proposed Instruction No. 1), and
- (2) whether the use of each of the terms “plaintiff” and “defendant” are appropriate to refer to both SCO and Novell, which is discussed below.

#### **SCO's Argument**

1. References to “plaintiff” and “defendant.” The Model Utah Jury Instructions refer to “plaintiff” and “defendant” as a matter of course. The Court will have already instructed the jury that the parties have each asserted claims against the other in this case, including at the outset of these instructions, where the parties have agreed to the following instruction: “SCO and Novell have each alleged that the other has slandered its title regarding ownership of

copyrights over the UNIX [SCO #1: and UnixWare] computer operating system[s].” (Joint Proposed Instruction No. 1.) Novell’s proposal to deviate from the standard formulation and introduce multiple terms to refer to the same parties, including “claimant,” “speaker,” “party accused of slander,” and “party accused of making a statement slandering another’s title” needlessly confuses the jury with additional terminology.

### **Novell’s Argument**

1. References to “plaintiff” and “defendant.” Since Defendant and Counter-Plaintiff Novell also asserts a claim for slander of title, using the terms “plaintiff” and “defendant” in the jury instructions will mislead the jury and cause undue prejudice to Novell. Throughout the trial, witnesses and attorneys have consistently referred to SCO as the “plaintiff” and Novell as the “defendant.” Novell believes that it would be confusing to now turn the tables on the jury and tell them that references to “plaintiff” and “defendant” include both parties, depending on the context. Even with a general instruction upfront explaining that Novell has brought its own claim for slander of title, the jury is likely to be uncomfortable (or at least unused to) considering Novell as a “plaintiff.” For this reason, the term “claimant” should be used in place of “plaintiff” and where necessary, the term “party accused of slander” (or some equivalent) should be used in place of “defendant.”

### **III. ELEMENT #2: FALSITY**

#### **JOINT PROPOSED INSTRUCTION NO. 3**

The second element of a claim for slander of title is falsity of the statement that disparages title. “False” means that the statement is either directly untrue or that an untrue inference can be drawn from the statement. You are to determine the truth or falsity of the statement according to the facts as they existed at the time the statement was made.

The statement, to be true, need not be absolutely, totally or literally true, but must be substantially true. A statement is considered to be true if it is substantially true or the gist of the statement is true.

#### **IV. DISPUTED INSTRUCTION**

##### ***SCO DISPUTED INSTRUCTION NO. 4: “LEGAL PRINCIPLES FOR INTERPRETING THE AMENDED ASSET PURCHASE AGREEMENT”***

The element of a false statement concerns who owns the property at issue. On that issue, you should consider the Asset Purchase Agreement, as amended. You should be guided by the following legal principles in interpreting the amended Asset Purchase Agreement.

Amendment No. 2 must be considered together with the Asset Purchase Agreement as a single document. The language of Amendment No. 2 controls wherever its language contradicts the Asset Purchase Agreement.

In deciding what the terms of the combined APA and Amendment No. 2 mean, you must decide what the parties intended at the time the contract was created and amended.

You should consider the intent of the parties to the amended Asset Purchase Agreement apart from the language they used in the contract. Such evidence may take the form of witness testimony or documentary evidence of what they said or did or understood at the time of the transaction. You should interpret a contract to give meaning to all of its provisions, instead of leaving a portion of the writing useless or inexplicable. You should not interpret a contract to render one of its terms meaningless.

In deciding what the words in a contract meant to the parties, you must consider how, as a practical matter, the parties interpreted and applied the terms of the contract in the years after the contract was signed but before this disagreement between the parties arose. The practical construction the parties placed upon the combined Asset Purchase Agreement and Amendment No. 2 is the best evidence of their intention.

##### ***NOVELL’S DISPUTED INSTRUCTION NO. 7: “INTERPRETATION OF CONTRACTUAL TERMS AND EXTRINSIC EVIDENCE”***

In deciding what the terms of a contract mean, you must decide what the parties intended at the time the contract was created. You should consider the usual and ordinary meaning of the language used in the contract and its amendments as well as the circumstances surrounding the making of the contract and its amendments.

With respect to your consideration of the agreement at issue here, where contract terms are clear, they should be given their plain and ordinary meanings.

In deciding what the words of a contract meant to the parties, you should consider the whole contract, not just isolated parts. You should use each part to help you interpret the others, so that all the parts make sense when taken together

With respect to who owns the property at issue, you are allowed to consider what is called “extrinsic evidence” of the intent of the parties to the contract. Extrinsic evidence may only be considered to interpret ambiguous language.

You should assume that the parties intended the words in their contract to have their usual and ordinary meaning unless you decide that the parties intended the words to have a special meaning.

In deciding what the words in a contract meant to the parties, you may consider how the parties acted after the contract was created but before any disagreement between the parties arose.

You should also be guided by the following principles in interpreting the amended Asset Purchase Agreement and related agreements:

- Under the amended Asset Purchase Agreement (“APA”), Santa Cruz purchased certain assets from Novell, listed in Schedule 1.1(a) and called “Assets.” Those Assets do not include the “Excluded Assets” that are listed in Schedule 1.1(b), which were retained by Novell.
- Under Section 4.16(a) of the APA, Santa Cruz was obligated to administer the collection of royalties from all UNIX SVRX licenses and transmit 100% of those royalties to Novell, minus a 5% administrative fee for Santa Cruz.
- Under Schedule 1.2(b) of the APA, Santa Cruz was entitled to keep all royalties from sales of UnixWare, unless certain sales thresholds were met.
- Under Section 4.16(b) of the APA, Santa Cruz did not have the authority to amend, modify, waive any right under, or assign any UNIX SVRX license without Novell’s consent. Santa Cruz also did not have the authority to enter into new UNIX SVRX licenses without Novell’s permission, unless it was doing so incidentally to a UnixWare license.
- Under Section 1.6 of the APA and under the related Technology License Agreement, Novell obtained a license from Santa Cruz of the technology included in the Assets (as defined above) and any derivatives of that technology created by Santa Cruz. These provisions do not grant Novell a license to any of the Excluded Assets (as defined above), which Novell had kept under the APA.
- The contractual language of Amendment No. 2, signed on October 16, 1996, as it relates to copyrights, is ambiguous.
- Amendment No. 2 must be considered together with the original Asset Purchase Agreement as a single document.

## SCO's Argument

1. Consideration of Extrinsic Evidence. Novell's proposal to instruct the jury that it "may" or "is allowed to" consider extrinsic evidence is incorrect; the jury must consider it. 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). "As trier of fact, it is the jury's responsibility to resolve any conflict in the extrinsic evidence properly admitted to interpret the language of a contract." Morey v. Vannucci, 64 Cal. App. 4th 904, 913 (1998). SCO's proposed instruction properly captures the law, which is that the jury "should" consider the extrinsic evidence.

2. Course of Performance Evidence. SCO's Proposed Instruction also reflects clear California law that the parties' course of performance is the best evidence of the parties' intent. The language that SCO proposes and to which Novell 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.

The only remaining question then is whether it is somehow improper to explain to the jury that course of performance is the best evidence of the parties' intention. 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 counterpart instruction is insufficient, as also explained above, because it is not optional for the jury to consider the parties' course of performance. 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.

3. Novell's Factual "Instructions." With respect to Novell's proposed instruction regarding the meaning of certain provisions in the Asset Purchase Agreement, such "instructions" do not address the law governing the elements of the claim at issue and do not instruct the jury on such law. As such, the proposed statements are not proper jury instructions. By contrast, the legal principles enumerated in SCO's Proposed Instruction regarding the interpretation of the amended APA directly relate to an element of SCO's claim for slander of title and properly instructs the jury on the law it must apply.

4. Language of the APA. In asking the Court to tell the jury generally and without distinction that the jury "should assume that the parties intended the words in their contract to have their usual and ordinary meaning unless you decide that the parties intended the words to have a special meaning," Novell proposes an instruction that is inconsistent with the law and the law of the case. Where such law bears directly on the terms of the contract at issue, a jury instruction reflecting the law of the case is appropriate. Joyce v. Simi Valley Unified Sch. Dist., 110 Cal. App. 4th 292, 304 (2003). In addition, with respect to issues of contract interpretation, it is inappropriate to give an instruction on an issue that is "for the jury to determine after weighing all of the evidence." Risner v. Freid and Goldsman, No. B188211, 2007 WL 2949298, at \*11 (Cal. Ct. App. Oct. 11, 2007). Where it has been determined that the courts cannot discern the parties' intent solely from the language of the contract, the court cannot give an instruction suggesting that the jury must try to do so. Cf. Deland v. Old Republic Life Ins. Co., 758 F.2d 1331, 1335-36 (9th Cir. 1985) (where the court should have interpreted the language of the contract as a matter of law, it should not have instructed the jury on the issue).

### **Novell's Argument**

In its competing instruction, Novell combines its former instructions on contract interpretation and extrinsic evidence (Novell Supp. Jury Instr. at 22-25, Dkt. No. 787), and adds further instruction to assist the jury in interpreting the amended Asset Purchase Agreement.

#### **Contract Interpretation**

The first three paragraphs of Novell's instruction concern contract interpretation and are taken directly from the California Model Jury Instructions ("CACI"). (See Novell Supp. Jury Instr. at 22-23, Dkt. No. 787.)

The first paragraph is the third paragraph of CACI 314. There are two edits to the model. The first is to address the fact that there are amendments to the contract. The second edit reconciles the permissive language of CACI 314 ("you *may* consider the usual and ordinary meaning of the language") with the compulsory language of CACI 315 ("you *should* assume the parties intended the words in their contract to have their usual and ordinary meaning unless you decide that the parties intended the words to have a special meaning."). Novell has changed "may" to "should" in its proposed instruction.

The second paragraph is taken from SCO's former proposed instruction no. 4, excising the vague reference to "other agreements." (SCO Proposed Instructions at 7, Dkt. No. 743; see Novell Objections at 10-11, Dkt. No. 774.) As stated, this is a correct statement of law: where contract terms are clear, they should be given their plain and ordinary meanings. Novell's main objection to SCO's current proposal is that it entirely ignores the role that the plain language of the contract plays in contract interpretation.

First, contrary to SCO's contention, the jury must start its interpretation of the contract with the actual words the parties used in the contract.



When a dispute arises over the meaning of contract language, the first question to be decided is whether the *language* is “reasonably susceptible” to the interpretation urged by the party. If it is not, the case is over. If the court decides the language is reasonably susceptible to the interpretation urged, the court moves to the second question: what did the parties intend the *language* to mean?

*So. Cal. Edison Co. v. Superior Ct.*, 37 Cal. App. 4th 839, 847-48 (Cal. Ct. App. 1995)

(emphasis added) (internal citations omitted); (see *Novell Obj.* at 11-12). Indeed, ambiguous or not, “[o]rdinarily it is presumed that the parties read and understood the import of their contract and that they had the intention which its terms manifest.” *Heidlebaugh v. Miller*, 271 P.2d 557, 559 (Cal. Ct. App. 1954) (cited in *SCO’s Proposed Jury Instr.* at 7, Dkt. No. 743.) Thus, *Novell’s* instruction that where contract terms are clear, they should be given their plain meanings is proper and sound.

The third paragraph is a verbatim copy of CACI 317. (See *Novell Supp. Jury Instr.* at 22, Dkt. No. 787).

### **Extrinsic Evidence**

Paragraphs four through six address extrinsic evidence. The fifth paragraph is verbatim copy of CACI 315. (See *Novell Supp. Jury Instr.* at 25, Dkt. No. 787.) The sixth paragraph is a verbatim copy of CACI 318, discussing course of conduct. (*Id.*)

The fourth paragraph states that the jury is “allowed to” consider extrinsic evidence. *SCO* would rather instruct the jury that they “should” or “must” consider extrinsic evidence. This disagreement arises from the Tenth Circuit’s decision in this case. *The SCO Group, Inc. v. Novell, Inc.*, 578 F. 3d 1201, 1210-1211 (10<sup>th</sup> Cir. 2009).

The key issue is what role the Tenth Circuit’s decision on summary judgment should play in the jury instructions. The extent of the Tenth Circuit’s ruling on extrinsic evidence was as follows:

Because what copyrights are “required” for SCO to exercise its rights under the agreement is not clear on its face, California law *allows* courts to consider extrinsic evidence to resolve the ambiguity.

*SCO Group Inc. v. Novell, Inc.*, 578 F.3d 1201, 1210-11 (10th Cir. 2009) (emphasis added) (internal citations omitted). Therefore, the court merely held that the jury is “allowed” to consider extrinsic evidence to decide “what copyrights are ‘required’” “for SCO to exercise its rights with respect to the acquisitions of UNIX and UnixWare technologies.” *Id.*; see Ex. N8 (Amendment No. 2) at ¶ A. The Tenth Circuit’s admissibility ruling does not overturn well-established contract law that interpretation of the contract begins with the contract itself. This is why Novell’s instruction begins by informing the jury that clear contractual language should be given its plain and ordinary meaning.

Next, The Tenth Circuit’s ruling allowed for the consideration of otherwise inadmissible extrinsic evidence in order to interpret the ambiguous language of Amendment No. 2. SCO incorrectly argues that “it is not accurate to say that extrinsic evidence is relevant only if the language of the contract is unambiguous [sic].” Without citing to any part of it, SCO improperly spins the Tenth Circuit’s opinion to contravene established California contract law. In fact, the Tenth Circuit clarified that:

California law does not permit the use of extrinsic evidence to establish an ambiguity in the parties’ intent independent from the terms of the contract; instead, it can only be used to expose or resolve a latent ambiguity in the language of the agreement itself.

*SCO Group*, 578 F.3d at 1210. Thus, the jury must only consider extrinsic evidence to interpret ambiguous language, as Novell’s proposed instruction explains.

Contrary to SCO’s objections, the jury is not required to disregard the clear language of the contract in favor of extrinsic evidence. As this Court has noted, it is up to the jury to weigh all of the evidence. (See Order at 4, Dkt. No. 763 (“The real evidence in this case is not the

summary judgment ruling or the Tenth Circuit’s decision, but the evidence used in making those decisions.”.) The jury is allowed to interpret the contract language with the extrinsic evidence and determine for itself what the intended language means. “As trier of fact, it is the jury’s responsibility to resolve any conflict in the extrinsic evidence properly admitted to interpret the language of a contract.” *Morey v. Vanucci*, 64 Cal. App. 4th 904, 913 (Cal. Ct. App. 1998). Indeed the California Model Jury instructions say that the jury *must* decide the intent of the parties, but that in doing so it *may* consider the language of the parties as well as extrinsic evidence. CACI 314.<sup>3</sup>

Thus, at most, the Tenth Circuit ruled that extrinsic evidence is appropriate to interpret what is “required” for SCO to exercise its rights in Amendment No. 2. The Tenth Circuit’s finding does not preclude the jury from starting with the language of the contract.<sup>4</sup> The Tenth Circuit’s holding just means that the parties are allowed to present extrinsic evidence to the jury.

As one court as noted:

While it may be proper to enumerate elements which the jury may consider, an instruction which tells them they ‘must’ or ‘should’ consider is liable to be misleading. \* \* \* On the trial of the case the court should leave the jury perfectly free and untrammelled to pass

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<sup>3</sup> Stating in full:

In deciding what the terms of a contract mean, you must decide what the parties intended at the time the contract was created. You may consider the usual and ordinary meaning of the language used in the contract as well as the circumstances surrounding the making of the contract.

<sup>4</sup> SCO cites to *Deland v. Old Republic Life Ins. Co.*, 758 F.2d 1331, 1335-36 (9th Cir. 1985) in support of its proposition that the court cannot give an instruction suggesting that the jury may discern the parties’ intent where the court was unable to do so. *Deland* says nothing of the sort. *Deland* was a case involving an insurance contract governed by Alaskan law in which the court provided an incorrect legal standard in the jury instruction. *Id.* (advising the jury incorrectly to apply plaintiff’s subjective understanding of the contract as opposed to what a “reasonable lay person” would expect).

upon the credibility of the witnesses, determining for themselves the weight to be given to the testimony. \* \* \* It is not the province of the court to tell the jury in any case what evidence is the strongest.

*Lyons v. Chicago City Ry. Co.*, 258 Ill. 75, 85-85, 101 N.E 211 (Ill. App. Ct. 1913) (citations omitted).

Third, even when extrinsic evidence is used to interpret ambiguous language, the interpretation must be consistent with the language used in the contract. “Extrinsic evidence is thus admissible to interpret the language of a written instrument, as long as such evidence is not used to give the instrument a meaning to which it is not reasonably susceptible.” *Morey*, 64 Cal. App. 4th at 912 (quoted in SCO Obj. at 19).. In fact,

This principle should not be confused with the dictates of the parol evidence rule . . . [which] generally prohibits the introduction of any extrinsic evidence, whether oral or written, to vary, alter or add to the terms of an integrated written instrument intended by the parties thereto as the final expression of their agreement.

*Id.* at 912 n. 4.

Lastly, SCO contends that the jury “*must* consider” the parties course of performance, but cites to no authority to support its emphatic position. (SCO Obj. at 24 (emphasis in original).) This is not so. (Order on Mots. In Limine 12 to 19 at 3, Dkt. No. 717 (“The Tenth Circuit further held that course of performance “evidence *may* be used to interpret an ambiguous contractual provision.” (quoting *SCO Group*, 578 F.3d at 1217) (emphasis added).) The jury is entitled to conclude that the parties’ course of performance is irrelevant. (*See* Novell Obj. at 15.)

### **Amended APA**

The jury should be instructed as to the meaning of relevant portions of the APA and related agreements that are unambiguous. Under California law, the function of the Court is to interpret unambiguous provisions, and the function of the jury is to interpret ambiguous

provisions of a contract. *Schmidt v. Macco Constr. Co.*, 119 Cal. App. 2d 717, 734 (Cal. App. 1953) (“only the interpretation of the ambiguous clauses is one of fact, and . . . the jury should be so instructed”). This principal is clearly embodied in the following comment from the Book of Approved Jury Instructions (“BAJI”):

The issue of the interpretation of a contract, or a provision thereof, may arise in a jury trial. If the contract is not ambiguous or uncertain, interpretation is a matter of law. If the contract is ambiguous or uncertain, and uncontradicted extrinsic evidence has been received to explain the uncertainty or ambiguity, the interpretation is also a matter of law. In both of these situations, the jury performs no function. The interpretation must be made by the Court.

On the other hand, if the contract is ambiguous or uncertain, and contradictory extrinsic evidence has been received to explain away the ambiguity or uncertainty, the jury’s function is to interpret the contract or the ambiguous portion of the contract. **Where there are ambiguous and unambiguous clauses to the contract, the jury should be instructed which clauses are clear, which are ambiguous, and that only the latter should be interpreted by them.**

(California Civil Jury Instructions, BAJI No. 10.75 (*citing Schmidt*, 119 Cal. App. 2d at 733) (emphasis added).)

Here, the Tenth Circuit found that because “what copyrights are ‘required’ for SCO to exercise its rights under the agreement is not clear on its face,” extrinsic evidence is admissible to resolve the ambiguity. *The SCO Group, Inc. v. Novell, Inc.*, 578 F.3d 1201, 1210 (10th Cir. 2009). However, the meaning of other provisions in the APA and related agreements are not ambiguous. Indeed, the Tenth Circuit laid out the “basic facts” underlying “Novell’s transfer of certain UNIX-related assets to Santa Cruz” as part of its background section, and elsewhere assumed basic facts relating to the clear meaning of the agreement. *Id.* at 1204-1205, 1219. Judge Kimball likewise outlined the basic undisputed facts relating to the APA and contemporaneous agreements in his summary judgment ruling. (Order at 3-9, Dkt. No. 377.)

These portions of the prior rulings have not been appealed or overruled. The Court should therefore interpret unambiguous terms of the APA and related agreements as a matter of law, and highlight these terms in an instruction for the jury.<sup>5</sup>

In this Court's ruling on Novell's motion to disqualify G. Gervaise Davis III, the Court stated that it is the "Court's role to instruct the jury on the law" and "the jury's role to apply that law to the facts of the case." (Order at 8, Dkt. 745.) While the Court was willing to admit Mr. Davis's testimony on whether the UNIX copyrights were necessary for SCO to operate its business, the Court would not permit Mr. Davis to (1) "tell the jury the law they must apply in considering whether the copyrights are required," (2) "opine on the law the jury must apply in deciding whether the parties to the APA intended to acquire the copyrights," or (3) "opine on the governing principles of contract interpretation, the relevance of extrinsic evidence, the relevance of course of performance, or anything of that nature." (*Id.*) Those subjects are for the Court to address in its instructions to the jury. Novell's proposed instruction captures general principles of contract interpretation, as well as specific interpretations of unambiguous APA provisions that are within the Court's province to determine as a matter of law.

Specifically, the Court should highlight for the jury that the following is clear:

**Paragraph 7.** Under the amended Asset Purchase Agreement ("APA"), Santa Cruz purchased certain assets from Novell, listed in Schedule 1.1(a) and called "Assets." Those Assets do not include the "Excluded Assets" that are listed in Schedule 1.1(b), which were retained by Novell.

The basic structure of the APA in terms of "Assets" and "Excluded Assets" is clear, and not in dispute. APA § 1.1(a); *SCO Group*, 578 F.3d at 1205; 1210 (the "APA explicitly provides that ' . . . the Assets to be so purchased shall not include those assets (the "Excluded Assets") set

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<sup>5</sup> In addition to those proposed here by Novell, there may be other unambiguous terms that the Court finds would be helpful to highlight for the jury. These may be added to this instruction as the trial proceeds.

forth on Schedule 1.1(b).”); (*see also* Order at 3-4, Dkt. No. 377.) This paragraph is necessary to provide a roadmap for the jury’s consideration of the APA, as amended, and to clarify to the jury which rights were transferred and which were retained. Novell only sold “part of its UNIX business” to Santa Cruz (*SCO Group*, 578 F.3d at 1204) and the APA may not be interpreted otherwise. Given the repeated testimony by witnesses that Novell sold the UNIX business to Santa Cruz “lock, stock and barrel” (*see, e.g.*, Trial Tr. 230:15-20, Mar. 10, 2010), it is important for the Court to clarify that the APA, by its unambiguous terms, only conveyed certain assets to Santa Cruz.

**Paragraph 8.** Under Section 4.16(a) of the APA, Santa Cruz was obligated to administer the collection of royalties from all UNIX SVRX licenses and transmit 100% of those royalties to Novell, minus a 5% administrative fee for Santa Cruz.

It is clear, and not in dispute, that the APA was “structured so that Novell would retain a 95% interest in SVRX license royalties.” *SCO Group*, 578 F.3d at 1205; *see also id.* at 1219 (“Section 4.16(a) provides that “Following the Closing, Buyer shall administer the collection of all royalties, fees and other amounts due under all SVRX Licenses.”); (Order at 3-4, Dkt. No. 377.) This paragraph is necessary to clarify which rights Novell retained under the APA. Specifically, Novell did not “sell the complete UNIX business,” but unambiguously retained an interest in SVRX license royalties. *SCO Group*, 578 F.3d at 1205.

**Paragraph 9.** Under Schedule 1.2(b) of the APA, Santa Cruz was entitled to keep all royalties from sales of UnixWare, unless certain sales thresholds were met.

The meaning of the APA with respect to royalties from sales of UnixWare is also clear, and not in dispute. Under the payment provision of the APA, Santa Cruz agreed to pay Novell “additional royalties” in connection with the sale of UnixWare products in the amount identified on Schedule 1.2(b). Schedule 1.2(b) provides that “[n]o royalties shall be payable in connection

with [the UnixWare] Products” unless certain thresholds were met. This paragraph is necessary to further clarify which rights were transferred and which were retained under the APA.

**Paragraph 10.** Under Section 4.16(b) of the APA, Santa Cruz did not have the authority to amend, modify, waive any right under, or assign any UNIX SVRX license without Novell’s consent. Santa Cruz also did not have the authority to enter into new UNIX SVRX licenses without Novell’s permission, unless it was doing so incidentally to a UnixWare license.

The basic meaning of Section 4.16(b) is also clear. As quoted by the Tenth Circuit, Santa Cruz did “not have the authority to, amend, modify or waive any right under or assign any SVRX License without the prior written consent” of Novell. *SCO Group*, 578 F.3d at 1205, 1219. Section 4.16(b) also provides that Santa Cruz “shall not, and shall have no right to, enter into future licenses or amendments of the SVRX Licenses,” unless it was doing so incidentally to a UnixWare license. (APA § 4.16(b).) This paragraph is necessary to further clarify that Novell retained certain assets and rights under the APA, while Santa Cruz received others.

**Paragraph 11.** Under Section 1.6 of the APA and under the related Technology License Agreement, Novell obtained a license from Santa Cruz of the technology included in the Assets (as defined above) and any derivatives of that technology created by Santa Cruz. These provisions do not grant Novell a license to any of the Excluded Assets (as defined above), which Novell had kept under the APA.

The meaning of Section 1.6 of the APA and the TLA are also clear and not in dispute. Section 1.6 states that Santa Cruz must execute a license agreement which grants Novell a license to all of the technology included in the transferred Assets, and all derivatives of that technology. (Order at 5-6, Dkt. No. 377.) The TLA granted Novell such a license. (*Id.* at 6.) Because the license specifies the “Assets” as defined by Section 1.1, the TLA by definition does not include the “Excluded Assets.” This paragraph is also necessary to clarify the structure of the APA, including which rights Novell transferred and which rights Novell retained.



In addition, in order to accurately instruct the jury regarding its role in interpreting the ambiguous portions of the APA, the Court should include the following principles from the Tenth Circuit's ruling:

**Paragraph 12.** The contractual language of Amendment No. 2, signed on October 16, 1996, as it relates to copyrights, is ambiguous.

**Paragraph 13.** Amendment No. 2 must be considered together with the original Asset Purchase Agreement as a single document.

*SCO Group*, 578 F.3d at 1210-1211. These instructions were proposed by SCO in its initial jury instruction submission. (SCO's Proposed Instruction No. 2, Dkt. No. 743.)<sup>6</sup>

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<sup>6</sup> SCO has since decided it does not want to instruct the jury that Amendment No. 2 is ambiguous. However, under California law "the jury should be instructed which clauses are clear, which are ambiguous." BAJI No. 10.75; *Schmidt v. Macco Constr. Co.*, 119 Cal. App. 2d 717, 734 (Cal. App. 1953) ("only the interpretation of the ambiguous clauses is one of fact, and . . . the jury should be so instructed.").

## V. COPYRIGHT OWNERSHIP

### JOINT PROPOSED INSTRUCTION (SCO NO. 5, NOVELL NO. 8).

[SCO #1: *With respect to who owns the property at issue, and your consideration of the amended Asset Purchase Agreement, you should consider the nature of a copyright.*]

Copyright is the exclusive right to copy. The owner of a copyright has the exclusive right to make and distribute copies of the copyrighted work, to prepare derivative works based upon the copyrighted work, and [SCO #2: *to license the right to use the copyrighted work to other people*]. The owner of a copyright also has the [SCO #3: *exclusive*] right to bring claims in court to enforce the copyright against people who are infringing on the copyright. [SCO #4: *The owner can also license that right to someone else, but only through an express, exclusive license. Such a right cannot be licensed through an implied license.*]

[SCO #5: *A copyright owner therefore is different from an implied or non-exclusive licensee, who cannot bring lawsuits to enforce the copyrights against people who may be violating them.*]

[SCO #6: *When the copyright owner has transferred to a transferee only the right to bring any claims for infringement of the owner's copyrights, and has not transferred the copyrights themselves, the transferee actually is not legally entitled to bring any of the claims for copyright infringement.*]

[Novell #1: *A copyright owner may transfer exclusively to another person any of the rights comprised in the copyright. The person to whom this right is transferred is called a licensee. To be valid, the transfer must be in writing.*]

### **SCO's Argument**

1. Exclusive Right to Enforce Copyrights. SCO's proposed instruction (SCO No. 2) accurately states that the owner of a copyright has the exclusive right to bring suit to enforce the copyrights and that such an exclusive right can be conveyed only through an exclusive license. The right to bring suit to enforce the copyrights is among the exclusive rights of copyright ownership. See Davis v. Blige, 505 F.3d 90, 98 (2d Cir. 2007) (among the "bundle of discrete rights" of copyright ownership is that the "owner may sue for infringement those who exploit the creative work without permission or assignment"); accord 1 Copyright Throughout the World § 19:29 (2009); Copyrights and Copywrongs: The Rise of Intellectual Property and How It

Threatens Creativity, 3 J. High Tech. L. 1 (2003); see also Chirco v. Gateway Oaks, LLC, No. 02-CV-73188, 2005 WL 2284218, at \*6 (E.D. Mich. Aug. 26, 2005) (explaining that if an exclusive licensee lacked standing to bring claims for copyright infringement, “it would be tantamount to holding that copyright law gives such licensees rights without the necessary remedy for a violation of those rights”); 3 Patry on Copyright § 7:2 (2010) (explaining that “copyright is not just a bundle of rights; it is also the ability to enforce those rights”). Accordingly, in proposing to instruct the jury that the owner of a copyright has the exclusive right “to make and distribute copies of the copyrighted work” and “to prepare derivative works based upon the copyrighted work” but omitting that term from its instruction regarding a copyright owner’s right to bring claims, Novell’s proposed instruction is inaccurate.

2. Implied Licensee. SCO No. 4 accurately reflects the well-established law that only an exclusive licensee possesses all of the exclusive rights of copyright ownership, including the right to sue for infringement. 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); see also 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>7</sup>

Accordingly, Novell No. 1 improperly instructs the jury by failing to distinguish between the rights of an exclusive licensee and a non-exclusive licensee regarding the right to bring suits for infringement.

### **Novell’s Argument**

Novell’s proposed language is taken directly from the Ninth Circuit Model Jury Instructions. (*See* Novell’s Reply In Support of Proposed Jury Instructions at 17-18, Dkt. No. 786; Novell’s Supplemental Submission of Model-Based Jury Instructions at 28, Dkt. No. 787.) In addition, as to Novell’s #1, the right to prepare derivative works is one of the six exclusive rights enumerated in the Copyright Act. 17 U.S.C. §106(2) (owner of copyright under this title has the exclusive right to “prepare derivative works based upon the copyrighted work.”). Because this exclusive right is relevant to this case, there can be no objection to the inclusion of this language from the statute and model. (*See* Model Ninth Circuit Jury Instructions §17.1.)

As to Novell’s language at #2, the Copyright Act provides that “any of the exclusive rights comprised in a copyright . . . may be transferred . . . and owned separately. The owner of

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<sup>7</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.

any particular exclusive right is entitled, to the extent of that right, to all of the protection and remedies accorded to the copyright owner by this title.” 17 U.S.C. §201(d)(2). The statute further provides that any transfer of ownership, including to an exclusive licensee, must be in writing. 17 U.S.C. § 204(a). This model instruction therefore accurately reflects the legal principles governing exclusive copyright licensees and should be included. (*See* Model Ninth Circuit Jury Instructions §17.11.)

In contrast, SCO’s proposed language has no basis in statute or model. Specifically, as to SCO’s #1, it is unnecessary to direct the jury to consider “the nature of a copyright” in connection with the ownership issue and the APA. The relevance of this instruction is self-evident. SCO’s #2 and #3 are simply wrong, and reflect SCO’s overreaching in order to emphasize the word “exclusive” at every possible opportunity. The right to license and the right to bring claims in court are not “exclusive” rights enumerated in 17 U.S.C. §106, and the jury should not be instructed otherwise.

SCO’s language at #4 incorrectly states that a license to bring claims in court must be “express” and should be omitted on this ground. *See Papa’s-June Music, Inc. v. McLean*, 921 F. Supp. 1154, 1159 (S.D.N.Y. 1996) (“it is not required that the writing explicitly mention ‘copyright’ or ‘exclusive rights’”). SCO’s #5 is redundant, as the jury will already have been instructed that the owner of a copyright has the “right to bring claims in court to enforce the copyright against people who are infringing on the copyright.” SCO’s #6 is both redundant and confusing. The undefined term “transferee” is confusing, and it is also confusing to explain that a copyright owner may transfer a right yet the transferee may not actually legally receive that right under a particular scenario not relevant here.

Through its #3, #4, #5, and #6, SCO is essentially asking the Court to instruct the jury four times in a row, and in increasingly confusing language, that only a copyright owner or exclusive licensee may bring copyright infringement claims. SCO's request should be denied.

## VI. ELEMENT #3: CONSTITUTIONAL MALICE

### JOINT PROPOSED INSTRUCTION (SCO NO. 6, NOVELL NO. 5)

The third element is whether the [SCO: *plaintiff*] [Novell: *claimant*] has shown by clear and convincing evidence that the [SCO: *defendant*] [Novell: *party accused of slander*] published its statement with knowledge that it was false, or else was acting in reckless disregard of whether its statement was false, which means that the [SCO: *defendant*] [Novell: *party accused of slander*] acted with a high degree of awareness of the probable falsity of that statement, or that, at the time the statement was published, the [SCO: *defendant*] [Novell: *party accused of slander*] had serious doubts that the statement was true, [SCO #1: *but went ahead and published the statement anyway*]. Clear and convincing evidence leaves no substantial doubt in your mind that the constitutional malice is highly probable.

[Novell #1: *Moreover, if there was an objectively reasonable basis for the statement when it was published, then this element is not satisfied, even if the person making the statement did not believe it was true when he or she made it.*]

[Novell #2: *Corporations can only act through the individual people who represent them. So to show that a corporation acted with constitutional malice, what must be proven is that some particular person, acting for the corporation, published a defamatory statement that he or she knew was false, or with reckless disregard for its truth or falsity.*]

[Novell #3: *The mere fact that a mistake may occur does not evidence knowing falsehood or reckless disregard for the truth. Reckless disregard for the truth or falsity requires a finding that the person making the statement had a high degree of awareness that the statement was probably false, but went ahead and published the statement anyway.*] In determining whether a statement was published with knowledge of its falsity or reckless disregard for its truth, you should take into account all the facts and circumstances.

[Novell #4: *You must not confuse “constitutional malice,” as I have defined it here, with more common definitions of malice, such as ill will or hatred. Hostility, disapproval or other forms of ill will do not as such establish constitutional malice.*]

[Novell #5: *Clear and convincing evidence is a more exacting standard than proof by a preponderance of the evidence, which only requires you to believe that a party’s claim is more likely true than not true. ]*

[Novell #6: *Unless you find by clear and convincing evidence, under all the circumstances, that a particular person representing the corporation published a statement knowing the statement to be false or with a high degree of awareness of its probable falsity, there can be no liability.*]

### **SCO’s Argument**

1. Corporate Malice (Novell Nos. 2 and 6). SCO does not believe that there is any need for an instruction regarding corporations beyond the standard instruction enumerated in

MUJI 25.1 (“Corporation Acts Through Its Agents”) or the Court’s stock instructions. If the Court feels otherwise, SCO would submit a proposed instruction that accurately reflects the prevailing law, as detailed below.

In addition to being unnecessary, Novell’s proposed instruction does not reflect the prevailing law.<sup>8</sup> In In re WorldCom Inc. Securities Litigation, 352 F. Supp. 2d 472 (S.D.N.Y. 2005), the court flatly rejected the same claim underlying Novell’s proposed instruction – that scienter had to be alleged with respect to a particular employee:

“To carry their burden of showing that a corporate defendant acted with scienter, plaintiffs in securities fraud cases need not prove that any one individual employee of a corporate defendant also acted with scienter. Proof of a corporation’s collective knowledge and intent is sufficient.”

Id. at 497 (emphasis added). The court “swiftly rejected” the defendant’s “argument that the lead plaintiff must show that at least a single [defendant] employee acted with the requisite scienter” because the “plaintiff is entitled to show reckless misconduct through a cumulative pattern of decisions and inaction by several” of defendant company’s employees. Id. at 499-500.

Under the collective knowledge doctrine, a corporation’s knowledge is the sum of the knowledge of all its employees. See Inland Freight Lines v. United States, 191 F.2d 313, 315-16 (10th Cir. 1951) (upholding collective knowledge instruction); United States v. Bank of New Eng., 821 F.2d 844, 855 (1st Cir. 1987) (same). In Bank of New England, the court held that

“a corporation cannot plead innocence by asserting that the information obtained by several employees was not acquired by any one individual who then would have comprehended its full import. Rather the corporation is considered to have acquired the collective knowledge of its employees and is held responsible for their failure to act accordingly. Since the Bank had the

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<sup>8</sup> SCO also objects to Novell’s proposal to duplicate its erroneous instruction. (See Novell Nos. 2 and 6.)



compartmentalized structure-common to all large corporations, the court's collective knowledge instruction was not only proper but necessary."

821 F.2d at 855.

Similarly, in Teamsters Local 445 Freight Division Pension Fund v. Dynex Capital, Inc., the Second Circuit held that "it is possible to raise the required inference [of scienter] with regard to a corporate defendant without doing so with regard to a specific individual defendant." 531 F.3d 190, 195 (2d Cir. 2008); see also Caterpillar, Inc. v. Great Am. Ins. Co., 62 F.3d 955, 962 (7th Cir.1995) (noting that there are situations where individual actors would not be liable but their corporate employer would be, for example "where a case depends on the collective scienter of its employees"); In re Dynex Capital Inc. Sec. Litig., No. 05 Civ. 1897 (HB), 2006 WL 314524, at \*9-\*10 (S.D.N.Y. Feb. 10, 2006) (a "plaintiff may, and in this case has, alleged scienter on the part of a corporate defendant without pleading scienter against any particular employees of the corporation"); U.S. v. Science Applications Intern. Corp., 653 F. Supp. 2d 87, 99 (D.D.C. 2009) ("it is both appropriate and equitable to conclude that a company's fraudulent intent may be inferred from all of the circumstantial evidence including the company's collective knowledge").

Novell's cases are inapposite because they do not concern slanderous statements made through group-published statements on behalf of a company, as SCO has alleged. Indeed, the Tenth Circuit expressly held that "[i]dentifying the individual sources of statements is unnecessary when the fraud allegations arise from misstatements or omissions in group-published documents such as annual reports, which presumably involve collective actions of corporate directors or officers." Schwartz v. Celestial Seasonings, 124 F.3d 1246, 1254 (10th Cir. 1997). Judge Posner reached the same conclusion in Makor Issues & Rights, Ltd. v. Tellabs Inc., 513 F.3d 702 (7th Cir. 2008), holding that the law looks "to the state of mind of the

individual corporate official or officials who make or issue the statement (or order or approve it or its making or issuance, or who furnish information or language for inclusion therein, or the like)” to assess corporate scienter. Id. at 710 (emphasis added).

2. Novell’s proposed instructions No. 5 and 6 are unnecessary and unduly prejudicial. There is no need to repeat the burden of proof in the final paragraph, which serves only to underscore the claimant’s particular burden of proof under this standard. SCO’s Proposed Instruction proposes a simpler, accurate instruction that properly defines the plaintiff’s burden of proof and does not repeat or unduly emphasize that burden.

3. Objective Reasonableness. In rejecting Novell’s repeated attempts improperly to rely on Judge Kimball’s findings that Novell’s reading of the APA was not objectively unreasonable, this Court held that such “findings” were made in the context of SCO’s claims for unfair competition and breach of covenant of good faith and do not relate to SCO’s claim for slander of title. (See, e.g., Docket No. 763 at 3.) Novell’s proposed instruction repeats the same mistake of conflating the standards and elements of a breach of covenant of good faith claim and a slander of title claim.

Moreover, the cases Novell cites in support of an “objective reasonableness” standard consider such a standard only under specific conditions not at issue here. Far from having “endorsed” or “applied” an “objective reasonableness” standard, in Ball Corp. v. Xidex Corp., 967 F.2d 1440 (10th Cir. 1992), the Tenth Circuit expressly declined to hold whether the proper standard for statements supporting tort claims was “actual malice” or “objective reasonableness.” Id., 967 F.2d at 1446, n.6 (finding facts were “incompatible” with “the lowest standards of intent” urged by either party and expressly stating that the Court “need not reach the question . . . of whether recklessness or gross negligence would be the proper standards for liability in the

PTO setting”). The Lanham Act claims that were the basis for the Court’s ruling in Dial One of the Mid-South Inc. v. Bellsouth Telecommunications, Inc., 269 F.3d 523 (5th Cir. 2001) also do not support the application of a lower standard in that case. In Dial One, the Fifth Circuit expressly held that the Lanham Act’s use of the term “innocent infringer” applied an “objective reasonableness” standard because “there is no constitutional mandate to protect this type of speech” under the actual malice standard. Id., 269 F.3d at 526 (also rejecting argument that the floor statements of “a single member of Congress” who urged imposing the “actual malice” standard into the Lanham Act). Novell’s use of a concurring opinion in Rogers v. United States, 422 U.S. 35, 47 (Marshall, J., concurring) demonstrates only that two justices of the Supreme Court believed that an objective reasonableness standard should apply to speech in violation of the ‘threats against the President’ statute, 18 U.S.C. 1871(a). Finally, Novell’s reliance on a case interpreting the Noerr-Pennington doctrine is unwarranted, where the court expressly held that an objective reasonableness standard was proper in defining “sham litigation” under Noerr-Pennington because that doctrine expressly protects “a concentrated effort to influence public officials regardless of intent or purpose.” None of the foregoing cases applies to SCO’s claims.

### **Novell’s Argument**

Novell’s paragraph at # 1 states the principle that reckless disregard for the truth is a higher standard than negligence (or even gross negligence), and thus a finding that a statement is objectively reasonable precludes a finding of “reckless disregard” or constitutional malice. The Tenth Circuit endorsed this principle by holding that “actual malice” (i.e., “knowledge of falsehood or reckless disregard for the truth) is a “higher standard” than “recklessness or gross negligence.” Ball Corp. v. Xidex Corp., 967 F.2d 1440, 1445 (10th Cir. 1992). The Tenth

Circuit applied this principle by holding that a finding that there was a “reasonable basis” for an allegedly tortious statement “is incompatible with a finding of recklessness or gross negligence as to the truth.” *Id.*; see also *Dial One of the Mid-South, Inc. v. BellSouth Telecommunications, Inc.*, 269 F.3d 523, 526-27 (5th Cir. 2001) (“lesser standard” of “objective reasonableness” should apply to Lanham Act claims directed against statements that are not of “public concern,” because there is “no constitutional mandate to protect this type of speech under the heightened actual malice standard”) (emphasis added); cf. *Rogers v. United States*, 422 U.S. 35, 47 (1975) (“objective interpretation embodies a negligence standard . . . . we should be particularly wary of adopting such a standard for a statute that regulates pure speech”). The conclusion that objective reasonableness precludes a finding of constitutional malice is also supported by the principle that “an objectively reasonable effort to litigate cannot be sham regardless of subjective intent.” See *Professional Real Estate Inv., Inc. v. Columbia Pictures Ind., Inc.*, 508 U.S. 49, 57, 113 S. Ct. 1920 (1993). Although this principle has been articulated in the context of the First Amendment right to petition under the Noerr-Pennington doctrine, the same principle should apply in the context of the “constitutional malice” standard since it protects similar First Amendment rights.

Novell's paragraph at # 2 is an instruction on a legal principle not incorporated in the model instruction because the model contemplates an individual, rather than a corporate defendant. To establish corporate liability for a tort requiring a culpable state of mind—i.e., recklessness, knowledge, or intent, rather than mere negligence—it is necessary to show that some one person acting in the corporation's behalf had the culpable state of mind. It is not enough, e.g., that one corporate representative published a statement that another corporate representative knew to be false. The principle is recognized in *Woodmont, Inc. v. Daniels*, 274 F.2d 132, 137 (10th Cir. 1959) (“while in some cases, a corporation may be held constructively

responsible for the composite knowledge of all of its agents, whether acting in unison or not, we are unwilling to apply the rule to fix liability where, as here, intent is an essential ingredient of tort liability”) and numerous other cases. *See, e.g., Matrix Capital Management Fund v. BearingPoint*, 576 F.3d 172, 182 (4th Cir. 2009) (“To the extent a plaintiff alleges corporate fraud, the plaintiff ‘must allege facts that support a strong inference of scienter with respect to at least one authorized agent of the corporation.’”); *Teamsters Local 445 v. Dynex Capital, Inc.*, 531 F.3d 190, 195 (2d Cir. 2008) (“To prove liability against a corporation, of course, a plaintiff must prove that an agent of the corporation committed a culpable act with the requisite scienter, and that the act (and accompanying mental state) are attributable to the corporation.”); *Makor Issues & Rights, Ltd. v. Tellabs Inc.*, 513 F.3d 702, 708 (7th Cir. 2008) (“To establish corporate liability for a violation of Rule 10b-5 requires ‘look[ing] to the state of mind of the individual corporate official or officials who make or issue the statement (or order or approve it or its making or issuance, or who furnish information or language for inclusion therein, or the like) rather than generally to the collective knowledge of all the corporation's officers and employees acquired in the course of their employment.’”) (*quoting Southland Securities Corp. v. INSpire Ins. Solutions, Inc.*, 365 F.3d 353, 366 (5th Cir. 2004)); *Nordstrom, Inc. v. Chubb & Son, Inc.*, 54 F.3d 1424, 1435 (9th Cir. 1995) (“there is no case law supporting an independent ‘collective scienter’ theory”).

As to Novell’s language at # 3, these sentences are an exact copy of the Model and are based on Supreme Court precedent. MUJI – Civil 10.7; *Harte-Hanks Communications, Inc. v. Connaughton*, 491 U.S. 657, 667 (1989) (“And although the concept of ‘reckless disregard’ ‘cannot be fully encompassed in one infallible definition,’ *St. Amant v. Thompson*, 390 U.S. 727, 730, 88 S.Ct. 1323, 1325, 20 L.Ed.2d 262 (1968), we have made clear that the defendant must

have made the false publication with a ‘high degree of awareness of ... probable falsity,’ *Garrison v. Louisiana*, 379 U.S. 64, 74 (1964).”).

Novell’s paragraph at # 4 provides an essential clarification distinguishing “malice” from “constitutional malice.”<sup>9</sup> The ordinary meaning of “malice” is reflected in the common law “malice” standard, and suggests that the defendant was motivated by spite or ill will. In contrast the “constitutional malice” inquiry focuses not on the speaker’s motivation, but on the speaker’s knowledge of the truth or falsity of the statement.

Recognizing that confusion is likely, two Supreme Court cases suggest that the best practice is to avoid use of the term “actual malice,” and to instruct the jury accordingly. *See Masson v. New Yorker Magazine, Inc.*, 501 U.S. 496, 510-11 (1991) (“Actual malice under the New York Times standard should not be confused with the concept of malice as an evil intent or a motive arising from spite or ill will .... In place of the term actual malice, it is better practice that jury instructions refer to publication of a statement with knowledge of falsity or reckless disregard as to truth or falsity.”) (citations omitted); *Harte-Hanks Commc'ns, Inc. v. Connaughton*, 491 U.S. 657, 665-668, n.7 (1989) (“The phrase ‘actual malice’ is unfortunately confusing in that it has nothing to do with bad motive or ill will. By instructing the jury ‘in plain English’ at appropriate times during the course of the trial concerning the not-so-plain meaning of this phrase, the trial judge can help ensure that the New York Times standard is properly applied.”). Other courts agree. *See, e.g., Westmoreland v. CBS Inc.*, 596 F. Supp. 1170, 1172-1173, n.1 (S.D.N.Y.1984) (suggesting that jury confusion can be minimized if a less confusing

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<sup>9</sup> “Constitutional malice,” the term Novell and SCO have agreed to use instead of “actual malice,” emphasizes that the applicable standard differs from what jurors might think of as ordinary, or actual, “malice,” while still linking it to the third element of a claim for slander of title, which uses the term “malice.” But this solution only partly remedies the confusion.

phrase, such as ‘state-of-mind,’ ‘deliberate or reckless falsity,’ or ‘constitutional limitation’ is used in the jury’s presence) (citations omitted).

Novell’s paragraph at # 4 is in accordance with not only Supreme Court law, but also with the Model instructions. *See* MUJI – Civil 10.7 (“Knowing falsehood or reckless disregard as to the truth or falsity does not require a finding of spite, ill will, hatred, bad faith, evil purpose or intent to harm”).

Novell’s paragraph at # 5 explains the “clear and convincing evidence” standard to the jury. This proposal presents a standard that is adapted from the Modern Federal Jury Instructions. *See* 4 Modern Federal Jury Instructions: Civil § P 73.03. This, or a similar instruction, must be included in any instruction on constitutional malice. *See Addington v. Texas*, 441 US. 418, 432-33 (1979) (“To meet due process demands, the standard has to inform the factfinder that the proof must be greater than the preponderance-of-the-evidence standard applicable to other categories of civil cases.”)

Novell’s paragraph at # 6 is substantially similar to the Model instructions. *See* MUJI – Civil 10.7. The only difference between the two is the distinction between statements made by corporations and individuals that Novell requests at # 2.

SCO’s proposed language at # 1 is superfluous and confusing. The language is superfluous because Novell’s proposed language at # 3 contains the complete sentence provided under the Model. *See* MUJI – Civil 10.7. SCO’s proposal removes a sentence fragment and confusingly inserts it into the basic elements of “constitutional malice.” There is no need to clutter the already lengthy introductory description of “constitutional malice” with superfluous language that is better placed elsewhere. *See* Novell’s proposed language at # 3.

## VII. PRIVILEGES (AND ABUSE OF PRIVILEGES)

### JOINT PROPOSED INSTRUCTION (SCO NO. 7: Privileges and Abuse of Privileges; NOVELL NO. 4: Unprivileged Publication.)

A [SCO: *defendant to a claim for slander of title*] [Novell: *party accused of making a statement slandering another's title*] may assert what are called “privileges” to have made the statements at issue. If a privilege applied when a statement was published, and the publisher of the statement has not abused the privilege, then the publisher cannot be held liable for making the statement.

[SCO #1: *There are several privileges which may be applicable. The defendant has the burden of proving that a privilege applies. If you find that a privilege applies, the plaintiff has the burden of proving that it was abused.*]

[Novell #1: *Each of the privileges mentioned below apply in this case. You must decide whether each was abused.*] [Novell #2: *The claimant has the burden of proving both that each privilege does not apply and, if any privilege applies, that it was abused.*]

One privilege is the “rival claim” privilege, which permits [SCO #2: *a rival claimant to disparage another's property by asserting an inconsistent legally protected interest in itself*] [Novell #3: *rivals to publish competing claims to the same property*] if the statement is made honestly and in good faith. [Novell #4: *This privilege is abused if the person making the statement believes the statement is false.*]

Another privilege is the “recipient's interest” privilege, which permits a party to publish slanderous statements that affect a legitimate interest of the recipient or audience where the recipient is one to whom the publisher is under a legal duty to publish the matter or is a person to whom its publication is otherwise within the generally accepted standards of decent conduct. A legitimate interest may be, for example, a business interest, a financial interest, or a property interest. [SCO #3: *In order to find that this privilege applies, you must conclude that the defendant was under a legal duty to publish its statements to the public or conclude that its publications of its statement to the public was within the generally accepted standards of decent conduct.*] [Novell #4: *This privilege is abused if the person making the statement is motivated solely by hatred, spite, or ill will toward the party claiming slander.*]

[SCO #4: *A defendant abuses these privileges where it published the disparaging statement with malice or in bad faith. A defendant has acted with malice when it published its statement because of hatred, spite, or ill will toward the plaintiff. You may infer that a defendant has acted with malice when the defendant knowingly and wrongfully records or publishes something untrue or spurious or which gives a false or misleading impression adverse to the plaintiff's title under circumstances that it should reasonably foresee might result in damage to the plaintiff.*]



### **Statement of Issues**

With respect to this instruction, there are three points of disagreement. The first is whether the application of a privilege will be decided as a matter of law, by the Court; or as a matter of fact, by the jury. The Court has ruled that the applicability of privilege is an issue of fact, for the jury. Unless the Court reverses that ruling, SCO #2 should be used and Novell #1 rejected. If the Court reverses its prior ruling, Novell #1 should be used, and SCO #1 and Novell #2 rejected.

The second point of disagreement is who bears the burden of proving that a privilege applies, if that determination is to be made by the jury. If the Court decides that Novell bears that burden then SCO #1 should be used and Novell #2 rejected. If the Court decides that SCO bears that burden then Novell #2 should be used and SCO #1 rejected.

The third point of disagreement concerns the standards for determining whether the privileges have been abused. If the Court decides that SCO has correctly articulated the standard of abuse, then SCO #3 should be used and Novell #3 and #4 rejected. If the Court decides that Novell has correctly articulated the standards then Novell #3 and #4 should be used and SCO #3 rejected.

### **SCO's Argument**

SCO's Proposed Instruction properly identifies the burden of proof; accurately describes the scope of the privileges at issue; and fully identifies the grounds on which a privilege may be abused.

1. The Court's Prior Ruling Regarding Privileges. The Court has already ruled that the applicability of privilege is an issue of fact for the jury.

2. Burden of Proof. It is not accurate to say that the plaintiff has the burden of proving that the defendant's statements are not privileged. In this trial, where the Court has determined that the jury must determine whether the privileges apply, the defendant has the burden of proving that the privilege applies. See Ferguson v. Williams & Hunt, Inc., 221 P.3d 205, 212 (Utah 2009).

The fact is that across jurisdictions, the defendant bears the burden of proving that a privilege applies to a defamatory statement. See, e.g., Sawheny v. Pioneer Hi-Bred Int'l, Inc., 93 F.3d 1401, 1410 (8th Cir. 1996) (Iowa law); Keenan v. Computer Assocs. Int'l, Inc., 13 F.3d 1266, 1269-70 (8th Cir. 1994) (Minnesota law); Esmark Apparel, Inc. v. James, 10 F.3d 1156, 1161 (5th Cir. 1994) (Mississippi law); Elbanna v. Captain D's, LLC, No. 3:07-cv-926-J-32MCR, 2009 WL 435051, at \*14 (M.D. Fla. Feb. 17, 2009) (Florida law); Dealer Computer Servs., Inc. v. Fullers' White Mountain Motors, Inc., No. CV07-00748-PCT-JAT, 2008 WL 462448, at \*8 (D. Ariz. Oct. 17, 2008) (Arizona law); Gordon v. Dalrymple, No. 3:07-CV-00085-LRH-RAM, 2008 WL 2782914, at \*5 (D. Nev. July 8, 2008) (Nevada law); Emiabata v. Marten Transport, Ltd., 574 F. Supp. 2d 912, 919 (W.D. Wis. 2007) (Wisconsin law); Jackson v. Kan. County Ass'n Multiline Pool, No. 03-4181-JAR, 2006 WL 963838, at \*23 (D. Kan. Apr. 10, 2006) (Kansas law); Stevens v. Target Stores, No. 96 C 2291, 1997 WL 779090, at \*7 n.31 (N.D. Ill. Dec. 11, 1997) (Illinois law); Zeevi v. Union Bank of Switzerland, No. 89 Civ. 4637 (MGC), 1992 WL 8347, at \*5 (S.D.N.Y. Jan. 1992) (New York law).

3. Rival Claimant's Privilege. 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”). SCO thus disputes Novell’s proposal to have an instruction that states that the rival claimant’s privilege is abused only “if the person making the statement believes the statement is false.” 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 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.

4. Recipient’s Interest Privilege. The recipient’s interest privilege applies only if the defendant is under a “legal duty” to the recipient to publish the statement or whether the defendant’s publication is consistent with generally accepted standards of “decent conduct.” O’Connor v. Burningham, 165 P.3d 1214, 1224 (Utah 2007). In addition, 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.” The jury should be so instructed.

5. Abuse of Privileges. SCO disputes Novell’s proposal 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>10</sup>

### **Novell’s Argument**

#### **i. Claimant Has the Burden of Proof**

SCO #1 incorrectly instructs that “[t]he defendant has the burden of proving that a privilege applies.” There is no burden of proof before the jury with respect to whether a privilege applies because “[w]hether a statement is entitled to the protection of a conditional privilege presents a question of law.” *O’Connor v. Burningham*, 165 P.3d 1214, 1224 (Utah 2007). The question for the jury is “whether the holder of the privilege lost it due to abuse[, which] presents a question of fact.” *Id.* Thus, Novell #1 accurately states the law by only presenting to the jury the factual question of abuse of the privileges.

If the Court decides that the jury should determine the legal question of whether the privilege applies, then the burden should be on the plaintiff to show that a privilege does not apply because “[t]o state a claim for defamation, [the plaintiff] must show . . . that the statements were . . . not subject to any privilege.” *Thomson Newspapers*, 872 P.2d at 1007–08; *see also Dowse v. Doris Trust Co.*, 208 P.2d 956, 958–59 (Utah 1949) (claim for slander of title must

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<sup>10</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.

show slanderous statement were made “without privilege”); *Brehany v. Nordstrom, Inc.*, 812 P.2d 49, 58 (Utah 1991) (“If a qualified privilege exists, the burden is on the plaintiff to prove that the privilege was abused”); *Stockton Newspapers, Inc. v. Super. Ct.*, 206 Cal. App. 3d 966, 976, 254 Cal. Rptr. 389 (1988) (“A libel is a ‘false and unprivileged publication. . . .’ (§ 45.) By this definition, the absence of a privilege is an element of the tort. A claim of privilege thus constitutes a direct attack upon the tort.”), *disapproved on other grounds, Brown v. Kelly Broad. Co.*, 771 P.2d 406 (Cal. 1989).

SCO cites *Ferguson v. Williams & Hunt, Inc.*, 221 P.3d 205, 212 (Utah 2009), for the proposition that “the defendant has the burden of proving that the privilege applies.” (SCO’s Obj. at 12, Dkt. No. 772.) However, in *Ferguson*, “[t]he trial court determined that Defendants . . . had a conditional or qualified privilege” after which “the burden . . . shifted from defendant to plaintiff.” 221 P.3d at 212 (emphasis added). Importantly, after the trial court determined that defendant’s statements were privileged, the trial court directed the verdict because the plaintiff failed to bring forward any evidence to the jury that the defendant lost the privilege through abuse. *Id.* at 211. Therefore, *Ferguson* supports Novell #1 by showing that application of a privilege is a legal determination for the court a whether the defendant lost the privilege through abuse is the only factual question for the jury.<sup>11</sup>

## ii. SCO’s Instruction Uses Confusing Language

SCO’s proposed instruction #1 on the rival claimant’s privilege clouds the application of this privilege in complex terms and legalese, using terms such as “disparage” and “inconsistent

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<sup>11</sup> Whether Novell owed a duty to publish its statements to the public is not an issue and using instructional language regarding legal duties only serves to confuse the jury. SCO #2 uses the term “legal duty”, which may confuse the jury in application of the privilege. Thus, if the Court determines that the application of privileges is a question for the jury, Novell asks that reference to a “legal duty” be omitted from SCO #2

legally protected interest.” See Model Utah Jury Instructions 2d, Introduction (2d ed. 2010) (“accuracy is meaningless if the statement is not understood – or is misunderstood – by jurors”). Moreover, use of the phrase “legally protected interest” is ambiguous: it might mean (or be understood) to require that only a claimant who actually has a legally protected interest, as opposed to a party that honestly believes it has such an interest, can assert the privilege. Novell #3 is clearly worded to avoid these pitfalls and so that the jury can understand the concept of the rival claimant’s privilege. Novell #3 should be used instead.

**iii. The Rival Claimant’s Privilege is Abused If the Publisher Believes the Statement is False.**

Novell #3 is based in the Restatement (Second) of Torts § 647 teaching that the rival claimant’s privilege “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, even though his belief is neither correct nor reasonable.” Restatement (Second) of Torts § 647 cmt. b (2009). The Restatement goes on to explain that

a rival claimant is privileged to assert the inconsistent interest unless a trier of fact is persuaded that he did not believe in the possible validity of his claim. It is not necessary that the person asserting the claim should believe in its certain or even probable validity. It is enough if he believes in good faith that there is a substantial chance of its being sustained.

Restatement (Second) of Torts § 647 cmt. d (2009). This privilege is abused “only when the claimant does not believe honestly or in good faith that there is a substantial chance of his claim being sustained.” Restatement (Second) Torts § 650A cmt. b (2009). Contrary to SCO #3, the rival claimant privilege is not abused through ill will or spite as long as the claimant believes in the legitimacy of the claim to property.

**iv. SCO's Instructions Fail to Distinguish Between Abuse of the Recipient's Interest Privilege and Abuse of the Rival Claimant's Privilege.**

Novell #4 correctly states that the rival claimant's privilege is abused only when the claimant does not, in good faith, believe his claim. SCO #3 incorrectly states that the rival claimant's privilege may be abused through ill will. Also, Novell #4 correctly states that the recipient's interest privilege is abused when made "solely out of spite or ill will." This is in accordance with the Restatement which says

a publication of defamatory matter upon an occasion giving rise to a privilege, if made solely from spite or ill will, is an abuse and not a use of the privilege. However, if the publication is made for the purpose of protecting the interest in question, the fact that the publication is inspired in part by resentment or indignation at the supposed misconduct of the person defamed does not constitute an abuse of the privilege.

Restatement (Second) of Torts § 603 cmt. a. The Utah Supreme Court praised the Restatement's teachings on privileges as "enjoy[ing] close ties to common sense and ... [as] worthy of our confidence." *O'Connor*, 2007 UT 58, ¶ 37, 165 P.3d at 1224 ("Although we have not yet had occasion to formally adopt all the potential means to abuse the privilege cited in the Restatement, they all enjoy close ties to common sense and thus appear worthy of our confidence").

Lastly, SCO #4 incorrectly proposes a single abuse standard for both the recipient's and the rival claimant's privilege (rather than recognizing that different standards apply). SCO #4 also incorrectly states that the malice necessary for abuse of the recipient's interest privilege may be inferred. It is only the malice necessary for a prima facie slander of title case that may be inferred. See *First Sec. Bank of Utah, N.A. v. Banberry Crossing*, 780 P.2d 1253, 1257 (Utah 1989) ("Malice may be implied where a party knowingly and wrongfully records or publishes something untrue or spurious or which gives a false or misleading impression adverse to one's

title under circumstances that it should reasonably foresee might result in damage to the owner of the property." ). The malice necessary for abuse of a privilege is separate from the malice for a prima facie case and may not be inferred but must rather be proven. *See Brehany v. Nordstrom*, 812 P.2d 49, 58 ("The malice required to rebut the qualified privilege of defamation law is distinct from the malice imputed in all defamatory statements."); *Combes v. Montgomery Ward & Co.*, 119 Utah 407 (1951) ("[M]alice . . . which overcomes and destroys the privilege, is, of course, quite distinct from that which the law . . . imputes with respect to every defamatory charge, irrespective of motive. . . . Where the conditional privilege exists, the defendant is protected unless plaintiff pleads and *proves* facts which indicate actual malice in that the utterances were made from spite, ill will or hatred toward him.") (emphasis added).



## VIII. SPECIAL DAMAGES

### *SCO DISPUTED INSTRUCTION NO. 8: “ELEMENT #4: SPECIAL DAMAGES”*

The final element of a claim for slander of title is that the defendant’s statements have caused the plaintiff to suffer “special damages.”

A defendant’s conduct has “caused” the plaintiff’s damages where the defendant’s conduct was a substantial factor in causing such damages. 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.

The special damage rule requires the party claiming slander to establish economic loss that has been realized or liquidated, such as specific lost sales. Damages are ordinarily proved in a slander of title action by evidence of a lost sale or the loss of some other economic advantage. Absent a specific monetary loss flowing from a slander affecting the saleability or use of the property, there are no special damages.

When a communication is made at the same time to persons who are within the defendant’s 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 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.

Plaintiff’s economic loss may be established by proof that the loss has resulted from the conduct of a number of persons whom it is impossible specifically to identify.

To decide the amount of damages for lost profits, you must determine the gross amount that would have been received but for the slander of title and then subtract from that amount the expenses that would have been incurred if the slander had not occurred.

A plaintiff must prove it is reasonably certain that it would have earned profits but for the defendant’s conduct. The amount of the lost profits need not be calculated with mathematical precision, but there must be a reasonable basis for computing the loss.

**NOVELL DISPUTED INSTRUCTION NO. 6: “ELEMENT #4: SPECIAL DAMAGES”**

The final element of a claim for slander of title is that the publication caused the claimant to suffer “special damages.” The special damage rule requires the party claiming slander to establish economic loss that has been realized or liquidated, such as specific lost sales, as a direct and immediate result from the slander. Absent a specific monetary loss flowing from a slander affecting the saleability or use of the property, there are no special damages.

The burden is on the party claiming slander of title to establish that the harm complained of resulted from the false statement and not from other factors. In other words, the party claiming slander must show that if not for the false statement, it would not have suffered any harm.

If you award damages, you may only award those damages which flow from the unprivileged publication of statements slandering title. You may not award damages that have occurred as a result of any other actions, including any privileged publications.

When it is impossible to identify specific purchasers, what must be proven is that sales were lost, and that other possible causes for those lost sales have been eliminated.

To decide the amount of damages for lost profits, you must determine the gross amount that would have been received but for the slander of title and then subtract from that amount the expenses that would have been incurred if the slander had not occurred.

A claimant must prove it is reasonably certain that it would have earned profits but for the slander of title. The amount of the lost profits need not be calculated with mathematical precision, but there must be a reasonable basis for computing the loss.

A decline in stock price is not special damages and should not be considered or included in any award you make.

**SCO’s Argument**

1. **Substantial Factor.** 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.

2. Severability. Novell proposes to instruct the jury that “may only award those damages which flow from the unprivileged publication of statements slandering title. You may not award damages that have occurred as a result of any other actions, including any privileged publications.” 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 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.

4. Stock Price Decline. Novell No. 5 is completely unnecessary. SCO has not presented any theory of damages under which it is seeking to recover for a decline in stock price.

### **Novell's Argument**

#### **(i) Special Damages Are Defined As a Direct and Immediate Result of the Slander**

The first substantive disagreement is in the first paragraph and relates to whether special damages rule requires that the party claiming slander of title establish economic loss as a “direct and immediate result” of the slander. Such language is essential to the definition of special damages. This Court has already ruled that SCO must prove that Novell’s actions “were the ‘direct and immediate’ cause of those lost sales.” This Court has held that it is also key to the parties’ dispute:

The disagreement here is . . . whether Defendant’s actions were the “**direct and immediate**” cause of those lost sales and whether those lost sales alleged by Plaintiff are “realized and liquidated”.

(Order on Mot. for Summ. J. on Failure to Establish Special Damages at 11-12, Dkt. No. 621 (emphasis added).) SCO agrees to the remainder of the language in Novell’s first paragraph—which states that such losses should be realized and liquidated and that there are no special damages absent a specific monetary loss flowing from the slander affecting the saleability of property—but would rather obscure such language in the third paragraph of their instruction. Novell believes that this language is inherent in the definition of special damages and the jury should be presented with it in the first paragraph.

#### **(ii) SCO’s Instruction Incorrectly Applies the Substantial Factor Test, Whereas Utah Courts Apply the But-For Test**

SCO contends that the “substantial factor” test of Restatement (Second) of Torts § 632 applies, but does not cite to a single Utah case in support of its assertion. This is because it cannot. The Utah Supreme Court has held that “slander of title is based on a wrongful act **but for** which the plaintiff would not have had to incur any expense.” *Dowse v. Doris Trust Co.*, 208 P.2d 956, 959 (Utah 1949) (emphasis added). Novell’s proposed instruction correctly informs the jury that the party claiming slander must establish that the harm resulted from the false statement “and not from other factors.”<sup>12</sup>

For the sake of argument, even if Utah courts did apply the Restatement to causation of special damages, § 633 of the Restatement (Second) of Torts teaches that the but-for test applies to SCO’s fact pattern. Restatement (Second) of Torts § 633 cmt. h<sup>13</sup> (2010). As shown in

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<sup>12</sup> For clarity, Novell #2 takes language from *Dowse v. Doris Trust Co.*, 208 P.2d 956, 959 (Utah 1949) and substitutes “if not for” in place of the technical term “but for.”

<sup>13</sup> In full, with emphasis added:

Widely disseminated injurious falsehood may, however, cause serious and genuine pecuniary loss by affecting the conduct of a number of persons whom the plaintiff is unable to identify and so depriving him of a market that he would otherwise have found. When this can be shown with reasonable certainty, the rule requiring the identification of specific purchasers is relaxed and recovery is permitted for the loss of the market. As in analogous cases involving the loss of profits of an established business, as the result of other torts or of breach of contract, this may be proved by circumstantial evidence showing that the loss has in fact occurred, and **eliminating other causes**.

Thus a tradesman whose goods are denounced by a newspaper as adulterated can prove the pecuniary loss necessary to recovery by showing that after the publication the sales of his goods, theretofore constant or increasing, have fallen off and **by eliminating all other reasonably likely causes**, such as new competition, a general decline in the market for such goods or defects in the goods themselves. So likewise, when a real estate development company is prevented from selling a particular lot of land by wide publication of the statement that its title to that lot is defective, it may be able to establish its loss by showing that similar lots held for sale by the company and its competitors were readily marketable, and **by eliminating other explanations**. Whether particular evidence of this kind is sufficient to sustain the plaintiff’s burden of proof as to his loss is a question of fact and is not within the scope of this Restatement.

SCO's proposal, SCO will attempt to show that economic loss may be established by the conduct of unidentified persons. Comment h to the Restatement § 633 directly addresses this fact pattern, which states that in the case of "widely disseminated injurious falsehood . . . affecting the conduct of a number of persons whom the plaintiff is unable to identify and so depriving him of a market he would otherwise have found," the plaintiff may prove such loss "by circumstantial evidence showing that the loss has in fact occurred, and **eliminating other causes.**" *Id.*; (*see also* Novell Obj. at 30-32 and n. 12; Novell Reply at 4-7, Dkt. No. 786.) This language is reflected in Novell's proposed paragraph eight. In fact, the Restatement instructs that even in the case of identifiable lost purchasers, plaintiff "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.**" Restatement (Second) Torts § 633 cmt. g (emphasis added).

Novell additionally notes that SCO did not object to the following sentence in Paragraph 7 of this instruction, which is consistent with the but-for test of causation: "To decide the amount of damages for lost profits, you must determine the gross amount that would have been received **but for** the slander of title . . ." This sentence is taken from the California Model Jury Instructions. CACI 3909N; (*see* Novell Supp. Jury Instr. at 15, Dkt. No. 787).<sup>14</sup>

The only model instruction Novell has found using "substantial factor" in connection with injurious falsehood clarifies the concept's application by explaining that "when the injury

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If SCO were to try to prove *specific* lost sales, the same but-for requirement would apply. *See* Restatement (Second) of Torts § 633 cmt. g (2009) ("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. . . . [Plaintiff] 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.")

<sup>14</sup> Novell notes that SCO did not objection to Novell's Proposed Instruction No. 6: "To recover damages for lost profits, SCO must prove it is reasonably certain it would have earned profits but for Novell's conduct." (*See* SCO Obj. at 16, Dkt. No. 772.).



claimed is the loss of a prospective advantage, it must be shown that *but for* the words or act the advantage would have in fact materialized,” and “general proof of loss of customers is not sufficient.” *N.Y. Pattern Jury Instr. Civil 3:55* at 4, “Injurious Falsehood” (emphasis added) (attached as Ex. 2); *see also Soule v. GMC*, 822 P.2d 298, 311-12 (Cal. 1994) (“The general causation instruction ... correctly advised that plaintiff could not recover for a design defect unless it was a ‘substantial factor’ .... GM’s theory [was] that any such defect was *not* a ‘substantial factor’ ... because this particular accident would have broken plaintiff’s ankles in any event. ... GM presented substantial evidence to that effect. GM was therefore entitled to its special instruction, and the trial court’s refusal to give it was error.”).

Because there will be evidence of other causes for the lost sales alleged by SCO, the jury should be instructed that “[t]he burden is on the party claiming slander of title to establish that the harm complained of resulted from the false statement and not from other factors. In other words, the party claiming slander must show that if not for the false statement, it would not have suffered any harm.”<sup>15</sup> *See Medley v. Polk Co.*, 260 F.3d 1202, 1208 n.10 (10th Cir. 2001) (“A party is entitled to an instruction based on his theory of the case if there is record evidence to support it.”) (citation omitted).

Additionally, SCO misleadingly stated in its objections that “the legal definition of substantial factor does not differ from the common meaning of that term.” (SCO Obj. at 10, Dkt. No. 772.) This is hardly the case, as the above discussion regarding Restatement (Second) of Torts § 632 and § 633 illustrates. Furthermore, jurisdictions applying the “substantial factor” language clarify for the jury that what is meant by the “substantial factor” language is actually but-for causation. California’s model jury instructions state, “conduct is not a substantial factor

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<sup>15</sup> Novell’s proposed instruction is also preferable because it clearly indicates which party carries the burden of proof, whereas SCO’s does not.

in causing harm *if the same harm would have occurred without that conduct.*” CACI 430 (emphasis added) (explaining that “this definition of ‘substantial factor’ subsumes the ‘but for’ test of causation, that is, ‘but for’ the defendant’s conduct, the plaintiff’s harm would not have occurred” and “in some cases, it may be error” not to instruct the jury of this). (*See also* Novell Obj. at 31 (*citing N.Y. Pattern Jury Instr. Civ. 3:55 at 4.*))

In sum, SCO’s proposed instruction omits this critical but-for requirement and obscures it with the less explicit phrase “substantial factor.”

**(iii) Claimant Has the Burden of Proof.**

SCO has objected in the past that the jury need not be instructed on the burden of proof, and that to do so would be “unduly prejudicial.” (SCO Objections *in passim*, Dkt. No. 772.) The Model Utah Jury Instructions and various other model jury instructions clarify that it is the claimant’s burden to prove special damages.<sup>16</sup> Since both parties must prove their own special damages, there is no undue prejudice to SCO.

The Model Utah Jury Instructions remind the jury of the plaintiff’s burden of proof at each element of the claim for slander. (MUJI §§ 10.4, 10.5, 10.6 (1st ed. 1993) (each stating, respectively, “The [first, second, third] essential element of plaintiff’s case requires the plaintiff

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<sup>16</sup> Model jury instructions from other jurisdictions likewise remind the jury of who bears the burden of proof at each element of the claim, and of the clear and convincing standard of proof where it applies. *See* MODEL N.J. JURY INSTR. 3.11A (2002) (instructing the jury 12 times that plaintiff bears the burden to prove each element of a public defamation claim, clarifying that this burden is clear and convincing evidence, and explaining what “clear and convincing” evidence means); Conn. Civ. Jury Instr. 3.11-7 (2008) (“the plaintiff must prove to you that (he/she) incurred what is called actual damages, also called special damages, that is an actual injury or loss.”); Conn. Civ. Jury Instr. 3.11-8 (2008) (“To recover special damages, however, the plaintiff must prove that (he/she) suffered economic loss”); Vermont Model Jury Instr. (Draft) § 10.1 (“If [plaintiff] has not proven that the statements were false, then you should not consider any other part of this claim.”); *id.* § 10.4 (privileges instruction stating that “you must be clearly convinced that ...”); *id.* §10.5 (plaintiff “must show” special damages).

to prove that ...”); *id.* §10.7 (“the plaintiff must prove that the defamatory statement was published with [knowledge of falsity or reckless disregard as to falsity] . . . by clear and convincing evidence ...”); *id.* § 10.12 (“[b]efore any award of punitive damages can be considered, the plaintiff must prove by clear and convincing evidence that ...”). Informing the jury as to what the burden of proof is and who bears that burden are essential to the jury’s charge. It is not unduly prejudicial to SCO because both parties have brought claims for slander of title, so each party bears the same burden on its respective claim.

**(iv) A Decline In Stock Price Does Not Constitute Special Damages**

Novell’s instruction that “a decline in stock price is not special damages and should not be considered in any special damages award you make” is based on this Court’s ruling on summary judgment. (Order on Mot. for Summ. J. on Failure to Establish Special Damages at 11-12, Dkt. No. 621.)

SCO’s objection to this instruction as unnecessary is disingenuous for several reasons. First, the jury has been shown a powerpoint slide showing SCO’s decline in stock price on May 28, 2003 at least once a day since the start of trial (it was shown to the jury twice a day on March 8th and March 16th). As a result, the jury is likely to have a strong recollection of the image of the decline in stock price when they deliberate. To date, no other visual has been used in trial close to that often.

Second, it will not be clear to the jury that decline in stock value only addresses causation and not damages, or even to differentiate between the two. Causation is discussed within the damages instruction, after all. Also, it is highly plausible that without such an instruction telling the jurors that they should not take stock price into consideration, they may decide that even

though there are no specific lost sales, SCO was damaged by the decline in stock price, and should get some kind of relief.

Novell's instruction is a necessary statement of the law, lest the jurors confuse special damages for general damages. Even if SCO's promise that it will not to rely on such evidence for its proof of damages is genuine (see Dkt. No. 621 at 11-13), the jury has repeatedly been presented with evidence of SCO's stock price decline. At worst, Novell's instruction will have no effect on the jury's deliberation; at best, it will properly inform the jury of the law.

## IX. PUNITIVE DAMAGES

### JOINT PROPOSED INSTRUCTION NO. 9

You are also entitled to award [SCO: *the plaintiff*] “punitive damages” if you deem them to be appropriate.

Before any award of punitive damages can be considered, the [SCO: *plaintiff*] [Novell: *claimant*] must prove by clear and convincing evidence that the [SCO: *defendant*] [Novell: *party accused of slander*] published a false statement [Novell#1: (1)] knowing it was false or in reckless disregard of whether it was true or false, and [Novell #2: (2)] that the [SCO: *defendant*] [Novell: *party accused of slander*] acted with hatred or ill will towards the [SCO: *plaintiff*] [Novell: *claimant*], or with an intent to injure [SCO: *the plaintiff*], or acted willfully or maliciously [SCO: *toward the plaintiff*].

If you find that the [SCO: *plaintiff*] [Novell: *claimant*] has presented such proof, you may award, if you deem it proper to do so, such sum as in your judgment would be reasonable and proper as a punishment [SCO: *to the defendant for its*] [Novell: *for the*] wrongs, and as a warning to others not to commit similar wrongs. If such punitive damages are given, you should award them with caution and you should keep in mind that they are only for the purpose just mentioned and are not the measure of actual damage.

#### **SCO’s Argument**

1. SCO disputes Novell’s argument for eliminating the instruction altogether.

Novell’s 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.

2. With respect to Novell’s proposed changes to the language of the instruction, Novell does not offer any compelling reason for deviating from MUJI 10.12.

### Novell's Argument

Novell objects that it is not appropriate to instruct the jury on punitive damages. (See Novell's Objections to SCO's Proposed Jury Instructions at 33, Dkt. No. 774; Novell's Supplemental Submission of Model-Based Jury Instructions at 31, Dkt. No. 787.)

As to Novell's proposed #1 and #2, the addition of numbers is necessary to clarify that the jury must find two forms of malice in order to consider whether to award punitive damages. As stated in the Model, the jury must find both (1) constitutional malice ("knowledge of falsity or reckless disregard for the truth") and (2) personal malice (acting "with hatred or ill will," or "with an intent to injure," or "willfully or maliciously"). MUJI §10.12. SCO's proposal is confusing because it lumps these two standards into one sentence, using several "and" and "or" conjunctions, leaving it unclear whether the standard requires one or two forms of malice.

DATED this 18th day of March, 2010.

By: /s/ Brent O. Hatch  
HATCH, JAMES & DODGE, P.C.  
Brent O. Hatch  
Mark F. James

BOIES, SCHILLER & FLEXNER LLP  
David Boies  
Robert Silver  
Stuart H. Singer  
Edward Normand  
Sashi Bach Boruchow

*Counsel for The SCO Group, Inc.*

**CERTIFICATE OF SERVICE**

I, Brent O. Hatch, hereby certify that on this 18th day of March, 2010, a true and correct copy of the foregoing Joint Proposed Jury Instructions was filed with the court and served via electronic mail to the following recipients:

Sterling A. Brennan  
David R. Wright  
Kirk R. Harris  
Cara J. Baldwin  
WORKMAN | NYDEGGER  
1000 Eagle Gate Tower  
60 East South Temple  
Salt Lake City, UT 84111

Thomas R. Karrenberg  
Heather M. Sneddon  
ANDERSON & KARRENBERG  
700 Bank One Tower  
50 West Broadway  
Salt Lake City, UT 84101

Michael A. Jacobs  
Eric M. Aker  
Grant L. Kim  
MORRISON & FOERSTER  
425 Market Street  
San Francisco, CA 94105-2482

*Counsel for Defendant and Counterclaim-Plaintiff Novell, Inc.*

By: /s/ Brent O. Hatch  
Brent O. Hatch  
HATCH, JAMES & DODGE, P.C.  
10 West Broadway, Suite 400  
Salt Lake City, Utah 84101  
Telephone: (801) 363-6363  
Facsimile: (801) 363-6666