

Brent O. Hatch (5715)  
Mark F. James (5295)  
HATCH, JAMES & DODGE  
10 West Broadway, Suite 400  
Salt Lake City, Utah 84101  
Telephone: (801) 363-6363  
Facsimile: (801) 363-6666

Robert Silver (admitted pro hac vice)  
Edward Normand (admitted pro hac vice)  
BOIES, SCHILLER & FLEXNER LLP  
333 Main Street  
Armonk, New York 10504  
Telephone: (914) 749-8200  
Facsimile: (914) 749-8300

Stuart H. Singer (admitted pro hac vice)  
BOIES, SCHILLER & FLEXNER LLP  
401 East Las Olas Boulevard – Suite 1200  
Ft. Lauderdale, Florida 33301  
Telephone: (954) 356-0011  
Facsimile: (954) 356-0022

Stephen N. Zack (admitted pro hac vice)  
BOIES, SCHILLER & FLEXNER LLP  
Bank of America Tower – Suite 2800  
100 Southeast Second Street  
Miami, Florida 33131  
Telephone: (305) 539-8400  
Facsimile: (305) 539-1307

*Attorneys for The SCO Group, Inc.*

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

THE SCO GROUP, INC.,  
  
Plaintiff/Counterclaim-Defendant,

v.

INTERNATIONAL BUSINESS  
MACHINES CORPORATION,

Defendant/Counterclaim-Plaintiff.

**SCO'S MEMORANDUM IN  
OPPOSITION TO IBM'S MOTION  
FOR SUMMARY JUDGMENT ON  
SCO'S CONTRACT CLAIMS**

**FILED IN REDACTED FORM  
[ORIGINALLY FILED UNDER SEAL]**

Case No. 2:03CV0294DAK  
Honorable Dale A. Kimball  
Magistrate Judge Brooke C. Wells

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Plaintiff, the SCO Group, Inc. ("SCO"), respectfully submits this Memorandum in Opposition to IBM's Motion for Summary Judgment on SCO's Contract Claims.

### **Preliminary Statement**

IBM moves for summary judgment on the grounds that the Court should dismiss SCO's contract claims as a matter of law on the basis of only part of the contradictory testimony of only a few of many relevant witnesses and documents. SCO shows below that each of IBM's factual predicates are disputed by competent and overwhelming evidence and that IBM's legal arguments are similarly unfounded.

First, IBM argues briefly otherwise, but the plain language of the standard AT&T UNIX license agreement required the licensee to hold in confidence all parts of the modifications and derivative works the licensee developed based on the licensed UNIX software product. IBM does not dispute that it developed such a derivative work, AIX, and acquired another such derivative work, Dynix/ptx, when it acquired Sequent Computer Systems, Inc. in the late 1990s. IBM also does not dispute that it made hundreds of contributions or disclosures of technology to Linux development from AIX and Dynix/ptx. There is no reading of the agreement to support IBM's theory that the source code, methods and concepts it developed fall outside the confidentiality restrictions when they were created as part of or added to such derivative works.

Second, although IBM entered into a side letter with AT&T that amended aspects of its standard UNIX license agreement, none of those amendments permitted IBM openly to disclose the source code of a product, such as AIX, into which IBM had indisputably copied UNIX source code. In addition, as stated by the clear language of the AT&T's UNIX license agreements, the amendments of the IBM Side Letter did not affect the terms of the standard



UNIX license agreement into which Sequent had entered. The vast majority of contributions to Linux that SCO challenges here were made from Sequent's Dynix/ptx derivative work.

Third, in addition to the fact that any contractual ambiguity in the agreements at issue precludes summary judgment under New York law, IBM's reliance on only selected extrinsic evidence is improper. IBM disregards the sworn testimony of numerous witnesses responsible for negotiating, overseeing, interpreting and enforcing the UNIX license agreements for decades and contemporaneous documents contradicting the position that IBM and selected declarants now advance. That evidence underscores the narrow sample of evidence on which IBM relies in its Motion and easily permits the inference that the testimony IBM does cite is unreliable. In addition, the parties' respective businesses and economic incentives at the time of contracting – evidence supported by SCO expert witness Dr. Gary Pisano and that IBM concedes to be relevant in the event of ambiguity in the Agreements – bears out the reasonable scope of the Agreements as SCO has explained them.

Fourth, in addition to the substantial number of relevant witnesses whose testimony IBM's Motion fails to account for or reconcile, the selected witnesses on whom IBM does rely have given other testimony belying IBM's arguments.

Otis Wilson. Mr. Wilson testifies that AT&T decided in the mid-1980s to “abandon” protecting its methods and concepts in UNIX and that a licensee had to keep confidential only the UNIX source code, but fourteen years ago he testified that AT&T always sought to protect its methods and concepts and that a licensee was obligated to keep confidential any derivative work it created with “exposure” to UNIX or by using “contaminated” programmers.

David Frasure. Mr. Frasure gives much the same testimony now as Mr. Wilson, but he gave testimony in the same case as Mr. Wilson fourteen years ago and gave much the same testimony then as Mr. Wilson did – testimony that is almost the exact opposite of what they claim now.

Ed Chatlos. Mr. Chatlos worked for Novell, Inc. in 1995 when, as he has confirmed in this case, Novell intended to and did sell its UNIX business and copyrights to SCO's predecessor-in-interest The Santa Cruz Operation, Inc. IBM met with him and drafted a declaration for his signature, but the declaration bore so little resemblance to what Mr. Chatlos had told IBM that he declined to sign any version of it.

“Q: Would you have signed that declaration if it accurately reflected what you had discussed with counsel for IBM?”

A. Yes.

Q. Why didn't you sign the declaration?

A. It didn't accurately reflect what was -- what I said.”

Ira Kistenberg. IBM met with and drafted a declaration for Mr. Kistenberg's signature regarding his work for AT&T in the 1980s, but when SCO approached him and explained what IBM was using his declaration to say, Mr. Kistenberg signed a new declaration clarifying that AT&T always sought to protect its UNIX methods and concepts, that it required its licensees to keep confidential their derivative works based on the licensed UNIX software product, and that he never represented otherwise to anyone from Sequent (or any other licensee). He then confirmed those views at deposition.

Larry Bouffard. IBM met with and drafted a declaration for Mr. Bouffard's signature regarding his work for Santa Cruz in the late 1980s and for Novell in the 1990s,

but when SCO approached Mr. Bouffard and explained what IBM was using his declaration to say, Mr. Bouffard signed a new declaration clarifying that AT&T and successors-in-interest did not intend to permit IBM to use its derivative works to create unlicensed UNIX clones, as IBM has done with Linux, and that neither IBM nor Novell enjoy the rights that IBM claims they do.

Such evidence reveals a pattern whereby witnesses have signed declarations, drafted by IBM, that turn out not to reflect the witnesses' true understanding of or intent in the agreements and transactions at issue, or that plainly contradict testimony the witnesses have previously given or contradict contemporaneous documents that IBM simply chooses to ignore. The clarifications of declarations as they have been drafted or used by IBM underscores the need for the trier of fact to reach conclusions and draw inferences from those disputed facts.

Fifth, IBM's arguments for "estoppel" and "waiver" suffer from the same defects of unambiguous contractual language, contradictory extrinsic evidence, and improper inference. IBM further argues that Novell had the right to and did "waive" SCO's claims against IBM by virtue of mid-1990s agreements between Novell and Santa Cruz, but substantial, relevant evidence of those transactions – including the language of the agreements and amendments thereto and the testimony of all of the principal negotiators on both sides of the transactions – contradicts IBM's "facts" and arguments. Both Mr. Chatlos and Mr. Bouffard, for example, explain why IBM is wrong.

SCO's evidence creates genuine disputes over every assertedly material fact that IBM relies upon for its Motion, or there is simply no genuine support for IBM's position. SCO

respectfully submits, for the reasons summarized above and set forth in detail below, that the Court should deny IBM's Motion.

### **Statement of Material Facts**

#### **I. OVERVIEW**

1. In the 1960s and 1970s, Bell Laboratories and AT&T developed the seminal and valuable innovation of the UNIX computer operating system. AT&T licensed the UNIX source code to numerous universities and companies for their internal use, requiring those entities to keep the source code, and the methods and concepts embodied therein, confidential.

2. In the early 1980s, AT&T decided to commercialize in earnest its UNIX asset, which AT&T had developed into its "UNIX System V" software product. AT&T began to enter into updated and new UNIX license agreements with numerous companies, giving the companies the right to use the licensed software product to create modifications and derivative works based on the licensed software product.

3. Under AT&T's standard UNIX license agreement, the companies were entitled to distribute in binary format their modifications and derivative works, or UNIX "flavors," and were obligated to pay AT&T a royalty for each such distribution. In a market in which UNIX flavors were in high demand, the licensees benefited substantially from the arrangement by receiving a multi-year head-start in their ability to distribute a UNIX operating system to increase their hardware sales significantly.

4. In exchange for the highly valuable head-start and increased hardware sales the UNIX System V licensees thus realized, as set forth in the plain terms of the standard agreement, the licensees were obligated treat their modifications and derivative works as if they were part of

the licensed UNIX System V software product – that is, to hold in confidence for AT&T not only the licensed UNIX System V software product (including the methods and concepts embodied therein), but also all parts of the licensees’ modifications and derivative works (including the methods and concepts therein).

5. The standard arrangement made sense from the perspective of both AT&T and its licensees. AT&T sought to protect its business of licensing the source code of its UNIX software product to create binary royalty streams. The licensees, in turn, were in the business of creating competitive UNIX flavors to increase their hardware sales – not the business of competing with AT&T by licensing UNIX or UNIX-flavor source code to create their own binary royalties or by trying to develop unlicensed, royalty-free UNIX clones.

6. On occasion AT&T clarified and even amended its standard agreement in writing, such as it did with IBM in 1985. In no instance, however, did AT&T abandon the core protections for its licensing business. Indeed, in the 1980s, IBM’s business model was notoriously “closed,” and IBM had and expressed no desire to reserve for itself the right to develop an unlicensed, royalty-free UNIX clone. In addition, as the plain language of the agreements also made clear, any amendments for IBM applied only to IBM.

7. Sequent, like IBM, was among the companies who entered into UNIX System V license agreements with AT&T in 1985, and who proceeded to develop modifications and derivative works based on the licensed UNIX System V software product. IBM called its UNIX flavor AIX, and Sequent called its flavor Dynix, and eventually Dynix/ptx.

8. AIX and Dynix/ptx are derivative works of UNIX System V within the meaning of AT&T’s UNIX license agreements, as well as within the meaning of that term under the

copyright law. IBM has acknowledged as much internally. IBM has also repeatedly acknowledged internally since 1985 that it is obligated to hold AIX in confidence for AT&T.

9. IBM has contributed to Linux, however, a wealth of source code, methods, concepts, techniques, know-how and other such technology taken from AIX and Dynix/ptx. The technology that IBM contributed from those UNIX flavors was a very substantial factor in Linux's development into a commercially hardened operating system appropriate for use by large companies.

10. After SCO came generally to understand the process that IBM had followed and the technology that IBM had used in significantly advancing Linux into a commercially hardened operating system at the expense of the historical UNIX business, SCO raised the issues with IBM to resolve the issues amicably. When IBM denied any culpability and threatened to retaliate against SCO or else simply put SCO off, SCO filed this lawsuit. After IBM continued to refuse to discuss any meaningful solutions and the parties were unable to resolve their differences, SCO terminated IBM's UNIX agreements.

11. Given the significant improvements to Linux from the initial IBM contributions in 2000, IBM's continued contributions from AIX and Dynix/ptx, and the perception among prospective Linux users of the importance of IBM's role in developing Linux based on its experience with UNIX flavors, the development of Linux caused a precipitous fall in Santa Cruz's revenues from its UNIX products, and in SCO's UNIX revenues after it (as Caldera International, Inc.) acquired Santa Cruz's UNIX assets in 2001.

12. IBM, in sharp contrast, has proceeded to generate billions of dollars in Linux-related revenues for itself since 2000, as a result of the conversion of Linux into a commercially hardened operating system.

## II. THE PLAIN SCOPE OF THE AGREEMENTS

### A. The Plain Scope of the IBM and Sequent Agreements.

13. The identical license agreements that AT&T entered into with IBM in February 1985 and with Sequent in April 1985 contain provisions governing the licensee's rights to use the licensed software product and to prepare modifications and derivative works based on that software product. These provisions are contained in Section 2.01 of the Agreements (IBM Ex. 119, IBM Ex. 492)<sup>1</sup>, which states:

AT&T grants to LICENSEE a personal, nontransferable and nonexclusive right to use in the United States each SOFTWARE PRODUCT identified in the one or more Supplements hereto, solely for LICENSEE'S own internal business purposes and solely on or in conjunction with DESIGNATED CPUs for such SOFTWARE PRODUCT. Such right to use includes the right to modify such SOFTWARE PRODUCT and to prepare derivative works based on such SOFTWARE PRODUCT, provided the resulting materials are treated hereunder as part of the original SOFTWARE PRODUCT.

14. Section 1.04 of the Agreements defines "SOFTWARE PRODUCT" as "materials such as COMPUTER PROGRAMS, information used or interpreted by COMPUTER PROGRAMS and documentation relating to the use of COMPUTER PROGRAMS." (IBM Ex. 119, IBM Ex. 492.) The "SOFTWARE PRODUCT" includes UNIX System V source code, methods, and concepts. (§7.06(a).)

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<sup>1</sup> The documents, declarations, and depositions supporting SCO's response are appended to the November 11, 2006, Declaration of Brent O.Hatch and are cited herein as "Ex. \_\_\_." Where exhibits attached to IBM's September 25, 2006, Declaration of Todd M. Shaughnessy are referenced herein, they are cited as "IBM Ex. \_\_\_."

15. Section 7.06(a) of the Agreement states in relevant part:

LICENSEE agrees that it shall hold all parts of the SOFTWARE PRODUCTS subject to this Agreement in confidence for AT&T. LICENSEE further agrees that it shall not make any disclosure of any or all of such SOFTWARE PRODUCTS (including methods or concepts utilized therein) to anyone, except to employees of LICENSEE to whom such disclosure is necessary to the use for which rights are granted hereunder.

16. Section 7.06(b) of the Agreements states in relevant part:

Notwithstanding the provisions of Section 7.06(a), LICENSEE may distribute copies of a SOFTWARE PRODUCT, either in modified or unmodified form, to third parties having licenses of equivalent scope herewith from AT&T (or a corporate affiliate thereof) for the same SOFTWARE PRODUCT, provided that LICENSEE first verifies the status of any such third party in accordance with specific instructions issued by AT&T.

17. Section 7.10 of the Agreements states: "Except as provided in Section 7.06(b), nothing in this agreement grants to LICENSEE the right to sell, lease or otherwise transfer or dispose of a SOFTWARE PRODUCT in whole or in part."

18. Section 7.13 of the Agreements contains a New York choice-of-law provision, and the Agreements also contain a merger and integration clause in Paragraph 4:

This Agreement and its Supplements set forth the entire agreement and understanding between the parties as to the subject matter hereof and merge all prior discussions between them, and neither of the parties shall be bound by any conditions, definitions, warranties, understandings or representations with respect to such subject matter other than as expressly provided herein or as duly set forth on or subsequent to the date of acceptance hereof in writing and signed by a proper and duly authorized representative of the party to be bound thereby. No provision appearing on any form originated by LICENSEE shall be applicable unless such provision is expressly accepted in writing by an authorized representative of AT&T.

19. AT&T permitted licensees to use UNIX System V to develop modifications and derivative works based on the UNIX System V software product, "provided the resulting materials are treated hereunder as part of the original SOFTWARE PRODUCT." (§ 2.01.) All



of the use, transfer, export, and confidentiality restrictions that applied to the original UNIX software product also covered any such modifications or derivative works. The Agreement further specifies: “Except as provided in Section 7.06(b), nothing in this Agreement grants to LICENSEE the right to sell, lease or otherwise transfer or dispose of a SOFTWARE PRODUCT in whole or in part.” (§ 7.10.) The Agreement thus again prohibits the licensee from disclosing any “part” of the “resulting materials.” (§§ 2.01; 7.06(a); 7.10.)

20. Licensees executed separate sublicensing agreements, which gave them the right to distribute their modifications and derivative works in object code format only, not readable by human beings. (IBM Ex. 121 § 2.01.) The sublicensing agreements precluded the licensees from distributing and disclosing their modifications and derivative works in source code format.

21. AT&T’s standard agreement created a framework in which each modification and derivative successively becomes “treated hereunder as part of the original SOFTWARE PRODUCT.” (§ 2.01.)

B. The Plain Scope of the IBM Side Letter.

22. In addition to its own Agreement, IBM entered into a Side Letter with AT&T. (IBM Ex. 122.) Paragraph 3 of the Side Letter confirms IBM’s obligation to keep the “resulting materials” confidential. In the Side Letter, AT&T acknowledges: “You have requested that contractors be permitted to use SOFTWARE PRODUCTS pursuant to the referenced Software Agreement.” (IBM Ex. 122 ¶ 3.) AT&T agrees that, subject to certain conditions, “the rights granted in Section 2.01 of the Software Agreement be extended to permit you to provide access to and allow use of SOFTWARE PRODUCTS by your contractors.” (IBM Ex. 122 ¶ 3.) One of the conditions is that IBM must secure from each such contractor an agreement that shall

“provide that, when a contractor’s work for you is completed, all copies of the SOFTWARE PRODUCT and any software derived from or developed with the use of a SOFTWARE PRODUCT shall be returned to you by such contractor and any such contractor shall erase any such software from any storage element or apparatus.” (IBM Ex. 122 ¶ 3 (emphasis added).)

23. The Side Letter also states: “Regarding Section 2.01, we agree that modifications and derivative works prepared by or for you are owned by you. However, ownership of any portion or portions of SOFTWARE PRODUCTS included in any such modification or derivative work remains with us.” (IBM Ex. 122 ¶ 2.)

24. The opening language of Paragraph 9 of the Side Letter says that the right to “develop” at issue is one that applies only internally to IBM: IBM “agrees that it shall not make any disclosure of such SOFTWARE PRODUCTS to anyone, except to employees of LICENSEE to whom such disclosure is necessary to the use for which rights are granted hereunder.” (IBM Ex. 122 ¶ 9.)

25. Section 7.06(b) of the IBM Agreement states in its last sentence: “LICENSEE may also obtain materials based on a SOFTWARE PRODUCT subject to this Agreement from such a third party and use such materials pursuant to this Agreement, provided that LICENSEE treats such materials as if they were part of such SOFTWARE PRODUCT.” (IBM Ex. 492.)

Paragraph 10 of the Side Letter clarifies that Section 7.06(b) “covers the situation where one of our licensees wishes to furnish its modified version of our source code for a SOFTWARE PRODUCT to another of our licensees for the same product.” (IBM Ex. 122 ¶ 10.)

26. The Side Letter “amends” Section 7.06(a) of the Agreement by “replacing” that Section with a different “7.06(a).” (IBM Ex. 122 ¶ 9.) IBM “agrees that it shall hold

SOFTWARE PRODUCTS subject to this Agreement in confidence for AT&T” and “further agrees that it shall not make any disclosure of such SOFTWARE PRODUCTS to anyone, except to employees of LICENSEE to whom such disclosure is necessary to the use for which rights are granted hereunder.” (IBM Ex. 122 ¶ 9 (emphasis added).)

27. Paragraph 9 then affords IBM a limited right to “develop or market” certain products that the Agreement and Sublicensing Agreement do not permit IBM to “develop or market” – namely, products that are not modifications or derivative works based on the SOFTWARE PRODUCT, but that employ ideas, concepts, know-how or techniques embodied in the SOFTWARE PRODUCTS. (IBM Ex. 122 ¶ 9.)

28. The second half of Paragraph 9 first provides: “Nothing in this agreement shall prevent LICENSEE from developing or marketing products or services employing ideas, concepts, know-how or techniques relating to data processing embodied in SOFTWARE PRODUCTS subject to this agreement . . . .” (IBM Ex. 122 ¶ 9.) Paragraph 9 then specifies that IBM may exercise such special rights to develop or market certain products and services only “provided that LICENSEE shall not copy any code from such SOFTWARE PRODUCTS into any such product or in connection with any such service and employees of LICENSEE shall not refer to the physical documents and materials comprising SOFTWARE PRODUCTS subject to this Agreement when they are developing any such products or service or providing any such service.” (IBM Ex. 122 ¶ 9.)

29. Accordingly, under the Agreement and Side Letter, where IBM (1) has copied non-public code from the SOFTWARE PRODUCT into a “product” or (2) has referred to the physical documents or materials comprising the SOFTWARE PRODUCTS in developing a

“product,” then IBM may not “market” that product in source-code form. Instead, IBM must treat that product pursuant to those obligations that otherwise obtain – that is, the obligation to keep confidential for AT&T the SOFTWARE PRODUCT and any modification or derivative work based on the SOFTWARE PRODUCT. Paragraph 9 of the Side Letter thus refers only to IBM’s right to develop or market products that are not modifications or derivative works based on the SOFTWARE PRODUCT.

### **III. THE PLAIN TERMS OF THE AGREEMENTS REASONABLY PROTECTED THE VALUE OF UNIX.**

#### **A. The Context of the Development of the UNIX Operating System.**

30. In the computer industry before UNIX, vendors such as IBM delivered computer hardware, operating systems, software applications, and services in a vertically integrated manner, as a “closed” system that generated large profit streams through proprietary “lock-in.” That is, a customer who purchased computer hardware from IBM was often locked-in to using IBM’s operating system, software applications and services as well. It was very difficult for the customer to modify the system or to switch to systems provided by other vendors, thereby limiting the flexibility and options available to customers. (Ex. 284 at 7 & n.9; Ex. 50 ¶¶ 3-16; Ex. 286 at 80.)

31. This approach meant not only that customers had to change their software every time they changed their hardware, but also that programmers had to learn about and write for each hardware system separately. IBM liked this approach because it gave IBM control over IBM customers. Once a customer opted for IBM’s hardware, that customer was for the most part

locked into choosing IBM's associated software and services as well. (Ex. 286 at 80 & nn.157 & 158; Ex. 50 ¶¶ 3-16.)

B. The Popular and Valuable UNIX Ecosystem in 1985.

32. UNIX became popular and its use spread rapidly in the 1970s because it could run on any hardware platform and enabled software programs to run more easily across many hardware platforms. (Ex. 284 at 7 & n.10; Ex. 50 ¶¶ 3-16.) Such features allowed customers to use UNIX on hardware from many different vendors with greater flexibility in choosing software applications to run on the hardware and OS. (Ex. 284 n.11; Ex. 50 ¶¶ 3-16.) UNIX was thus considered an "open," "cross platform" operating system (where "open" meant that UNIX provided greater flexibility, in contrast to "closed" systems that effectively locked-in users). (Ex. 284 at 8; Ex. 50 ¶¶ 3-16.)

33. UNIX was thus revolutionary, because it endeavored to be a commercially hardened operating system that worked across hardware platforms. As a result, end-users could separate their hardware and software decisions, playing vendors off one another and benefiting from the resulting competition. Programmers, meanwhile, could learn one operating system and then use that knowledge to produce programs that would run on a wide variety of hardware platforms. This also increased competition, by increasing the number of programmers who were able to participate in any given hardware market. UNIX thus made possible a vibrant and competitive ecosystem: a community comprising users, programmers, and programs, all attracted to UNIX not only because of its innate qualities as an operating system but also because of the efficiencies that its cross-platform flexibility made possible. (Ex. 286 at 80-81 & n.159; Ex. 12 ¶¶ 3-7; Ex. 50 ¶¶ 3-16.)

34. Until 1983, AT&T licensed UNIX primarily to universities and researchers, along with the source code, for teaching purposes as well as internal use on specific central processing units (or “CPUs”). UNIX customers at that time did not have the right to re-distribute UNIX. Instead, to run UNIX on more than one machine or CPU, a customer had to obtain an additional license or licenses. (Ex. 284 at 8.)

35. Starting in 1983, AT&T sought in earnest to capture the commercial value of UNIX by licensing UNIX to large computer-systems vendors such as Sun, Hewlett Packard (“HP”), Silicon Graphics Inc. (“SGI”), Digital Equipment Corporation (“DEC”), and IBM. These licensees typically bundled their modifications, derivatives and enhancements of UNIX with their own proprietary hardware. (Ex. 284 at 8; Ex. 12 ¶¶ 3-7.)

36. AT&T’s new approach included the separate sublicensing agreement that allowed the license to become a “distributor” of UNIX. Licensees could distribute their own modified, derived and enhanced versions of UNIX to customers in binary form. (Ex. 284 at 8; Ex. 12 ¶¶ 3-7.) The licensees had to pay a significant upfront fee for this right to distribute UNIX. (Ex. 284 n.12; Ex. 12 ¶¶ 3-7.) In addition, licensees were required to pay for each binary copy they distributed; those payments were in the form of a royalty. (Ex. 284 at 9; Ex. 12 ¶¶ 3-7.) The licensees could not distribute the modifications or derivative work in source code format, except to AT&T licensees who had licensed the same version of UNIX. (Ex. 284 at 9; Ex. 286 at 81-82 see also ¶¶ 82-86, below.)

37. As a result of the revolutionary advantages offered by UNIX, a large number of users, programs, and programmers did and were expected to favor UNIX over competing operating systems. Accordingly, hardware providers in the 1980s became increasingly interested

in offering versions of UNIX that would perform well on their hardware. AT&T recognized this landscape and developed a business plan under which AT&T would help hardware providers achieve this aim. (Ex. 286 at 81; Ex. 4 ¶ 5; Ex. 5 at 26-28; Ex. 12 ¶¶ 3-7.)

38. UNIX provided a valuable head-start for licensees. By 1983 UNIX was not only a mature and robust operating system resulting from fourteen years of development, but also was the foundation technology for an entire network of skilled software developers, experienced IT services staff, and end users. (Ex. 284 at 9; Ex. 138 ¶¶ 3-4; Ex. 12 ¶¶ 3-7; Ex. 50 ¶¶ 3-16; see also IBM Ex. 310 at 27, 38.) The UNIX user base began to grow rapidly in the mid-1980s as AT&T began to commercialize UNIX. (Ex. 284 n.13.) From the 45,000-user install base when AT&T announced the first supported version, System V, UNIX grew to approximately 1.2 million installed users by 1989. (Ex. 284 n.14.)

39. With the right to modify and enhance UNIX and then distribute those modifications and enhancements with UNIX to customers, licensees had the incentive to develop innovations that used the UNIX head-start. (Ex. 284 at 9; Ex. 50 ¶¶ 3-16; Ex. 12 ¶¶ 3-7; see also IBM Ex. 310 at 27, 38.) The head-start would allow licensees to capitalize on the years of software development, significant expense and huge popularity of UNIX in the enterprise-computing arena. Licensees would thus reap the benefits from their investments by fulfilling customer demand with a differentiated “flavor” of UNIX that augmented their own proprietary hardware, other software, and services. (Ex. 284 at 9; Ex. 50 ¶¶ 3-16; Ex. 138 ¶¶ 3-4; Ex. 12 ¶¶ 3-7; see also IBM Ex. 310 at 27, 38.) IBM acknowledges that

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C. The Significant Advantage Offered by the UNIX Head-Start.

40. AT&T's business model was thus to allow other firms to purchase a head-start toward involvement in the UNIX ecosystem. What AT&T sold to each hardware firm was the right to use the UNIX foundation to jumpstart the firm's entry into the community of UNIX end-users, UNIX programs, and UNIX programmers. The hardware firm would as a result be able to take part in the UNIX ecosystem quickly and at reasonable cost, thereby avoiding strategically infeasible alternatives like developing a UNIX-compatible operating system from scratch. (Ex. 138 ¶¶ 3-4; Ex. 50 ¶¶ 3-16; Ex. 286 at 81-82; Ex. 116 at 99; Ex. 12 ¶¶ 3-7; IBM Ex. 310 at 38.)

41. AT&T provided a foundation of UNIX code that licensees could build upon and modify. (Ex. 138 ¶¶ 3-4; Ex. 12 ¶¶ 3-7; Ex. 50 ¶¶ 3-16.) AT&T encouraged and indeed fully expected licensees to add their own code to and integrate it with the original code. What AT&T brought to the table was the foundation. It was up to the licensee to move forward from there, tailoring UNIX to accentuate that particular firm's hardware strengths. Over time, most licensees would add large amounts of code to their UNIX flavor and a great percentage of the resulting Unix code would therefore be code written by the licensee. Even at that point, however, the dynamic would be the same: AT&T would continue to earn revenue based on the resulting UNIX flavor, because the licensee developed that flavor in reliance on AT&T's initial head-start contribution. (Ex. 286 at 81-82; Ex. 12 ¶¶ 3-7; see also IBM Ex. 310 at 27, 38.)

42. In other words, while AT&T in fact delivered specific lines of code to its clients, what it really licensed was the head-start that the code made possible. Firms were not obligated to purchase a head-start from AT&T. A firm could, for example, attempt to develop a UNIX-compatible operating system entirely from scratch. (Ex. 138 ¶¶ 3-4; Ex. 50 ¶¶ 3-16; Ex. 12 ¶¶ 3-



7; Ex. 278 ¶¶ 81-86.) However, a firm that took advantage of the head-start could not then escape its royalty and confidentiality obligations just because the head-start had worked and the firm had as a result been able to successfully develop even a substantially further developed UNIX variant. (Ex. 286 at 83; Ex. 12 ¶¶ 3-7.)

43. AT&T had success with its business model. Indeed, between 1985 and 1995, nearly every major hardware firm, including IBM, HP, Sun, Data General, Unisys, NCR, and Compaq, licensed AT&T's UNIX code. (Ex. 286 at 83 & nn.161-67.)

44. AT&T's perception in the mid-1980s of the prospective value of UNIX was further borne out in the years that followed. By the mid-to-late 1980s, there had been an enormous growth in the number of UNIX systems vendors and applications among large businesses and law firms, and an increasing number of corporate users turned to UNIX for their mission-critical computing needs and independent software vendors (or "ISVs") developed numerous business-related applications for use with it. (Ex. 281 n.9.)

45. By the 1990s, UNIX was one of the most successful operating systems in the world, particularly in the area of commercial computing applications. (Ex. 281 at 3-4.) By that time, UNIX was commanding the enterprise (or commercial) space, due to its reputation as the operating system of choice for mission-critical, high-availability applications. (Ex. 281 n.11.)

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46. As increasing numbers of corporate users turned to UNIX for their mission-critical computing needs, independent software vendors (or "ISVs") developed numerous business-related applications for use with it. (Ex. 281 n.32.) That development served in turn to

make UNIX even more attractive to commercial customers. (Ex. 281 n.33.) In short, in the 1990s, customers widely adopted UNIX. (Ex. 284 n.39.)

47. By the late 1990s, UNIX was the leading server operating system worldwide in terms of license revenues, generating \$2.5 billion in annual license revenues, more than half of the total server operating environment (or “SOE”) license revenues across all major server operating systems. (Ex. 281 n.39.) Several of the leading UNIX suppliers were also server manufacturers that sold flavors of UNIX that were optimized to their own servers. (Ex. 281 nn. 42 & 43.)

D. The Parties’ Commercially Reasonable Protection of Their Interests.

48. The broad protections afforded to AT&T under its UNIX licenses agreements, as reflected in the plain language of those agreements, therefore served reasonably to protect the value of UNIX to AT&T in the ecosystem that had developed. (Ex. 286 at 85-96; Ex. 12 ¶¶ 3-11; Ex. 278 ¶¶ 81-86.)

49. AT&T’s UNIX strategy involved licensing its UNIX foundation to hardware firms and in that way providing them with a head-start toward developing an operating system that would appeal to the UNIX community. (Ex. 138 ¶¶ 3-4; Ex. 12 ¶¶ 3-11; Ex. 50 ¶¶ 3-16; Ex. 278 ¶¶ 81-86.) AT&T earned its UNIX-related revenues from these licenses. AT&T’s UNIX business was thus enabling companies to develop licensed UNIX operating systems. (Ex. 286 at 86, 88; Ex. 12 ¶¶ 3-11; Ex. 50 ¶¶ 3-16.) In contrast, as of 1985, neither Sequent nor IBM was involved in any business, such as developing an unlicensed UNIX clone that would have given them any cause to loosen the core protections of AT&T’s UNIX license. (Ex. 286 at 83-84; Ex. 12 ¶¶ 3-11; Ex. 50 ¶¶ 3-16.)

50. IBM was investing in a number of operating system projects, including its licensed work on AIX, its own development of OS/2, and its continued efforts to develop operating systems that worked only with specific IBM hardware. None of these projects, however, was designed to yield an operating system that (a) would have fit into the UNIX ecosystem in terms of accepting UNIX programs and allowing UNIX programmers to apply their full experience and training but (b) would not have required IBM to pay royalties to AT&T. Indeed, IBM at that point was not particularly excited about UNIX at all, let alone interested in developing an unlicensed UNIX-like operating system. (Ex. 286 n.168; Ex. 50 ¶¶ 13-16.) In short, IBM was not trying to build a UNIX system from scratch, without the benefit of AT&T's head-start. (Ex. 286 at 84; Ex. 50 ¶¶ 13-16.)

51. Indeed, although IBM licensed UNIX from AT&T in 1985, it was not until the 1990s that IBM fully embraced UNIX. (Ex. 284 n.16; Ex. 50 ¶¶ 13-16.) Until then, significant IBM revenue and profitability depended upon its proprietary computer-system business. That business consisted primarily of selling mainframe computing hardware, associated software, services, and peripherals compatible with this hardware. (Ex. 284 at 2; Ex. 50 ¶¶ 13-16.)

52. IBM customers were thus forced to buy a bundled system consisting of hardware, an operating system, associated software, and peripherals, as well as services from IBM-related staff. (Ex. 284 n.23; Ex. 50 ¶¶ 13-16.) Each of these other IBM businesses (software, support services, and financial services) depended upon mainframe sales for their revenue, so that when IBM mainframe sales declined so did IBM's combined sales. (Ex. 284 n.24.) IBM market share fell from approximately 37% to 28% between 1985 and 1991 while the overall market grew. (Ex. 284 n.5.) IBM turned to the near-term, stop-gap effort of slashing prices on closed operating

system mainframes, but that was not sustainable for the long-term because it involved substantial revenue losses. (Ex. 284 n.26.)

53. Over time, in place of IBM mainframes, customers began to purchase individual parts of an overall IT solution from companies selling pieces of the computing environment. IT solutions that allow software and hardware from diverse vendors to work with other vendors' software and hardware are described as conforming to "open standards" or an "open" architecture. (Ex. 284 n.27.) In contrast, as noted, IBM's mainframes were "closed," proprietary-architecture systems. (Ex. 284 n.28; Ex. 50 ¶¶ 13-16.) Open architectures enabled many competitors to enter market segments traditionally dominated by IBM. (Ex. 284 n.29.) Critically, customers also found that IBM's competitors provided alternatives at a fraction of the price of IBM's proprietary solutions. (Ex. 284 n.30.)

54. At the same time, a new form of computing was taking hold: network-based "distributed" computing. As computers became connected to networks, open-standard computing became increasingly important. (Ex. 284 n.31.) According to the CEO of IBM at the time, Louis Gerstner, in this environment IBM faltered. (Ex. 284 n.32.) "IBM was slow, very slow in delivering distributed computing, and many small companies moved in to fill the gap." (Ex. 284 n.33.)

55. Indeed, IBM's strategy to control the proprietary "stack" jeopardized its performance and almost crippled the company. (Ex. 284 n.34; Ex. 50 ¶¶ 13-16.) That was because UNIX conflicted with IBM's proprietary system strategy. (Ex. 284 n.35.) By the 1990s, however, IBM began to embrace the UNIX operating platform, which allowed buyers to combine the offerings of multiple vendors. (Ex. 284 nn.37 & 38; Ex. 50 ¶¶ 13-16.)

56. Accordingly, by the time IBM did fully embrace it, UNIX offered IBM two decades of development and community adoption as a head-start when compared to developing a completely new operating system from the ground up. IBM had been in the operating-system business for many years, yet it did not have a ready-made or close-to-complete operating system for an open-architecture server system, which is what UNIX was. Clearly, however, it would be much more difficult to develop a new operating systems from scratch than building on the head-start of UNIX. (Ex. 284 at 10 & n.17; Ex. 50 ¶¶ 13-16.)

57. Sequent also was not pursuing in the mid-1980s an unlicensed UNIX clone. Sequent was an AT&T licensee even before 1985, paying AT&T for the right to build on a combination of AT&T code and code from Berkeley Software Development. Like IBM, Sequent again signed up to build on AT&T's head-start, and Sequent again was given access to additional AT&T code. Both before 1985 and in 1985, Sequent thus had only one UNIX strategy, and that strategy involved developing a UNIX flavor fully licensed by AT&T. (Ex. 286 at 84-85; Ex. 12 ¶¶ 3-11; see also IBM Ex. 310 at 27, 38.)

58. In sharp contrast to the absence of any compelling reason for IBM or Sequent to loosen the core protections of the AT&T standard UNIX license agreement, AT&T had an overriding interest in protecting the value of its UNIX asset. (Ex. 286 at 85-96; Ex. 12 ¶¶ 3-11; Ex. 41 ¶¶ 2-9.) If AT&T had granted its licensees the right to take source code, methods and concepts from a licensed UNIX flavor and publicly disclose that material, such as to use that material to subsidize the development of a competing, unlicensed UNIX clone, such a grant would have threatened AT&T's ability profitably to license its UNIX foundation. (Ex. 12 ¶ 6.) At the same time, neither IBM nor Sequent would have considered that right to be particularly

valuable, because neither had any interest in pursuing a UNIX operating system beyond the licensed flavors they were developing. (Ex. 286 at 85; Ex. 50 ¶¶ 3-16.)

59. In other words, from an economic perspective, if AT&T allowed IBM to use the code it developed based on the licensed UNIX source code (or “added-on code”) to create or help develop an unlicensed UNIX clone, IBM would be able to destroy AT&T’s intellectual property. AT&T’s licensees would migrate from AT&T’s UNIX ecosystem to IBM’s because IBM could offer the same ecosystem at a lower price, thanks to its exploitation of AT&T’s head-start. (Ex. 286 at 95-96; Ex. 12 ¶¶ 3-11.)

60. The operation of AT&T’s standard UNIX license agreement reflected these basic considerations. AT&T’s UNIX licensees were permitted to use the AT&T UNIX foundation internally. They were also permitted to package it with hardware in object code format and to produce flavors that could be sold to equivalent-scope licensees. None of these rights threatened AT&T’s UNIX business. The internal use of UNIX could not include the sale of an operating system to third parties, and sales to equivalent-scope licensees at worst would result in disclosure only to parties who already bought from AT&T permission to see source code and thus have already agreed to abide by the above restrictions and confidentiality. AT&T thus protected its UNIX business while leaving licensees with broad rights to pursue their legitimate businesses as well. (Ex. 286 at 87 & nn.172-76; Ex. 12 ¶¶ 3-11; Ex. 375 ¶¶ 12-13; Ex. 50 ¶¶ 3-26.)

61. IBM and Sequent had no compelling reason to object to these provisions, and the terms of the licenses to which they agreed show that they in fact did not object. (Ex. 286 at 87-88 & nn.177-78; Ex. 12 ¶¶ 3-11.)

62. Indeed, at the time, in their business models, neither IBM nor Sequent would have considered it a valuable right even to be able to distribute source code, methods and concepts from their UNIX flavors only to equivalent-scope AT&T licensees. Such distributions would only serve to permit the equivalent-scope licensees to develop their own UNIX flavors to sell with their own hardware, thereby hurting IBM's and Sequent's sale of their hardware on which their UNIX flavors operated. (Ex. 286 at 95-96; Ex. 12 ¶¶ 3-11; Ex. 50 ¶¶ 3-16.)

#### **IV. THE EXTRINSIC EVIDENCE CONFIRMS THE SCOPE OF THE UNIX LICENSE AGREEMENTS.**

##### **A. Contemporaneous and Subsequent Licensing Documents.**

63. Although AT&T entered into educational license agreements for UNIX System V, the company specifically designed and enforced those licenses to protect the commercial value of AT&T's UNIX business, and in doing so set forth and enforced protections that went far beyond just the licensed UNIX source code. In 1986, for example, Otis Wilson of AT&T (who has signed a declaration for IBM) described the scope of AT&T's standard UNIX System V educational license to Harvard University: "We remind you that commercially motivated research and development activity may not be pursued with an educational license agreement (such as your Agreement E-Soft-00162) even if the resulting product does not contain any UNIX System V code." (Ex. 117 (emphasis added).)

64. Jeanette Tilley of UNIX System Laboratories ("USL") (who has signed a declaration for IBM) signed letters to UNIX licensees confirming that USL had obtained and expected much greater protection from its licensee than protection for just literal UNIX System V source code. On March 20, 1992, for example, Ms. Tilley signed a letter on behalf of USL to

Sequoia Systems, Inc., stating: “We remind you that your obligations (and those of your employees and subsidiaries) of confidentiality pursuant to Section 7.06 shall survive and continue after any termination of rights under this Agreement.” (Ex. 118.) Section 7.06 of Sequoia’s UNIX license agreement (Oct. 3, 1986), in turn, contained the following language: “LICENSEE further agrees that it shall not make any disclosure of any or all of such SOFTWARE PRODUCTS (including methods or concepts utilized therein) to anyone, except to employees and contractors of LICENSEE to whom such disclosure is necessary to the use for which rights are granted hereunder.” (Ex. 119 (emphasis added).)

65. Mr. Wilson has testified that as of the time of IBM’s UNIX license agreement, on February 1, 1985, AT&T had decided that it would no longer seek to protect its methods and concepts from disclosure by its UNIX licensees. Yet more than a year and half later, in October 1986, AT&T entered into the license agreement with Sequoia requiring the company to keep the methods and concepts confidential. (Ex. 119.) And over seven years after the alleged suspension of AT&T’s efforts to protect the UNIX methods and concepts, Ms. Tilley sent Sequoia a letter reminding the company that it remained obligated to keep the methods and concepts confidential after the termination of its license agreement. (Ex. 118.)

66. In March 1990, Mr. Wilson signed a “Software Attachment” with an “Order for Supplies or Services” from the National Institute of Health. The Attachment was for “Provisions Relating to Rights to Use Certain Software Products for Inclusion in Contracts Between AT&T Information Systems Inc. and Agencies of the U.S. Government.” The Attachment contained the same core protections as set forth in AT&T’s standard UNIX license agreement from 1985, namely:



Such right to use includes the right to modify such SOFTWARE PRODUCT and to prepare derivative works based on such SOFTWARE PRODUCT, provided that any such modification or derivative work that contains any part of a SOFTWARE PRODUCT subject to this Agreement is treated hereunder the same as such SOFTWARE PRODUCT.

. . . the Government's agreement under such clauses not to provide or otherwise make available SOFTWARE PRODUCT to any third party shall also be considered agreement not to disclose methods and concepts utilized in SOFTWARE PRODUCT to any third party without the written approval of Contractor.

(Ex. 120 §§ 5, 13.) Mr. Wilson also signed letter agreements in June and August 1990 directing the licensees: "You will not provide access to any copy of the source code of the SOFTWARE PRODUCT (including methods and concepts contained therein), in whole or in part, to anyone other than your organization's employees who have a need to know." (Ex. 27; Ex. 28; Ex. 29.)

67. Another, similar example is the

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68. The same documents contradict any suggestion that AT&T successor-in-interest Novell, Inc. had abandoned the protection over UNIX methods and concepts, or over the modifications and derivative works the licensees developed based on the licensed UNIX software product. In February 1992, for example, USL entered into a UNIX System V license agreement with Micro Resources, Inc. Again, seven years after the alleged suspension of efforts to protect the UNIX methods and concepts or the entirety of the UNIX licensees' modifications

and derivative works, the agreement contained the same core protections as set forth in AT&T's standard UNIX license agreement from 1985, namely:

Such right to use includes the right to modify such SOFTWARE PRODUCT and to prepare derivative works based on such SOFTWARE PRODUCT, provided that any such modification or derivative work that contains any part of a SOFTWARE PRODUCT subject to this Agreement is treated hereunder the same as such SOFTWARE PRODUCT.

LICENSEE further agrees that it shall not make any disclosure of any or all of such SOFTWARE PRODUCTS (including methods or concepts utilized therein) to anyone, except to employees and contractors of LICENSEE to whom such disclosure is necessary to the use for which rights are granted hereunder.

(Ex. 122 §§ 2.01, 7.05(a).) The same core protections appeared in USL's December 1993 agreement with the United States Department of Commerce. (Ex. 123 §§ 2.01, 7.05(a).)

69. In June, August, and October 1994, Novell entered into UNIX System V license agreements with Green Hills Software, Inc., Computational Logic Inc., and Loral Federal Systems, Inc. Now nine years after the alleged suspension of efforts to protect the UNIX methods and concepts or the entirety of the UNIX licensees' modifications and derivative works, each agreement contained the same core protections as set forth in AT&T's standard UNIX license agreement from 1985, namely:

Such right to use includes the right to modify such SOFTWARE PRODUCT and to prepare derivative works based on such SOFTWARE PRODUCT, provided that any such modification or derivative work that contains any part of a SOFTWARE PRODUCT subject to this Agreement is treated hereunder the same as such SOFTWARE PRODUCT.

LICENSEE further agrees that it shall not make any disclosure of any or all of such SOFTWARE PRODUCTS (including methods or concepts utilized therein) to anyone, except to employees and contractors of LICENSEE to whom such disclosure is necessary to the use for which rights are granted hereunder.

(Ex. 34; Ex. 125; Ex. 126 §§ 2.01, 7.05(a).)

70. Similarly, after Santa Cruz had acquired the UNIX business and copyrights from Novell, Santa Cruz continued to implement the same protections. In November 1997, for example, Santa Cruz entered into a UNIX System V license agreement with Samsung Electronics Co., Ltd. Now twelve years after the alleged suspension of efforts to protect the UNIX methods and concepts or the entirety of the UNIX licensees' modifications and derivative works based on the licensed UNIX software product, the agreement contained the same core protections as set forth in AT&T's standard UNIX license agreement from 1985, namely:

Such right to use includes the right to modify such SOFTWARE PRODUCT and to prepare derivative works based on such SOFTWARE PRODUCT, provided that any such modification or derivative work that contains any part of a SOFTWARE PRODUCT subject to this Agreement is treated hereunder the same as such SOFTWARE PRODUCT.

LICENSEE further agrees that it shall not make any disclosure of any or all of such SOFTWARE PRODUCTS (including methods or concepts utilized therein) to anyone, except to employees and contractors of SAMSUNG to whom such disclosure is necessary to the use for which rights are granted hereunder.

(Ex. 127 §§ 2.01, 7.05(a).) The same protections are also set forth, for example, in the Educational Software License Agreement that Santa Cruz entered into with the California Institute of Technology in November 1997. (Ex. 128.)

71. Since AT&T developed its standard UNIX System V license agreement, AT&T and its successors-in-interest (USL, Novell, and Santa Cruz) have made explicit in their license agreements the following:

This Agreement and its Supplements set forth the entire agreement and understanding between the parties as to the subject matter hereof and merge all prior discussions between them, and neither of the parties shall be bound by any conditions, definitions, warranties, understandings or representations with respect to such subject matter other than as expressly provided herein or as duly set forth on or subsequent to the date of acceptance hereof in writing and signed by a proper and duly authorized representative of the party to be bound thereby.

(See, e.g., IBM Ex. 492; Ex. 122; Ex. 123; Ex. 34; Ex. 125; Ex. 126; Ex. 127; Ex. 128.)

72. William Murphy, who signed the agreements in paragraph 70 on behalf of Santa Cruz, was involved in overseeing the UNIX license agreements from the 1970s, when he was with AT&T, until 2002, when he retired from SCO. He confirms that it was always his understanding (from AT&T to USL to Novell to Santa Cruz to SCO) that the agreements required licensees to keep confidential not only the UNIX System V methods and concepts, but also the entirety of the licensees' derivative works based on the licensed UNIX System V software product. (Ex. 337 ¶¶ 2-15.)

73. Indeed, the evidence shows, by way of further example, that in 1997 Santa Cruz included contractual protections for its UNIX methods and concepts even in licenses other than its source-code licenses. In May 1997, for instance, Santa Cruz and Lucent Technologies, Inc. entered into a "SCO UnixWare OEM Reseller Source for Support Agreement," pursuant to which Lucent obtained the right to use UnixWare source code to correct bugs in the binary distributions and distribute those fixes in binary form, and which included the following language:

LICENSEE agrees that it shall hold all parts of SCO UNIXWARE SOURCE PRODUCT(s) subject to this Agreement in confidence for SCO. LICENSEE further agrees that it shall not make any disclosure of any or all of such SCO UNIXWARE SOUR PRODUCT(s) (including methods or concepts utilized therein) to anyone, except to employees and contractors of LICENSEE to whom such disclosure is necessary to the use for which rights are granted hereunder.

(Ex. 124 § 15.) This document again contradicts any assertion that Santa Cruz was not seeking to protect the disclosure of UNIX methods and concepts.

74. IBM also submits declarations claiming that AT&T never intended to exert “control” over the “homegrown material” in their licensees’ modifications and derivative works based on the licensed UNIX software product, but contemporaneous documents contradict that assertion. Only months before AT&T entered into its license agreement and Side Letter with IBM, for example, Mr. Wilson made clear in a side letter to DEC that it had to keep all of its modifications and derivative works confidential, even those parts that Digital owned:

If such derivative work does include any of our code or embody any of our methods and concepts you may have a property right in such derivative work to the extent of any modifications that you have added, but the exercise of that property right is subject to the terms of the Software and Sublicensing Agreements, including to the restrictions on the use of the SOFTWARE PRODUCTS (for example, it must be kept in confidence).

(Ex. 36.) Mr. Wilson thus made AT&T’s view clear: the derivative work “must be kept in confidence.” The same clear distinction was drawn in a side letter with DEC executed after the IBM Side Letter. (Ex. 26.)

75. If AT&T intended that its side letters with some of its licensees would reflect AT&T’s view of the scope its agreements with all of its licensees, the foregoing side letter (as just one example) confirms that all licensees were obligated to keep confidential their modifications and derivative works. Indeed, where IBM’s argument is taken to its logical conclusion, side letters such as the one between SCO and Siemens AG in June 1998 would establish that all licensees would have access to the licensed source code only if none of the licensees’ employees were “working on the design and/or development of product in direct competition with” SCO’s operating system products. (Ex. 130.)

B. The Testimony of Relevant Witnesses.

76. AT&T used a standard UNIX license agreement in commercially licensing its UNIX software product in the 1980s. (Ex. 41 ¶¶ 2-9; Ex. 8 ¶ 9; Ex. 43 ¶¶ 2-15; Ex. 337 ¶¶ 2-15; Ex. 138 ¶¶ 3-10; Ex. 12 ¶¶ 8-16; Ex. 71 at 87; Ex. 69 at 15.)

77. The standard commercial UNIX license agreement contained the same confidentiality protections as AT&T's educational and governmental UNIX license agreements. (Ex. 10 ¶ 4; Ex. 5 at 68, 240; Ex. 8 ¶ 5; Ex. 14 ¶ 10; Ex. 4 ¶ 7; Ex. 138 ¶¶ 3-10; Ex. 71 at 225; Ex. 69 at 34, 38.)

78. AT&T entered into the commercial UNIX license agreements because it wanted to encourage the widespread acceptability of UNIX as an industry standard, because the more UNIX was used, the more license fees that AT&T would collect, in a domino effect. (Ex. 41 ¶¶ 2-9; Ex. 12 ¶¶ 3-7; Ex. 71 at 168; IBM Ex. 261 at 144-45.)

79. There was nothing inherent in AT&T's UNIX licensing program that would result in disclosures of the protected material in the public domain. If all licensees honored their obligations, there would be no such disclosures, except to whatever extent AT&T decided to make that information public without restriction. (Ex. 12 ¶ 6; Ex. 333 ¶ 15; IBM Ex. 261 at 144-45; Ex. 375 ¶ 6; Ex. 278 ¶ 86; Ex. 71 at 176-77; see also IBM Ex. 260 at 96.)

80. In its standard UNIX license agreement, AT&T and its successors-in-interest intended and required that the licensee keep confidential all parts of the licensed UNIX software product, including the source code, methods, concepts, techniques, know-how and ideas therein. The UNIX licensors never abandoned those protections. (Ex. 10 ¶ 5; Ex. 5 at 149-50; Ex. 41 ¶¶ 2-9; Ex. 43 ¶¶ 2-15; Ex. 337 ¶¶ 2-15; Ex. 138 ¶¶ 3-10; Ex. 375 ¶¶ 4-32; Ex. 5 at 106, 130-31,

141-43; Ex. 10 ¶¶ 5-6; Ex. 8 ¶ 9-10; Ex. 14 ¶¶ 7(b), 11(d); Ex. 12 ¶¶ 8-16; Ex. 4 ¶¶ 5, 6(b); Ex. 19 at 37, 45-46, 147-148; Ex. 5 at 130-31; Ex. 26 at 2; Ex. 27-29; Ex. 38 ¶¶ 2-4, 21-25; Ex. 8 ¶ 10; Ex. 71 at 87-89, 97-98, 101; Ex. 69 at 44; Ex. 337 ¶¶ 5-8; Ex. 333 ¶¶ 11-13; see also IBM Ex. 252 ¶ 12; IBM Ex. 295 at 159; IBM Ex. 260 at 49, 102, 162-63; IBM Ex. 260 at 108-08; IBM Ex. 261 at 48-49, 57-59, 75, 93-94, 22-25, 133-34, 162; IBM Ex. 584 at 73-76, 121-22, 178-79, 189.)

81. In its standard UNIX license agreement, AT&T intended to impose protections that the intellectual-property law might not otherwise provide for the licensed UNIX software product and the modifications and derivative works based on that product. (Ex. 7 ¶ 6; Ex. 71 at 90, 222; Ex. 375 ¶ 11; Ex. 333 ¶ 14; see also IBM Ex. 261 at 181-82.)

82. The UNIX license agreements required the licensees to treat the modifications and derivative works they developed based on the licensed UNIX software product as part of the licensed UNIX software product itself. (Ex. 43 ¶¶ 2-15; Ex. 337 ¶¶ 2-15; Ex. 138 ¶¶ 3-10; Ex. 12 ¶¶ 8-16; Ex. 375 ¶¶ 4-32; Ex. 7 ¶ 6; Ex. 24 at 134, 228-29, 231-32; Ex. 19 at 146; Ex. 38 ¶¶ 2-4, 21-25; Ex. 5 at 114-15, 117-18; Ex. 71 at 90; Ex. 69 at 22-23, 36, 47; Ex. 355 ¶¶ 10-13; Ex. 337 ¶¶ 5-8; Ex. 333 ¶¶ 11-13; Ex. 297 at 83-84; see also IBM Ex. 260 at 70; IBM Ex. 584 at 76-80, 92-93, 95, 159-60, 194-95; IBM Ex. 80 at 111-19, 216; IBM Ex. 513 at 51, 23, 121.)

83. AT&T intended and required that the licensee keep confidential all parts of any modification or derivative work that the licensee developed based on the licensed UNIX software product. (Ex. 43 ¶¶ 2-15; Ex. 337 ¶¶ 2-15; Ex. 138 ¶¶ 3-10; Ex. 5 at 130-131; Ex. 12 ¶¶ 8-16; Ex. 8 ¶ 6; Ex. 4 ¶ 6; Ex. 41 ¶¶ 2-9; Ex. 77 at 145; Ex. 355 ¶¶ 10-13; Ex. 38 ¶¶ 2-4, 21-25; Ex. 10 ¶ 5; Ex. 5 at 114-15; Ex. 351 ¶¶ 6-7; Ex. 71 at 89-90, 162-63; Ex. 69 at 25; 44-45, 57,

177-178; 337 ¶¶ 5-8; Ex. 375 ¶¶ 4-32; Ex. 333 ¶¶ 11-13; Ex. 297 at 83-84; see also IBM Ex. 584 at 139-41; IBM Ex. 301 at 340-43.)

84. A modification or derivative work within the meaning of AT&T's standard UNIX license agreement includes any product that includes any part of, or was developed based on or with exposure to, the licensed UNIX software product. (Ex. 7 ¶ 6; Ex. 5 at 82-84; 15-52; Ex. 14 ¶ 7, 11; Ex. 4 ¶ 6; Ex. 5 at 113, 145; Ex. 19 at 18, 19, 20, 42, 166-68; Ex. 69 at 44-45, 53-54, 178-184; Ex. 337 ¶¶ 5-8; Ex. 375 ¶¶ 15-16; Ex. 333 ¶¶ 11-13; see also IBM Ex. 584 at 76, 95-97, 120; IBM Ex. 80 at 44-46; IBM Ex. 513, at 51, 127-28; IBM Ex. 295 at 31-32.)

85. The "exposure" or "contamination" concerns underlying AT&T's standard UNIX license agreements are ones known to IBM. In 2001, IBM

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(Ex. 132 at 6.)

86. Although the licensees owned those parts of the modifications and derivative works that were not part of the licensed UNIX software product, they were nevertheless obligated to keep all parts of the modifications and derivative works confidential. (Ex. 43 ¶¶ 2-



15; Ex. 337 ¶¶ 2-15; Ex. 138 ¶¶ 3-10; Ex. 5 at 130-131; Ex. 12 ¶¶ 8-16; Ex. 8 ¶ 6; Ex. 4 ¶ 6; Ex. 41 ¶¶ 2-9; Ex. 77 at 145; Ex. 38 ¶¶ 2-4, 21-25; Ex. 10 ¶ 5; Ex. 5 at 114-15; Ex. 71 at 50, 89-90, 162-63; Ex. 69 at 25; 44-45, 57, 177-178; 337 ¶¶ 5-8; Ex. 355 ¶¶ 10-13; Ex. 333 ¶¶ 11-13; Ex. 297 at 83-84; see also IBM Ex. 584 at 139-41; IBM Ex. 301 at 340-43.)

87. AT&T and its successors-in-interest never agreed to eliminate the foregoing, core confidentiality protection of the standard UNIX license agreement. (Ex. 43 ¶¶ 2-15; Ex. 337 ¶¶ 2-15; Ex. 38 ¶¶ 2-4, 21-25; Ex. 5 at 90-91; Ex. 8 ¶ 11; Ex. 14 ¶ 9; Ex. 7 ¶ 8; Ex. 41 ¶¶ 2-9; IBM Ex. 261 at 39-41; Ex. 69 at 204; Ex. 375 ¶¶ 4-32; Ex. 333 ¶ 21; Ex. 355 ¶ 19; Ex. 337 ¶ 15.)

88. AT&T and IBM entered into a side letter that clarified some parts of the IBM Agreement and amended other parts. The IBM Side Letter did not affect how IBM was obligated to treat its modifications and derivative works based on the licensed UNIX software product. (Ex. 77 at 151, 160-61, 163; Ex. 50 ¶¶ 39-41; Ex. 71 at 117, 120, 166-67, 171-72; Ex. 355 ¶ 16; Ex. 333 ¶ 16; Ex. 337 ¶ 9; Ex. 375 ¶¶ 14-17; Ex. 375 ¶¶ 4-32; Ex. 360 ¶ 27; see also IBM Ex. 80 at 29-31, 33-34.)

89. The IBM Side Letter did not affect the terms and conditions of any of AT&T's other UNIX license agreements, including the Sequent Agreement. (Ex. 10 ¶¶ 9-10; Ex. 8 ¶ 12; Ex. 301 at 232-35; Ex. 5 at 93, 95; Ex. 12 ¶ 13; IBM Ex. 261 at 70-72; Ex. 71 at 212, 225-26; Ex. 333 ¶ 16; Ex. 355 ¶ 16; Ex. 337 ¶ 9; see also IBM Ex. 260 at 40; IBM Ex. 584 at 111, 193-94; IBM Ex. 295 at 82-84, 146.)

90. There was no single individual in AT&T's, USL's, Novell's or Santa Cruz's UNIX licensing group who had the authority to change, or amend, or waive the terms of AT&T's standard UNIX license agreement. Such a decision required the approval of several individuals,

including members of the legal team. (Ex. 138 ¶¶ 3-10; Ex. 12 ¶¶ 8-16; Ex. 375 ¶ 14; Ex. 351 ¶ 8; Ex. 41 ¶ 5; Ex. 71 at 223, 236-37; see also IBM Ex. 80 at 53-54; IBM Ex. 584 at 35-37.)

91. The UNIX license agreement and any written amendments clarifications of or thereto represented the entire understandings between the parties. (Ex. 43 ¶¶ 2-15; Ex. 337 ¶¶ 2-15; Ex. 138 ¶¶ 3-10; Ex. 375 ¶ 18; Ex. 71 at 226; see also IBM Ex. 63-65, 68; IBM Ex. 584 at 102-03.) The AT&T and successor-in-interest representatives were not permitted to make a representation that was contrary to what was in writing, and they did not so do. (Ex. 41 ¶¶ 2-9; Ex. 43 ¶¶ 2-15; Ex. 337 ¶¶ 2-15; Ex. 355 ¶¶ 18-21; Ex. 375 ¶ 18; Ex. 138 ¶¶ 3-10 ; Ex. 333 ¶¶ 17-20; Ex. 337 ¶¶ 11-13; see also IBM Ex. 260 at 123; IBM Ex. 584 at 102-03.)

92. The AT&T representatives shared the foregoing understanding and intent regarding the scope of the UNIX license agreements, inasmuch as the scope of the agreements was a common subject of training and discussion within AT&T. (Ex. 41 ¶¶ 2-9; Ex. 43 ¶¶ 2-15; Ex. 337 ¶¶ 2-15; Ex. 138 ¶¶ 3-10; Ex. 12 ¶¶ 8-16; Ex. 69 at 58, 133-34, 171-72.)

93. AT&T regularly informed its licensees that they were obligated to keep confidential all parts of their modifications and derivative works based on the licensed UNIX software product. AT&T did not tell its licensees otherwise. (Ex. 43 ¶¶ 2-15; Ex. 337 ¶¶ 2-15; Ex. 12 ¶¶ 8-16; Ex. 71 at 223; Ex. 69 at 32, 158-59, 189-90; Ex. 333 ¶¶ 17-20; Ex. 355 ¶¶ 17-20; Ex. 337 ¶¶ 11-13; see also IBM Ex. 80 at 97, 108; Ex. 137 at 1.)

94. An Amendment No. X, executed in 1996, further defined IBM's right to use the licensed UNIX software product; the parties to Amendment No. X did not intend to increase any of IBM's rights under its UNIX Agreement and Side Letter, and did not intend to permit IBM to

disclose any part of any modification or derivative work based on the licensed UNIX software product. (Ex. 38 ¶¶ 2-4, 17-20; Ex. 50 ¶¶ 36-41.)

95. The successors to AT&T's UNIX business and license agreements – USL, Novell, Santa Cruz, and SCO – utilized the same standard protections of confidentiality in the license agreements, the same policy of requiring any changes or amendments to the agreements to be in writing, and the same interpretation of the agreements to require the licensees to hold in confidence all parts of their modifications and derivative works based on the licensed UNIX software product. (Ex. 41 ¶¶ 2-9; Ex. 12 ¶¶ 8-16; Ex. 43 ¶¶ 2-15; Ex. 38 ¶¶ 2-4, 21-25; Ex. 337 ¶¶ 2-15; Ex. 333 ¶ 21; Ex. 375 ¶¶ 4-32; Ex. 355 ¶ 19; Ex. 337 ¶ 15; see also ¶ 80, above.)

96. The executives and managers overseeing and implementing UNIX licensing at AT&T, USL, Novell, Santa Cruz and SCO were not aware of any instance in which a licensee had publicly disclosed any part of its derivative work based on the licensed UNIX software product. (Ex. 50 ¶¶ 27-28; Ex. 12 ¶ 15; Ex. 375 ¶ 32; Ex. 43 ¶ 14; Ex. 71 at 178, 242; Ex. 333 ¶ 20; Ex. 337 ¶ 14; Ex. 355 ¶ 20.)

Ira Kistenberg

97. IBM relies on a declaration from Ira Kistenberg, the account executive who negotiated Sequent's UNIX license on behalf of AT&T, for its position that only copying of literal UNIX source code is protected by the agreements. (See IBM Mem. 33, 46, 57-62, 67-68; see also IBM Ex. 217 ¶ 22.)

98. In his more recent declaration, however, Mr. Kistenberg clarified that the UNIX license agreements protect much more than literal source code. (Ex. 10 ¶ 5.) ("AT&T intended that protected modifications and derivatives would include any product that contained any source

code that had been copied verbatim from UNIX System V; any copied source code that was similar in substance to the original source code in UNIX System V; any structures, sequences, patterns, ideas, methods or concepts from UNIX System V; and any source code that the licensee developed with the benefit of exposure to the UNIX System V source code.”). Mr. Kistenberg has also now acknowledged that the license agreements protected against copying “any structures, sequences, patterns, ideas, methods or concepts from UNIX System V” aside from the express protection for UNIX source code. (Ex. 10 ¶ 5.)

99. Mr. Kistenberg has further explained that the UNIX structures, sequences, patterns, methods, and concepts were subject to 7.06(a), which prohibits the disclosure of those methods and concepts (even in modified form) “to anyone, except to the employees of the licensee to whom such disclosure was necessary to the use for which AT&T granted rights under the license agreements.” (Id. ¶ 6.)

100. IBM also relies on Mr. Kistenberg’s first impression in arguing that the language of the IBM Side Letter meant that AT&T removed use and disclosure restrictions on licensees’ modifications and derivatives of UNIX System Five. (See IBM Mem. ¶ 63; see also IBM Ex. 217 ¶ 18.)

101. Mr. Kistenberg’s more recent declaration recalled AT&T’s decision to change the language of its agreements (months after the IBM and Sequent agreements had been executed) and clarified that the change related only to ownership, and did not affect the existing use and disclosure restrictions. (Ex. 10 ¶ 8.)

102. Mr. Kistenberg also rejected the notion that licensees who were not party to side letters or subsequent agreements would receive the benefit of such language, despite IBM's attempted reliance on his prior declaration to support such a claim. (Ex. 10 ¶ 9.)

103. With respect to IBM's assertion that Mr. Kistenberg allegedly made certain representations to Sequent regarding the scope of the license agreement. Mr. Kistenberg also insisted that "the policy of the UNIX licensing group was that any changes to a licensee's software agreement had to be in writing. I never verbally agreed with any licensee to modify its license in any way without memorializing the modification in writing." (Ex. 10 ¶ 10.)

104. In his subsequent deposition, moreover, Mr. Kistenberg confirmed each of the foregoing points from his second declaration. (Ex. 75 at 17-23, 25-42, 47-48, 69, 115-118.) He also explained that he did not understand the interpretation IBM would give to the declaration they asked him to sign. (Ex. 75 at 145-46.)

#### Otis Wilson

105. IBM relies on Otis Wilson's testimony to support its position that only copying of literal UNIX source code was protected. (See IBM Mem. ¶¶ 24-26, 43, 46, 50, 54, 57-63, 67-68, 70-71, 85, 280; see also IBM Ex. 282 ¶¶ 12, 14.) Mr. Wilson confirms that his supervisor in 1985 was William Guffey. (IBM Ex. 301 at 194-96; IBM Ex. 346 at 199-200.) Mr. Guffey disagrees across the board with Mr. Wilson's assertions regarding the supposed scope of the agreements. (Ex. 138 ¶¶ 3-10.)

106. Mr. Wilson gave sworn testimony directly contrary to these statements, moreover, when he was deposed in UNIX System Laboratories, Inc. v. Berkeley Software Design, Inc., Civil Action No. 92-1667 (DRD) (D.N.J.) ("BSD"), nearly twelve years closer to the events in

question. Mr. Wilson testified that AT&T's UNIX software agreements protected far more than just "UNIX System V code," and that he had expressly communicated that view to AT&T's licensees. (IBM Ex. 513 at 128.)

107. The BSD case involved a software agreement with substantially similar intellectual-property protections as those found in the IBM and Sequent software agreements. (Compare The Regents of the University of California Agreement (11/12/85) §§ 2.01, 7.06 (Ex. 13) with IBM Agreement (2/1/85) §§ 2.01, 7.06 (IBM Ex. 492) and Sequent Agreement (4/18/85) §§ 2.01, 7.06 (IBM Ex. 119); see also Ex. 10 ¶ 4 (explaining that UNIX commercial, educational, and governmental licenses all provided the same core intellectual-property protections); Ex. 5 at 68, 240 (same); Ex. 8 ¶ 5 (same); Ex. 14 ¶ 10 (same); Ex. 4 ¶ 7 (same)).

108. Mr. Wilson further testified in BSD: "My understanding is that anything created by the university with exposure to the licensed software, based on, contained, a part of, was a derivative work with regard to these documents and had to be treated as licensed software." (IBM Ex. 513 at 51.)

109. According to Mr. Wilson's BSD testimony, AT&T's license agreement covered a licensee's product that did not contain any UNIX source code if the licensee developed that product with exposure to the licensed UNIX product. (Id. at 127-28.)

110. In a deposition in this case, Mr. Wilson admitted that under Section 2.01 of the UNIX license agreement, modifications and derivative works were included in the definition of the protected software product, and thus had to be treated in the same way as the licensed software. (IBM Ex. 301 at 220; see also id. at 340-43.)

111. IBM cites Mr. Wilson's testimony in denying that the UNIX software agreements were intended to protect the methods and concepts embodied in UNIX System V. (IBM Ex. 281 ¶ 14.) Such testimony is inconsistent with Mr. Wilson's contemporaneous statements and actions. Just before and well after the IBM Side Letter was signed in February 1985, for example, Mr. Wilson (on behalf of AT&T) repeatedly and expressly sought to protect UNIX "methods and concepts" pursuant to AT&T's software agreements. (Ex. 26 at 2; Ex. 27; Ex. 28; Ex. 29.)

112. IBM cites Mr. Wilson in support of its claim that the IBM Side Letter, which addresses a licensee's ownership of modifications and derivative works, shows that AT&T's UNIX licensees were unrestricted in their right to use and distribute such works. (See IBM Mem. ¶¶ 100, 107, 110, 113; see also Ex. 282 ¶¶ 19-20.)

113. Contrary to his current declaration, at the time AT&T entered into its software license and side letter agreements with IBM, Mr. Wilson explained that the licensee's ownership rights did not eliminate the contracted use and disclosure restrictions. (Ex. 26 at 2 (differentiating between the "property rights" of a licensee and the continued restrictions on such property pursuant to the software agreement); Ex. 36 at 3 (same).)

114. IBM cites the declaration of Mr. Wilson in arguing that whether or not AT&T entered into a side letter or other agreements with its licensees to clarify the treatment of modifications and derivative works, or altered the language of Section 2.01, AT&T's and USL's intent was always the same. (See IBM Mem. ¶ 63 (citing Wilson Decl. (4/26/04)) (IBM Ex. 282 ¶ 27).)

115. In deposition testimony, however, Mr. Wilson admitted that side letters such as the one IBM entered into with AT&T could not govern the terms of the AT&T-Sequent UNIX license. (IBM Ex. 301 at 232-35.)

116. In his August 2006 deposition, Mr. Wilson admitted that he did not have the sole authority at AT&T to make decisions about intellectual property protections, but rather shared authority with his supervisors. (IBM Ex. 346 at 199-200.)

117. Mr. Wilson admitted that he testified truthfully in the BSD litigation. (Id. at 49-55, 57-60, 72, 97-103, 105-06, 278-80.) He confirmed that, with respect to the restrictions of confidentiality, there was no difference in AT&T's intent between AT&T's standard commercial license agreement, such as Sequent's, and the educational license agreements about which he testified in the BSD case. (Id. at 42-48.)

118. Asked about the language in the 1983 BSD agreement expressly defining "software product" to include "computer programs prepared by licensee as a modification of or a derivative of the works based on any of the materials solicited or furnished" to the licensee, Mr. Wilson confirmed that AT&T's intent in the 1983 BSD agreement was the same as AT&T's intent in its later license agreements. (Id. at 149-53.)

119. Mr. Wilson agreed that the licensed UNIX software product included the methods and concepts embodied therein, as well as ideas, know-how and techniques. (Id. at 74-75, 80-82, 179-80.)

120. Mr. Wilson testified that the IBM Side Letter abandoned protections for methods and concepts, and that the abandonment affected all of AT&T's UNIX licensees. (Id. at 85-86.) Yet he had no explanation for the Digital Side Letter, dated weeks after the IBM Side Letter,



which expressly confirmed Digital's obligation to keep the methods and concepts confidential. (Id. at 90-95.) He also had no explanation for why AT&T's license agreements in 1987 continued to require licensees to hold methods and concepts in confidence for AT&T. (Id. at 145-46.)

121. With respect to the distinction drawn in Paragraph 3 of the Digital Side Letter between rights of ownership and obligations of confidentiality, Mr. Wilson was unable sensibly to reconcile his asserted views of the scope of the license agreements with the language in the Digital Side Letter. (Id. at 12-30.)

122. Mr. Wilson disagreed with AT&T attorney Burt Levine's description of the licensee's obligations of confidentiality with respect to derivative works. (Id. at 161-64.) Mr. Wilson disagreed with AT&T attorney Marty Pfeffer's testimony to the extent that Mr. Pfeffer was saying that the licensees were obligated to hold in confidence all parts of their derivative works. (Id. at 193-97.)

123. Mr. Wilson agreed with AT&T attorney Geoff Green's testimony that a derivative work included a product that "somehow includes" the UNIX product or part of the UNIX product. (Id. at 116-18.) He also acknowledged that if a licensee had been exposed to and had used the UNIX software product to help create a product, but that product contained no UNIX software product, that product would nevertheless constitute a derivative work. (Id. at 135-37.)

124. Mr. Wilson admitted that his understanding of the confidentiality protections for derivative works, that the licensee was obligated to hold in confidence only the UNIX source code in the derivative work, was not reflected in the language of the Sequent Agreement. (Id. at

154-55.) In addition, he agreed that the Integration Clause in the Sequent Agreement accurately reflected AT&T's intent. (Id. at 291-92.)

David Frasure

125. IBM cites from David Frasure to support its claim that the UNIX software agreements protected AT&T from only the literal copying of UNIX source code. (See IBM Mem. ¶¶ 20-24, 43, 46, 58-63, 67-68, 70-71, 105; see also IBM Ex. 190 ¶¶ 12, 14.)

126. Like Mr. Wilson, Mr. Frasure took a directly contradictory position in his 1992 BSD testimony. Mr. Frasure acknowledged then that modifications and derivative works were to be treated as licensed software under the software agreement. (Ex. 19 at 146.)

127. Mr. Frasure described an occasion on which he and Mr. Wilson threatened litigation to stop a licensee from distributing a derivative product, without regard for whether that derivative product contained any literal UNIX source code. In so doing, Mr. Frasure explained how the fact that the derivative product was based on UNIX sufficed to ensure that it was subject to the protections of the software agreements. (Id. at 23; see also id. at 121.)

128. Mr. Frasure repeatedly testified to AT&T's intent to protect the entire universe of products that could be created as a result of UNIX exposure, regardless of whether the resulting product actually contained any UNIX code. (Id. at 20; see also id. at 42, 166-68.)

129. Mr. Frasure also testified about a meeting that he had attended with Mr. Wilson, Geoff Green (the sole attorney who has signed a declaration submitted with IBM's motion), and representatives of one of AT&T's licensees in late 1984. (Id. at 96-97.) Mr. Frasure recalled the concept of "mental contamination" that he and Mr. Wilson had used to describe the expansive scope of the protections provided under the software agreements. (Id. at 18-19.) Mr. Frasure

also specifically reiterated that AT&T's "exposure" concept was intended to cover products even if they did not contain the UNIX source code. (See id.)

130. In his deposition in this case, Mr. Frasure acknowledged that the language of the software agreements does not support IBM's position. After recognizing that modifications and derivatives of the original product are clearly protected by the agreements, Mr. Frasure qualified that protection by adding the caveat that such modifications and derivatives had to contain literal UNIX source code to be protected – but even then admitted that this position is not supported by the plain language of the software agreements. (IBM Ex. 302 at 256-57.)

131. Mr. Frasure also acknowledged that the creation of a "derivative work" does not have to involve literal copying: "Derivative work means that it was based on Unix. It was, in other words it was derived from, from Unix. It also could be that it worked with Unix, but it may not have specific Unix code in it. But the software itself that would be written by a licensee could not have been written, if you will, without Unix existing." (Id. at 178 (emphasis added).)

132. Indeed, in a declaration that he gave to IBM in October 2003 – almost six months before to the March 2004 declaration on which IBM now relies – Mr. Frasure made similar statements that undermine his current position. In his original declaration, Mr. Frasure recognized that an entire modification or derivative work, and not literal lines of UNIX source code within that work, had to be protected under the software agreements. He explained that "licensees owned their modifications and derivative works and were permitted to use or disclose them as they might choose, so long as any modification or derivative work containing any part of a software product was treated the same as a software product under the license agreements." (IBM Ex. 189 ¶ 12.)

133. IBM similarly cites Mr. Frasure in attempting to deny protection for UNIX methods and concepts. (IBM Ex. 190 ¶ 15.) Mr. Frasure flatly contradicted these statements in his 1992 BSD testimony, when he testified that “the licensed software to me encompasses methods and concepts techniques,” so that “to the extent at some point [a licensee] gets involved with the source code, the I – and its methods and concepts, then I think there – there’s a restriction on its – on its use.” (Ex. 19 at 45-46.)

134. Mr. Frasure stressed that there is “more to the agreement” than the protection of UNIX source code itself, and pointed to “other portions of paragraphs that cover methods and concepts and – and stuff.” (Id. at 37.) Mr. Frasure characterized these protections as a “key part of the agreement.” (Id. at 147.)

135. When asked about the types of products covered by AT&T’s software agreement, Mr. Frasure explained that products containing UNIX methods and concepts were covered. (Id. at 148.) Mr. Frasure also acknowledged the application of the methods and concepts protection to work created by a licensee’s programmers. (Id. at 147-48.) Mr. Frasure also expressed doubts about a licensee’s ability to develop genuinely independent, but related products after exposure to UNIX. (Id. at 169-70.)

136. In response to questioning about what products could be disclosed under the agreement, Mr. Frasure was hesitant to concede that any product remained unprotected, noting that “if you develop your own system modifications and you use – and it works with the software that was licensed, there is a – there is a very good chance you are revealing methods and concepts just strictly through the interface technique that – that’s used.” (Id. at 41-42.) Mr.

Frasure maintained this position even when asked about products that did not overtly disclose methods or concepts. (Id.)

137. IBM similarly cites Mr. Frasure in claiming that the IBM Side Letter demonstrates AT&T's intent to relinquish any control over the use and disclosure of derivative works. (See IBM Mem. ¶¶ 24, 43, 46, 58-63, 67-68, 70-71, 105; see also IBM Ex. 190 ¶ 18.) In his deposition in the BSD case, however, Mr. Frasure made clear that the contractual statement of ownership did not in any way alter the contractual restrictions on use and disclosure. (Ex. 19 at 151-152.) Mr. Frasure articulated that distinction numerous times in his BSD testimony. (Id. at 166-67; see also id. at 157-59.) Mr. Frasure also used that distinction to explain the textual change, made later in 1985, to revise AT&T's software agreement in order to reflect substantially similar ownership language from the IBM Side Letter. (Id. at 103; see also id. at 111.) In his testimony in this case, Mr. Frasure acknowledged the distinction between AT&T's ownership rights and AT&T's use and control restrictions. (IBM Ex. 302 at 49.)

#### Geoff Green

138. IBM had previously cited the testimony of Geoff Green, who served as an AT&T attorney in its UNIX licensing department, to support its claim that the UNIX software agreements protect against only the literal copying of UNIX source code. (See IBM 8/13/04 Mem. (Ex.311) ¶¶ 80, 93; see also IBM Ex. 200 ¶ 6.) During his deposition, however, Mr. Green admitted that modifications of and derivative works based on the UNIX product were protected under the agreements by the same restrictions that governed the original licensed product, regardless of whether or not a licensee's modification or derivative product contained any UNIX source code. Examining the Sequent Agreement, Mr. Green testified:

Q: And so any restrictions under the software agreement that applied to the original licensed software product, it was AT&T's intent that the resulting materials would be treated in the same way?

A: Yes.

Q: So that applies, then, to any derivatives or modifications that are based on the original software product?

A: Under this provision, yes.

Q: Is there any requirement in the license agreement that such modifications or derivatives have to include literally copied source code from the original product?

A: In this form of the agreement, no.

(Ex. 5 at 114-15.)

139. When asked if there was anywhere in the standard UNIX System V license agreement where “the protection for derivatives or modifications” is “limited to those derivatives or modifications that include literally copied source code,” Mr. Green responded: “No there isn't. Yes, that is correct.” (Id. at 117-18.)

140. Mr. Green, whose job it was to “change the language to reflect the intent” of AT&T, id. at 109, stated that “the language of the agreement should speak for itself as to – as to what we did to protect the software.” (Id. at 161.)

141. Mr. Green noted that “something that was based on the licensed product” or “a variation of the product” would fall within the definition of a derivative work. (Id. at 113.) Mr. Green further made clear that literal copying is not required in order for a licensee to create a modification or derivative work subject to the protections of the UNIX software agreements under Section 2.01. (Id. at 145.)

142. Mr. Green agreed that one of the concerns that prompted the protection of UNIX modifications and derivatives was AT&T's concern that "it would be easy for a licensee to copy the intellectual property in UNIX without literally copying the source code." (Id. at 149-50.)

143. Mr. Green recalled the concept of "mental contamination" articulated by Messrs. Wilson and Frasure, and explained that the UNIX licensing group, and particularly Messrs. Wilson and Frasure, were interested in protecting products created with the benefit of programmers' exposure to UNIX, even if such products did not contain any literal UNIX source code. (Id. at 82-84, 150-52.)

144. Mr. Green stated that, as per the terms of the license agreements in 1985, modifications and derivatives that contained the "concepts, the ideas, the structure, the organization, the methods from the original licensed product," but did not contain the "source code in the original licensed product" would have been "covered by the agreement" and its various restrictions. (Id. at 130-31.)

145. Mr. Green further agreed that AT&T would "certainly" be interested "in products that were developed with the benefit of UNIX even if the licensee were to go off and develop that product on its own based on that exposure," claiming that AT&T "would be concerned about whether any of AT&T's intellectual property was involved in the result." (Id. at 90-91.)

146. Mr. Green was at a total loss to explain how IBM's view of the contract would not convert the final clause of Section 2.01 ("provided the resulting materials are treated hereunder as part of the original SOFTWARE PRODUCT") into mere surplusage. (Id. at 113-15, 124-25, 247-48.)

147. IBM also cites Mr. Green to deny that the UNIX software agreements afforded any protection to methods and concepts. (IBM Ex. 200 ¶ 6.)

148. In his deposition, however, Mr. Green admitted that methods and concepts were specifically protected by both the use and disclosure provisions of the software agreements. He stated that, as per the terms of the agreements in 1985 (when both the IBM and Sequent Agreements were executed), modifications and derivatives that contained the “concepts, the ideas, the structure, the organization, the methods from the original licensed product,” but did not contain the “source code in the original licensed product” would have been “covered by the agreement” and its restrictions. (Ex. 5 at 130-31; see also id. at 141-43.)

149. Further, Mr. Green testified that UNIX methods and concepts were included under the definition of the “SOFTWARE PRODUCT” in Section 1.04 of the software agreements. (Id. at 106.) Addressing the specific time frame of April 1985, when the Sequent Agreement was signed (months after the IBM Agreement was signed), Mr. Green acknowledged that the very definition of the “SOFTWARE PRODUCT” term used in Sections 2.01 and 7.06 of the agreements included much more than literal UNIX source code. (Id. at 106, 147.)

150. Mr. Green testified that the agreements’ protection of modifications and derivatives extended to products created by employing UNIX methods and concepts, even if they did not contain any literal UNIX source code. (Id. at 142-43.)

151. Mr. Green further testified that the IBM Side Letter’s version of Section 7.06 replaced the explicit “methods and concepts” language with another clause that was designed to protect against copying UNIX methods and concepts. (Id. at 223; see also id. at 224 (noting again that the revised Section 7.06 was “another way of getting at the methods and concepts”).)



152. This continued protection of methods and concepts in the IBM Side Letter is “consistent” with the fact that AT&T specifically included language expressly protecting UNIX methods and concepts in its standard agreements for many years after the IBM and Sequent software agreements were signed. (Id.; see also IBM Ex. 119 § 7.06; IBM Ex. 127 § 7.05; Ex. 31 § 7.05; Ex. 32 §7.04; Ex. 33 § 7.05; Ex. 34 § 7.05; Ex. 35 § 7.05.)

153. In his recent deposition, Mr. Green also recalled that AT&T distinguished between ownership rights, on the one hand, and the contractual use and disclosure restrictions, on the other, and that he was “sure” he had conversations about that distinction with both Mr. Wilson and Mr. Frasure. (Ex. 5 at 300.)

154. Mr. Green acknowledged that the merger clause contained in the Sequent and IBM agreements was intended “to make clear that the agreement and its supplements constituted the entire agreement. That’s what the language says.” (Id. at 93.)

155. Applying the merger clause to the terms of the Sequent software agreement, Mr. Green explained that Sequent’s rights and obligations would be governed only by the agreements that Sequent executed with AT&T. (Id. at 95.)

156. Mr. Green further testified that, while licensees sometimes received a “most favored nation clause,” such provisions were typically specific to the context of pricing, and he was not aware of any such clause relating to the agreements’ intellectual-property protections. (Id. at 96.) In any event, Mr. Green acknowledged that no such clause appeared in the Sequent software agreement. (Id. at 96-97.)

David Rodgers

157. IBM cites David Rodgers, Sequent's former Vice President of Engineering who executed Sequent's Agreement, to support its claim that the license agreements restricted only the literal copying of UNIX source code. (See IBM Mem. ¶¶ 36-39, 42-44, 57-59, 61-62, 125-126, 148; see also IBM Ex. 252 ¶ 8.) In deposition in this case, however, Mr. Rodgers admitted that the software agreements protected even modifications comprised of "completely new source code." (IBM Ex. 295 at 31-32.)

158. Mr. Rodgers acknowledged that products created entirely by Sequent would be covered by the software agreements if they were based on the UNIX product. Mr. Rodgers testified that only "work which had already been created by Sequent" before licensing UNIX and "work that in the future was created by Sequent, not based upon that source code, remained the property of Sequent." (*Id.* at 27 (emphasis added).)

159. Further, Mr. Rodgers could not explain how IBM's view of the contract would not render the final clause of Section 2.01 ("provided the resulting materials are treated hereunder as part of the original SOFTWARE PRODUCT") a nullity. (*Id.* at 101.)

160. IBM further cites Mr. Rodgers to deny that the UNIX software agreements afforded any protection to methods and concepts. (IBM Ex. 252 ¶ 12.)

161. In his deposition in this case, however, Mr. Rodgers acknowledged that the software agreements protected UNIX methods and concepts. (IBM Ex. 295 at 159.) Responding to a hypothetical concerning a product created by a licensee that contains "structures and sequences and organization as it appears in System V," Mr. Rodgers conceded that "if the reason

the similarity was there was because it was just copied, then yeah, I would agree that that would be subject to the constraints.” (Id.; see also id. at 137.)

162. Mr. Rodgers contradicted IBM’s other declarants in his recent deposition, discussing what he characterized as the “open-ended” requirement in Section 2.01, which did not address ownership, but rather use and disclosure restrictions. (IBM Ex. 295 at 128.) Mr. Rodgers also acknowledged that this understanding applied to a licensee’s own source code. (See id. at 135.)

163. Mr. Rodgers testified about the written, countersigned process through which a licensee or AT&T would change the terms of the written software agreements, directly contradicting IBM’s position that the terms of the individual agreements could change even without the parties executing a new agreement or modification. (IBM Ex. 295 at 169-70.) Mr. Rodgers acknowledged that Sequent signed the “standard form agreement” and that, aside from price, Sequent did not negotiate or change any terms from that standard agreement. (See id. at 82-84.) With regard to the language in the IBM Side Letter that removed the explicit reference to methods and concepts in Section 7.06, Mr. Rodgers acknowledged that no such revision was proposed or made in Sequent’s case. (See id. at 146.)

C. IBM’s and Sequent’s Acknowledgement of the Restrictive Scope of the Agreements.

164. IBM claims it never believed it was precluded from doing “as it wished” with what it calls its “homegrown code” in AIX, as opposed to the System V material in AIX, but numerous IBM internal documents draw no such distinction between the two. In January 2000, for example, IBM

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The document gives no indication that IBM believed it could disclose at the so-called “homegrown” parts of AIX however it saw fit.

165. Other internal documents further confirm that IBM regarded AIX as UNIX-derivative source code to be kept confidential.

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166. Other contemporaneous evidence from IBM's own files demonstrates that it did not distinguish between what it now calls "homegrown" material in AIX and the UNIX System V material in AIX for purposes of its obligations of confidentiality. According to its own

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167. Similarly, internal Sequent document confirm that Sequent also drew no such distinctions. After IBM announced its acquisition of Sequent in 1999, Sequent initiated discussions with Santa Cruz in November 1999 regarding IBM's access to Sequent's Dynix/ptx.

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Sequent never even raised the possibility with SCO that Sequent was somehow entitled to show to show or give to IBM what IBM now calls Sequent's "homegrown" technology from Dynix/ptx.

168. Instead, Santa Cruz Contracts Manager Bill Broderick told Sequent: (1) as a wholly owned subsidiary of IBM, Sequent did not have the right to disclose its Dynix/ptx technology to IBM; (2) if Sequent were going to remain a wholly owned subsidiary (rather than become a division) of IBM, Sequent needed to send SCO a written request to disclose its Dynix/ptx technology to IBM; and (3) if Sequent were to become a division of IBM, IBM would be obligated to assume the terms of Sequent's UNIX license as is, because SCO would not renegotiate that license. (Ex. 135.) There were no discussions between the parties regarding different terms or conditions for any "homegrown" part of Dynix/ptx. (Ex. 333 ¶¶ 17-20.)

## V. SANTA CRUZ'S ACQUISITION OF THE UNIX BUSINESS.

### A. The Parties' Intent in the Asset Purchase Agreement.

169. In 1995, Novell sold its entire UNIX-related business to SCO's predecessor-in-interest The Santa Cruz Operation, Inc. (also referred to herein as "SCO"). (See Asset Purchase Agreement dated Sept. 19, 1995 between Novell and SCO ("APA") Recital A, §§ 1.1(a), 1.3(a)(i), Schedule 1.1(a) (IBM Ex. 123).)

170. The extrinsic evidence confirms that Santa Cruz had bought the business "lock stock and barrel." (Ex. 136.) The evidence confirms that SCO obtained Novell's UNIX copyrights through the APA. (Ex. 39 ¶¶ 6-12; Ex. 9 ¶¶ 6-12; Ex. 351 ¶ 9; Ex. 40 ¶¶ 5-10, 12-16; Ex. 38 ¶¶ 2-4, 5-16; Ex. 59 Ex. 6 ¶ 4; Ex. 333 ¶ 7; Ex. 355 ¶ 7; Ex. 76 at 36-40; 187; 189; Ex. 42 ¶ 4; IBM Ex. 585 at 18-19, 22-25, 32-33, 34-36, 38, 88-90, 97, 264-65, 288, 290.)

171. The contemporaneous documents confirm Novell's view that Santa Cruz had acquired the full scope of the UNIX business and licenses. On October 18, 1995, Mr. Bouffard stated in an internal Novell document:

We are obligated to give SCO all information, contracts, assets etc. pertaining to the UnixWare business and the old UNIX source code business. The have bought it lock, stock and barrel. Once the transaction is closed (Nov.-Dec.) we will have no more involvement with this business. Therefore [sic], if a contract is for UnixWare and lets [sic] say NetWare, the UnixWare part if theirs.

(Ex. 136 (emphasis added).) The document thus plainly confirms Novell's view that Santa Cruz had acquired the full scope of the UNIX business, logically including the UNIX copyrights.

172. Moreover, Amendment No. 2 to the APA, which was executed on October 16, 1996, confirms that the APA transferred to SCO "the copyrights and trademarks owned by Novell as of the date of the Agreement required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies." (IBM Ex. 44 ¶ A; see also Ex. 76 at 50; Ex. 42 ¶ 6; IBM Ex. 585 at 13, 20, 55-58, 85, 165, 184.)

173. IBM's own internal documents confirm that IBM considered Santa Cruz to be the owner of the UNIX copyrights. In August 1997, for example,

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(Ex. 59 (emphasis added).) IBM thus regarded SCO as the copyright owner, and indisputably did not regard Novell as the copyright owner, of the code.

174. There was one limited exception to the wholesale transfer of Novell's UNIX business to SCO: Novell retained the right to continue to receive and protect royalties paid by then-existing UNIX System V ("SVRX") licensees for their ongoing distribution of binary products based on their UNIX flavors pursuant to SVRX sublicensing agreements (the "binary

royalty stream”). (IBM Ex. 123 §§ 1.2(a)-(b), 4.16(a); id. Schedule 1.1(b), Item VIII (excluding from asset sale “All right, title and interest to the SVRX Royalties, less the 5% fee for administering the collection thereof pursuant to Section 4.16 hereof”).) Otherwise, pursuant to the other provisions in the APA, SCO received complete ownership and control of all UNIX source code, including the exclusive right to license the source code for SCO’s own benefit and the right to enforce intellectual-property protections against licensees of the source code. (Ex. 39 ¶¶ 9-10; Ex. 40 ¶ 11; Ex. 42 ¶ 6; Ex. 38 ¶¶ 2-4, 5-16; IBM Ex. 444; Ex. 76 at 35, 37-38; 100-110; 194-196; 207-08, 209; Ex. 42 ¶ 6; IBM Ex. 585 at 33-34, 40-41, 98, 264-65.)

175. The SVRX binary royalties were part of the consideration paid to Novell for the transfer of the UNIX assets to SCO. (IBM Ex. 123 § 1.2(a)-(b).) The parties agreed to this limited exception because Santa Cruz was not able to pay up-front what Novell regarded as the value of the business; the future binary royalty stream bridged the price gap. (Ex. 39 ¶¶ 7, 9, 13; Ex. 40 ¶¶ 6, 9, 10; Ex. 42 ¶ 6; IBM Ex. 585 at 31-32, 94.)

176. Section 4.16 of the APA governs Novell’s rights to the SVRX binary royalty stream. Section 4.16(a) sets out the procedures for SCO’s collection and payment to Novell of the royalties, and gave Novell the right to audit those collection efforts. (IBM Ex. 123 § 4.16(a); see also Ex. 301 ¶¶ 7, 9; Ex. 76 at 35, 37-38, 100-10, 194-96, 207-08, 209.) SCO receives a fee for performing this administrative function. (See IBM Ex. 123 § 4.16 (A) (“In consideration of such activities described in the preceding sentence, Seller shall pay to Buyer within 5 days of receipt of SVRX Royalties from Buyer as set forth in the preceding sentences, an administrative fee equal to 5% of such SVRX Royalties.”))



177. Section 4.16(b) protects Novell's interest in the binary royalty stream by providing in relevant part: "In addition, at Seller's sole discretion and direction, Buyer shall amend, supplement, modify or waive any rights under, or shall assign any rights to, any SVRX License to the extent so directed in any manner or respect by Seller." (*Id.* § 4.16(b).)

178. The text of Section 4.16 of the APA does not give Novell rights to veto or to waive decisions made by SCO under the software agreements at issue here. (Ex. 39 ¶ 13; Ex. 76 at 41-42, 53; Ex. 42 ¶ 5; IBM Ex. 585 at 19-20, 36-37.) Section 4.16 refers only to SVRX Licenses, not more broadly to software agreements. "SVRX Licenses" is not defined by the APA, but are referenced in Section 4.16 as being listed in "detail" under Item VI of APA Schedule 1.1(a). By contrast, UNIX "Software Agreements" are expressly covered by Item III.L to Schedule 1.1(a) – an Item not referenced anywhere in Section 4.16.

179. Section 4.16(c) of the APA protects the assets transferred to SCO from interference by Novell, by prohibiting Novell from promoting the sale of SVRX products: "Seller further covenants that immediately following the Closing Date neither it, nor any of its officers, directors or employees shall . . . take any material action designed to promote the sale of SVRX products." (IBM Ex. 123 § 4.16(c).)

B. The Parties' Intent in Amendments Nos. 1 and 2 to the APA.

180. Amendment No. 1 to the APA, effective as of the closing of the APA in December 1995, permits SCO to retain all of the SVRX royalties with respect to certain categories of SVRX licenses, including SCO's own SVRX license. (IBM Ex. 502 ¶ E.)

181. Amendment No. 2 to the APA, which was executed on October 16, 1996, states: "This Amendment does not give Novell the right to increase any SVRX licensee's rights to

SVRX source code,” and that “Novell may not prevent SCO from exercising its rights with respect to the SVRX source code in accordance with the Agreement.” (IBM Ex. 444 ¶ B.5.)

182. The Amendment further specified that SCO had obtained the copyrights for UNIX. (IBM Ex. 444 ¶ A.) The intent of the parties in Amendment No. 2 was to make clear that Novell did not have right to interfere on in any way waive SCO’s rights under the UNIX licensees that SCO had acquired from Novell. (Ex. 39 ¶ 13; Ex. 40 ¶ 10; Ex. 38 ¶¶ 2-4, 14-16; Ex. 42 ¶ 6; Ex. 76 at 41-42, 53.)

C. Amendment No. X.

183. The parties to Amendment No. X did not intend to increase IBM’s source code rights except in limited ways. (Ex. 38 ¶¶ 2-4, 17-20; Ex. 50 ¶¶ 36-41.)

184. Amendment No. X states in pertinent part that the “second to last sentence of paragraph 9 of the February 1, 1985 amendment to SOFT-00015 is modified by deleting the words: ‘and employees of Licensee shall not refer to the physical documents and materials comprising Software Products subject to this Agreement when they are developing any such products or services or providing any such service.’” (IBM Ex. 124 ¶ 6.)

185. Amendment No. X further provides: “Except as modified herein, all other terms and conditions of the Related Agreements will remain in effect. This Amendment No. X does not give IBM any additional rights to distribute the Software Product in source code form other than as modified in Section 2 and 3 of this Amendment No. X.” (IBM Ex. 124 § 8.)

186. Amendment No. X also addresses the extent to which IBM could distribute source code of the SOFTWARE PRODUCT to certain third parties. The IBM Sublicensing Agreement gave IBM the right to permit its sub-licensees to distribute the SUBLICENSED PRODUCT, and

the right to use contractors to use a SOFTWARE PRODUCT “to modify a SUBLICENSED PRODUCT derived from such SOFTWARE PRODUCT.” (IBM Ex. 120 § 2.05(b).) The Side Letter expanded on those rights with respect to contractors (as noted above). (IBM Ex. 122 ¶ 3.)

187. In 1987, AT&T and IBM had agreed to a new section for the Sublicensing Agreement. Section 2.05(c) specified that where a LICENSEE had given access to the SOFTWARE PRODUCT source code to a third party to create derivative works and that third party subsequently distributed “sublicensed products based on all or any portion of such a derivative work,” such a third party must do so “under the terms of its own Software Agreement and Sublicensing Agreement with AT&T.” (Ex. 137 at 1.)

188. Specifically, the second sentence of Section 2.05(c) states: “IBM may not authorize or permit any third party to whom IBM has provided a SOFTWARE PRODUCT pursuant to Section 7.06(b) of the Software Agreement (source code licensee) or paragraph 3 of the February 1, 1985 amendment to the Software Agreement (contractor) to be a DISTRIBUTOR, pursuant to this Sublicensing Agreement, with respect to any SUBLICENSED PRODUCT, derived from such SOFTWARE PRODUCT, which was, in whole or in part, provided by such third party” or its subsidiaries or parents. (Ex. 137 § 2.05(c).)

189. Amendment No. X expands on IBM’s right to distribute the SOFTWARE PRODUCT to such third parties, but only for specific purposes. The contractor must be working “in support of the contractor’s distribution and support of Sublicensed Products,” and only for the “Authorized Purpose” of “making modifications to the Software Products, and furnishing such modifications to IBM and/or distribution of such modifications of Sublicensed Products in

binary form by the contractor to customers directly or through other Distributors,” provided that even additional conditions are satisfied. (IBM Ex. 124 § 2.1.)

190. Amendment No. X further provides that IBM “may license a Software Product in source code form to an eligible contractor or customer for such contractor’s or customer’s use in accordance with Section 2,” and details the restrictions on that right to license. (IBM Ex. 124 § 3.) The “Software Product in source code form” is called a “Source Copy.” (*Id.*)

191. With respect to IBM’s circumscribed right to distribute source code to eligible contractors or customers, Amendment No. X provides scenarios to “clarify and illustrate the relief provided in Subsection 2.1.” (IBM Ex. 124 § 3.7.) Company A is a “general computer system manufacturing firm” and a sublicensee of the Sublicensed Product: “IBM may not distribute Source Copies to Company A for purposes of making modifications to adapt the Sublicensed Products as a general operating system for Company A’s general computer hardware system.” (IBM Ex. 124 § 3.7.) Amendment No. X thus does not permit IBM to license the Software Product in source code form to a company to permit the company to modify and adapt the Sublicensed Product as a general operating system for that company.

## **VI. IBM’S CONTRIBUTIONS TO LINUX IN BREACH OF ITS AGREEMENTS.**

192. AIX is a derivative work based on the licensed UNIX software product. (Ex. 276; Ex. 287; Ex. 288; Ex. 116 at 62; Ex. 139 ¶¶ 32-35; Ex. 111 ¶ 18; see also IBM Ex. 260 at 127-29; IBM Ex. 80 at 44-46; IBM Ex. 584 at 76, 95-97, 120.) Dynix/ptx is also a derivative work based on the licensed UNIX software product. (Ex. 75 at 47-48; Ex. 116 at 62; see also IBM Ex. 260 at 127-29; IBM Ex. 80 at 44-46; IBM Ex. 584 at 76, 95-97, 120.)

193. IBM specifically decided to make and then made numerous critical contributions of important technology from AIX and Dynix/ptx to Linux development. (Ex. 277, 287; 287, 288; Ex. 300.) SCO identifies those contributions in detail in its December 2005 Final Disclosures, and SCO's experts detail the significance of the disclosures in their initial and rebuttal expert reports. (Exs. 144, 287, 288, 277, 278.) Documentary evidence produced by IBM describes and depicts IBM's movement of AIX and Dynix/ptx technology into Linux. (Ex. 300.)

194. SCO's Final Disclosures and Expert Reports reveal that IBM disclosed a wealth of technology – in the form of source code, methods, concepts, techniques, and know-how – from both AIX and Dynix/ptx into Linux development. (Exs. 144, 287, 288, 277, 278.)

195. With respect to AIX, for example, IBM contributed to Linux the source code for the AIX Journaling File System derived from UNIX System V. (Ex. 277 ¶¶ 95-114 & Exs. C-H.). With respect to Dynix/ptx, for example, IBM contributed to Linux the source code for the Read-Copy-Update (“RCU”) functionality. IBM made scores of additional contributions of technology from Dynix/ptx in the form of source code, methods, concepts, techniques and know-how.<sup>2</sup> (Exs. 287, 288.)

196. SCO's experts further explain how and why IBM's AIX and Dynix/ptx contributions have been integral to the development of Linux into a commercially ready operating system. (Exs. 277, 287, 287, 288.) With respect to JFS, for example, IBM contributed the advanced journaling capability that Linux had sorely lacked. (Exs. 277, 278.) With respect

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<sup>2</sup> As of the time of this filing, the District Court had not resolved SCO's Objections to the Magistrate Court's Order excluding many of SCO's disclosures as a basis for additional discrete claims of breach of contract.

to RCU, IBM's contribution enabled Linux to run in the types of multi-processing environments had been unable to run on prior to that time. (Exs. 287, 288.)

197. SCO's experts have shown in detail, moreover, how IBM's contributions to Linux from AIX and Dynix/ptx, by bringing Linux into the enterprise, have been a very substantial factor in harming SCO's UNIX business. (Ex. 281 at 10-24, 45-58, 62-69; Ex. 284 at 39-57; Ex. 283 at 2-73; Ex. 286.)

## **VII. SCO PROPERLY SOLD LICENSES FOR ITS INTELLECTUAL PROPERTY TO LINUX USERS.**

### **A. SCO's Efforts to Protect Its Rights in UNIX.**

198. Other than through express written agreements and for due consideration, SCO has never intended to waive and has always sought to protect and evidence its rights under the UNIX license agreements. (Ex. 49 ¶ 3; Ex. 333 ¶¶ 20-21; Ex. 355 ¶¶ 20-21.)

199. SCO did not know that IBM had contributed source code and other technology to Linux in violation of its (and Sequent's) SVRX software agreements until December 2002 or January 2003. (Ex. 49 ¶ 5; Ex. 333 ¶ 22; Ex. 355 ¶ 22.)

200. After filing suit against IBM for breaching the SVRX agreements, SCO further demonstrated its intent to enforce its rights under those agreements by delivering a termination notice to IBM pursuant to Section 6.3 of the SVRX license. (Ex. 49 ¶ 10.)

201. SCO attempted to meet and confer with IBM, but IBM failed to cure its breaches during the two-month period provided in SCO's termination letter to IBM. (Ex. 49 ¶ 11.) Accordingly, effective June 13, 2003, SCO terminated IBM's SVRX license; and effective July

30, 2003, SCO terminated the Sequent SVRX license. (Ex. 49 ¶ 11.) SCO thus further demonstrated its intent to enforce its rights under those licenses. (Ex. 49 ¶ 11.)

B. SCO's Distribution of Linux.

202. SCO and its predecessors copied, advertised, and distributed the Linux kernel and other related Linux software for years before 2003. (IBM Ex. 284 ¶ 9.)

203. SCO did not know that any of the features mentioned in SCO's advertisements (with the sole exception of the journaling file system support, or "JFS") had been contributed by IBM to Linux. (Ex. 49 ¶¶ 6-8.) As to that one exception, SCO marketed JFS as "developed by IBM," but did not know that JFS was derived from SCO-licensed code or that IBM had contributed it in breach of the software agreements. (Id. ¶ 8.)

204. Indeed, SCO did not know that any of the advertised features had been derived from SCO's proprietary software licensed to IBM or had been contributed to Linux by IBM in violation of IBM's agreements with SCO. (Ex. 49 ¶ 7-8; Ex. 6 ¶¶ 3, 6-14.)

205. Caldera, Inc., Caldera Systems, Inc. and Caldera International, Inc. (collectively, "Caldera"), as noted, also copied, advertised, and distributed the Linux kernel and other related Linux software for years before 2003. Until approximately June 2001, Caldera was neither the owner of the UNIX copyrights nor the owner of the UNIX license agreements at issue in this case. (Ex. 269 ¶ 9.)

206. Until 2002, Caldera International did not undertake to determine if IBM's contributions to Linux constituted a breach of its UNIX license agreement. (Ex. 269 ¶¶ 3, 11-14, 17-18; Ex. 6 ¶¶ 3, 6-14; see also Ex. 386 ¶ 7; Ex. 378.)

207. Neither Santa Cruz nor Caldera International ever intended to waive any of its rights under the UNIX license agreements at issue in this case, and never represented to anyone that it believed that IBM's Linux contributions complied with the terms of its UNIX license agreements. (Ex. 269 ¶¶ 3, 11-14, 17-18; Ex. 6 ¶¶ 3, 6-14; Ex. 333; Ex. 337.)

208. Neither Santa Cruz nor Caldera International ever intended that its silence on the question of the legality of IBM's contributions to Linux be construed as Caldera International's consent, implied or otherwise, to IBM's contributions to Linux from AIX or Dynix/ptx. (Ex. 269 ¶¶ 3, 11-14, 17-18; Ex. 6 ¶¶ 3, 6-14; 333 ¶ 21; Ex. 337 ¶ 15.)

#### **VIII. IBM DESTROYS RELEVANT EVIDENCE AND ILLEGALLY HACKS INTO SCO'S WEBSITE IN PURSUIT OF EVIDENCE.**

##### **A. IBM Destroys Relevant Evidence Shortly After SCO Brings Suit.**

209. SCO filed its Complaint on March 6, 2003. (Ex. 103.) Among the allegations in the Complaint were the following:

- a. IBM is precluded by its agreements with SCO from disclosing its UNIX-derivative AIX source code to the Linux development community, because it contains SCO's UNIX source code. (Id. ¶¶ 91-94.)
- b. IBM had recently and publicly released parts of AIX for contributions into Linux, in breach of its agreements with SCO. (Id. ¶¶ 95.)
- c. IBM had recently and expressly promised to exploit its expertise in AIX to bring Linux up to par with UNIX and then to obliterate UNIX. (Id. ¶ 98.)
- d. A large number of the IBM employees devoted to Linux development have, or have had, access to the UNIX source code. (Id. ¶ 100.)



210. IBM's Linux Technology Center ("LTC") was launched in 2001 to dispose of all or part of UNIX, including its concepts, ideas, and know-how, into an open-source Linux environment. (Id. ¶ 102(a).)

211. In making contributions or disclosures to Linux development, the LTC programmers have relied on expertise and technology from two UNIX-derived operating systems, AIX and Dynix/ptx, developed with the UNIX System V source code, methods, and concepts that IBM licensed from SCO's predecessor-in-interest AT&T.

- a. Among the pending causes of action that SCO brought based on such allegations were its claims that IBM had engaged in unfair competition, based in part on IBM's "Violation of confidentiality provisions running to the benefit of plaintiff" (Id. ¶ 118(b)); and breach of contract, based on IBM's contributions to Linux development of source code, methods, and concepts that IBM had promised to keep confidential, but instead had subjected to "unrestricted disclosure," "unauthorized transfer and disposition," and "unauthorized use" (Id. ¶¶ 129-36).
- b. Notwithstanding the filing of the foregoing complaint and the foregoing allegations, discovery in this case has revealed that in early April 2003, IBM

REDACTED PURSUANT TO IBM DESIGNATION OF CONFIDENTIALITY

c.

REDACTED PURSUANT TO IBM DESIGNATION OF CONFIDENTIALITY

A sandbox may

exist on a developer's computer hard drive or as a link to a copy of source code wherein the developer makes changes. (Ex. 108 at 119-20; Ex. 104 at 54.)

d. REDACTED PURSUANT TO IBM DESIGNATION OF CONFIDENTIALITY

e. REDACTED PURSUANT TO IBM DESIGNATION OF CONFIDENTIALITY

f. IBM destroyed this evidence after repeatedly and publicly boasting that the Unix-derived expertise and ideas it open-sourced were the critical difference in making Linux usable by enterprises. In an interview with Linux Magazine about the state of the Linux kernel in 2001, for example, IBM programmer Patricia Gaughen stated that Linux was “not where the proprietary Unices are yet, but we are making much faster progress due to the experienced Dynix/IRIX/AIX/SN1 /Yalnix/<fill\_in\_the\_blank> hackers.” (Ex. 111.)

g. In another example, Dan Frye, the Director of the LTC, confirmed in an interview with the Consulting Times that the LTC “wanted skills from across IBM, and we have people from AIX, and OS2 . . . and PTX, and Research and so on.”

(Consulting Times, Inside IBM – Dan Frye and the Linux Technology Center (undated) (Ex. 112).) Frye also discussed the porting of IBM's proprietary

technology to Linux, stating “[IBM] just add[s] arms and legs and skills to make [projects within Linux] go faster.” (*Id.*)

B. IBM Illegally Hacks into SCO’s Website to Try to Find Evidence.

212. As described below at Section X.A., SCO reasonably discontinued its sale and marketing of its Linux-related products in May 2003.

213. On May 14, 2003, SCO suspended all sales and marketing of its entire Linux product line. (IBM Ex. 284 ¶ 3; IBM Ex. 324 at 179, 186; IBM Ex. 296 at 16, 37, 48, 51.)

214. After May 14, 2003, SCO entered into no further obligations to sell SCO Linux Server 4.0 or any other Linux product. (IBM Ex. 284 ¶ 3; IBM Ex. 296 at 53.) SCO made limited post-May 14 sales to customers in consideration of its obligations to its customers. (IBM Ex. 284 ¶¶ 3-5; IBM Ex. 324 at 188-89; IBM Ex. 296 at 72-73; Ex. 49 ¶¶ 12-14; IBM Ex. 300 at 221-23.) The last sale of Linux Server 4.0 was on May 31, 2004. (IBM Ex. 284 ¶ 4; IBM Ex. 311 at 60.)

215. SCO permitted access to Linux source code files via its website after May 2003, because of SCO’s pre-existing contractual obligations with its customers and with the UnitedLinux consortium. (IBM Ex. 324 at 190-91, 194; Ex. 49 ¶¶ 17-19; Ex. 324 ¶ 4.)

216. In accordance with its UnitedLinux agreements, SCO provided customers who purchased SCO Linux Server 4.0 with a password to enter at a log-in screen on SCO’s download site so that only they would have access. (IBM Ex. 324 at 195; IBM Ex. 311 at 37-38; Ex. 49 ¶¶ 17-19; Ex. 324 ¶ 4.)

217. The only way a non-customer could access the Linux Server 4.0 code on SCO’s download site was to bypass the password-protected security system by hacking into the system.

(Ex. 49 ¶¶ 20-21.) In addition, the download site contained an explicit notice that access to the Linux Server 4.0 files was limited to SCO customers. (Id. ¶ 28.)

218. Between October 31 and December 1, 2003, IBM repeatedly accessed the SCO log-in site but did not obtain access to the SCO Linux Server 4.0 files. (Id. ¶ 25.) After news of a bug in the SCO site's security system was reported on internet websites, IBM exploited the bug to bypass the security system, hack into SCO's website, and download the posted files attached. (Id. ¶¶ 22-27.) IBM uses (¶ 168) those files as purported evidence in support of this motion.

219. SCO diligently sought to remove all Linux-related code from its website promptly after expiration of the last of its contractual commitments, on December 31, 2004. (IBM Ex. 284 ¶ 11; IBM Ex. 324 at 191, 194; IBM Ex. 311 at 37-38, 121; Ex. 49 ¶ 17; Ex. 324 ¶¶ 2-11.)

## **IX. SCO REASONABLY UNDERTAKES TO END ITS LINUX BUSINESS.**

### **A. SCO's Suspension of Its Distribution of Linux.**

220. SCO marketed and licensed its Linux product Linux Server 4.0 for only a few months, from November 19, 2002, until May 14, 2003. (IBM Ex. 284 ¶ 2.)

221. After filing suit against IBM, SCO considered whether to continue selling and marketing Linux-related products, including SCO Linux Server 4.0. (Ex. 49 ¶ 12.) An important issue SCO considered was its obligations to existing SCO customers; SCO took the view that SCO's customers were entitled to order SCO's products and updates from SCO for a period of time after becoming customers. (Id. ¶ 13.)

222. SCO decided that the most sensible solution was to suspend its sale and marketing of its Linux-related products (which SCO did effective May 14, 2003), and to continue to allow SCO's pre-existing customers to order such products. (Id. ¶ 14.) Since May 14, 2003, SCO has

not entered into any further obligations to sell Linux Server 4.0 or OpenLinux 3.1.1. (IBM Ex. 284 ¶ 3.)

223. By suspending the sale of its Linux-related products, including the operating system, services, support, professional services, education, and layered applications, SCO lost approximately 5-10% of its revenues. (Ex. 49 ¶ 15.) From May 14, 2003, until May 31, 2004 (when SCO last sold a unit of Linux Server 4.0), SCO sold 83 units and had 79 units returned, for a gross revenue of \$1,849. (*Id.*) After August 5, 2003, there were 401 sales of SCO OpenLinux 3.1.1, for total gross revenue of \$50,796. During the same period, 22 copies of this product were returned, so net revenue was \$50,025. (IBM Ex. 284 ¶ 5.)

224. In taking into account the foregoing considerations and reaching the foregoing decisions, SCO never intended to waive its right to enforce its SVRX license agreements against IBM and Sequent. (Ex. 49 ¶ 13.)

225. Santa Cruz distributed a Linux product in 2000 and 2001, and Caldera System, Inc. also distributed a Linux product in 2000 and 2001. In doing so, neither company intended to waive its rights to enforce its UNIX System V license as relevant against IBM, neither company represented to IBM that its contributions to Linux were permissible under those agreements, and neither company had considered at that time whether IBM's contributions to Linux constituted a breach of the agreements. (Ex. 17 ¶ 11; Ex. 6 ¶ 6; Ex. 18 ¶ 12; Ex. 356 ¶¶ 2-4; see also Ex. 386 ¶ 7, Ex. 378.)

B. SCO's Protection of Information on Its Website.

226. SCO has not provided public access to Linux through its website. To the contrary, in order to preclude public access to SCO Linux Server 4.0 Server files, SCO provided

customers who purchased this product with a password to enter at a log-in screen on SCO's website, so that only those customers would have access. (Ex. 49 ¶ 19; Ex. 324 ¶ 4.)

227. After suspending its marketing and distribution of Linux Server 4.0 in May 2003, SCO permitted access to Linux source code files via its website after August 5, 2003, because of SCO's pre-existing contractual obligations with its customers and with the UnitedLinux consortium, from whom it had received the Linux source code used in distribution of Linux Server 4.0. (IBM Ex. 324 at 190-91, 194; Ex. 49 ¶¶ 17-19; Ex. 324 ¶ 4.) SCO complied with those obligations by making the source code available to its customers on its website. In accordance with UnitedLinux, SCO provided customers who purchased SCO Linux Server 4.0 with a password to enter at a log-in screen on SCO's download site so that only they would have access. (IBM Ex. 324 at 195; IBM Ex. 311 at 37-38; Ex. 49 ¶¶ 17-19; Ex. 324 ¶ 4.)

228. The only way a non-customer could access the Linux Server 4.0 code on SCO's download site was to bypass the password-protected security system by hacking into the system. (Id. ¶¶ 20-21.) In addition, the download site contained an explicit notice that access to the Linux Server 4.0 files was limited to SCO customers. (Id. ¶ 28.)

229. Between October 31 and December 1, 2003, IBM repeatedly accessed the SCO log-in site but did not obtain access to the SCO Linux Server 4.0 files. (Id. ¶ 25.) After news of a bug in the SCO site's security system was reported on internet websites, IBM exploited the bug to bypass the security system, hack into SCO's website, and download the very files IBM has now attached to its motion. (Id. ¶¶ 22-27.)

230. The files that IBM hacked remained on SCO's website after August 5, 2003, because of SCO's pre-existing contractual obligations with its customers and with the

UnitedLinux consortium. (Ex. 49 ¶¶ 17-19.) Under the GPL, each time SCO distributed a copy of IBM's purported works in executable form, SCO was to provide the customer "with the complete corresponding machine-readable source code" on a "medium customarily used for software interchange" or with an offer to provide the code at cost. (IBM Ex. 128 § 3.) SCO complied by making the source code available to its customers on its website.

231. As noted, SCO diligently sought to remove all Linux-related code from its website promptly after expiration of the last of its contractual commitments, on December 31, 2004. (IBM Ex. 284 ¶ 11; IBM Ex. 324 at 191, 194; IBM Ex. 311 at 37-38, 121; Ex. 49 ¶ 17; Ex. 324 ¶ 2-11.)

232. Between October 31 and December 1, 2003, IBM repeatedly accessed the SCO log-in site but did not obtain access to the Linux Server 4.0 files. (Id. ¶ 25.) After news of a bug in the website's security system was reported on internet websites, IBM exploited the bug to bypass the security system, hacked into SCO's website, and downloaded the very files IBM has now attached to its motion. (Id. ¶¶ 22-27.)

233. SCO has made diligent efforts since late 2003 to eliminate the availability of Linux on any current or archived SCO website, and is not currently aware that any version of Linux is available on any such website. (Ex. 324 ¶¶ 2-11.) SCO has never open-sourced its UNIX technology. (Ex. 269 ¶ 10.)

**X. SCO HAS PROCEEDED IN GOOD FAITH IN DISCOVERY AND HAS DISCLOSED IBM'S MISCONDUCT IN DETAIL.**

A. SCO's Good-Faith Efforts in Discovery.

234. SCO has diligently complied with its discovery obligations and, has conscientiously endeavored to respond to all of IBM's discovery requests. SCO has provided IBM with detailed answers, to the extent the information was available to SCO, to all of IBM's interrogatories and other requests, specifically including IBM's requests for detailed information about the source code in Linux on which SCO bases its claims in this case. (See below.)

235. Where SCO could not produce information because IBM had not provided needed discovery (including earlier versions of AIX and Dynix and information concerning IBM's contributions and contributions to Linux), SCO so indicated in its responses. With respect to IBM motions to compel the Magistrate Court found in its March 2004 Order that SCO had made "good faith efforts to comply with the Court's prior order." (See below.)

236. SCO has specifically explained that its ability to identify the source code information that IBM requested was significantly impeded by IBM's failure to produce necessary discovery. (Ex. 148; Ex. 149; Ex. 152; Ex. 153; Ex. 154; Ex. 158.) SCO has explained that its ability to provide the discovery IBM sought was hampered by IBM's failure to produce adequate discovery concerning AIX and Dynix source code as well as design documents, programmer notes, and other information that would assist SCO in identifying contributions that IBM made to Linux in violation of the UNIX license agreements. (Ex. 148; Ex. 149; Ex. 152; Ex. 153; Ex. 154; Ex. 158.)



237. As of July 2004, when IBM filed its first round of summary judgment motions SCO had produced 241 CDs containing hundreds of thousands of pages of documents. (Ex. 157.) SCO had also produced all of the source code for its products in its possession, which exceeds over 700 million lines of code. (Id.)

238. In addition, over the span of dozens and dozens of pages, SCO had detailed its claims, provided file and line numbers for source code IBM contributed to Linux in violation of its contractual obligations, and otherwise provided all information in its possession requested by IBM or ordered by the Magistrate Court. (Ex. 156.)

239. SCO repeatedly stated in response to early IBM discovery requests that, absent the production of relevant materials from IBM, SCO would be unable to respond in full or in detail to IBM's requests. On October 23, 2003, for example, SCO initially answered IBM Interrogatories 12 and 13, regarding IBM's contributions to Linux, by stating (among other things) that "SCO notes that it has not received responsive discovery from IBM that would allow it to fully answer this question because part of this information is peculiarly within the knowledge of IBM. (Ex. 152.)

240. At the time SCO answered those interrogatories it had not received a single line of code from AIX or Dynix from IBM. SCO was thus limited in what it could discover and produce by IBM's failure to provide requested discovery, such as AIX and Dynix source code. (IBM Ex. 64 at 31-32.)

241. In ruling on IBM's November 2003 motion to compel, on December 12, 2003, the Magistrate Court ordered SCO to "respond fully and in detail to Interrogatory Nos. 12 and 13 as stated in IBM's Second Set of Interrogatories." (Ex. 150 at 2.) The Magistrate Court also

directed SCO to “identify and state with specificity the source code(s) that SCO is claiming form the basis of their action against IBM.” (Id.)

242. In addition, however, based on SCO’s demonstration that it did not have sufficient information in its possession to provide much of the detail IBM was requesting, the Magistrate Court’s December 20V03 Order also provided that in cases where “SCO does not have sufficient information in its possession, custody, or control to specifically answer any of IBM’s requests that are the subject of this order, SCO shall provide an affidavit setting forth the full nature of its efforts, by whom they were taken, what further efforts it intends to utilize and the expected date of compliance.” (Ex. 150 at 2.)

243. In response to the December 2003 Order, SCO undertook exhaustive efforts during the thirty-day period provided by the Order. In January 13, 2004, SCO produced nearly seventy pages of detailed supplemental and revised answers to IBM’s Interrogatories 12 and 13 and other discovery requests. (Ex. 152.) In these supplemental and revised answers, SCO devoted fourteen pages to identifying, by file and line of code, those materials from Dynix that IBM had copied into Linux. (Id. at 3-17.)

244. SCO was able to provide this detailed information because IBM had produced limited versions of Dynix source code on December 4, 2003, the day before the hearing on SCO’s motion to compel the production of that code, among other items. (Ex. 156.)

245. SCO also identified other areas of Dynix as well as AIX that appeared to have been contributed to Linux in violation of the license agreements, but because IBM’s production of Dynix source code was incomplete, SCO could not provide the detail of identifying files and lines of code, which SCO explained in its responses. (Ex. 152.)

246. SCO concluded its supplemental and revised response by identifying other technologies that SCO believed IBM had contributed to Linux in violation of its license agreements, including specifying the bases for its belief and its need for IBM's comprehensive source code in order to provide further details. (Ex. 152 at 26-30.)

247. In addition to providing the supplemental answers in compliance with the Magistrate Court's December 2003 Order, SCO supplied a declaration, pursuant to that Order, detailing its extensive compliance efforts. (Ex. 151.) SCO's declaration detailed the difficulties created by IBM's refusal to provide the necessary source code to SCO and specifically identified the need for complete disclosure of IBM's source code and complete disclosure of IBM's contributions to Linux. (*Id.* ¶¶ 19-20.) The foregoing discovery responses and the certifications therewith uniformly stated that SCO needed additional discovery (and, once such discovery was provided, additional time) to provide further information.

248. The Magistrate Court thereafter considered SCO's supplemental responses (as well as SCO's motion to compel discovery from IBM, addressed further below). In its March 2004 Order, the Magistrate Court recognized that the time limitation in its December 2003 Order had made it difficult for SCO to collect all requested documents and to provide further responses to IBM's interrogatories. (IBM Ex. 56 at 2.)

249. The Magistrate Court thus gave SCO an additional forty-five days to provide further discovery pursuant to the earlier Order and "to provide and identify all specific lines of code that IBM is alleged to have contributed to Linux from either AIX or Dynix," to "identify all specific lines of code from UNIX System V from which IBM's contributions from AIX or Dynix are alleged to be derived," to "provide and identify with specificity all lines of code in Linux that

it claims rights to,” and to “provide and identify with specificity the lines of code that SCO distributed to other parties.” (Id.)

250. The Magistrate Court again recognized the limitations on SCO’s ability to provide such information due to IBM’s failure to produce the needed AIX and Dynix source code; the Magistrate Court specifically stated that SCO would only be required to identify those specific lines of code IBM had contributed to Linux that SCO could identify “at this time.” (Id.)

251. Contrary to IBM’s claims, neither of the Magistrate Court’s December 2003 or March 2004 Orders directed SCO to “match up the lines of Linux code to which it claims rights to the specific lines of the UNIX software code from which the Linux code is alleged to derive.” The December 2003 Order directed SCO to “identify and state with specificity the source code(s) that SCO is claiming form the bases of their action against IBM” (Ex. 150 ¶ 4), and the relevant provision of the March 2004 Order directed SCO to “identify all specific lines of code from UNIX System V from which IBM’s contributions from AIX and Dynix are alleged to be derived.” (IBM Ex. 56 ¶ 4.) SCO provided such detailed answers in its January 2004 responses and in its April 2004 update. (Ex. 149; Ex. 155.)

252. In April 2004, SCO provided detailed responses corresponding to each of the items in the Magistrate Court’s March 2004 Order. Specifically, SCO provided the additional documents that it had difficulty in collecting and reviewing during the thirty days following the Magistrate Court’s December 2003 Order. As to those April 2004 supplemental responses, SCO only had the selected snapshots of AIX and Dynix source code and still had not received any identification of the contributors and specifically what they had contributed to this source code. (Ex. 154.)

253. SCO then provided detailed exhibits that answered each of the items set forth in the Magistrate Court's March 2004 Order. SCO identified, for example, further "specific lines of code that IBM is alleged to have contributed to Linux from either AIX or Dynix." (Ex. 155 at Tabs B and C.) SCO did so by attaching exhibits further specifying, by file and line, AIX and Dynix code that IBM had contributed to Linux. SCO's supplemental discovery represented an additional 21,000 lines of code. (Id.) SCO was able to provide the foregoing information because IBM had finally produced selected versions of AIX code and additional versions of Dynix code pursuant to the March 2004 Order. (IBM Ex. 64 at 38.)

254. With respect to IBM's contributions to Linux, moreover, SCO responded that AIX and Dynix, as a whole, are modifications or derivative works based on UNIX System V, and provided two additional exhibits identifying, by file and lines, the UNIX System V code that remains in AIX and Dynix and from which AIX and Dynix are derived. (Ex. 155 at Tabs E and F.) SCO attached charts detailing files and lines of code from UNIX System V from which AIX and Dynix are derived. (Id.)

255. SCO further explained that without being provided access to the evolution of AIX and Dynix, SCO could not further address the requests. (Ex. 154 ¶ 6.) As it had previously, SCO noted that it was limited in its responses based on IBM's failure to provide all requested discovery. (Id. ¶ 9.)

256. With the same limitations caused by IBM's failure to provide complete discovery, SCO filed responses to IBM Interrogatories in May and June 2004. As with the SCO's other discovery responses in the case, SCO noted that its responses to the interrogatories were "based on the evidence SCO has discovered independently and based on information contained in

IBM's limited production to date" and that "[u]pon receiving complete discovery from IBM, including all versions of AIX and Dynix/ptx, there undoubtedly will be further evidence of IBM's contractual breaches and other violations of law." (Ex. 158.)

257. Within the constraints imposed by IBM's failure to provide foundational discovery, including but not limited to all versions of AIX and Dynix, SCO identified, among other items, what the code identified in its earlier answers constituted (idea, procedure, process, expression, etc.), the limits on its expression, if any, its location in the public domain (if at all), and whether it had been distributed without a copyright notice. (Id.)

258. SCO has continually supplemented and updated its production of documents since the summer of 2004. SCO produced eight CDs of documents in December 2004, two more CDs in January 2005, four more CDs in July 2005, two more CDs in August 2005, eleven more CDs in November 2005, three more CDs in December 2005, ten more CDs in January 2006, seventeen more CDs in February 2006, sixteen more CDs in March 2006, four more CDs in April 006, two more CDs in May 2006, one more CD in July 2006, and one more CD in October 2006. (Ex. 160.) The only motion to compel that IBM filed after 2003 related to the question of attorney-client privilege regarding SCO's predecessors-in-interest. (See Ex. 312.) (check cite)

B. IBM's Intransigence in Discovery.

259. SCO initiated discovery on June 24, 2003, when it asked for a variety of documents, including all versions or iterations of AIX and Dynix since 1999, and also a listing of all persons who worked on AIX and Dynix and the precise contributions of each of these persons to the source code. (Ex. 146.)

260. After lengthy meet-and-confer sessions, IBM claimed compliance or ongoing efforts at compliance, but SCO was left without this discovery and eventually was forced to file a motion to compel in November 2003 to receive it. (See Ex. 313.)

261. On the eve of the hearing on SCO's motion to compel, in early December 2003, IBM produced limited Dynix source code but still no AIX code. In fact, IBM did not produce AIX code until March 2004 – one year after suit was filed and after ordered to do so by the Magistrate Court. (IBM Ex. 64 ¶ 46.)

262. When IBM finally produced the first portions of the necessary source code in December 2003 and March 2004, it provided only selected snapshots of AIX and Dynix and failed to identify the precise contributions of the IBM individuals involved in the development of AIX and Dynix. (Id.)

263. In March 2004, following oral argument in February 2004, the Magistrate Court ordered IBM to comply with its discovery obligations by providing specified discovery and supplementing its deficient responses. (See IBM Ex. 56.)

264. SCO filed a motion to compel in July 2004, again on the grounds that IBM's responses, this time to the Magistrate Court's March 2004 Order, were deficient. (See Ex. 314.) In October 2004, the Magistrate Court ordered IBM to "provide affidavits from the Board of Directors, Mr. Palmisano and Mr. Wladawsky – Berger regarding production of all non-privileged documents pertaining to IBM's Linux strategy." (See Ex. 315.)

265. In December 2004, SCO filed a motion to compel IBM properly to respond to the Magistrate Court's March 2004 Order and to the October 2004 Order. (See Ex. 316) In January 2005, the Magistrate Court ordered IBM to supplement its production. (See Ex. 317) (check

cite) On IBM's motion for reconsideration, in an April 2005 Order, the Magistrate Court continued to require IBM to supplement its production. (See Ex. 318.)

266. In January 2005, SCO filed a motion to compel IBM to produce its Chief Executive Officer, Samuel J. Palmisano, for deposition. (See Ex. 319.) The grounds included the plain and indisputable facts that (1) IBM intended to depose SCO's CEO, Darl McBride, for two days, and (2) Mr. Palmisano was obviously a relevant fact witness. (Id.) In July 2005, the Magistrate Court ordered IBM to produce Mr. Palmisano for deposition. (See Ex. 68.)

267. In September 2005, SCO filed a renewed motion to compel IBM to produce the complete development history of its Linux contributions. (See Ex. 320.) In response, as reflected in the Magistrate Court's October 2005 Order, IBM agreed to produce responsive materials. (See Ex. 321.)

268. In October 2005, SCO filed a renewed motion to compel IBM to properly respond to the Magistrate Court's March 2004 Order and to the October 2004 Order. (See Ex. 322.) In March 2006, the Magistrate Court ordered IBM to produce certain affidavits and to make certain witness available for deposition. (See Ex. 323.)

269. In April 2006, SCO filed a motion, in United States District Court for the Middle District of North Carolina, to compel the deposition of Otis Wilson, whom counsel for IBM had come to represent and had refused to make available for deposition. (Ex. 161.) In May 2006, the Magistrate Court in North Carolina ordered Mr. Wilson to appear for deposition. (Ex. 162.)

C. SCO's December 2005 Final Disclosures.

270. The District Court's Order of July 1, 2005, set forth new deadlines for completion of discovery, for exchange of expert reports, for filing of dispositive motions, for completion of



pre-trial stipulations and witness and exhibit lists, and, ultimately, for a five-week jury trial set to begin on February 26, 2007.

271. At IBM's request, the Court also included deadlines for the parties to "identify" all allegedly "misused material" with "specificity," and to update interrogatory answers. The interim deadline for this identification was October 28, 2005, and the final deadline was December 22, 2005. This Court declined to adopt IBM's proposed language for that deadline, which stated that line, version, and file of source code must be provided. (Ex. 163 at 2; see also id. n.2.)

272. SCO timely and fully complied with both the interim October and final December deadlines. In October 2005, SCO identified 204 items of "misused material" and provided source code references for source code disclosures and specific references to the method and concept disclosures at issue. (Ex. 143; Ex. 144.)

273. On December 5, 2005, little more than two weeks before the final submissions were due, IBM wrote SCO a letter claiming that the October disclosures were not specific enough and threatening to move to preclude SCO from pursuing any claims regarding allegedly misused material that IBM believed was not properly disclosed. (IBM Ex. 151.)

274. As SCO's plan and effort was to provide as much specificity in its December Submission as possible, and as SCO informed IBM at the time, that Submission, which SCO believed fully conformed to the Order and went well beyond what was required in many areas, was viewed as the response to IBM's letter. (IBM Ex. 60 at 4.)

275. SCO's December Submission consisted of a 466-page principal document organized around 294 items of misused material. (Ex. 144.) SCO and experts did everything

they could to ensure that they disclosed all the material they had and that it was organized in the most accessible possible manner. SCO and its experts cited versions, files and lines where available. (Ex. 143.)

276. The Submission thus provided identification of the person(s) making the disclosure; a description identifying the nature of the improperly disclosed code, method or concept; a summary of the improper disclosure or use; a reference to specific supporting files or documents listed as “sources”; and a list of Linux files believed to contain or to be related to the improperly disclosed materials. (Ex. 144; Ex. 143.)

277. For most methods and concepts, all or critical parts of the communication comprising the disclosure were reproduced in the “summary” section of the disclosure. Where IBM provided a patch file of code along with the disclosed method (which showed the Linux community how the method or concept might be implemented in Linux), such code was included or the link to the file which IBM identified as containing the code was noted. (Ex. 144; Ex. 143.)

278. Along with this principal document, SCO provided many thousands of pages of referenced sources which constituted source code files, articles, or copies of the full communications through which the improper disclosure was made. SCO also provided IBM and the District Court with a CD containing the December Submission, with all backup material hyperlinked to each disclosure item so that all source information identified in each disclosure could readily be viewed by clicking on the name of the hyperlinked source file. (Ex. 144.)

## **XI. NOVELL IMPROPERLY PURPORTS TO “WAIVE” SCO’S RIGHTS.**

279. In 2003, Novell sent SCO a series of letters purporting to waive SCO’s right to enforce its UNIX license agreements against IBM. (IBM Exs. 135, 136, 137, 138.)

280. At the time that Novell purported to waive IBM's breaches of the agreements, no binary royalty payments were being made or were expected to be made in the future, under the IBM or Sequent UNIX license agreements. In Amendment No. X, IBM had agreed to pay SCO a nonrefundable fee of \$10.125 million for a perpetual license to distribute certain sublicensed binary products based on the UNIX source code at no additional royalty payment; Amendment X thus effected a buy-out of IBM's future UNIX binary royalty obligations. (IBM Ex. 124.)

281. Similarly, by the time Novell purported to waive SCO's source code rights with respect to Dynix (in February 2004), no further royalty payments were being made under Sequent's license; the last such royalty payment to SCO (of only approximately \$3,000) was made in the first quarter of 2003. (Ex. 44 ¶ 3.)

282. At the time it purposed to direct SCO to waive its rights, Novell was seeking to promote business interests entirely separate from any rights it retained under the APA. In a series of deals struck between November 2003 and March 2004, Novell and IBM formed a very close Linux partnership: Novell acquired Linux distributor SuSE Linux, and IBM invested \$50 million in Novell to finance part of the acquisition. (Ex. 45.)

283. Under the IBM-Novell deal, Novell became a major Linux distributor, allowing IBM to continue its official distance from the Linux distribution channel. IBM spokesman Mike Darcy stated: "IBM is not a Linux distributor and has no interest in being in that business." Hiawatha Bray, *Novell to Buy SuSE Linux for \$210M; Firm's Commitment to Software Boosted*, *The Boston Globe*, Nov. 5, 2003 (Ex. 46).

284. Nevertheless, IBM benefits significantly from the Linux distributions made by Novell. Novell CEO Jack Messman explained the benefits of its partnership with IBM as

follows: “IBM stands to gain a great deal of revenue by providing systems, peripheral devices, software and services for Linux.” Bob Mims, Novell, IBM and HP unite efforts to put Linux on top: Three companies unite to boost Linux and topple Microsoft, The Salt Lake Tribune, Mar. 25, 2004, at E1 (Ex. 47).

285. Novell and SCO entered into a Technology License Agreement (“TLA”) contemporaneously with the APA. As contemplated by Section 1.6 of the APA, the Technology License Agreement effected a “license back” to Novell of rights to use the UNIX System V code. (Ex. 48; IBM Ex. 123 § 1.6; IBM Ex. 585 at 271-72.)

286. Under the TLA, Novell was permitted to use UNIX and UnixWare only for internal purposes and only in bundled products, and then only to the extent that no material part of the bundled product competed with SCO’s UnixWare business. (Ex. 48; Ex. 76 at 44-45.)

287. The chief negotiators for both Novell and SCO, and other participants in those negotiations, agree that neither SCO nor Novell intended for the APA to grant Novell the sweeping rights over the assets it sold to SCO that IBM argues were granted. (Ex. 39 ¶ 13; Ex. 40 ¶ 10; Ex. 42 ¶ 5; Ex. 351 ¶ 9; Ex. 50 ¶¶ 29-35; Ex. 76 at 41-42, 53; see also IBM Ex. 260 at 315-16, 318 325, 356.) The understanding of Novell’s designated employee “for achieving a smooth transition of Novell’s UNIX customers to SCO” was that “Novell had retained no rights in SVRX source code under the Purchase Agreement,” but rather “retained rights to the binary code royalties.” (Ex. 360 ¶ 11.)

288. Ed Chatlos, who negotiated the APA for Novell, explained that “Paragraph 4.16 of the APA was specifically designed and intended to protect Novell’s retained binary product royalty stream” and that Novell retained no “right to waive, or to direct or require SCO to waive,

any of SCO's source code rights, including under customer source code licenses." (Ex. 39 ¶ 13.) Mr. Chatlos confirmed his views at deposition. (Ex. 76 at 41-42, 53.)

289. Jim Wilt, who negotiated the APA for SCO, confirmed that Paragraph 4.16 of the APA allowed Novell to manage royalty streams, but "not at the expense of SCO's right to enforce its intellectual-property protections under any such licenses, and not to permit Novell to waive any of those protections." (Ex. 40 ¶ 10.) Mr. Wilt also explained that Amendment No. 2 was intended to confirm the parties' intent in this regard. (Id.)

290. Steve Sabbath, Santa Cruz's former Vice President of Law and Corporate Affairs and a participant in a number of the meetings and discussions with the chief negotiators and attorneys leading up to the APA, similarly refuted the suggestion that Section 4.16(b) gave Novell the right to waive any breach of the intellectual-property protections. According to Mr. Sabbath, IBM's proposed interpretation would permit Novell to eviscerate the entire purpose of the asset-purchase transaction. (Ex. 42 ¶ 5; IBM Ex. 585 at 19-20, 36-37.)

291. Mr. Sabbath, who was involved in the discussions leading up to Amendment No. 2 and who executed that amendment on Santa Cruz's behalf, has also explained that:

Amendment No. 2, however, was intended to confirm, among other things, the parties' intent that SCO would obtain ownership of the UNIX copyrights under the APA and that Novell had received no rights with respect to UNIX source code under the APA. Paragraph B.5 of Amendment No. 2 was specifically intended to make clear that Novell had no right to increase any SVRX licensee's rights to SVRX source code, no right to grant any new SVRX source code licenses, and no right to prevent Santa Cruz from exercising the rights it obtained under the APA with respect to SVRX source code.

(Id. ¶ 6.) Mr. Sabbath confirmed the foregoing views at deposition. (IBM Ex. 585 at 38, 55-58, 84-86.)

292. Larry Bouffard, Novell's worldwide sales director for UNIX products and the Novell representative who negotiated Amendment No. X for the company, has now clarified his previous declaration. It was Mr. Bouffard's decision, in reliance on his interpretation of Section 4.16 of the APA, to enter into a buyout of IBM's binary royalty stream between IBM and Novell, purportedly on behalf of Santa Cruz. Mr. Bouffard confirms that Novell and Santa Cruz entered into Amendment No. 2 "to preclude Novell from undertaking the precise type of unilateral conduct with respect to the UNIX license agreements that I had undertaken with respect to the IBM-Novell buyout." (Ex. 50 ¶ 33.) Mr. Bouffard states:

Amendment No. 2 clarified and reiterated that the only rights Novell possessed in relation to Santa Cruz's UNIX license agreements was a limited right to preclude Santa Cruz from interfering with the binary royalty stream. I did not understand Novell to have the right to direct SCO to waive any of its rights under its UNIX source code license agreements, let alone to do so unilaterally.

(Ex. 50 ¶ 35.)

293. Kim Madsen was a Manager in the Law and Corporate Affairs group of Santa Cruz at the time of the APA and Amendment No. 2. In that capacity, she worked with Mr. Wilt and Mr. Sabbath on the negotiation of the APA, and with Mr. Sabbath in the negotiation of Amendment No. 2. Mr. Madsen testifies:

Under the APA, Novell also retained rights to certain binary product royalty payments. That retention of rights allowed Novell to manage that royalty stream within the operation of Santa Cruz's customer source code licenses. I did not understand the retention to be at the expense of Santa Cruz's right to enforce its intellectual property protections under such licenses or to permit Novell to waive any of those protections, and I never heard anyone from any negotiation team suggest otherwise. I do not believe that Novell had any right to waive, or to direct or require Santa Cruz to waive, any of its intellectual property rights or protections.

(Ex. 38 ¶ 13.) With respect to Amendment No. 2, Ms. Madsen explains:

My understanding from the negotiations and discussions leading up to the Amendment was that Amendment No. 2 was intended to confirm, among other things, the parties' intent and agreement that Santa Cruz had obtained ownership of the UNIX copyrights under the APA and that Novell had received no rights with respect to UNIX source code under the APA. Paragraph B.5 of Amendment No. 2 was specifically intended to make clear that Novell had no right to increase the rights of any UNIX System V source-code licensee, no right to grant any new such source-code licenses, and no right to prevent Santa Cruz from exercising the rights it obtained under the APA with respect to that source code.

(Ex. 38 ¶ 16.)

### **Standard of Decision**

The standards for summary judgment under Federal Rule of Civil Procedure 56 are stringent. “Summary judgment should not be granted unless the evidence, viewed in the light most favorable to the party opposing the motion, shows there are no genuine issues of material fact and the moving party is due judgment as a matter of law.” Kysar v. Amoco Prod. Co., 379 F.3d 1150, 1155 (10th Cir. 2004) (quoting Blackhawk-Cent. City Sanitation Dist. v. Am. Guar. & Liab. Ins. Co., 214 F.3d 1183, 1188 (10th Cir. 2000).)

It is axiomatic that the “moving party carries the burden of showing beyond a reasonable doubt that it is entitled to summary judgment,” and that “the court must review the record in the light most favorable to the opposing party.” Hicks v. City of Watonga, 942 F.2d 737, 743 (10th Cir. 1991). Thus, the Court “must resolve factual disputes and draw inferences” in favor of the non-moving party, Rogers v. United States, 281 F.3d 1108, 1113 (10th Cir. 2002), and the Court may not “act as the jury and determine witness credibility, weigh the evidence, or decide upon competing inferences.” Boyer v. Bd. of County Comm’rs of Johnson County, 922 F. Supp. 476, 484 (D. Kan. 1996). In short, summary judgment may not be granted unless “the uncontroverted material facts establish that the moving party is entitled to judgment as a matter of law.” David v. City & County of Denver, 101 F.3d 1344, 1355 (10th Cir. 1996).

### **Argument**

Each of the purported bases for IBM’s Motion fails to establish any basis for summary judgment, with respect to either the facts at issue or the relevant precedent.

First, SCO has established a material breach of the Agreements. (Part I, below.) A core, fundamental restriction of the Agreements is that IBM was not entitled publicly to disclose the



source code, methods or concepts in AIX or Dynix/ptx. The plain language of the standard UNIX license agreement compels that interpretation, and there is extrinsic evidence spanning decades to confirm it. IBM does not dispute that it made hundreds of disclosures from AIX and Dynix/ptx to Linux, at least dozens of which remain at issue in the case.

Second, IBM's estoppel argument is based on numerous disputed facts and the misapplication of New York law. (Part II, below.) The foregoing extrinsic evidence, and more, further establishes (and easily permits the inference) that neither IBM nor Sequent was ever told that it could openly disclose the source code, methods and concepts they developed even if they were developed as part of a derivative work based on the licensed UNIX software product. In addition, under New York law, the unambiguous and comprehensive integration clauses in the Agreements gave no legal effect to any such alleged representations and made any alleged reliance by IBM or Sequent on such statements unreasonable. Under the law, moreover, the conduct of AT&T, USL, Novell and Santa Cruz cannot bind SCO for purposes of the application of the equitable principle of estoppel.

Third, IBM's waiver argument also is based on numerous disputed facts and a mistaken application of New York law. (Part III, below.) The evidence shows that neither SCO nor its predecessors-in-interest intended to waive their rights precluding their UNIX licensees from disclosing material from their derivative works in material breach of their agreements. Such evidence includes testimony from the members of the UNIX licensing group overseeing the licenses "on the ground" as well as from senior executives and members of the Board of Directors. As a legal matter, moreover, SCO could not be bound by any waivers by its predecessors-in-interest unless SCO knew of those waivers, which it did not and for which IBM

presents no evidence to suggest it did. The evidence also shows IBM's invocation of Novell's purported waiver to lack any basis as a grounds for summary judgment.

Fourth, SCO has timely asserted its claims relating to RCU. (Part IV, below.) IBM presents no evidence that any of SCO's predecessors-in-interest knew or should have known of the patent application (in 1993) or the issuance of the patent (in 1995). The patent application itself was not even public, and the point of the patent was to establish that no one besides the patent-holder was entitled to use RCU. IBM also presents no evidence that SCO or its predecessor-in-interest knew or should have known that RCU was subsequently incorporated into Sequent's UNIX flavor. The inclusion of RCU was hardly a well-known fact, and of course the Dynix/ptx source code was not publicly available.

#### **I. SCO HAS ESTABLISHED A BREACH OF THE AGREEMENTS.**

IBM does not dispute either that AIX and Dynix/ptx are derivative works within the meaning of the Agreements or that IBM has publicly disclosed technology from AIX and Dynix/ptx to help strengthen Linux. In addition, SCO has produced substantial evidence demonstrating the foregoing facts. (¶¶ 192-97.) Much of this evidence expressly describes or depicts AIX and Dynix/ptx technology being transferred to Linux. (Ex. 300.)

IBM argues instead that it and Sequent were free to disclose the source code, methods and concepts that it and Sequent developed even if they were developed as part of a derivative work based on the licensed UNIX software product. IBM bears the burden of demonstrating that its interpretation of the Agreements is correct as a matter of law. See Trainor v. Apollo Metal Specialities, Inc., 318 F.3d 976, 979 (10th Cir. 2002). IBM must establish that its reading is the

only reasonable interpretation. See Jellinick v. Joseph J. Naples & Assocs., Inc., 296 A.D.2d 75, 78-79 (App. Div. 2002).

IBM does not carry that burden. SCO demonstrates in its own pending Motion for Partial Summary Judgment on Its Third Cause of Action that the plain language of the Sequent Agreement required Sequent (and then IBM) to hold in confidence all parts of Sequent's derivative works based on the licensed UNIX software product. The Sequent Agreement was never modified by a side letter or amendment. In addition, as noted in SCO's Motion, the plain language of the IBM Agreement, Side Letter and Amendment No. X imposed the same requirements on IBM with respect to its own derivative work.

The record further establishes that AIX and Dynix/ptx are such derivative works, also as shown in SCO's pending Motion, and that IBM made numerous contributions to Linux development from those operating systems. With respect to the extrinsic evidence of the parties' intent under and understanding of the Agreements, moreover, IBM ignores the abundant evidence confirming the foregoing scope of the plain language of the Agreements.

A. The Plain Language of the Agreements Prohibits IBM's Disclosures from AIX and Dynix/ptx.

Although IBM's memorandum in support of its Motion is over one hundred pages long, IBM undertakes no serious textual analysis of the Agreements. Indeed, such an analysis precludes IBM's cursory plain-language argument.

It is well established that no contractual provisions be rendered superfluous, and that contractual provisions are read so as not to conflict with one another. See Garza v. Mar. Trans. Lines, Inc., 861 F.2d 23, 27 (2d Cir. 1988); Ronnen v. Ajax Elec. Motor Corp., 88 N.Y.2d 582, 589 (1996); Merrill Lynch v. Adler, 651 N.Y.S.2d 38, 39 (App. Div. 1996); Ruttenberg v.

Davidge Data Sys. Corp., 626 N.Y.S.2d 174, 178 (App. Div. 1995); Robshaw v. Health Mgmt., Inc., 470 N.Y.S.2d 226, 227 (App. Div. 1983).

It also bears mentioning that to support its argument for equitable estoppel, IBM cites numerous witnesses who acknowledge (often by omission) that they never relied on the language of the Agreements for their purported understanding of the scope of the Agreements, and who cannot reconcile the view of the Agreements they are proposing with the language therein.<sup>3</sup> (¶¶ 130, 146, 159.) IBM and the cited witnesses thus concede that it is not any assertedly plain language that gives them the rights they say they have over such material.

The plain language of the Agreements directly defeat IBM's arguments about their supposedly limited scope. IBM's interpretation fails for the principal reasons set forth below.

First, if IBM's interpretation of the standard UNIX license agreement (such as the Sequent Agreement) were correct, then the requirement that "resulting materials" be "treated as part of the original SOFTWARE PRODUCT" would be rendered superfluous, because UNIX source code is already clearly and indisputably contained within the original SOFTWARE PRODUCT. In other words, there would simply be no reason for the contract to require that source code contained in "resulting materials" be treated "as part of the original SOFTWARE PRODUCT," because such source code is already covered by the contractual protections afforded to the original SOFTWARE PRODUCT.

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<sup>3</sup> To prove an "equitable estoppel" with respect to the Agreements, IBM must prove that its and Sequent's conduct has not been referable to the terms of the Agreements. New York law requires the parties' conduct to be "not otherwise compatible with the agreement as written." Rose v. Spa Realty Assocs., 42 N.Y.2d 338, 346 (1977); accord EMI Music Mktg. v. Avatar Records, Inc., 317 F. Supp. 2d 412, 421 (S.D.N.Y. 2004); Towers Charter & Marine Corp. v. Cadillac Ins. Co., 708 F. Supp. 612, 614 (S.D.N.Y. 1989); Matter of Irving O. Farber, PLLC v. Kamalian, 791 N.Y.S.2d 609, 609 (App. Div. 2005).

At their depositions, principal witnesses from whom IBM has submitted declarations were unable to reconcile IBM's reading with this glaring textual problem. (See IBM Ex. 301 at 241, 264-65; IBM Ex. 302 at 256-57; IBM Ex. 295 at 101.) The attorney (Geoff Green) whose testimony IBM cited two years ago, but now declines to cite, was at a complete loss to explain how IBM's interpretation would not convert the final clause of Section 2.01 ("provided the resulting materials are treated hereunder as part of the original SOFTWARE PRODUCT") into mere surplusage. (See Ex. 5 at 111-12, 121-22, 241.) Indeed, IBM declarant Michael DeFazio acknowledged that the "resulting materials" were the "derivative works" (IBM Ex. 260 at 69-70), and IBM's negotiator Richard McDonough admitted that IBM's AIX product constituted "resulting materials" within the meaning of the IBM Agreement (Ex. 79 at 32, 64, 113).

Second, IBM's reading fails to account for the protection under Section 2.01 for both modifications of the licensed UNIX product and "derivative works" based on that product. A modification plainly denotes that a programmer changed or altered portions of a product, but the separate protection under the agreement for "derivative works" clearly reflects an intent under Section 2.01 to cover products that were based on, but did not necessarily include, the original licensed source code. IBM's reading would render meaningless the term "derivative works." If IBM were correct in contending that the software agreements protected only literal UNIX source code, there would be no reason to delineate an additional – let alone two additional – categories of products that are distinct from the actual code, but were required to be treated the same as the original licensed UNIX software product.

Third, IBM's reading is incompatible with Section 2.01's language requiring derivatives or modifications to be treated "as part of" the original SOFTWARE PRODUCT. By definition,

treating such materials “as part of the original SOFTWARE PRODUCT” must mean adding something to the “original SOFTWARE PRODUCT” that was not already there. In other words, because source code is already contained in the “original SOFTWARE PRODUCT,” IBM’s reading of Section 2.01 (that is, that it covers only UNIX source code) would provide nothing to add (that is, nothing to treat “as part of”).

Fourth, Section 7.06(a) of the Agreements includes a specific provision requiring the licensee to hold the “SOFTWARE PRODUCTS subject to this Agreement in confidence for AT&T.” The Agreement further specifies in Section 7.06(a) that the licensee “shall not make any disclosure of any or all of such SOFTWARE PRODUCTS (including methods or concepts utilized therein) to anyone, except to employees of LICENSEE to whom such disclosure is necessary to the use for which rights are granted hereunder.” Section 7.06(a) of the standard agreement thus not only expressly extended the requirement of confidentiality to all aspects of the “SOFTWARE PRODUCTS” (which, by virtue of Section 2.01, must be treated identically to any modifications or derivatives based on such SOFTWARE PRODUCTS), but also specifies that protection of the SOFTWARE PRODUCTS includes protection of the “methods or concepts utilized therein.” Again, a plain reading of these provisions is directly at odds with IBM’s construction.

Fifth, beyond the plain language of Sections 2.01 and 7.06, further textual evidence undermining IBM’s “literal source code only” theory is found in the plain language of the sublicensing agreements. Under those agreements, IBM and Sequent were permitted to distribute “SUBLICENSED PRODUCTS” – defined to include “COMPUTER PROGRAMS in object-code format based on a SOFTWARE PRODUCT subject to the software Agreement”

(IBM Ex. 120 § 1.04; IBM Ex. 121 § 1.04) – under certain conditions and in exchange for sublicensing fees and royalties. (§ 4.01(a).) Thus, under the sublicensing agreements, AT&T licensees were permitted to distribute, for a fee, products “based on a SOFTWARE PRODUCT subject to the Software Agreement” (which, pursuant to Section 2.01 of the software agreements, included any modifications or derivatives of the SOFTWARE PRODUCT), but only in binary format. Significantly, the plain terms of the sublicensing agreements contain no suggestion or requirement that such “SUBLICENSSED PRODUCTS” had to be based on the literal UNIX source code; in fact, the sublicensing agreements do not contain any language whatsoever on which IBM could even argue that the agreements limited the coverage of “SUBLICENSSED PRODUCTS” to those “based on” the literal UNIX source code.

In light of this plain reading of the sublicensing agreements, IBM’s reading of the license Agreements makes no sense. Under IBM’s view, a licensee is free to distribute any product that is “based on” the UNIX software product within the meaning of Section 2.01 – but that does not contain any literal copying of UNIX source code – in unprotected source-code format without charging any sublicensing fees. But under the sublicensing agreements, that same product could only be distributed in object code format and at a charge to the licensee. IBM would thus have the sublicensing agreements require licensees to pay for distributions in restricted object code of the very same products that the licensee could distribute in unrestricted source code without charge under the software agreements.

Sixth, as explained above, neither the IBM Side Letter nor Amendment No. X nullified the plain language of Sections 2.01 and 7.06 or otherwise reduced the contractual obligations regarding modifications and derivative works. Indeed, if the intent of the IBM Side Letter was to

cut back the Section 2.01 protections to mere literal source code, as IBM contends, that would have been exceedingly easy to accomplish as a drafting matter. Instead of leaving the “resulting materials” clause of Section 2.01 entirely in place, the IBM Side Letter could have simply added the word “not” before “treated as part of the original SOFTWARE PRODUCT.” With that simple change, IBM could have effected the very change that it now reads into the Side Letter – economically, easily, and clearly. Without such a change, however, the plain language of the Agreements precludes the retroactive change that IBM is attempting to make.

Further, the Side Letter did not cover Sequent. Although the Sequent Agreement was entered into just a couple of months after the IBM Agreement and Side Letter, none of the language on which IBM relies from its Side Letter was included in the Sequent Agreement. And there is no textual support whatsoever for IBM’s contention that Sequent somehow received the benefit of amendments to IBM’s software agreement even though no such language had been included in their written contracts.

To the contrary, the Sequent Agreement contained clear and unambiguous merger language that specifically ruled out after-the-fact “me too” arguments such as those advanced here by IBM (on Sequent’s behalf):

This Agreement and its Supplements set forth the entire agreement and understanding between the parties as to the subject matter hereof and merge all prior discussions between them, and neither of the parties shall be bound by any conditions, definitions, warranties, understandings or representations with respect to such subject matter other than as expressly provided herein or as duly set forth on or subsequent to the date of acceptance hereof in writing and signed by a proper and duly authorized representative of the party to be bound thereby. No provision appearing on any form originated by LICENSEE shall be applicable unless such provision is expressly accepted in writing by an authorized representative of AT&T.



(IBM Ex. 119 ¶ 4 (emphasis added).) IBM ignores this merger clause in its strained attempt to export its misreading of the IBM Side Letter over to the Sequent Agreement.

Accordingly, for all of these reasons, as explained in further detail below, there is no merit to IBM's limited textual argument that it is entitled to summary judgment on SCO's contract claims as a matter of law.

1. The Plain Language of the Sequent Agreement

The vast majority of the technology disclosures that SCO challenges were made from Sequent's derivative work, Dynix/ptx. SCO has filed a motion for partial summary judgment on the grounds that the plain language of the Sequent Agreement precluded IBM from making the disclosures it did. Sequent entered into no side letter amending any portion of its standard UNIX license agreement. The unambiguous integration clause of the Sequent Agreement establishes that the terms of the IBM Side Letter did not affect Sequent's rights. (¶¶ 13-21.)

The Sequent Agreement placed significant constraints on Sequent's rights as a result of its access and exposure to the licensed UNIX software product. The minimum set of those constraints are set forth in the plain language of the Agreement, imposing strict requirements on licensees' use, export, transfer, and disclosure of the UNIX software. The two cornerstone protections are found in Sections 2.01 and 7.06 of the Agreement:

Internal Business Use (Section 2.01): "AT&T grants [Sequent] a personal, nontransferable and nonexclusive right to use in the United States each SOFTWARE PRODUCT identified in one or more Supplements hereto, solely for [Sequent's] own internal business purposes and solely on or in conjunction with DESIGNATED CPUs for such SOFTWARE PRODUCT. Such right to use includes the right to modify such

SOFTWARE PRODUCT and to prepare derivative works based on such SOFTWARE PRODUCT, provided the resulting materials are treated hereunder as part of the original SOFTWARE PRODUCT.” (Emphasis added.)

Non-Disclosure (Section 7.06(a)): “[Sequent] agrees that it shall hold all parts of the SOFTWARE PRODUCT subject to this Agreement in confidence for AT&T.

[Sequent] further agrees that shall not make any disclosure of any or all of such SOFTWARE PRODUCTS (including methods or concepts utilized therein) to anyone, except to employees of LICENSEE to whom such disclosure is necessary to the use for which rights are granted hereunder.”

The Agreement thus plainly extended those protections not only to the literal source code in which the UNIX innovations had been originally expressed, but also to methods and concepts that were embodied in UNIX.

AT&T thus permitted its licensees to rely on the innovations in UNIX to develop modifications and derivative works based on the UNIX software product, “provided the resulting materials are treated hereunder as part of the original SOFTWARE PRODUCT.” (IBM Ex. 119 § 2.01.) Under this provision, if a licensee exercised its right to use the original UNIX software product to prepare or as the base for modifications or derivative works, then the licensee had to afford such “resulting materials” all of the same strict protections required by the software agreement for the original UNIX product itself. Thus, pursuant to Section 2.01, all of the use, transfer, export, and confidentiality restrictions that applied to the original UNIX software product also covered any such modifications or derivative works. The Agreement further specifies: “Except as provided in Section 7.06(b), nothing in this Agreement grants to

LICENSEE the right to sell, lease or otherwise transfer or dispose of a SOFTWARE PRODUCT in whole or in part.” (IBM Ex. 119 § 7.10.) The Agreement thus again prohibits Sequent from disclosing any “part” of the “resulting materials.” (IBM Ex. 119 §§ 2.01; 7.06(a); 7.10.)

2. The Plain Language of the IBM Agreement, Side Letter, and Amendment No. X.

In addition to its own standard UNIX license agreement, IBM entered into a Side Letter with AT&T, and then in 1996 entered into an Amendment No. X to the Agreement and Side Letter with AT&T’s successor-in-interest Santa Cruz. Neither the Side Letter nor Amendment No. X changed the foregoing core restrictions that applied under AT&T’s standard UNIX license agreement.

The Side Letter. The Side Letter states: “Regarding Section 2.01, we agree that modifications and derivative works prepared by or for you are owned by you. However, ownership of any portion or portions of SOFTWARE PRODUCTS included in any such modification or derivative work remains with us.” (IBM Ex. 122 ¶ A.2.) Paragraph A.2 says nothing about IBM’s confidentiality obligations, which are addressed in Section 7.06 of the Agreement and Paragraph A.9 of the Side Letter. IBM says that the ownership clarification must have changed the confidentiality restrictions, because otherwise IBM’s ownership was insignificant. That is incorrect. Under the clarification, AT&T could not reach out and appropriate IBM’s work for AT&T’s benefit while the Agreement was in place, as IBM retained ownership rights. (See Part I.B, below.)

The Side Letter “amends” Section 7.06(a) of the Agreement by “replacing” that Section with a different “7.06(a).” (IBM Ex. 122 ¶ A.9.) The opening language of Paragraph A.9 of the Side Letter says that the right to “develop” at issue is one that applies only internally to IBM:

IBM “agrees that it shall not make any disclosure of such SOFTWARE PRODUCTS to anyone, except to employees of LICENSEE to whom such disclosure is necessary to the use for which rights are granted hereunder.” (IBM Ex. 122 ¶ A.9.) Under the first part of Paragraph A.9, IBM “agrees that it shall hold SOFTWARE PRODUCTS subject to this Agreement in confidence for AT&T” and “further agrees that it shall not make any disclosure of such SOFTWARE PRODUCTS to anyone, except to employees of LICENSEE to whom such disclosure is necessary to the use for which rights are granted hereunder.” (IBM Ex. 122 ¶ A.9.) The Side Letter thus repeats the core confidentiality restrictions of the IBM Agreement regarding SOFTWARE PRODUCTS.

Paragraph A.9 then affords IBM a limited right to “develop or market” certain products that the Agreement and Sublicensing Agreement do not permit IBM to “develop or market” – namely, products that are not modifications or derivative works based on the SOFTWARE PRODUCT, but that employ ideas, concepts, know-how or techniques embodied in the SOFTWARE PRODUCTS. (IBM Ex. 122 ¶ A.9.) IBM may “develop or market” such products as long as IBM does not copy code from the SOFTWARE PRODUCT into the product or refer to the SOFTWARE PRODUCT in developing the product.

The Side Letter thus does not remove the requirement that, with respect to products that are modifications and derivative works based on the licensed UNIX software product, IBM must continue to honor the confidentiality restrictions on such products. If IBM could freely disclose those parts of a modification or derivative work that IBM owned, then Paragraph A.9 would not make any sense. If IBM owned and therefore could disclose, with respect to a derivative work based on the licensed software product, any and all parts that did not contain literal System V

source code, then IBM would have been free to “develop or market” a product containing ideas, concepts, know-how and techniques from the software product even where IBM had referred to System V in developing that product – and would have been free to disclose all parts of such a product.

The Side Letter thus addresses the ownership of modifications and derivative works, and does not in any way compromise the strict prohibitions on improper use and disclosure of such works. Ownership and use rights are not synonymous in the law, and property rights – particularly intellectual-property rights – can be bifurcated along those lines. See, e.g., HotSamba, Inc. v. Caterpillar Inc., No. 01 C 5540, 2004 WL 609797, at \*5 (N.D. Ill. Mar. 25, 2004) (discussing software license agreement that allowed licensee to create derivative works and provided that licensee owned any derivative works it created, but prohibited licensee from transferring any such derivative works to third parties) (Ex. F). Contractual language addressing ownership should not be understood to define the contracting parties’ rights with respect to use, particularly where, as here, the contract unambiguously distinguishes those rights, and addresses them separately and differently.

Amendment No. X. In amending part of Paragraph A.9 of the Side Letter, Amendment No. X does not give IBM the right to publicly disclose the SOFTWARE PRODUCT or “resulting materials” or ideas, concepts, know-how or techniques therein.

Amendment No. X states in pertinent part that the “second to last sentence of Paragraph A.9 of the February 1, 1985 amendment to SOFT-00015 is modified by deleting the words: ‘and employees of Licensee shall not refer to the physical documents and materials comprising Software Products subject to this Agreement when they are developing any such products or

services or providing any such service.” (IBM Ex. 124 ¶ 6.) Amendment No. X thus removes only the second of the two conditions that had to be satisfied before Paragraph A.9 of the Side Letter operates to permit IBM to “develop or market” a product that contains the “ideas, concepts, know-how or techniques” embodied in the SOFTWARE PRODUCT but that is not a derivative work based on the SOFTWARE PRODUCT .

Amendment No. X thus does not permit IBM to publicly disclose any material that IBM is obligated to keep confidential under its Agreement and Side Letter. Amendment No. X specifically provides: “Except as modified herein, all other terms and conditions of the Related Agreements will remain effect. This Amendment No. X does not give IBM any additional rights to distribute the Software Product in source code form other than as modified in Section 2 and 3 of this Amendment No. X.” (IBM Ex. 124 § 8.) Sections 2 and 3 relate only to IBM’s rights to license the SOFTWARE PRODUCT to certain third parties under certain circumstances. Accordingly, under the Side Letter as modified by Amendment No. X, having indisputably copied code from the SOFTWARE PRODUCT into AIX, IBM did not have the right publicly to disclose in piecemeal fashion the AIX source code or ideas, concepts, know-how or techniques therein.

Amendment No. X also addresses the extent to which IBM could distribute source code of the SOFTWARE PRODUCT to certain third parties. The IBM Sublicensing Agreement gave IBM the right to permit its sublicensees to distribute the SUBLICENSED PRODUCT, and the right to use contractors to use a SOFTWARE PRODUCT “to modify a SUBLICENSED PRODUCT derived from such SOFTWARE PRODUCT.” (IBM Ex. 120 § 2.05(b).) The Side Letter expanded on those rights with respect to contractors. (IBM Ex. 122 ¶ 3.)

Amendment No. X expands on IBM's right to distribute the SOFTWARE PRODUCT to certain third parties, but only for specific purposes. The contractor must be working "in support of the contractor's distribution and support of Sublicensed Products," and only for the "Authorized Purpose" of "making modifications to the Software Products, and furnishing such modifications to IBM and/or distribution of such modifications of Sublicensed Products in binary form by the contractor to customers directly or through other Distributors," provided that even additional conditions are satisfied. (IBM Ex. 124 § 2.1.)

Amendment No. X further provides that IBM "may license a Software Product in source code form to an eligible contractor or customer for such contractor's or customer's use in accordance with Section 2," and details the restrictions on that right to license. (IBM Ex. 124 § 3.) The "Software Product in source code form" is called a "Source Copy." (Id.) With respect to IBM's circumscribed right to distribute source code to eligible contractors or customers, Amendment No. X provides scenarios to "clarify and illustrate the relief provided in Subsection 2.1." (IBM Ex. 124 § 3.7.) Company A is a "general computer system manufacturing firm" and a sublicensee of the Sublicensed Product: "IBM may not distribute Source Copies to Company A for purposes of making modifications to adapt the Sublicensed Products as a general operating system for Company A's general computer hardware system." (Id.) Amendment No. X thus does not even permit IBM to license the Software Product in source code form to a company to permit that company alone to modify and adapt the Sublicensed Product as a general operating system for that company. Amendment No. X certainly did not permit IBM to open-source the code that IBM remained obligated to keep confidential.

IBM's breaches were material. A contract breach is "material" if it goes to the "root of the agreement between the parties." Bear, Stearns Funding, Inc. v. Interface Group-Nevada, Inc., 361 F. Supp. 2d 283, 295 (S.D.N.Y. 2005) (quotations and citation omitted). Under the plain language of its license agreement, Side Letter, and Amendment No. X, IBM was obligated to keep all parts AIX confidential because IBM was required to treat a derivative work like AIX "as part of" the licensed UNIX software product. That language alone, by definition, proves that AT&T regarded confidentiality surrounding derivative works to be as important as the confidentiality for the licensed UNIX software product.

SCO has also demonstrated why such restrictions were integral and reasonable under the circumstances, and how they served to protect the value of the UNIX asset and business. (¶¶ 32-64.) SCO has also demonstrated that the same core confidentiality protections for the licensed UNIX System V software product and their derivative works remained in the UNIX System V license agreements through the successive sales and transfers of the UNIX business and licenses. (¶¶ 63-96.) On these basis alone, SCO submits, the Court could not properly find as a matter of law that IBM's breaches were immaterial.

In addition to the plain language, extrinsic evidence confirms that the confidentiality provisions go to the root of the Agreements. (¶¶ 76-96.) Where, as here, the question of breach itself turns on disputed issues of fact concerning the parties' intent, it necessarily follows that the question of material breach cannot be resolved as a matter of law. Indeed, "in most cases, the question of materiality of breach is a mixed question of fact and law – usually more of the former and less of the latter – and thus is not properly disposed of by summary judgment." Bear, Stearns, 361 F. Supp. 2d at 395 (citing numerous cases and substantial other authority); accord



Mackinder v. Schawk, Inc., No. 00 Civ. 6098 (DAB), 2005 WL 1832385, at \*9 (S.D.N.Y. Aug. 2, 2005) (Ex. G); Calamari & Perillo, The Law of Contracts § 11-18(a) (3d ed. 1987); Williston, on Contracts § 63:3, 440-41 & n.34 (4th ed. 2002). “Treating materiality as primarily a question of fact, best resolved by the jury, is consistent with the ‘wavering and blurred’ line that divides the material breach from the trivial.” Bear, Stearns, 361 F. Supp. at 296 (citation omitted).

SCO has further shown, moreover, that IBM’s breaches lead to the very harm that AT&T had precluded in its UNIX System V license agreements, such that as the successor to those agreements, SCO was deprived of “the benefit of the bargain.” Bear, Stearns, 361 F. Supp. 2d at 297. That is, by publicly disclosing parts of its UNIX System V derivative work, IBM significantly helped to develop an unlicensed, UNIX-clone operating system in which the owner of UNIX System V and its license agreements had no royalty interest, and which proceeded to destroy the owner’s own UNIX business. (¶¶ 192-97.) If there is ambiguity on the margins, as one of IBM’s own declarants now acknowledges, the Agreements clearly did not permit licensees to develop such royalty-free clones. (Ex. 50 ¶¶ 19-26.)

SCO has thus further shown that IBM’s breaches went to the “root” of its obligations, and therefore constituted a material breach of those obligations. (See also SCO’s Memorandum in Opposition to IBM’s “Motion for Summary Judgment on SCO’s Copyright Claim (SCO’s Fifth Cause of Action),” Argument, Part I.)

B. Any Contractual Ambiguity, as Well as the Extrinsic Evidence, Precludes IBM’s Motion on the Meaning of the Agreements.

Courts applying New York law, as well as the Tenth Circuit, have repeatedly held that “in a contract dispute, summary judgment may be granted only where the language of the contract is unambiguous.” Nowak v. Ironworkers Local 6 Pension Fund, 81 F.3d 1182, 1192 (2d

Cir. 1996). That is, courts may not resort to extrinsic evidence in order to resolve contractual ambiguities as a matter of law. See Bouzo v. Citibank, 96 F.3d 51, 58 (2d Cir. 1996); Seiden Assocs., Inc. v. ANC Holdings, Inc., 959 F.2d 425, 428 (2d Cir. 1992); State v. Home Indem., 66 N.Y.2d 669, 671 (1985); Hartford Acc. & Indem. Co. v. Wesolowski, 350 N.Y.S.2d 895, 898 (1973); Ruttenberg v. Data Davidge Sys. Corp., 215 A.D.2d 191, 193 (N.Y. App. Div. 1995); accord Gomez v. Am. Elec. Power Serv. Corp., 726 F.2d 649, 651 (10th Cir. 1984); Met. Paving Co. v. City of Aurora, Colo., 449 F.2d 177, 181 (10th Cir. 1971).<sup>4</sup>

This rule reflects the Court's obligation under Rule 56 to construe all evidence on a motion for summary judgment – including ambiguous contractual terms – in the light most favorable to the non-moving party. Thus, if a contract is ambiguous, there necessarily exists a genuine issue of fact concerning the parties' intended meaning:

If the court must resort to extrinsic evidence to ascertain the correct and intended meaning of a term, material questions of fact necessarily exist. If the language is susceptible to different reasonable interpretations, and where there is relevant extrinsic evidence of the parties' actual intent, then the contract's meaning becomes an issue of fact precluding summary judgment.

Alexander & Alexander Servs., Inc. v. These Certain Underwriters at Lloyd's, London, 136 F.3d 82, 86 (2d Cir. 1998) (emphasis added). Because ascertaining the meaning of an ambiguous contract necessarily involves drawing inferences from, and determining the credibility of, extrinsic evidence, see Hartford, 350 N.Y.S.2d at 898, permitting a court to resolve such matters on a motion for summary judgment "would greatly curtail the prerogatives of juries and trial

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<sup>4</sup> See also Restatement (Second) of Contracts § 212(2) (1981) ("A question of interpretation of an integrated agreement is to be determined by the trier of fact if it depends on the credibility of extrinsic evidence or on a choice among reasonable inferences to be drawn from extrinsic evidence."); Wright, Miller & Kane, Federal Practice and Procedure: Civil 2d § 2730.1, at 273-75 (2d ed. 1983); E. Allan Farnsworth, Contracts § 7.14, at 538-39 (2d ed. 1990).

judges.” Coplay Cement Co. v. Willis & Paul Group, 983 F.2d 1435, 1439 (7th Cir. 1993) (Posner, J.) (recognizing that “to infer meaning from disparate bits of evidence, some textual, some testimonial, none contested in themselves but the aggregate forming a confused mosaic” is “a task more appropriate for a trier of fact”).

The cases IBM cites are inapposite. In Moncrief v. Williston Basin Interstate Pipeline Co., 174 F.3d 1150 (10th Cir. 1999), for example, the district court had completed a full trial on damages, enabling the Tenth Circuit to review a complete factual record on liability. See id. at 1173. After assigning error to the district court’s finding that the contract was unambiguous, the appellate court declined to remand the case and instead resolved the ambiguity on its own. In so doing, the court expressly relied on the “unusual procedural posture” of the case. See id. (“Because of the unusual procedural posture of this issue – an issue decided on summary judgment, yet about which the parties introduced evidence and testimony at trial – we have before us all of the arguments and evidence relevant.”).<sup>5</sup> Thus, although the appeals court in Moncrief acted as the fact finder “in the interest of judicial economy,” see id. at 1154-55, 1174, that case cannot be read to set forth a district court’s authority to resolve contractual ambiguities as a matter of law based on extrinsic evidence.<sup>6</sup> Nor does the case apply to New York law.

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<sup>5</sup> IBM’s quotation from Moncrief omits the court’s acknowledgement that the sole basis for its ruling was the “unusual procedural posture of this case”; recognized that “in most such cases” the court “must remand . . . for findings regarding the interpretation of the ambiguous contract”; and prefaced the very language from the opinion on which IBM relies with the express caveat that in that case “all the extrinsic evidence [was] in.” 174 F.3d at 1173, 1174.

<sup>6</sup> IBM cites a similar case from the Second Circuit, Compagnie Financiere de CIC et de L’Union Europeenne v. Merrill Lynch, 232 F.3d 153 (2d Cir. 2000), which also rested on a unique procedural posture. In that case, the court emphasized that, because the summary judgment motion at issue “followed a bench trial, the trial record was before it.” Id. at 161. The court also observed that neither party had suggested the existence of additional evidence not already submitted at trial: “The parties

The facts in Kaiser-Francis Oil Co. v. Producer's Gas Co., 870 F.2d 563 (10th Cir. 1989), did not even involve the resolution of an ambiguity through the use of any extrinsic evidence; the case involved a suit to enforce a take-or-pay provision in a sales contract. The Tenth Circuit first affirmed the district court's finding that the contract was not ambiguous, see id. at 565-66, and then, as an independent matter, ruled that the district court had properly granted summary judgment on the issue of the seller's insecurity regarding the buyer's performance, id. at 568-69. As with Moncrief, IBM has ignored the context that makes it plain that the case in no way departs from the settled Tenth Circuit law that prohibits a court from resolving contractual ambiguities on summary judgment by resort to extrinsic evidence.<sup>7</sup>

In using the label the "Involved Persons" to describe the selected witnesses involved in AT&T's UNIX licensing program, IBM evidently means to suggest that the testimony of other individuals irrelevant. IBM even now excludes a witness (Geoff Green) whom it had previously

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confirmed at oral argument that the record was complete with regard to extrinsic evidence supporting their interpretations." Id.

<sup>7</sup> In addition, IBM's reliance on the doctrine of contra proferentem is entirely misplaced. Contra proferentem "is applied only in cases where there is an ambiguity in some terminology of the policy [contract] which cannot be resolved by the presentation of extrinsic evidence." Alfin, Inc. v. Pac. Ins. Co., 735 F. Supp. 115, 121 n.5 (S.D.N.Y. 1990). Accordingly, courts have rejected the application of the doctrine in the summary judgment context. See, e.g., Schering Corp. 712 F.2d at 9-10 (refusing to apply contra proferentem because "the party opposing summary judgment propound[ed] a reasonable conflicting interpretation of a material disputed fact"). Moreover, contra proferentem applies where one of the contracting parties had no voice in the selection of the contract language, and thereby protects the weaker of two contracting parties with unequal bargaining power. See 67 Wall St. Co. v. Franklin Nat'l Bank, 37 N.Y.2d 245, 249 (1975); Hertzog, Calamari & Gleason v. Prudential Ins. Co. of Am., 933 F. Supp. 254, 258-59 (S.D.N.Y. 1996). The cases IBM cites in support of its contra proferentem argument make this very point. In Jacobson v. Sassower, 66 N.Y.2d 991, 993 (1985), the court noted that an ambiguous contract must be construed against the drafter "and favorably to a party who had no voice in the selection of its language." and emphasized the special concerns governing attorney fee arrangements. (emphasis added). In Westchester Resco Co., L.P. v. New England Reinsurance Corp., 818 F.2d 2 (2d Cir. 1987), the court emphasized the particular rule in New York law that ambiguous insurance policies are to be construed against the insurer. Id. at 3. None of these concerns exist in this case, which indisputably involved arms-length deals between sophisticated and well-represented parties.

included as such an involved person, but who subsequently gave unfavorable deposition testimony for IBM, and who is now relegated to the sidelines.

Under the law, courts routinely consider testimony from witnesses who were involved in drafting and enforcing standard contract language, even if they did not sign or were not involved in the negotiation of the particular contract at issue. See, e.g., Schering v. Home Ins. Co., 712 F.2d 4, 9-10 (2d Cir. 1983) (denying plaintiff's motion for summary judgment solely on basis of affidavits of two drafters of standard contractual clause); see also McDonnell Douglas Fin. Corp. v. Pa. Power & Light Co., 858 F.2d 825, 833 (2d Cir. 1988) (considering affidavits of two attorneys at contracting party's outside law firm who were not involved in drafting contract at issue but had "worked to develop similar clauses in similar transactions"). This evidence is relevant if it provides context for the communications and writings exchanged between the parties. See Nat'l Envmtl. Serv. Co. v. Ronan Eng'g Co., 256 F.3d 995, 1003 (10th Cir. 2001). Thus, a party's standard practice is relevant to a determination of that party's intent in adhering to or deviating from that practice in a particular case. Accord EPN Ingenieria S.A. de C.V. v. Gen. Elec. Co., No. 92 Civ. 1563 (KMW), 1996 WL 531867, at \*2 (S.D.N.Y. Sept. 19, 1996) (considering defendant's standard contract, which plaintiff signed but defendant did not agree to in this case, as evidence of defendant's intent) (Ex. D); RMLS Metals, Inc. v. Int'l Bus. Mach. Corp., 874 F. Supp. 74, 77 (S.D.N.Y. 1995) (considering defendant's standard contract that was not adopted by the parties as evidence of defendant's intent). IBM's stated position that the UNIX license agreements were generally intended to contain the same core intellectual property protections only reinforces the plain relevance of the testimony from the individuals charged with the drafting and enforcement of the standard license agreements.

SCO shows below that the evidence squarely contradicts each of the principal assertions regarding the supposed meaning of the Agreements on which IBM relies in seeking summary judgment. (SCO addresses all of IBM's assertions in its response to IBM's Statement of Undisputed Facts, in Appendix A hereto.) Indeed, the testimony of "involved person" Otis Wilson at his August 2006 deposition underscored that his collective testimony alone (from his previous deposition in the BSD case and his testimony in this case) precludes summary judgment in IBM's favor on the supposed meaning of and AT&T's supposed statements regarding the meaning of the Agreements. (¶¶ 116-24.)

1. The Core Requirement of Confidentiality.

IBM says it is undisputed that the requirements of confidentiality over the licensed UNIX software product, as well as its modifications and derivative works, were not part of the root of the agreements, but SCO's evidence shows that the confidentiality requirements were a core component of the agreements that remained in the agreements for decades. (¶¶ 63-96.) Such evidence easily defeats IBM's argument that AT&T's interest in protecting its UNIX asset was only a collateral matter, and the agreement says on its face that the license had to treat its derivative works "as part of" the UNIX software product.

Indeed, members of the UNIX license group from the 1980s, 1990s, and 2000s confirm that the obligations of confidentiality were a core component of the agreements. (¶¶ 76-96.) Mr. Wilson's own supervisor in 1985, William Guffey, confirms that the requirements of confidentiality were a core protection. (Ex. 138.)

2. The UNIX Licensing Group.

IBM says it is undisputed that Otis Wilson was the head of the UNIX licensing group in 1985 when the Agreements were executed, but Mr. Wilson himself acknowledges that he had a supervisor in that capacity, and SCO's evidence shows that neither Mr. Wilson nor any other single individual at AT&T, USL or Novell had the authority to modify or amend the standard UNIX license agreement. (§ 90.)

Mr. Wilson's supervisor in 1985, Mr. Guffey, has testified to his disagreement with Mr. Wilson in all material respects. (Ex. 138.) Members of the UNIX licensing group from each of AT&T, USL, Novell, Santa Cruz, and SCO confirm that any decision to modify or amend the standard UNIX license agreement was a decision requiring the approval of several individuals at different levels of the company. (§ 90.)

3. Methods and Concepts.

IBM says it is undisputed that in 1985 AT&T decided to "abandon" its protections for the methods and concepts in UNIX, but SCO's evidence shows that no such decision was made and that AT&T, USL and Novell continued to protect such methods and concepts. (§§ 76-96.)

Mr. Wilson himself signed and letters and signed agreements after 1985 requiring licensees to keep the methods and concepts confidential, and members of the UNIX license group from the 1980s, 1990s, and 2000s confirm that those obligations remained in the license agreements. (§§ 63-96.) Moreover, his testimony in the BSD litigation flatly contradicts his present stance. (§§ 105-24.)

#### 4. Confidentiality Over Derivative Works.

IBM says it is undisputed that under the Agreements, IBM and Sequent were free to do as they wished with any material in the modifications and derivative works they developed based on the licensed UNIX software product, as long as the material was no UNIX source code, but the plain language of the Agreements belies that interpretation and SCO's evidence shows that AT&T, USL, and Novell intended to preclude the licensees from disclosing any part of such modifications and derivative works. (¶¶ 13-29; ¶¶ 76-96.)

Mr. Wilson himself sent side letters confirming that although licensees may own portions of their modifications and derivative works, they were obligated hold in confidence even those parts of the modifications and derivative works. (¶¶ 65, 66, 74.) Mr. Wilson and his account manager David Frasure testified in 1992, moreover, that the licensees were obligated to treat as part of the licensed UNIX software product anything the licensee had developed with "exposure" to the UNIX software product. (¶¶ 106-09, 128-29.) Mr. Wilson's and Mr. Frasure's contradictory testimony is simply the tip of the iceberg. (¶¶ 63-96.)

Indeed, one of IBM's own initial declarants, Lawrence Bouffard, now clarifies his testimony to make clear that USL and Novell did not purport to draw the distinctions that IBM now draws, between so-called "homegrown" code and other material in a derivative work based on the licensed UNIX software product. (Ex. 50 ¶¶ 19-28.)

Mr. Bouffard he had previously stated that AT&T and USL did not claim the right to "own or control" the portion of a licensee's UNIX flavor that the licensee had developed after licensing the UNIX software product (the "added-on" material), and that is true in the sense that AT&T or USL claimed no right to appropriate such material for itself or for its own uses. (Id. ¶¶



20-21.) He now clarifies, however, that in retrospect he cannot recall analyzing while at Santa Cruz, USL, or Novell whether a licensee could freely distribute such added-on material. (Id. ¶ 21.) He explains that he never undertook such analysis for two main reasons:

“The first reason is that given the licensees’ respective businesses, they had no compelling reason to want to disclose the source code of their UNIX flavors in the first place. The licensees were trying to develop the best UNIX flavors they could to distinguish themselves from their competitors in the effort to increase hardware sales by selling the hardware with an attractive UNIX operating system; they were not seeking to license their UNIX-flavor source code to others, thereby enabling those third parties to improve their own UNIX flavors and thereby increase their own hardware sales. In short, the operating assumption among AT&T, USL and their licensees was that the licensees would keep their UNIX-flavor source code confidential.” (Id. ¶ 21.)

“The second, related reason is that the current circumstances raising the confidentiality issue were not ones that were presented to me while I was at USL or Novell. That is, I never specifically considered whether a licensee might want to use the added-on material to create a UNIX clone outside of the AT&T/USL/Novell royalty framework.” (Id. ¶ 21.)

Mr. Bouffard now states clearly, however, that “even if AT&T did not intend to preclude their licensees from using their “added-on” material for certain purposes, AT&T did not intend to permit its licensees to use their “added-on” material from their UNIX flavors to create a UNIX clone outside of the AT&T/USL/Novell royalty framework.

As an example of his point, Mr. Bouffard cites USL’s and Novell’s source code-exchange program. (Ex. 50 ¶¶ 24-26.) Under that process, USL would permit one UNIX licensee to share the code of its UNIX flavor with another UNIX licensee, but only if the second licensee had a license for the same version of UNIX as the first licensee. (Id. ¶ 24.) The licensing group did not consider, as part of that process, whether the code the first licensee wished to show the second licensee was solely added-on code. (Id. ¶ 25.) USL’s perspective was that if the code was part of a UNIX flavor, then the second licensee was obligated to have a license for the same version of UNIX as the first licensee. (Id.) That was true even though, as

the agreements stated, AT&T, USL and Novell did not claim to “own” that portion of a modification or derivative work that was not part of the licensed UNIX software product. (Id.)

SCO’s evidence shows that multiple AT&T, USL and Novell executives and members of the UNIX licensing group make the exact same point, regarding the source code-exchange process, that USL and Novell did not seek to draw the distinctions that IBM now says were draw -- let alone make representations to licensees on that issue. (Exs. 12, 41, 43, 333, 337, 375.) In addition to the contradictory testimony offered by Messrs. Wilson, Frasure, and Vuksanovich, and the supportive testimony of Messrs. Green, Cronan, and Rodgers, the witnesses who confirm SCO’s interpretation of the Agreements thus include, among others:

Ira Kistenberg, initially an IBM declarant, who worked for AT&T and USL in the UNIX licensing group as a Contracts Manager, including on the Sequent Account, from 1984 until 1993. (Ex. 75; Ex. 10.)

Mitzi Bond, who worked for AT&T, USL and Novell in the UNIX licensing group as a Contracts Manager from 1983 until 1994. (Ex. 14; Ex. 69; Ex. 24.)

Evelyn Davis, who worked for AT&T, USL and Novell in the UNIX licensing group as a Contracts Manager from 1975 until 1994. (Ex. 4.)

William Guffey, who worked for AT&T from 1969 until 1987 and was the head of AT&T’s Software Services Division, including UNIX licensing, in 1985 and Mr. Wilson’s supervisor. (Ex. 138.)

REDACTED

Marty Pfeffer, who worked for AT&T as its General Counsel regarding UNIX licensing in the 1980s. (Ex. 8; Ex. 261.)

REDACTED

William Broderick, who has worked for USL, Novell, Santa Cruz and SCO as a Contracts Manager in the UNIX licensing groups and Director of Software Licensing. (Ex. 333; IBM Ex. 297.)

John Maciaszek, who has worked for USL, Novell, Santa Cruz and SCO as a Contract Manager in the UNIX licensing groups. (Ex. 355; Ex. 360.)

William Murphy, who has worked for Western Electric, AT&T, USL, Novell, Santa Cruz and SCO as a Contract Manager in the UNIX licensing groups. (Ex. 337.)

REDACTED

The foregoing evidence is an independently sufficient basis for denying IBM's motion for summary judgment on the grounds of both its asserted interpretation of the Agreements and its asserted reliance on supposed representations made to the company by members of the same UNIX licensing groups as the individuals set forth above.

5. The IBM Side Letter.

IBM says it is undisputed that IBM's Side Letter allowed IBM to use and disclose methods and concepts however it wanted, but the plain language of the Side Letter belies that

interpretation and SCO's evidence shows that the Side Letter did not permit IBM to disclose such methods and concepts in its modifications and derivative works, and did not permit IBM openly to disclose the source code of its derivative works. (¶¶ 21-29; ¶¶ 87-89.)

In fact, one of the former USL and Novell executives who had signed a declaration for IBM, Larry Bouffard, now confirms his understanding that although the Side Letter amended IBM's Agreement in certain respects, IBM nevertheless remained obligated to treat its modifications and derivative works as set forth under the standard UNIX license agreement, under which IBM was not permitted openly to disclose any part of its modifications or derivative works to develop an unlicensed UNIX clone, such as Linux. (¶¶ 87-89; Ex. 50 ¶¶ 39-41.)

6. Integrated Agreements.

IBM says it is undisputed that AT&T intended for the terms of IBM's Side Letter to apply to Sequent, but the plain language of Sequent's Agreement belies that interpretation and SCO's evidence shows that the terms and conditions binding Sequent were as set forth in its Agreement. (¶¶ 13-21.)

IBM also says it is undisputed that AT&T made certain representations regarding the scope of the Agreements that are not reflected in the plain language of the Agreements, but the plain language of the Agreement reflects, and SCO's evidence further shows, that the license agreement and written amendments or clarifications thereto represented the entire understanding between the parties, and that AT&T did not amend or modify any agreement orally. (¶¶ 91-92.)

C. The Restrictions in the Agreements on Disclosures from Derivative Works Is Reasonable.

In effect acknowledging the plain scope of the Agreements, IBM argues that the plain restrictions of the Agreements must be commercially unreasonable and violative of public policy. SCO shows below that each of IBM's arguments fails.

As to the framework of the relevant analysis, IBM acknowledges that, in the event of ambiguity in the Agreements, the relevant extrinsic evidence must include an assessment of the parties' respective businesses and economic incentives at the time of contracting. (IBM Ex. 283 at 31-57.) SCO shows below that such evidence confirms that the plain scope of the Agreements was and is eminently reasonable.

1. The Parties' Shared Control Rights Under the Agreements.

IBM proposes that neither IBM nor Sequent would have entered into a license agreement with AT&T under which AT&T exercised what IBM calls "control rights" over its and Sequent's "homegrown" material. In so basing its arguments, IBM misconstrues (or else ignores) the eminently reasonable, shared rights between the parties.

In clarifying that it claimed no ownership interest in any portion of a modification or derivative based on the licensed UNIX software product that is not part of the licensed UNIX software product, AT&T made clear that it had no affirmative right to take such "add on" material from its licensees. AT&T could not reach out and appropriate Sequent's work for AT&T's benefit while the Agreement was in place. At the same time, AT&T's foregoing clarification plainly did not address the licensees' obligations of confidentiality. (See Part I.A, above.) The Agreements thus reflect a scenario in which the parties shared what IBM calls "control rights" over the modifications and derivative works – not a situation in which the

licensees had no control or claim or right whatsoever to their “homegrown” or “add on” material.

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The plain language of other side letters that AT&T wrote to its UNIX licensees confirm the framework of shared rights between AT&T and its licensees regarding their modifications and derivative works. (By IBM’s own lights, the terms of such side letters – especially where they were executed after the IBM Side Letter – must apply to all of AT&T’s UNIX licensees, including IBM and Sequent.)

Digital, for example, entered into a standard UNIX license agreement on September 21, 1984. On February 21, 1985, AT&T sent a letter under the letterhead of Mr. Wilson (signed by Mr. Frasure) to Digital. (Ex. 26.) Paragraph 3 of the Digital Side Letter states:

If such derivative work does include any code or embody any confidential and proprietary methods and concepts used in a SOFTWARE PRODUCT, DIGITAL shall have a property right in such derivative work to the extent of any modifications made by DIGITAL, but the exercise of that property right is subject to the terms of the Software and Sublicensing Agreement.

(Ex. 26 ¶ 3 (emphasis added).) Paragraph 3 thus confirms the scope of the standard UNIX license agreement. Although a licensee will have a “property right” in a derivative work “to the extent of any modifications” by the licensee, the Software Agreement sets forth limitations on the exercise of that property right. As among “the terms of the Software and Sublicensing Agreement,” the confidentiality restrictions of the Software Agreement must apply to even those portions of the derivative work that the licensee owns. Paragraph 3 thus confirms the distinction between ownership and control.

The foregoing framework of shared control rights between AT&T and its UNIX licensees thus belies IBM's arguments based on AT&T's allegedly exclusive "control," and provides the relevant context to examine IBM's assertions of commercial unreasonableness and absurdity arising out of the plain language of the Agreements.

2. The Agreements Properly Reflect Copyright Law.

IBM argues that one reason for the Court to construe the Agreements contrary to SCO's interpretation is because under that interpretation, AT&T would have secured more protection for its intellectual property than the copyright laws provided.

In its UNIX licenses agreement AT&T specifically sought to secure for itself greater protection for the licensed UNIX software product than the product might have had under the copyright laws. (¶ 81.) Although by the mid-1980s the federal courts had repeatedly held that computer programs and software were copyrightable, see, e.g., Whelan Assocs. v. Jaslow Dental Lab., 609 F. Supp. 1307, 1319-20 (E.D. Pa. 1985); S&H Computer Sys., Inc. v. SAS Inst., Inc., 568 F. Supp. 416, 422 (M.D. Tenn. 1983), there was not a wealth of precedent on the issue. IBM thus seeks to disregard the context in which the parties entered into the Agreements at issue and sensibly agreed, in exchange for direct access to AT&T's intellectual property, to provide AT&T with certain protections that the copyright law may not have provided.

IBM's argument also fails because its core premise, that a party could not protect its intellectual property to any greater extent under contract if that property were protected by other common law or statutory law that applies to that intellectual property, is clearly not the law. It is well established that under a contract, one party may secure greater protection for its intellectual property than the party enjoys under the statutory law. That is particularly true where, as here,

under the contract the owner of the intellectual property affords its counterparty special access to the licensed material that the counterparty would not otherwise have had. See, e.g., Nat'l Car Rental Sys., Inc. v. Computer Assocs. Int'l, Inc., 991 F.2d 426, 431-35 (8th Cir. 1993) (holding that the licensor may properly seek to enforce license provision affording the licensor greater rights that it would hold under the copyright laws); Adobe Sys. Inc. v. One Stop Micro, Inc., 84 F. Supp. 2d 1086, 1091-92 (N.D. Cal. 2000) (endorsing expert testimony addressing the utility and efficiency offered by software licenses in comparison to the intellectual-property laws); Computer Assocs. v. State St. Bank & Trust, 789 F. Supp. 470, 475 (D. Mass. 1992) (holding that the applicable limitations on the licensee's use of the programs at issue "must be derived initially from the license agreements, not copyright law").

3. The Agreements Are Consistent with Public Policy.

IBM argues (at 87) that where "SCO seeks to control the employment and employability of anyone who ever worked on Dynix," the Agreements as SCO interprets them are "contrary to public policy." This argument fails for three principal reasons:

First, SCO does not interpret the Agreements to impose restrictions on employment or employability as such. SCO does not base any claim of breach on the mere fact that IBM employed former Sequent employees.<sup>8</sup>

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<sup>8</sup> In concluding otherwise, IBM relies entirely on a somewhat awkwardly worded sentence in a SCO interrogatory response. SCO's supplemental response to IBM Interrogatory No. 4 included the following language:

The agreements, among other things, allow IBM and Sequent to disclose and use "Software Products" only to and for entities that have the requisite licenses of a scope equivalent to those of IBM and Sequent, respectively. The agreements likewise permit work by persons exposed to such Sequent "Software Products" and knowledge based on such exposure only to and for such licensees of equivalent scope licenses. The



Second, the nondisclosure provisions in the license agreements do not raise public-policy concerns. It is well established that contractual restrictions against disclosure of trade secrets, proprietary and confidential information, and derivatives of such material are enforceable. See, e.g., *IDX Sys. Corp. v. Epic Sys. Corp.*, 285 F.3d 581, 586 (7th Cir. 2002) (recognizing contractual right to protect intellectual property from disclosure and enforcing provision requiring that software customer maintain the software and its related intellectual property confidential); *HotSamba*, 2004 WL 609797, at \*5 (licensee prohibited from transferring derivative works of licensed material); *Integrated Cash Mgmt. Servs. Inc. v. Digital Transactions, Inc.*, 732 F.Supp. 370, 377 (S.D.N.Y. 1989) (enforcing restriction requiring that programmers not disclose confidential information regarding the software of their former employer and enjoining their new employer from further developing competitive product). Nondisclosure restrictions are enforceable because they do not run counter to, but rather advance, public policy. See, e.g., *IDX Sys.*, 285 F.3d at 586 (observing that nondisclosure restrictions “may make intellectual property more valuable to its producer and thus promote both the creation of knowledge and competitions against other firms”); see also Ex. 278 ¶¶ 81-86.

Contrary to IBM’s position, the law makes clear, for example, that an employer may require an employee to maintain the employer’s trade secrets both during and after employment, where the obligation to maintain the trade secrets after employment never terminates. See

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agreements thereby prohibit IBM from making at least a great many of the IBM public disclosures and particular contributions intended to promote and otherwise help develop Linux.

(IBM Ex. 43 at 7-8.) The point of the first two sentences is that IBM and Sequent are allowed to disclose “Software Products” only to equivalent-scope licensees. If IBM’s mere acquisition of Sequent and its employees constituted a breach of contract (as a result of what IBM calls the “employability” problem), SCO would have said as much.

Structural Dynamics Research Corp. v. Eng'g Mechanics Research Corp., 401 F. Supp. 1102, 1114 (D. Mich. 1975) (state laws recognized and enforced covenants not to use or disclose confidential information without reasonability limitations); Zep Mfg. Co. v. B. Harthcock, 824 S.W.2d 654 663 (Tex. Ct. App. 1992) (distinguishing nondisclosure from noncompete covenants and holding that nondisclosure provision was not subject to reasonable temporal, geographical, or scope-of-activity limitations); Williston on Contracts (4th ed.) (“It necessarily follows from the recognition of a property right in trade secrets that express contracts which prohibit their disclosure by those entrusted with knowledge of them are valid and may be as broad as is necessary to protect the owner from injury by the disclosure of the secret or its competitive use.”); Raymond T. Nimmer, Nimmer on Law of Computer Technology § 3:37 (2006) (“While subject to general contract law considerations, nondisclosure agreements are generally not subject to special limitations that are typically applied to non-competition agreements with employees. The two types of agreements have different goals and much different effects on the employee and general patterns of competition.”); cf. Henry Hope X-Ray Prods., Inc. v. Marron Carrel, Inc., 674 F. 2d 1336, 1342-43 (9th Cir. 1982) (nondisclosure provision without any time or space limitations was enforceable where “the disclosure or use of its trade secrets anywhere could reasonably be expected to harm [plaintiff’s] business interests” and provision contained “implicit temporal limitation that information may be disclosed when it ceases to be confidential”).

In fact, the courts have enforced contractual restrictions on the disclosure of computer programs under facts nearly identical to those in this case. In IDX Systems, a software provider sued its competitor and former customer, alleging that the competitor had induced the customer

to breach nondisclosure provisions of its contract with plaintiff. In particular, the customer had “promised not to allow the software and related materials furnished by IDX to be examined . . . for the purpose of creating another system and vowed in addition not to use or disclose or divulge to others any data or information relating to the system or the technology, ideas, concepts, know-how, and techniques embodied therein.” 285 F.3d at 584 (quotations omitted). Despite evidence that the customer’s employees, who were also plaintiff’s former employees, had made restricted disclosures to the competitor, the district court dismissed the claims holding that “the promises are unenforceable because they are unlimited in temporal and geographic scope, and thus unduly restrain trade.” *Id.* at 584-85. The Seventh Circuit reversed, concluding there was no binding authority requiring “temporal or geographic limits as a condition to the enforcement of a non-disclosure agreement for intellectual property.” *Id.* at 586. Moreover, the court observed that the public policy concerns underlying those limits did not apply to nondisclosure agreements. *Id.* at 585. Indeed, the court noted, the nondisclosure agreement “may compel rivals such as [competitor] to do more work to develop software independently, but this promotes rather than restricts competition.” *Id.*

Similarly, the provisions in this case precluding IBM from disclosing SCO’s invaluable confidential information and the derivatives of it raise no public policy considerations other than promoting healthy innovation and competition in the industry.<sup>9</sup> In fact, as noted above, IBM’s

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<sup>9</sup> The Agreements do not address the licensees’ obligation vel non to impose restrictions on what material their former employees may disclose after their employment with the licensee ends. It follows that it is for the licensee to decide whether it believes that such restrictions were necessary for it to remain in compliance with its UNIX license, and for the licensee to impose any such restrictions. In short, contrary to IBM’s arguments, the Agreements do not contain any restrictive covenants on former employees, and therefore cannot be violative of “public policy” on any such basis.

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Third, with respect to the scope of the Agreements and the manner in which they protect trade secrets and the value of AT&T's UNIX asset, IBM makes its argument from "public policy" without acknowledging the precedent from the New York courts establishing the courts' strong reluctance to decline to enforce a contract on such grounds. The precedent reflects the courts' strong deference to "freedom of contract." Slayko v. Sec. Mut. Ins. Co., 98 N.Y.2d 289, 295 (2002); accord New England Mut. Life Ins. Co. v. Caruso, 73 N.Y.2d 74, 81 (1989); see also Wechsler v. Hunt Health Sys., 216 F. Supp. 2d 347, 354 (S.D.N.Y. 2002) (a court should enforce a contract unless a "clear and certain" violation of public policy would result); Pfoh v. Elec. Ins. Co., 788 N.Y.S.2d 441, 442-43 (App. Div. 2005) (rejecting argument that exclusion in auto policy for resident relative of insured was void as against public policy in absence of statutory requirement that such coverage be provided); Chase Manhattan Bank v. New Hampshire Ins. Co., 749 N.Y.S.2d 632, 642-43 (Sup. Ct. 2002) (refusing to declare insurance policy void on public policy grounds; "it is well to remember too that 'the right of private contract is no small part of the liberty of the citizen, and the usual and most important function of courts of justice is rather to maintain and enforce contracts than to enable parties thereto to escape from their obligation on the pretext of public policy, unless it clearly appears that they contravene public right or the public welfare.'") (quoting Miller v. Cont'l Ins. Co., 40 N.Y.2d 675 (1976)). When considered in the appropriate context, the Agreements plainly do not contradict any "public policy."

4. The Scope of the Agreements Has Always Been Reasonable.

The nature of AT&T's, IBM's and Sequent's respective businesses in the mid-1980s shows that the Agreements are commercially unreasonable and do not produce what IBM calls "absurd" results.

a. The Significant Advantage of the UNIX Head-Start in the UNIX in Ecosystem That Developed.

UNIX provided a valuable head-start for licensees. By 1983 UNIX was not only a mature and robust operating system resulting from fourteen years of development, but also was the foundation technology for an entire network of skilled software developers, experienced IT services staff, and end users. The head-start would allow licensees to capitalize on the years of software development, significant expense and huge popularity of UNIX in the enterprise-computing arena. Licensees would thus reap the benefits from their investments by fulfilling customer demand with a differentiated "flavor" of UNIX that augmented their own proprietary hardware, other software, and services. (¶¶ 32-42.)

As a result of the revolutionary advantages offered by UNIX, a large number of users, programs, and programmers did and were expected to favor UNIX over competing operating systems. Accordingly, hardware providers in the 1980s became increasingly interested in offering versions of UNIX that would perform well on their hardware. AT&T recognized this landscape and developed a business plan under which AT&T would help hardware providers achieve this aim. (¶¶ 32-42.)

AT&T's business model was to allow other firms to purchase the head-start toward involvement in the UNIX ecosystem. What AT&T sold was the right to use the UNIX foundation to jumpstart the firm's entry into the community of UNIX end-users, UNIX programs,

and UNIX programmers. The hardware firm would as a result be able to take part in the UNIX ecosystem quickly and at reasonable cost, thereby avoiding strategically infeasible alternatives like developing a UNIX-compatible operating system from scratch. (¶¶ 32-42.)

What AT&T brought to the table was the foundation. It was up to the licensee to move forward from there, tailoring UNIX to accentuate that particular firm's hardware strengths. Over time, most licensees would add large amounts of code to their UNIX flavor and a great percentage of the resulting Unix code would therefore be code written by the licensee. Even at that point, however, the dynamic would be the same: AT&T would continue to earn revenue based on the resulting Unix flavor, because the licensee developed that flavor in reliance on AT&T's initial head-start contribution. (¶¶ 43-42.)

In other words, while AT&T in fact delivered specific lines of code to its clients, what it really licensed was the head-start that the code made possible. Firms were of course not obligated to purchase a head-start from AT&T. A firm could, for example, attempt to develop a UNIX-compatible operating system entirely from scratch. A firm that took advantage of the head-start, however, could not then escape its royalty and confidentiality obligations just because the head-start had worked and the firm had as a result been able to successfully develop even a substantially further developed UNIX variant. (¶¶ 32-42.)

AT&T had success with its business model. Indeed, between 1985 and 1995, nearly every major hardware firm, including IBM, HP, Sun, Data General, Unisys, NCR, and Compaq, licensed AT&T's UNIX code. (¶¶ 43-47.) AT&T's perception in the mid-1980s of the prospective value of UNIX was further borne out in the years that followed. By the mid-to-late 1980s, there had been an enormous growth in the number of UNIX systems vendors and

applications among large businesses and law firms, and an increasing number of corporate users turned to UNIX for their mission-critical computing needs and independent software vendors (or “ISVs”) developed numerous business-related applications for use with it. (¶¶ 43-47.)

b. The Parties’ Commercial Interests Regarding UNIX.

Although IBM licensed UNIX from AT&T in 1985, it was not until the 1990s that IBM fully embraced UNIX. (¶ 51.) By the time IBM did fully embrace it, UNIX offered IBM two decades of development and community adoption as a head-start when compared to developing a completely new operating system from the ground up. IBM had been in the operating-system business for many years, yet it did not have a ready-made or close-to-complete operating system for an open-architecture server system, which is what UNIX was. Clearly, however, it would be much more difficult to develop a new operating systems from scratch than building on the head-start of UNIX. (¶¶ 50-56.)

Sequent also was not pursuing in the mid-1980s an unlicensed UNIX clone. Sequent was an AT&T licensee even before 1985, paying AT&T for the right to build on a combination of AT&T code and code from BSD. The 1985 contract was more of the same; Sequent again signed up to build on AT&T’s head-start, and Sequent again was given access to additional AT&T code. Both before 1985 and in 1985, Sequent thus had only one UNIX strategy, and that strategy involved developing a UNIX flavor fully licensed by AT&T. (¶ 57.)

c. AT&T’s UNIX Licenses Made Good Economic Sense.

In sharp contrast to the absence of any compelling reason for IBM or Sequent to loosen the core protections of the AT&T standard UNIX license, AT&T had an overriding interest in protecting the value of its UNIX asset. (¶¶ 48-59.) If AT&T had granted its licensees the right

to take source code, methods and concepts from a licensed UNIX flavor and use that material to subsidize the development of a competing, unlicensed UNIX clone, such a grant would have threatened AT&T's ability to profitably license its UNIX foundation. At the same time, neither IBM nor Sequent would have considered that right to be particularly valuable, because neither had any interest in pursuing a UNIX operating system beyond the licensed flavors they were developing. (§ 58.)

In other words, from an economic perspective, if AT&T allowed IBM to use the product it developed based on the licensed UNIX software product to create or help develop an unlicensed UNIX clone, IBM would be able to destroy AT&T's UNIX asset. AT&T's licensees would migrate from AT&T's UNIX ecosystem to IBM's because IBM could offer the same ecosystem at a lower price, thanks to its exploitation of AT&T's head-start. (§ 59.)

The operation of AT&T's standard UNIX licenses reflected these basic considerations. AT&T's UNIX licensees were permitted to use the AT&T UNIX foundation internally. They were also permitted to package it with hardware in object code format and to produce flavors that could be sold to equivalent-scope licensees. None of these rights threatened AT&T's UNIX business. The internal use of UNIX could not include the sale of an operating system to third parties; purchasers of hardware would not be able to inspect the source code and thus could not use the AT&T foundation to develop a competing, unlicensed UNIX system; and sales to equivalent-scope licensees at worst would result in disclosure only to parties who already bought from AT&T permission to see source code and thus have already agreed to abide by the above restrictions and confidentiality. AT&T thus protected the full value of its UNIX asset while leaving licensees with broad rights to pursue their legitimate businesses as well. (§ 60.)



IBM and Sequent had no reason to object to these provisions, and the terms of the licenses to which they agreed show that they in fact did not object. Indeed, neither IBM nor Sequent would have considered it a valuable right even to be able to distribute source code, methods and concepts from their UNIX flavors only to equivalent-scope AT&T licensees. Such distributions would only serve to permit the equivalent-scope licensees to develop their own UNIX flavors to sell with their own hardware, thereby hurting IBM's and Sequent's sale of their hardware on which their UNIX flavors operated. (¶ 62.)

In sum, AT&T, IBM and Sequent entered into UNIX license agreements in 1985 that were eminently reasonable from a commercial perspective. Their reasonableness is supported by the expert testimony of Harvard Business School Professor Gary Pisano and clearly suffices to defeat IBM's request for the Court to find that the Agreements are commercially unreasonable and lead to "absurd" results.

Indeed, in repeatedly seeking to buttress its assertions regarding IBM's and Sequent's supposed intent in 1985, IBM acknowledges the relevance of substantial expert evidence that undercuts those assertions. On the premise that the ambiguity of the Agreements makes relevant an economic analysis of the parties' intent and motivation at the time the Agreements were executed, IBM repeatedly cites (as at IBM ¶¶ 80, 81, 130, 289, 291, and 292) the testimony of proposed expert Robert Willig. (IBM Ex. 283.) IBM's reliance on Dr. Willig's views are no support for IBM's request for summary judgment, however, for two main reasons.

First, SCO expert Dr. Gary Pisano directly refutes Dr. Willig's premises and conclusions. Dr. Pisano shows that in 1985 neither IBM nor Sequent was trying to build any operating system from scratch let alone an unlicensed UNIX clone like Linux, without the benefit of AT&T's

head-start. In contrast, AT&T's business model was to allow other firms to purchase the head-start toward involvement in the UNIX ecosystem that had developed. Dr. Pisano explains:

Thus, economic analysis based on undisputed industry facts makes clear that the right at issue in this litigation would not have been granted to IBM or Sequent. It is a right that would have been expected to cost AT&T far more than it would have been expected to benefit either IBM or Sequent. This is not a close call. There are details in these contracts that could be subject to plausible dispute. But clearly none of these contracts would have authorized IBM to do what it did when it contributed code and concepts to Linux.

(Ex. 286 at 85-86.) Dr. Pisano concludes: "AT&T's standard form license agreements reflected these basic considerations." (*Id.* at 87.) AT&T and USL policymakers confirm that "as the owner of the singular UNIX asset, AT&T was not in the business of enabling or subsidizing any of the UNIX licensees to license the source code for their UNIX flavors to others and thereby compete with AT&T in creating binary-royalty revenues." (Ex. 12 ¶ 6; accord Ex. 375 ¶ 13.)

Second, Dr. Willig's testimony at deposition vitiated his opinions. Dr. Willig admitted that for his analysis he did not know or had not even considered:

- Whether in the early 1980s IBM sold operating systems for use on any non-IBM hardware (42).
- Whether in the early 1980s IBM sold any operating systems at all (42-43).
- Whether in the early 1980s IBM licensed any source code to anyone (43).
- Whether in the early 1980s IBM sold any software that could run on any non-IBM hardware (43).
- Whether AT&T's UNIX licensees in the 1970s had the right to distribute UNIX in source code form (46).
- Whether in the 1980s AT&T's UNIX licensees were obligated to pay AT&T a royalty fee for their distributions of their UNIX flavors in binary format (49).

- Why Sequent did not undertake to develop its own cross-platform operating system from scratch (61).
- Whether as a technical matter Sequent even could have developed its own cross-platform operating system from scratch (61).
- How long it might have taken a company in the 1980s to develop its own cross-platform operating system from scratch (174).

These startling gaps in Dr. Willig's knowledge precluded any reliable or remotely thorough assessment of the industry, and the parties' respective economic incentives, as of 1985.

Just as fundamentally, Dr. Willig conceded that where the premises of his analyses were corrected to reflect SCO's actual interpretation of the Agreements – where the licensees owned parts of their derivative works, but nevertheless had to keep all parts of the derivative work confidential for AT&T – he in fact had not analyzed whether the parties would have agreed to such an arrangement as the jointly optimal one from an economic perspective. (Id. at 286-90.) That is, Dr. Willig simply had not analyzed from an economic perspective the shared control rights that obtain under SCO's interpretation of the Agreements. (Id.) These admissions, and others, render Dr. Willig's opinions both unfounded and irrelevant.

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IBM nevertheless argues (at 89) that the application of SCO's theory in the computer industry today “would generally have far-reaching negative implications.” IBM misses the picture. Prior to deciding to license the UNIX source code, any company could have decided instead to try to develop its own operating system, including its own UNIX-like operating system, and thereby be free of any control over their “homegrown” material. (¶¶ 38-42.) AT&T's capacity to negotiate and obtain partial control over its licensees UNIX flavors was a function of the many years that AT&T and its predecessors had invested in developing UNIX, and that

prospective licensees recognized they would have to spend if they wanted to try to develop their own UNIX-like operating system from scratch. (¶¶ 43-62.) The subsequent prevalence of UNIX flavors in the industry – the fact that so many companies decided instead to license the UNIX head-start – serves to reinforce the reasonableness of the terms of the UNIX licenses. (¶¶ 43-62.)

IBM further take issue (at 90) with the “viral quality” of AT&T’s license agreements and contends that under those agreements, the owners of UNIX derivative works “would be limited in their ability to support or even market them.” IBM thus implies that it is inappropriate for a contract to cover the derivative works of a program, yet the very contract that Linux is distributed under also controls the derivative works of Linux (IBM Ex. 128 at 3), and IBM’s own

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It cannot be that the UNIX license agreements must be interpreted to have a lesser scope simply because AT&T and its successors were enormously successful in a licensing a product pursuant to licenses whose terms the licensees evidently found reasonable.<sup>10</sup>

**II. THE SUBSTANTIAL EVIDENCE AND THE NEW YORK LAW OF EQUITABLE ESTOPPEL PLAINLY ALLOW SCO TO PURSUE ITS CLAIMS FOR BREACH OF CONTRACT.**

IBM’s estoppel argument, an inherently fact-specific issue, is no basis for summary judgment, considering both the facts on record and the relevant New York law. Under the law, for example, the plain language of the integration clause in the IBM Agreements is itself an

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<sup>10</sup> As to IBM’s assertions about technical disclosures of AIX code, methods and concepts in marketing and installing the product, they simply ignore the “material breach” component of the UNIX agreements, and bear no comparison to the wholesale disclosures IBM undertook in the course of its Linux-development efforts. (Ex. 139 ¶¶ 2-22.)

independently sufficient basis on which to deny IBM's Motion. With respect to the facts, contrary to the version of events on which IBM now bases its Motion, concurrent, internal IBM documents demonstrate that IBM had concluded that it was obligated to hold all of AIX in confidence for AT&T. (¶¶ 164-168.) SCO sets forth in detail below why IBM's estoppel argument fails.

The following principle obtains under New York law (as under the law of other jurisdictions): "Whether equitable estoppel applies presents an issue of fact."<sup>11</sup> Bennett v. U.S. Lines, Inc., 64 F.3d 62, 65 (2d Cir. 1995); accord Dunlop-McCullen v. Pascarella, No. 97 Civ. 0195 (PKL) (DFE), 2002 WL 31521012, at \*15 (S.D.N.Y. Nov. 13, 2002) (Ex. C) ("Estoppel is usually a question of fact inappropriate for summary judgment."); Besicorp v. Enowitz, 652 N.Y.S.2d 366, 369 (App. Div. 1997) (same).<sup>12</sup> That precedent applies with particular force where, as here, the question is whether a party should be estopped not by its own prior conduct, but rather by the alleged conduct of its predecessors in interest. Such a scenario further underscores the jury's role in assessing the "equitable" aspect of the asserted estoppel.

A. New York Law Does Not Support IBM's Estoppel Argument.

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<sup>11</sup> As IBM notes in its brief (at 95) the doctrine "rests largely on the facts and circumstances of the particular case." (Quoting Sassower v. Barone, 447 N.Y.S.2d 966, 971 (App. Div. 1982)). Several of the cases used by IBM, including Sassower, are clearly distinguishable on the facts. See id. (estoppel appropriate under "egregious circumstances" presented by parties to original divorce action deciding to preclude attorney's appeal for legal fees); see also Kerns v. Mfrs. Hanover Trust Co., 272 N.Y.2d 535, 540-41 (Sup. Ct. 1966) (estoppel appropriate to prevent executor from arguing ratification of forged deed when executor convinced widow to sign deed).

<sup>12</sup> Two of the cases cited by IBM support this premise. In Besicorp, the New York Appellate Division concluded that "[b]ecause the issues of reliance and estoppel are ones of fact, it was improper for [the trial court] to grant summary judgment in favor of defendant" on the estoppel issue. Besicorp, 652 N.Y.S.2d at 369. In Nassau Trust, the Court did not find the existence of an estoppel, merely that the facts precluded a court from dismissing a defense of estoppel. Nassau Trust Co. v. Montrose Concrete Prods. Corp., 56 N.Y.2d 175, 183 (1982).

New York courts, including the courts cited by IBM have confirmed the following, well seasoned elements for an equitable estoppel:

The essential elements of an equitable estoppel as related to the party estopped are: (1) conduct which amounts to a false representation or concealment of material facts, or, at least, which is calculated to convey the impression that the facts are otherwise than, and inconsistent with, those which the party subsequently attempts to assert; (2) intention, or at least expectation, that such conduct shall be acted upon by the other party; (3) knowledge, actual or constructive, of the real facts. As related to the party claiming the estoppel, they are: (1) lack of knowledge and of the means of knowledge of the truth as to the facts in question; (2) reliance upon the conduct of the party estopped; and (3) action based thereon of such a character as to change his position prejudicially.

N.Y. State Guernsey Breeders' Co-op v. Noyes, 22 N.Y.S.2d 132, 140 (App. Div. 1940); accord Holm v. C.M.P. Sheet Metal, Inc., 455 N.Y.S.2d 429, 433 (App. Div. 1982). “The elements that pertain to the party asserting the estoppel are commonly termed the elements of detrimental reliance.” Holm, 455 N.Y.S.2d at 433. Application of these elements shape “New York’s rather restrictive view” of the doctrine. Id. When these essential elements are considered, IBM’s argument that SCO is estopped from arguing that IBM has breached the Agreements must fail for any of the following principal reasons:

First, IBM fails to establish as a matter of law any “conduct” on which IBM says it reasonably relied. SCO disputes that the statements regarding IBM’s rights in “homegrown” material were made. (¶¶ 63-163.) In addition, the statements IBM cites, even if accepted, do not provide a legal basis for support summary judgment for the various reasons listed below.

Statements Subject to the Integration Clause. The Integration Clause contained in Paragraph 4 of the Agreements clearly controls the ways in which the parties intended to permit amendment and clarification of the Agreements. With respect to statements made during the negotiations between the parties, “neither of the parties shall be bound by any conditions,

definitions, warranties, understandings or representations with respect to such subject matter other than as expressly provided herein.” (§ 18.) With respect to amendment or clarification after the execution of the Agreements, the parties also make it clear that the only way the parties would be bound is when the amendment or clarification is “duly set forth on or subsequent to the date of acceptance hereof in writing and signed by a proper and duly authorized representative of the party to be bound thereby.” (Id.)

Notwithstanding that clear expression of intent, IBM’s argument for estoppel claim depends on “statements”<sup>13</sup> made by AT&T representatives concerning interpretation or clarification of the Agreements to estop SCO from arguing a plain-language breach of the Agreements. This argument improperly seeks to circumvent the integration clauses of the Agreements, under the mistaken view that “equitable estoppel” trumps the express intent of the parties as to amendment or clarification at the execution of their agreement.

Under New York law, any evidence of such statements are barred in the context of an estoppel claim. See Holloway v. King, 161 Fed. Appx. 122, 125 (2d Cir. 2005). IBM has used that principle to its advantage in other litigation. See, e.g., Int’l Bus. Mach. Corp. v. Medlantic Healthcare Gp., 708 F. Supp. 417, 423-24 (D.D.C. 1989) (“IBM has shown that the parole evidence rule would work to exclude evidence of any prior promises or agreements, and, in this Court’s view, IBMs’ showing controls as against any claim of promissory estoppel.”). As in

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<sup>13</sup> IBM’s evidentiary support for its assertion (at 96) that “AT&T and its successors represented to their licensees . . . that they could do as they wished with their own works” consists of the declaration testimony of nine witnesses who worked for AT&T during the negotiations and then, to varying degrees, for USL and Novell. (See IBM Exs. 182-83, 189, 191, 250, 271, 275-6, 280-81.) These declarants state only that they “assured,” “provided the requested clarification [to],” “told,” or “informed” licensees that the Agreements permitted them to own and control their own works. The only subsequent written agreement mentioned by any of the declarants is the side letter. No declarant testifies as to any specific dates. No declarant states that he specifically informed IBM or Sequent of these so-called “clarifications.”

Medlantic, the text of the integration clause controls the evidence that can be marshalled to support an estoppel claim. The integration clause between AT&T and IBM clearly forbids introduction of evidence of any statements that were made in negotiations and any statements made after execution of the Agreements that were not signed and in writing.

In addition, as an independent matter, IBM cannot have reasonably relied as a matter of law on any purported statement, given the integration clause. See Gebbia v. Toronto-Dominion Bank, 762 N.Y.S.2d 38, 38 (App. Div 2003) (integration clauses forbid party from making a “tenable claim that they reasonably relied upon the representations alleged in support of their estoppel cause of action” (citing Thayer v. Dial Indus. Sales, Inc., 85 F. Supp. 2d 263, 272 (S.D.N.Y. 2000)); see also Towne Gardens v. McDonalds Corp., No. 04-CV-292S, 2005 WL 2406004, at \*4 (W.D.N.Y. Sept. 29, 2005) (Ex. M) (presence of integration clause in lease created a material question of fact as to whether reliance on letter that did not meet clause’s requirements for alteration of agreement was reasonable); Brock v. Baskin Robbins, USA, Co., No. 5:99-CV-274, 2003 WL 21309428, at \*5 (E.D. Tex. Jan. 17, 2003) (Ex. B) (“[I]n the face of a merger and integration clause, as is present in these agreements, and absent fraud apparent from the underlying document, no reliance on these non-written assertions can be reasonable as a matter of law.”); G. & V. General Contractors, Inc. v. Goode, No. 86-7408, 1990 WL 79436, at \*4 (E.D. Pa. June 7, 1990) (Ex. E) (existence of integration clause meant that “by the terms of the very contract appended to its complaint, plaintiff had no right to ‘rightfully rel[y]’ on any alleged oral or written representations made to it concerning defendant”). On this additional basis, any alleged statements made to IBM (on which, as shown above, there is a sharply disputed factual issue) is no basis for summary judgment.



The presence of the integration clause also raises an issue of material fact as the intent of AT&T with respect to the “statements” that IBM claims estop SCO’s behavior. IBM must demonstrate that AT&T and its successors-in-interest intended that IBM rely on what the declarants “told” “assured” or “informed” IBM. In this case, such an intent cannot possibly have arisen in the face of a written provision in the Agreement that expresses AT&T’s intent that any statements made prior to execution had no effect on the Agreements and that subsequent statements must be in writing. See Automatic Sys. Developers, Inc. v. Sabratek Corp., No. 93 Civ. 7149 (VLB), 1993 WL 535670, at \*2 (S.D.N.Y. Dec. 22, 1993) (Ex. A) (“Where a contract provision specifies that an additional agreed-upon writing is necessary to any revisions, this clear indication of intent should be honored.” (citing Arcadian Phosphates v. Arcadian Corp., 884 F.2d 69, 72-73 (2d Cir. 1989).) At a minimum, the fact that AT&T agreed to limit amendment or clarification to signed written documents raises an issue of material fact as to whether AT&T intended the statements noted by the declarants to those statements to be acted upon by licensees.

Statements by SCO Predecessors-in-Interest. IBM relies on statements by AT&T, and possibly USL and Novell. New York law holds that equitable estoppel is binding on a successor-in-interest only when it “knew of the existence of the facts which operate as a bar to the claim of the grantor.” Int’l Chimney Corp. v. 26 W. Spring St. Assocs., 561 N.Y.S.2d 933, 934-35 (App. Div. 1990) (quoting 31 C.J.S. Estoppel § 133); see also Holm, 455 N.Y.S.2d at 433; 57 N.Y. Jur. 2d Estoppel, Ratification & Waiver § 43 (stating that “a successor in interest is not necessarily subject to an equitable estoppel valid against his or her predecessor, unless the

successor takes the interest with knowledge of the facts creating the estoppel”).<sup>14</sup> IBM is therefore required to establish a factual basis on which to enforce such an estoppel against SCO – namely, evidence that SCO had ever learned of the supposed statements or representations by its predecessors in interest but had failed to correct them. See, e.g., Int’l Chimney Corp., 561 N.Y.S.2d at 934 (where there was “no question” that a successor in interest had knowledge of the facts that gave rise to the estoppel, it was bound by an estoppel effective against the grantor). IBM cites no case that supports their assumption that SCO is automatically bound by the words of those same predecessors.<sup>15</sup> IBM fails either to allege or demonstrate with undisputed facts that SCO had knowledge of any of the alleged statements. This failure, along with IBM’s failure to attribute any of the “statements” directly to SCO, is fatal to IBM’s estoppel claim.<sup>16</sup>

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<sup>14</sup> The historical basis for the doctrine is that the issuer of the statement and the party being estopped be the same entity. See White v. LaDue & Fitch, 303 N.Y. 122, 128 (1951) (“It is called an estoppel ....’ Said Lord Coke, ‘because a man’s own act or acceptance stoppeth or closeth up his mouth to allege or plead the truth.’”) (quoting 2 Coke on Littleton, 352a)) (emphasis added).

<sup>15</sup> The plain language of the cases cited (and quoted) by IBM (at 94-95) support SCO’s argument. See, e.g., McManus v. Board of Educ. of Hempstead Union Free Sch. Dist., 87 N.Y.2d 183, 186-87 (1995) (estoppel precludes “a party” from denying a fact to the detriment of “another party”) (emphasis added); Nassau Trust, 56 N.Y.2d at 184 (estoppel requires “justifiable reliance on the opposing party’s words or conduct ”) (emphasis added); Sassower, 447 N.Y.S.2d at 971 (estoppel “prohibits a person . . . from asserting rights, the enforcement of which would, through his omissions or commissions, work fraud and injustice”) (quoting Rothschild v Title Guar. & Trust Co., 204 N.Y. 458, 464 (1912)) (emphasis added); N.Y. State Guernsey Breeders’, 22 N.Y.S.2d at 140 (estoppel “forecloses one from denying his own express or implied admission ”) (emphasis added).

<sup>16</sup> The Nassau Trust case, cited twice by IBM (at 95, 100), contains a particularly strong enunciation of this principle. The Court quoted a concurrence by Judge Cardozo as the best summary of “the legal principles at work here.” Nassau Trust, 56 N.Y.2d at 185. Judge Cardozo notes that the “fundamental” principle behind estoppel is that no one shall be permitted to found any claim upon his own inequity or take advantage of his own wrong.” Id. (quoting Imperator Realty Co. v. Tull, 228 N.Y. 447, 457 (1920) (emphasis added)).

Silence or Inaction by SCO. IBM also suggests (at 96-97) SCO's silence as a basis to purport to estop SCO from arguing a breach. This claim also fails as a matter of law. Under New York law, the "elements that give rise to estoppel by silence are: (1) a duty to speak; (2) an opportunity to speak; and (3) injury to another party as a result of the failure to speak. In re Ellison Assocs., 13 B.R. 661, 675-76 (Bankr. S.D.N.Y. 1981). "The duty to speak may arise where the facts establish (1) a fiduciary or confidential relationship exists, or (2) one party has superior knowledge, or (3) one party will receive unjust enrichment." In re Vebeliunas, 252 B.R. 878, 888 (Bankr. S.D.N.Y. 2000).

IBM fails to allege, let alone prove as a matter of law, that SCO had either a duty or an opportunity to speak. As explained, IBM has not presented any facts (because it cannot) showing that SCO was aware of any of the alleged representations on which IBM claims to have "relied" on in breaching its UNIX licenses. Thus, SCO did not have an opportunity to disabuse IBM of its purported belief that SCO would not enforce the restrictions in those licenses. IBM also does not argue, much less prove as a matter of law, that SCO owed it any duty as fiduciary or a confidant, had superior knowledge, or was unjustly enriched by its silence. See Windsor Plumbing Supply Co. v. Windsor Showroom, Inc., 170 B.R. 503, 525-527 (Bankr. E.D.N.Y. 1994) (defining each element of duty).

Third, IBM has failed to show a lack of knowledge sufficient to support the claim that they "reasonably relied" on the statements at issue here. As the party seeking estoppel, IBM is required to show a lack of knowledge of the truth as to the facts in question that were concealed or misrepresented. IBM here claims (at 96) that AT&T, USL and possibly Novell misrepresented or concealed the fact that the Agreements prohibited them from "doing as they

wished with their original works.” On its face, this claim is not a legal basis for claiming reasonable reliance. As a party to the Agreements, IBM had full knowledge of their scope and meaning, including the existence of the integration clause, and any reliance on extra-contractual assurances is unreasonable as a matter of law. See Fashion Bug No. 2100 of Batavia, Inc. v. 425 W. Main Assocs., 10 Misc. 3d 1053(A) (N.Y. Sup. Ct. 2005) (defendant “was a party to the lease and the amendments and was aware of the ‘true facts’ . . . . It was not unaware of the lease provision [plaintiff] ultimately sought to enforce, nor was it unaware that it was in breach” and could not claim equitable estoppel).<sup>17</sup>

In addition, Santa Cruz’s conduct in 2000 and 2001 with respect to IBM’s contributions to Linux is also no basis for an estoppel. IBM does not present any evidence or even argue that it relied on Santa Cruz’s conduct during that time in deciding to continue to make contributions to Linux from AIX and Dynix/ptx. Indeed, any such assertion would be inconsistent with IBM’s claims that well before 1999, it had decided that it was permitted publicly to disclose any part of AIX that it wanted. To be sure, there is substantial evidence contradicting that alleged view; the point is that nothing that Santa Cruz did or did not do with respect to IBM’s contributions could allow IBM to assert an estoppel.

In fact, other evidence defeats any argument from IBM that the company relied on SCO’s inaction in making contributions to Linux. The evidence shows that IBM gave SCO’s rights no consideration at all. Dan Frye founded and leads IBM’s Linux Technology Center, which is the

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<sup>17</sup> The McManus case, cited by IBM, denies a claim of equitable estoppel on these exact grounds. McManus, 87 N.Y.2d at 190 (“Petitioner cannot be estopped from asserting a state of facts that were known to all parties throughout the transaction.”). Similarly, SCO should not be estopped from asserting a plain language reading of the Agreements that was clearly known to IBM, a signatory to those same Agreements.

organization within IBM dedicated to making technical improvements and technology disclosures to Linux. (Ex. 277.) Mr. Frye's deposition testimony substantially undercuts any assertion of reliance by IBM.

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These admissions are inconsistent with any assertion that IBM was looking to or relying on anything SCO had said or done in determining whether it was permitted to make the UNIX technology contributions to Linux that it made.

B. IBM's Estoppel Argument Is Based on Sharply Disputed Facts.

In arguing that this Court could enter summary judgment for IBM on the grounds that SCO's predecessors-in-interest have made certain alleged representations to its UNIX licensees, IBM simply ignores the abundant evidence that those predecessors-in-interest did not take the view of the UNIX licenses that IBM claims they did and that those predecessors did not make such representations.

1. The Analyses of the Parties' Experts Defeat IBM's Version of Events.

The substantial expert evidence that IBM concedes to be admissible further contradicts IBM's assertions about its and Sequent's supposed reliance on statements by AT&T at the time the Agreements were executed. IBM relies on the expert report of Dr. Robert Willig (Ex. 283) in arguing that IBM and Sequent had overwhelming economic incentives to demand the assurances that IBM says it and Sequent demanded. IBM argues that such economic considerations are relevant where the contracts, and thus the terms governing the relationship between the parties, are ambiguous. It follows, by IBM's own analysis, that where economic analysis demonstrates that IBM and Sequent did not have the incentives or business interests that IBM says they had, such evidence undercuts IBM's arguments that it or Sequent relied on any supposed representations by AT&T in deciding whether to enter into the Agreements or how to develop its products under those Agreements. SCO expert Dr. Gary Pisano has provided that very economic analysis, and Dr. Willig admitted that in fact he had not undertaken to consider the parties'

economic incentives and interests under the Agreements as SCO actually interprets, and AT&T actually interpreted, them. (See Part I.C.4.c, above.)

SCO's expert analysis shows that neither IBM nor Sequent had any significant interest, let alone one that overrode AT&T's countervailing interest in protecting its UNIX asset and business, in securing the right to use so-called "homegrown" material however they wanted. The evidence confirms (and easily permits the inference that) IBM and Sequent did not demand the representations from AT&T they say they demanded. SCO's evidence further shows (and, again, easily permits the inference) that as of the early and mid-1990s, IBM understood that the amendment in its side letter regarding methods and concepts applied only to products into which IBM had not copied UNIX source code and for the development of which IBM had not referred to the UNIX software product. (¶¶ 87-88, 164-68.) The restrictions on its modifications and derivative works based on the licensed UNIX software product thus remained in place. In repeatedly seeking to negotiate with USL, Novell and Santa Cruz to loosen those restrictions, IBM confirms that it did not have the view then that it articulates now of the scope of the Agreements.

2. Substantial Evidence Defeats IBM's Claim of Reliance.

IBM argues by way of declarations that it never believed it was precluded from doing "as it wished" with what it calls its "homegrown code" in AIX, as opposed to the UNIX System V material in AIX, but IBM internal documents draw no such distinction between the two.

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(Ex. 129 at 181427554) (emphasis added.) This document directly contradicts, and by itself creates a fact issue regarding, IBM's newly minted assertion that it believe it could disclose at least the "homegrown" parts of AIX however it saw fit.

There is substantial additional evidence providing (and from which a jury could easily infer) that no representations were made to IBM that it was permitted to disclose the "original" material in AIX:

- AT&T's interpretation of its UNIX license agreements was that the licenses were obligated to keep confidential all parts of the modifications or derivative works the licensees developed based on the licensed UNIX software product. (¶¶ 82-86.)
- AT&T's policy was that the members of its licensing group would never modify or amend any license agreement orally, but rather would reduce any such clarifications or amendments to writing. (¶¶ 91-92.)



- The interpretation of its UNIX license agreements by the members of the UNIX licensing group from the time of USL's control over the UNIX business going forward was that the licenses were obligated to keep confidential all parts of the modifications or derivative works the licensees developed based on the licensed UNIX software product. (¶¶ 82-86.)
- The policy of the UNIX licensing group from the time of USL's control over the UNIX business going forward was that the members of its licensing group would never modify or amend any license agreement orally, but rather would reduce any such modifications or amendments to writing. (¶¶ 91-92.)

On the basis of the foregoing record evidence, the factual aspect of IBM's argument for equitable estoppel is fatally deficient and no basis for summary judgment.

Indeed, IBM relies heavily on the declaration of Sequent representative Roger Swanson, who when deposed was unable to ascribe any meaning whatsoever to portions of the Sequent Agreement, and who subsequently submitted a declaration seeking to augment his deposition testimony. Mr. Swanson argues that prior to the execution of the Sequent Agreement in 1985, AT&T Contracts Manager Ira Kistenberg orally represented to him that Sequent was free to do whatever it wanted with its "homegrown" or "add on" material in the modifications and derivative works it developed based on the licensed UNIX software product.

Mr. Kistenberg's own sworn declaration and subsequent deposition testimony, however, directly contradicts Mr. Swanson's claims. Mr. Kistenberg testified that "the policy of the UNIX licensing group was that any changes to a licensee's software agreement had to be in writing. I never verbally agreed with any licensee to modify its license in any way without memorializing

the modification in writing.” (Ex. 10 ¶ 10.) He confirmed that testimony at deposition. (Ex. 75 at 21, 22, 36, 41-42.) Mr. Kistenberg could not have stated the matter any clearer. On this additional and independent basis, the factual aspect of IBM’s argument for equitable estoppel is fatally deficient and no basis for summary judgment.

3. Amendment No. X Defeats IBM’s Claim of Reliance.

The very existence of Amendment No. X, as well as IBM’s explanation of its supposed effect, also preclude IBM’s argument for estoppel as a factual matter. If IBM actually believed that it was obligated to hold in confidence only the licensed UNIX source code, then it would have had no reason to seek relief from that portion of the Side Letter specifying that IBM could not “refer to the physical documents and materials comprising SOFTWARE PRODUCTS” in developing products other than modifications and derivative works. That language in the Side Letter also factually refutes IBM’s argument that it believe that it was free to “do as it wished” with any portion of a modification or derivative work that was not the literal UNIX source code. Until 1996, long after IBM’s purported reliance on alleged statements and UNIX licensor inaction, the plain language of the Side Letter provided that IBM still was not free to “market” a product that was developed by referring to the UNIX software product, without regard to whether that product contained any UNIX source code.

4. The Few Documents Regarding UNIX Flavors Also Are No Basis for Summary Judgment.

IBM further argues that several documents regarding certain licensees’ UNIX flavors are evidence that those licensees were free to disclose “original” material from those flavors, and cites a declaration from IBM stating generally that IBM relied on the inaction of the UNIX

licensors (USL and Novell) in concluding that IBM in fact was free to disclose material from AIX to the development of Linux. The argument fails for a myriad of reasons.

First, IBM presents no evidence that anyone at Sequent relied on the cited documents or any others for the proposition that IBM or Sequent was entitled to disclose any part of Dynix/ptx to the public. The vast majority of the disclosures that SCO challenges were made from Dynix/ptx. (¶¶ Exs. 144, 287, 288.)

Second, neither IBM nor Sequent could have reasonably relied on supposed disclosures made from other licensees' UNIX flavors, such as Sun's flavor or HP's flavor, because the terms and conditions governing each UNIX licensee were themselves confidential. (Ex. 333 ¶ 23; Ex. 355 ¶ 23.) Companies like IBM and Sequent would not even have known, and therefore could not have reasonably inferred, if the rights exercised by other licensees meant that IBM and Sequent could exercise any similar rights. Whether IBM and Sequent reasonably relied on the materials they cite, without saying they specifically relied on all or any one of them, is a question that "cannot be determined on summary judgment. See Towne Gardens, 2005 WL 2406004, at \*4 (reasonable reliance regarding assertion of equitable estoppel is one of fact).

Third, the content of the documents that IBM cites is not comparable to the content of the IBM disclosures to Linux that SCO challenges, and for that additional reason the documents are not basis for IBM to claim that it reasonably relied on those documents in making its disclosures to Linux from AIX and Dynix/ptx. (Ex. 139 ¶¶ 2-22.) Most of the documents do not disclose internal operating system code, methods, or concepts at all. The few documents that do disclose such material do so at such a general and superficial level that the disclosure would be of no use to operating-system developers, or they disclose material that is so specific to a particular

operating system that it would not even be applicable to another operating system, such as Linux. Further, with only one exception, the documents are either confidential documents, patents whose purpose is to prevent the use of the disclosed invention, or materials that are protected by clear copyright language. The exception is a one-page IBM Technical Disclosure Bulletin that comes with no indication that it was ever published or distributed, or that its existence was even know to those outside of IBM. (Ex. 139 ¶¶ 2-22.)

IBM first cites and attaches, for example, part of a document called “AIX Operating System: Programming Tools and Interfaces (1989)” (IBM Ex. 560). IBM provides no evidence at all regarding the distribution of the document. The first page of the excerpt that IBM cites identifies the document as a “manual.” In addition, the first page of the document contains multiple copyright notices, including one for AT&T. These facts easily permit the inference that this manual was sent only to IBM’s AIX licensees, and was not releasing any material for wide public disclosure. The trivial method describes in the excerpt that IBM submits do not describe any method internal to AIX, but rather relates to the external API. (Ex. 139 ¶ 9.)

Fourth, contemporaneous and subsequent evidence contradicts any claim that IBM relied on such documents for the proposition that it could disclose “original” parts of AIX in the course of Linux development. The evidence, including the very negotiation and execution of Amendment No. X, shows that in the 1980s, 1990s, and 2000s IBM believed it was obligated to hold AIX in confidence under its Agreements. And although IBM submits no evidence that Sequent relied on such documents, the evidence also shows that Sequent regarded itself as obligated to hold Dynix/ptx in confidence except from equivalent-scope licensees. (¶¶ 164-68.)

Fifth, the evidence reveals sharply disputed facts on the question of whether the UNIX licensors knew that any licensee was disclosing material from its UNIX flavors. IBM presents no evidence that any such licensor knew of the foregoing documents, or any other particular publication at any particular time. In contrast, SCO's evidence shows that the licensors were not aware that their licensees were making disclosures from their UNIX flavors. (§ 96.)

The law is clear that a rightholder is not held to a standard of monitoring all patent applications for possible violations of its rights. See Jacobsen v. Deseret Book Co., 287 F.3d 936, 950 (10th Cir. 2002) (a copyright holder has no "duty of inquiry" in the absence of known evidence suggesting a reasons for suspicion); Schock v. United States, 21 F. Supp. 2d 115, 119 (D.R.I. 1998) (duty to investigate is not triggered until a plaintiff receives warning of a potential problem); see also MacLean Assocs., Inc. v. Wm. W. Mercer-Meidinger-Hansen, Inc., 952 F.2d 769, 780 (3d Cir. 1991) (the copyright holder who supplies software to another does not come "under a never-ending obligation to discover whether anyone to whom he ever supplied his software would copy it. The Copyright Act does not recognize such an obligation."); cf. Jackson Jordan, Inc. v. Plasser Am. Corp., 219 U.S.P.Q. 922, 926 (E.D. Va. 1983) (the commercial release of the infringing product, coupled with the copyright owner's examination of that product, triggers a duty of inquiry).

In addition, the question of whether a party in SCO's position "should have known" about such a disclosure presents a classic question of fact, and therefore cannot properly support IBM's motion. See, e.g., Kling v. Hallmark Cards Inc., 225 F.3d 1030, 1039-41 (9th Cir. 2000) (citing cases) (holding that question of whether copyright owner "should have known" of copyright infringement presents fact issues precluding summary disposition); Armstrong Virgin

Records, Ltd., 91 F. Supp. 2d 628, 640 (S.D.N.Y. 2000) (holding that questions concerning when copyright holder “should have know of the infringement” “do not lend themselves to summary disposition”); In re Indep. Serv. Orgs. Anti-Trust Litig., 964 F. Supp. 1469, 1479 (D. Kan. 1997) (holding that question of whether copyright owner “should have discovered” defendant’s infringement presents fact issues precluding summary disposition). On this additional basis, IBM’s reliance on the documents presents no grounds for summary judgment in IBM’s favor.

5. The Fact of IBM’s Investment in AIX  
Also Is No Basis for Summary Judgment.

IBM further argues that IBM’s decision to invest heavily in developing AIX constitutes evidence of IBM’s alleged reliance on the alleged assurances of AT&T and its successors. Given the abundant evidence from which a jury could reasonably infer that there was no such reliance or assurances, however, the mere fact of IBM’s substantial investment in AIX is of no moment. (¶¶ 30-168.) In addition, a jury could reasonably reach a number of conclusions about that investment other than that it was a function of IBM’s alleged reliance on AT&T’s alleged misrepresentations. The evidence shows, for example, that it was in IBM’s decided business interests to develop as good a UNIX flavor as it could in order to increase IBM’s hardware sales. (¶¶ 30-62.) There is simply no basis on which the Court could conclude as a factual matter that IBM’s AIX investment is evidence of the supposed representations of AIX and its successors.

In all of the foregoing respects, IBM’s estoppel argument turns on disputed factual issues and therefore provides no ground for summary judgment. (See also SCO’s Memorandum in Opposition to IBM’s Motion for Summary Judgment on Its Tenth Counterclaim (Nov. 11, 2006) (addressing IBM’s estoppel argument concerning, inter alia, UnitedLinux).)

### III. THE SUBSTANTIAL EVIDENCE AND THE NEW YORK LAW OF WAIVER PLAINLY ALLOW SCO TO PURSUE ITS CLAIMS FOR BREACH OF CONTRACT.

IBM further argues that Novell has waived SCO's rights under the UNIX software agreements on SCO's behalf, and that SCO has waived those rights itself.

It is well settled that waiver is ordinarily a question of fact and, as such, is "generally ill-suited for summary adjudication." In re Caldor, Inc., 217 B.R. 121, 133 (Bankr. S.D.N.Y. 1998) (applying New York law); see also Boston Concessions Group v. Criterion Ctr. Corp., 606 N.Y.S.2d 696, 697 (App. Div. 1994) ("[U]nder New York law, the establishment of a waiver, requiring the intentional relinquishment of a known right, is ordinarily a question of fact which precludes summary judgment."). Where, as here, "a waiver is not express, but found in the acts of a party, summary judgment is not appropriate. An implied waiver is invariably a matter of intention and, therefore, an issue of fact." McDarren v. Marvel Entm't Group, Inc., No. 94 Civ. 0910 (LMM), 1995 WL 214482, at \*5 (S.D.N.Y. Apr. 11, 1995) (Ex.H) (emphasis added); see Wyeth v. King Pharmaceuticals, Inc., 396 F. Supp. 2d 280, 290 (E.D.N.Y. 2005) (explaining that implied waiver is "rarely established as a matter of law rather than as a matter of fact" and denying summary judgment on the grounds of disputed facts regarding waiver) accord NetTech Solutions, L.L.C. v. ZipPark.com, No. 01 Civ. 2683, 2001 WL 1111966, at \*6 (S.D.N.Y. Sept. 20, 2001) (acknowledging the same principle and denying summary judgment on the grounds of disputed facts regarding waiver) (Ex. I).<sup>18</sup> As shown below, none of IBM's "waiver" arguments comes close to warranting a departure from that rule in this case.

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<sup>18</sup> The cases IBM cites do not suggest a different rule and are based on facts that are irrelevant to those presented here. In Securities Industry Automation Corp. v. United Computer Capital Corp., 723 N.Y.S.2d 668 (App. Div. 2001), the court found a waiver in light of the uncontradicted evidence and

In New York, “the well known and oft-stated definition of waiver is the ‘intentional relinquishment of a known right with both knowledge of its existence and an intention to relinquish it.’” In re Sanders-Langsam Tobacco Co., 224 B.R. 1, 11 (Bankr. E.D.N.Y. 1998) (quoting United Commodities-Greece v. Fid. Int’l Bank, 64 N.Y.2d 449, 457 (1985).) New York’s highest court has recently reiterated that waivers “must be clear, unmistakable and without ambiguity.” Prof’l Staff Cong.-City Univ. of N.Y. v. N.Y. State Pub. Employee’s Union, -- N.E.2d --, 2006 WL 2945367 (N.Y. Oct. 17, 2006) (Ex. J). The burden of proving a waiver is on the party asserting it. City of N.Y. v. State, 40 N.Y.2d 659, 669 (1976). IBM has not met that burden here.

A. IBM’s Primary Waiver Argument Is Based on Disputed Facts and An Incorrect View of the Law.

IBM first argues in support of its “waiver” claims (at 103): “While IBM does not believe AT&T or its successors ever had control over their licensee’s original works, if they did, as SCO contends, they knowingly, intentionally and voluntarily abandoned the right by telling their licensees, including IBM and Sequent, that they could do as they wished with their original works so long as they protected AT&T’s UNIX software.” This argument is the same as IBM’s estoppel argument, and fails for the same reasons set forth in Part II.A, above.

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under the UCC rule that “where a signed agreement excludes modification except by a signed writing, which was the case here, an attempted modification that does not meet the writing requirement or satisfy the Statute of Frauds may still operate as a waiver.” Id. at 669. In T.W.A. Trading, Inc. v. Gold Coast Freightways, Inc., No. 2001-900 KC, 2002 WL 1311648 (N.Y. App. Term. Apr. 2, 2002) (Ex. L), the court applied the “well settled” rule that “a shipper’s unqualified and unconditional acceptance of a check that was collected by its carrier in payment of merchandise, contrary to the shipping instructions, ratifies the carrier’s conduct, and the shipper thereby waives any claim it may have against the carrier for breach of contract.” Id. at \*1. In Heidi E. v. Wanda W., 620 N.Y.S.2d 665 (App. Div. 1994), the plaintiff indisputably had waived the defendant’s right to maintain the confidentiality of plaintiff’s medical records “by authorizing her friend to inquire about her condition and concerns.” Id.



With respect to the “statements” by employees of AT&T, the presence of the integration clause raises an obvious question of material fact as to whether AT&T could have intended to waive contract provisions via such “statements” when it included an integration clause that expressly nullified all statements made before the execution of the Agreements and only permitted modifications that were written and signed by both parties.

A similar question of material fact exists with respect to whether SCO intended its alleged silence or failure to act regarding the publication of parts of AIX code in manuals and patent applications to effectuate a waiver. Such an issue of intention to unmistakably waive a cause of action is an issue for fact finders, and not appropriate for summary judgment. See Apollo Stell Corp. v. Sicolo and Massaro, 752 N.Y.S. 2d 493, 494 (App. Div. 2002).

As with its estoppel claim, IBM cites no evidence that any party actually asserted to IBM that AT&T was waiving its rights under the Agreements.<sup>19</sup> Instead, they support their claims with generic statements that AT&T employees “told,” “assured” or “informed” customers, with only vague references to dates that they could do as they wish with their own works. Putting aside the fact that these statements are disputed in their entirety by SCO, for the purposes of waiver, the absence of any evidence AT&T ever told IBM that they were free to “do as they wished” raises an issue of material fact as to any potential waiver was sufficiently “clear,

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<sup>19</sup> IBM avoids this issue in their brief by stating (at 103) that AT&T waived its rights by “telling SVRX licensees, including IBM and Sequent, . . . that they could do as they wished.” The evidentiary support they cite for this statement is paragraphs 82-88, 119 and 143 of their statement of facts. Those paragraphs, in turn, cite several separate declarations, none of which supports the proposition that any statements were made to IBM. Only the declaration of Roger Swanson (IBM Ex. 266) maintains that “AT&T Technologies explained the agreements” to him while he was at Sequent. The declaration does not specify a time frame or a speaker and, as explained previously, is contested by the sworn testimony of Mr. Kistenberg.

unmistakable and without ambiguity.” Civil Serv. Employees Ass’n, Inc. v. Newman, 450 N.Y.S.2d 901, 903 (App. Div. 1982).

In addition, New York waiver law makes it clear that a successor-in-interest is bound by a predecessor’s waiver only when the successor “has notice of the existence” of the waiver. Tehan v. Thos. C. Peters Printing Co., 421 N.Y.S.2d 465, 467 (App. Div. 1979); accord Stoneybrook Realty, L.L.C. v. Cremkco, Inc., 675 N.Y.S.2d 749, 751 (App. Term. 1998). The “key to the liability” of the successor is notice of the waiver. Rocky 116 L.L.C. v. Weston, 717 N.Y.S.2d 823, 824 (App. Div. 2000). IBM has not alleged that SCO ever knew of the “statements” by its successors that make up the alleged waiver of rights under the Agreements, a fact which is sufficient to deny them summary judgment as to waiver regarding SCO. See Tehan, 421 N.Y.S.2d at 467 (where waiver was “in direct conflict” with contract terms, successor in interest had no notice of waiver and was not subject to it); Rocky 116 L.L.P., 717 N.Y.S.2d at 824-25 (“the petitioner cannot reasonably be said to have had actual or constructive notice of a private waiver wholly inconsistent with” the written agreements between predecessor in interest and other party); Stoneybrook, 675 N.Y.S.2d at 752 (terms of previous waiver did not bind successor in interest with no knowledge of waiver due to lack of agreement between tenant and current landlord).<sup>20</sup>

In addition, IBM does not make the argument explicitly, at least not in its opening brief, but it appears to suggest that Santa Cruz and then Caldera International decided to waive any

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<sup>20</sup> To the extent IBM claims that SCO’s silence has affected a waiver, this too is clearly contrary to precedent. See Peck v. Peck, 649 N.Y.S.2d 22, 23 (App. Div. 1996) (waiver “cannot be inferred from mere silence.”); accord Comvest Consulting, Inc. v. W.R.S.B. Dev. Co., 698 N.Y.S.2d 807, 808 (App. Div. 1999).

contract claims against IBM in 2000 and 2001. The purported support for the argument is portions of the declarations of former Santa Cruz executive David McRabb and former Caldera International CEO Ransom Love. The argument fails for four main reasons:

First, SCO's evidence contradicts Mr. McRabb's testimony and shows that Santa Cruz did not know that IBM had made contributions to Linux development in violation of its UNIX license agreements, and did not intend to waive its rights to bring suit against IBM for such violations.<sup>21</sup> (Ex. 17 ¶ 8; Ex. 333 ¶ 20; Ex. 355 ¶ 20; Ex. 337 ¶ 14.)

Second, IBM has presented no evidence that SCO was ever given any notice of Mr. McRabb's mistaken view of events, and the evidence shows (and easily permits the inference) that in fact Mr. McRabb never possessed those views in the first place. (Ex. 17 ¶ 11; Ex. 6 ¶ 6; Ex. 18 ¶ 12; Ex. 356 ¶¶ 2-4.) Absent such notice, as shown above, there can be no waiver attributed to SCO for purposes of its instant claims. SCO timely filed this lawsuit, on March 6, 2003, shortly after learning of IBM's breach, and SCO has always diligently protected and defended its rights under the UNIX license agreements. (Ex. 165 ¶¶ 3-38; Ex. 333 ¶¶ 20-22; Ex. 355 ¶¶ 20-22.)

Third, SCO submits substantial evidence contradicting Mr. Love's testimony and showing that Caldera International/SCO did not know that IBM had made contributions to Linux development in violation of its UNIX license agreements, and did not intend to waive its rights to bring suit against IBM for such violations. The evidence shows that Caldera International's Board of Directors never evaluated or determined whether IBM was in breach of its agreements,

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<sup>21</sup> There are additional reasons to doubt the accuracy of Mr. McRabb's testimony. Mr. McRabb purports to describe conversations with representatives of Lucent regarding the scope of rights in their derivative works, but in fact Lucent did not even have a source code license under which they were allowed to create derivative works. (Ex. 333 ¶¶ 24-26; Ex. 355 ¶¶ 24-26.)

and that the decision of whether to waive claims for such breaches was one the Board would have participated in making. (Ex. 18 ¶ 12; Ex. 17 ¶ 11; Ex. 6 ¶ 6.) That is, the decision was not one for Mr. Love to make himself.

Fourth, any attempt to claim that Santa Cruz's or Caldera International's silence before the filing of the lawsuit directly contradicts New York law. While waiver "will not be inferred from a doubtful or equivocal act," it "cannot be inferred from mere silence, unless there is a duty to speak." Rotterdam Square v. Town of Rotterdam, 717 N.Y.S.2d 473, 476 (Sup. 2000); Bank of N.Y. v. Murphy, 645 N.Y.S.2d 800, 802 (App. Div 1996). IBM has alleged no duty to speak on SCO's part, and has established no reason SCO was not permitted to pursue its claim at any time within the pendency of the relevant statute of limitation. SCO's silence simply does not support a waiver.

B. Novell Does Not Have the Waiver Rights IBM Claims.

In its next "waiver" argument, IBM attempts to argue that Novell waived SCO's protections under the UNIX software agreements against SCO's will.

IBM's argument is predicated on its fundamental misinterpretation of the Asset Purchase Agreement ("APA") between Novell and SCO's predecessor-in-interest The Santa Cruz Organization, Inc. (hereinafter "SCO"). Even though Novell sold its entire UNIX business to SCO under that agreement – specifically including all of the UNIX source code, UNIX licensing rights, and UNIX System V agreements – IBM claims that Novell retained the unfettered right to waive any rights under the UNIX System V licenses. Basic principles of contract construction and extensive and admissible extrinsic evidence (including sworn testimony from the principals on both sides of the APA transaction) contradict IBM's position.

1. IBM's Interpretation of APA Section 4.16(b) Is Inconsistent With the Language, Purpose, and Intent of the APA.

In the APA, Novell and SCO agreed that: “It is the intent of the parties hereto that all of the Business and all of Seller’s backlog, if any, relating to the Business be transferred to Buyer.” (IBM Ex. 123 § 1.3(a)(i) (emphasis added).) The APA defined the “Business” as “the business of developing a line of software products currently known as Unix and UnixWare, the sale of binary and source code licenses to various versions of Unix and UnixWare, the support of such products and the sale of other products which are directly related to Unix and UnixWare.” (IBM Ex. 123 Recital A.) Section 1.1(a) thus transferred to SCO “all of Seller’s right, title and interest in and to the assets and properties of Seller relating to the Business (collectively the ‘Assets’) identified on Schedule 1.1(a) hereto,” (IBM Ex. 123 § 1.1(a) (emphasis added)), which assets specifically included, among other things:

- “All rights and ownership of UNIX and UnixWare including but not limited to,” among other things, “all versions of UNIX and UnixWare and all copies of UNIX and UnixWare (including revisions and updates in process),” “all technical, design, development, installation, operation and maintenance information concerning UNIX and UnixWare, including source code,” and “UNIX Source Code Products,” “Binary Product Releases,” and “Products Under Development,” (IBM Ex. 123 Schedule 1.1(a) § I (emphasis added));
- “All of Seller’s claims arising after the Closing Date against any parties relating to any right, property or asset included in the Business,” id. § II (emphasis added);
- “All of Seller’s rights pertaining to UNIX and UnixWare under any software development contracts, licenses and any other contracts to which Seller is a party or by which it is bound and which pertain to the Business (to the extent that such contracts are assignable),” id. § III (emphasis added);
- All UNIX “Software and Sublicensing Agreements – This includes the source code and sublicensing agreements that Seller has with its OEM, End User and Educational customers,” id. (emphasis added); and

- “All contracts relating to the SVRX Licenses” – including for all versions of UNIX System Five that had been licensed to IBM and Sequent, id. § VI (emphasis added).

As part of the consideration that SCO paid Novell for the entire UNIX business, Novell was permitted to continue receiving royalties paid by UNIX System Five (“SVRX”) licensees for their distribution, pursuant to sublicensing agreements, of binary (or object) code versions of System Five. See IBM Ex. 123 §§ 1.2(a)-(b), 4.16(a); id. Schedule 1.1(b), Item VIII (excluding from asset sale “All right, title and interest to the SVRX Royalties, less the 5% fee for administering the collection thereof pursuant to Section 4.16 hereof.”) Although Novell thus had a limited financial stake in the future royalties paid under the SVRX licenses, SCO obtained through the APA all rights to the UNIX intellectual property and all rights to develop the UNIX business based on that property.<sup>22</sup>

Section 4.16 of the APA, titled “SVRX Licenses,” governed Novell’s SVRX binary royalty interests. Section 4.16(a) set out the procedures for SCO’s collection and payment to Novell of the royalties, and gave Novell the right to audit those collection efforts. Section 4.16(b) set forth legal protections for Novell’s future binary-royalty interests. And Section 4.16(c), in turn, protected SCO’s future UNIX business by prohibiting Novell from promoting the sale of SVRX products.

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<sup>22</sup> By the time of the APA closing, SCO’s business did not contemplate any additional significant sales of SVRX source-code licenses, and the remaining interest in that particular part of the UNIX business consisted primarily of collecting binary royalties attributable to sublicensed object-code product. (Ex. 40 ¶ 11.) Of course, because the System Five software included substantial intellectual property that SCO was using in later versions of its UNIX and UnixWare products, SCO had a strong continuing interest in protecting that property under the existing SVRX software agreements. (Id.)

Based on its misinterpretation of a single sentence in Section 4.16(b),<sup>23</sup> removed entirely from context, IBM attempts to argue that the APA gave Novell the unilateral and unfettered right to require SCO to change or to waive, at any time and for any reason, any of SCO's rights (including SCO's right to enforce its intellectual-property protections) under any UNIX System Five agreement. This reading of the APA – on which IBM's entire Novell-related waiver argument rests – cannot entitle IBM to summary judgment for a number of textual reasons.

a. IBM Misinterprets the Term "SVRX License".

In suggesting that Novell had the authority to waive SCO's intellectual-property protections under the SVRX software agreements, IBM necessarily sweeps such agreements under the definition of "SVRX Licenses"; it is the software agreements that specify the restrictions on licensees' source code rights. The term "SVRX Licenses" is not defined anywhere in the APA,<sup>24</sup> but a plain reading of the agreement reveals IBM's contract interpretation to be wrong. Specifically, the included "Assets" schedule to the APA (Schedule 1.1(a)) expressly refers to the UNIX software agreements (in paragraph III.L) separately from the SVRX Licenses (in paragraph VI). Moreover, to the extent that the software agreements themselves may have been included within "All contracts relating to the SVRX Licenses" phrase in paragraph VI, the use of that broader phrase to describe the "Assets" included in the APA

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<sup>23</sup> That sentence states: "In addition, at Seller's sole discretion and direction, Buyer shall amend, supplement, modify or waive any rights under, or shall assign any rights to, any SVRX License to the extent so directed in any manner or respect by Seller." (IBM Ex. 123 § 4.16(b).)

<sup>24</sup> Indeed, although SVRX Licenses is capitalized like the other defined terms in the APA – such as "Business," "Shares," "Assets," "Excluded Assets," "Assumed Liabilities," and "Unassumed Liabilities" – unlike those other terms, SVRX Licenses is not defined in the APA. Section 4.16 refers to SVRX licenses "listen in detail under Item VI of Schedule 1.1(a)." The software agreements are not listed in detail or otherwise under Item VI, but rather in Item IV.L of the Schedule – which is not referenced in Section 4.16 at all.

transfer belies any suggestion that the term “SVRX Licenses,” standing alone – as it does in Section 4.16(b) – includes such agreements. These considerations – and the fact that the APA specifically refers to “royalties, fees, and other amounts due under all SVRX Licenses,” Section 4.16(a) – strongly support a narrower reading of “SVRX Licenses,” to refer just to the SVRX product Schedules that, unlike the software agreements themselves, identify all such amounts. (See, e.g., Ex. 56.) Furthermore, this more precise reading is consistent with the role of Section 4.16 to facilitate the management of Novell’s binary royalty interests and, unlike IBM’s reading, does not (as described below) run into direct conflict with the purpose of the APA and many of its other key provisions. Accordingly, IBM’s argument is not supported by the language of the provision on which it relies.

b. IBM’s Interpretation of 4.16(b) Would Defeat the Whole Purpose of the APA.

“The words, phrases and sentences employed are to be construed in light of the objectives and fundamental purposes of the parties to the agreement.” Leo F. Piazza Paving Co. v. Found. Constructors, Inc., 128 Cal. App. 3d 583, 591 (Ct. App. 1981); see also County of Marin v. Assessment Appeals Bd., 134 Cal. Rptr. 349 (Ct. App. 1976) (“A contract entered into for the mutual benefit of the parties is to be interpreted so as to give effect to the main purpose of the contract and not to defeat the mutual objectives of the parties; language which is inconsistent with the objective of the contract shall be rejected.”); Viacao Aerea Sao Paulo, S.A. v. Int’l Lease Fin. Corp., 859 F.2d 924, 1988 WL 103286, at \*4 (9th Cir. 1988) (reversing summary judgment because “the language of a contract is to be construed in light of the purposes of the parties to the agreement”) (Ex. N). (Paragraph 9.8 of the APA provides that the APA “shall be



governed by and construed in accordance with the laws of the state of California” (IBM Ex. 123).)

As IBM attempts to read it, Section 4.16(b) of the APA would give Novell the unfettered right to, among other things:

- require SCO to permit any and all SVRX licensees to copy, distribute, export, or even open source the licensed UNIX source code (and all of the protected elements contained in that code) – the very value of the assets SCO had acquired – without any protection or compensation for SCO; and
- direct SCO to waive any of its rights to enforce any licensee’s material breach of any SVRX license – even where such rights have no bearing whatsoever on Novell’s future binary royalty stream or relate to an SVRX license under which there are no future binary royalties at all.

IBM thus argues that in a single sentence of Section 4.16(b), SCO gave Novell the authority, for any reason or no reason at all, to eviscerate the entire value of the UNIX assets that SCO had acquired through the APA even though Novell’s sole continuing interest under the APA was limited to the SVRX binary royalties. That implausible construction of Section 4.16(b) cannot be accepted as a matter of well-settled contract interpretation law.

c. IBM’s Interpretation of Section 4.16(b) Directly Conflicts with Other Key Provisions of the APA.

As a corollary to the requirement that contractual provisions are not be construed as meaningless,<sup>25</sup> it is well settled that a contract which confers certain rights or benefits in one clause will not be construed in other provisions completely to undermine those rights or benefits. See County of Marin, 134 Cal. Rptr. at 353-55 (rejecting interpretation of clause that would have

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<sup>25</sup> See, e.g., Heidlebaugh v. Miller, 271 P.2d 557, 559 (Cal. Ct. App. 1954) (“The court will if possible give effect to all parts of the instrument and an interpretation which gives a reasonable meaning to all its provisions will be preferred to one which leaves a portion of the writing useless or inexplicable.”).

permitted party to unilaterally deny the other party the bargained-for benefit provided for in another clause of the contract); Cooper v. Mart Assocs., 225 Cal. App. 2d 108, 114-16 (Ct. App. 1964) (holding that contract’s waiver clause would not be read to nullify the right to sue provided in another clause, because a “contract is to be construed as a whole,” with “each clause helping to interpret the other”). IBM’s proposed reading of the second sentence of Section 4.16(b) must fail because it would completely undermine numerous other detailed provisions of the APA. For example:

- Section 1.1 and Schedule 1.1(a) grants to SCO “All rights and ownership of UNIX and UnixWare including but not limited to” the “source code” to the “UNIX Source Code Products” (including UNIX System Five and all prior and subsequent UNIX and UnixWare products. But if Novell had the right to change or cancel any of the intellectual-property protections in the SVRX software agreements, this express asset-transfer provision would be rendered hollow for the same reasons that IBM’s contract interpretation would undermine the purpose of the APA itself.
- Section 4.16(a) provides that in consideration for collecting binary royalties and ensuring proper payment of such royalties, “Seller shall pay Buyer within 5 days of receipt of SVRX Royalties from Buyer.” But if Section 4.16(b) were as broad as IBM contends, then Novell purportedly could have vitiated this provision by simply requiring SCO to direct licensees to make their royalty payments directly to Novell.
- Section 4.16(c) states: “Seller further covenants that immediately following the Closing Date neither it, nor any of its officers, directors or employees shall . . . take any material action designed to promote the sale of SVRX products.” APA § 4.16(c). But if Section 4.16(b) were as broad as IBM contends, then Novell purportedly could have directed SCO to change its SVRX licenses in any of several ways designed to promote the sale of SVRX products, including by requiring SVRX licensees to promote such products.

d. IBM Improperly Disregards Amendment No. 2.

Amendment No. 2 to the APA is directly relevant to IBM’s argument and expressly confirms the error in its contractual interpretation. See, e.g., Harm v. Frasher, 181 Cal. App. 2d

405, 412-13 (Ct. App. 1960) (“It is a general rule that several papers relating to the same subject-matter and executed as parts of substantially one transaction, are to be construed together as one contract.”); Heston v. Farmers Ins. Group, 160 Cal. App. 3d 402, 417 (Ct. App. 1984) (“The two documents are interrelated and must be read together for purposes of interpretation.”). Paragraph B.5 of Amendment No. 2, which was executed on October 16, 1996, begins: “This Amendment does not give Novell the right to increase any SVRX licensee’s rights to SVRX source code.” (IBM Ex. 444 ¶ B.5 (emphasis added).) If Section 4.16(b) of the APA were as broad as IBM contends, then Novell would have already had the right to direct SCO to amend or supplement any SVRX software agreement in order to increase a licensee’s rights to SVRX source code. The first sentence of Paragraph B.5 to Amendment No. 2 confirms the parties’ understanding that Section 4.16(b) did not have the broad scope that IBM now proposes.

SCO and Novell also expressly agreed in Amendment No. 2 that “Novell may not prevent SCO from exercising its rights with respect to SVRX source code in accordance with the Agreement.” (Id. ¶ B.5 (emphasis added).) This plain language further confirms that, contrary to IBM’s argument, Novell had no right to waive SCO’s protections for the SVRX intellectual property under the IBM and Sequent software agreements. It also highlights the crucial distinction – which must underlie any reasonable interpretation of the APA – between Novell’s limited binary royalty rights and SCO’s broad source code rights. This plain language of Amendment No. 2 forbids the very action that Novell seeks to take in preventing SCO from exercising its rights with respect to SVRX source code – and is in itself more than sufficient reason to deny IBM’s motion.

2. The Extrinsic Evidence Directly Refutes IBM's Interpretation Of the Parties' Intent.

The discussion above demonstrates that IBM's proposed reading of the APA should be rejected as a matter of law. In addition, IBM cannot establish its entitlement to summary judgment on its claim that Novell waived SCO's rights because the language of the APA (including the scope of the undefined term "SVRX Licenses" in Section 4.16(b)) and of Amendment No. 2 is at least ambiguous.<sup>26</sup> Extensive extrinsic evidence of the contracting parties' intent with respect to those two documents further demonstrates not only that the parties never intended for Novell to have the broad waiver rights that IBM claims, but also (under applicable California law) that the APA and Amendment No. 2 are at least ambiguous with respect to that issue. See Pac. Gas & Elec. Co. v. G.W. Thomas Drayage & Rigging Co., 69 Cal. 2d 33, 37 (1968) ("The test of admissibility of extrinsic evidence to explain the meaning of a written instrument is not whether it appears to be plain and unambiguous on its face, but whether the offered evidence is relevant to prove a meaning to which the language of the instrument is reasonably susceptible."); Wolf, 114 Cal. App. 4th at 1351, 1357. ("Where the meaning of the

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<sup>26</sup> The "absence of a [contract] definition, though perhaps not dispositive, might weigh, even strongly, in favor of finding an ambiguity, for example, when the term in question has no generally accepted meaning outside the context of the [contract] itself." Bay Cities Paving & Grading, Inc. v. Lawyers' Mut. Ins. Co., 5 Cal. 4th 854, 867 (Ct. App. 1993). Indeed, California courts routinely deny summary judgment where an undefined relevant term is subject to more than one reasonable interpretation. See, e.g., Wolf, 114 Cal. App. 4th at 1357 (reversing summary judgment because "the only way to construe the meaning of the term" was by considering extrinsic evidence); EOTT Energy Corp. v. Storebrand Int'l Ins. Co., A/S, 45 Cal. App. 4th 565, 574, 578 (Ct. App. 1996) (undefined term "certainly presents a problem [precluding summary judgment] if the term is reasonably susceptible to more than one meaning"); cf. Ramming v. Barnard, No. E030334, 2002 WL 393118, at \*5 (Cal. Ct. App. Mar. 13, 2002) ("It cannot seriously be contended that the [agreement] is not ambiguous. For example, the use of the undefined term 'sale proceeds' is susceptible to many meanings[.]") (Ex. K); accord World Trade Ctr. Props. v. Hartford Fire Ins. Co., 345 F.3d 154, 190 (2d Cir. 2003) (summary judgment was properly denied because meaning of undefined term was "an open question as to which reasonable finders of fact could reach different conclusions").

words used in a contract is disputed, the trial court must provisionally receive any proffered extrinsic evidence which is relevant to show whether the contract is reasonably susceptible of a particular meaning”; indeed, “it is reversible error for a trial court to refuse to consider such extrinsic evidence on the basis of the trial court’s own conclusion that the language of the contract appears to be clear and unambiguous on its face.”); So. Cal. Edison v. Super. Ct., 37 Cal. App. 4th 839, 848 (Ct. App. 1995) (“Whether the contract is reasonably susceptible to a party’s interpretation can be determined from the language of the contract itself or from extrinsic evidence of the parties’ intent.”); see also Blumenfeld v. R. H. Macy & Co., 92 Cal. App. 3d 38, 45 (Ct. App. 1979)

The chief negotiators for both Novell and SCO agree that neither SCO nor Novell ever intended for the APA to give Novell the right to waive SCO’s protections for its intellectual property under the SVRX software agreements. The sworn declaration of Novell’s own principal negotiator, Ed Chatlos, explains:

Paragraph 4.16 of the APA was specifically designed and intended to protect Novell’s retained binary product royalty stream. Based on the foregoing, including my understanding of the parties’ intent, I do not believe Novell has any right to waive, or to direct or require SCO to waive, any of SCO’s source code rights, including under customer source code licenses.

(Ex. 39 ¶ 13.) Jim Wilt, who negotiated the APA for Santa Cruz, concurs in his sworn declaration:

Paragraph 4.16 of the APA pertains to the binary royalty income stream that Novell retained through the APA. The parties agreed to the language in Paragraph 4.16(b) in order to allow Novell to manage that royalty stream within the operation of SCO’s customer source code licenses – not at the expense of SCO’s right to enforce its intellectual property protections under any such licenses, and not to permit Novell to waive any of those protections. I have reviewed Amendment No. 2 to the APA and believe that the language therein confirms that intent. In light of my intent, and based on

my understanding of the parties' intent, I do not believe that Novell had or has any right to waive, or direct or require SCO to waive, any of its intellectual property rights or protections.

(Ex. 40 ¶ 10.) And Steve Sabbath, Santa Cruz's former Vice President of Law and Corporate Affairs and a participant in a number of the meetings and discussions with the chief negotiators and attorneys leading up to the APA, has similarly declared:

I understand that IBM has argued that Section 4.16(b) of the APA gave Novell the right to require Santa Cruz to waive any breach of the intellectual property protections provided in the SVRX licenses. That argument is contrary to the intent of Paragraph 4.16(b) as I understood it. Indeed, Santa Cruz would never have agreed to give Novell the right under the APA to waive such protections under the SVRX licenses because such a right could have eviscerated the entire purpose of the APA and the value of the assets transferred to Santa Cruz under the APA.

(Ex. 42.) With respect to Amendment No. 2 to the APA, Mr. Sabbath, who was involved in the discussions leading up to that amendment and who executed the amendment on SCO's behalf, has further testified:

Amendment No. 2 arose as a result of a dispute between Novell and SCO concerning Novell's attempt to execute, on Santa Cruz's behalf, a royalty buy-out with IBM. That dispute was ultimately resolved through an amendment to IBM's SVRX license that was jointly executed by Santa Cruz, Novell, and IBM. Amendment No. 2, however, was intended to confirm, among other things, the parties' intent that SCO would obtain ownership of the UNIX copyrights under the APA and that Novell had received no rights with respect to UNIX source code under the APA. Paragraph B.5 of Amendment No. 2 was specifically intended to make clear that Novell had no right to increase any SVRX licensee's rights to SVRX source code, no right to grant any new SVRX source code licenses, and no right to prevent Santa Cruz from exercising the rights it obtained under the APA with respect to SVRX source code.

(Id. ¶ 6.) Accordingly, for all of the above reasons, there is no merit to IBM's claim that Novell had the authority to waive IBM's breaches of the intellectual-property protections in the SVRX software agreements.

In addition, IBM's proposed reading of the APA would render meaningless the Technology License Agreement ("TLA") that the parties entered into contemporaneously with the execution of the APA. See, e.g., Harm, 181 Cal. App. 2d at 412-13 ("Where two or more written instruments are executed contemporaneously, with reference to each other, for the purpose of attaining a preconceived object, they must all be construed together, and effect given if possible to the purpose intended to be accomplished."). As Section 1.6 of the APA contemplated, that TLA effected a "license back" to Novell of the right to use, among other things, the UNIX System V code. (See Ex. 48.) Under the TLA, Novell was permitted to use the licensed code only for internal purposes and only in bundled products (and then only to the extent that the bundled product did not compete with SCO's UnixWare business and the licensed-back technology did not constitute a material part of the product). See id.

According to IBM's untenable reading of the APA, however, Novell would have the right to waive, on SCO's behalf, even Novell's own strict obligations with respect to SVRX code under the TLA. By waiving such obligations, Novell could have even given itself the right to continue its UNIX business in competition with SCO – effectively nullifying yet another fundamental purpose of the APA.

C. SCO's Linux Activities Do Not Constitute a Waiver.

In its third "waiver" argument, IBM contends that SCO's acts and conduct are inconsistent with an intention to assert a breach of contract claim against IBM based on the code allegedly at issue. IBM's "implied waiver" claim fails on both the well-established law and the disputed facts.

As noted earlier, “[w]aiver requires the voluntary and intentional abandonment of a known right which, but for the waiver, would have been enforceable.” Gen. Motors Acceptance Corp. v. Clifton-Fine Cent. Sch. Dist., 85 N.Y.2d 232, 236 (1995); see also Davison v. Kless, 280 N.Y. 252, 261 (1939) (“Whether an alleged waiver is express or implied, it must be intentional.”). In addition, “where a waiver is not express, but found in the acts of a party, summary judgment is not appropriate. An implied waiver is invariably a matter of intention and, therefore, an issue of fact.” McDarren, 1995 WL 214482, at \*5 (emphasis added).

IBM’s argument for implied waiver is thus untenable as a matter of law. Nor is there any factual basis for any claim that SCO has voluntarily and intentionally abandoned its right to pursue IBM’s breach of contract. SCO timely filed this lawsuit, on March 6, 2003, shortly after learning of IBM’s breach, and SCO has always diligently protected and defended its rights under the UNIX license agreements. (Ex. 165 ¶¶ 3-38; Ex. 333 ¶¶ 20-22; Ex. 355 ¶¶ 20-22.) Indeed, IBM does not even allege (let alone present any evidence) that SCO failed promptly to pursue its rights after learning that IBM had improperly dumped source code into Linux. In light of SCO’s diligent enforcement efforts, the Court could not possibly conclude, as a matter of law, that SCO has waived its contract claims.

IBM contends that SCO’s “implied waiver” of its contract rights may be found based on (1) SCO’s sales of certain Linux products that contained source code improperly contributed by IBM; and (2) SCO’s steps in making some of that same code purportedly publicly available on the Internet. These “waiver” claims fail.



1. SCO Has Not “Waived” Its Contract Claims by Distributing Limited Linux Products.

SCO did not own the UNIX assets until June 2001, when (as Caldera International) SCO acquired them from Santa Cruz. It follows that the Caldera entity (Caldera Systems) that distributed Linux prior to that time could not have “waived” any claims for breach of the UNIX license agreements, and that any purported reliance by IBM on the conduct of Caldera Systems would not have been reasonable.

In addition, insofar as SCO’s Linux sales are concerned, and where it cannot raise any failure to satisfy the statute of limitations, IBM’s argument reduces to the contention that SCO waived its contract claims by continuing to “distribute” Linux products after SCO learned of IBM’s breaches, because SCO could not have possibly waived any of rights before it knew of IBM’s conduct. See K. Bell & Assocs., Inc. v. Lloyd’s Underwriters, 827 F. Supp. 985, 989 (S.D.N.Y. 1993) (“A proper claim of waiver should state that the waiving party voluntarily and intentionally relinquished a right, with knowledge of all the facts and circumstances that would constitute the entitlement to that right.”).<sup>27</sup>

Caldera, Inc., Caldera Systems, Inc. and Caldera International, Inc. (collectively, “Caldera”) copied, advertised, and distributed the Linux kernel and other related Linux software for years before 2003. Until approximately June 2001, however, none of those entities was the owner of the UNIX copyrights or the owner of the UNIX license agreements at issue. During the

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<sup>27</sup> Further, evidence that SCO “should have known” of its claim or of SCO’s “negligence,” “oversight,” or even “thoughtlessness” would not suffice to show SCO’s waiver of its rights. Leibowitz v. Elsevier Sci., Ltd., 927 F. Supp. 688, 705 (S.D.N.Y. 1996); Madison-Oneida-Herkimer Consortium v. N. Am. Admins., 765 N.Y.S.2d 184, 190 (Sup. Ct. 2003); accord Readco, Inc. v. Marine Midland Bank, 81 F.3d 295, 303 (2d Cir. 1996).

time that Caldera International both owned the UNIX license agreement at issue in this case and copied, advertised, and distributed the Linux kernel and other related Linux software, the company did not undertake to determine if IBM's contributions to Linux constituted a breach of its UNIX license agreement. (Ex. 269 ¶¶ 11-18; Ex. 6 ¶¶ 2-12.) Caldera International never intended to waive any of its rights under the UNIX license agreements at issue in this case, and never represented to anyone that it believed that IBM's Linux contributions complied with the terms of its UNIX license agreements.

The same day SCO filed this suit, SCO sent a notice of termination to IBM's Chief Executive Officer, explaining that IBM's right to use or distribute any software product based on UNIX System V, including AIX, would be terminated on June 13, 2003, unless IBM cured those breaches. (Ex. 49 ¶ 10 & Ex. C.) SCO sent a similar notice to IBM regarding Sequent, and Dynix/ptx, on May 29, 2003. (Ex. 49 ¶ 10 & Ex. D.) SCO attempted to meet and confer with IBM, but IBM failed to cure its breaches during the 100-day period provided in SCO's termination letter to IBM. (Ex. 49 ¶ 11.) Sequent also failed to cure its breaches during the two-month period provided in SCO's termination letter to Sequent. (Id.) Accordingly, SCO terminated IBM's contract rights effective June 13, 2003, and terminated Sequent's contract rights effective July 30, 2003. (Id. & Exs. C, D.)

After filing this suit, SCO carefully considered whether to continue selling its Linux products. (Ex. 49 ¶ 12.) SCO considered its obligations to its existing customers. (Id. ¶ 13.) SCO decided that the appropriate solution was to suspend its sale and marketing of its Linux products (effective May 14, 2003), but to continue to permit SCO's pre-existing customers to order Linux products (which IBM appears to describe as the "distribution" of those products).

(Id. ¶ 14.)<sup>28</sup> SCO did not enter into any further obligations to sell Linux Server 4.0 or OpenLinux 3.1.1 after May 14, 2003. (IBM Ex. 284 ¶ 3.)<sup>29</sup>

This evidence precludes any finding that SCO “intended” – impliedly or otherwise – to “waive” any of its contract rights. Waiver “should not be lightly presumed.” Gilbert Frank Corp. v. Fed. Ins. Co., 70 N.Y.2d 966, 968 (1988). Instead, “the intent to waive a right must be unmistakably manifested, and is not to be inferred from a doubtful or equivocal act.” Navillus Tile, Inc. v. Turner Constr. Co., 770 N.Y.S.2d 3, 5 (App. Div. 2003); accord ESS & Vee Acoustical & Lathing Contractors, Inc. v. Prato Verde, Inc., 702 N.Y.S.2d 38, 39 (App. Div. 2000). In filing its suit for breach of contract and terminating the IBM and Sequent software agreements, SCO clearly manifested its intent to enforce those rights. It is illogical to suggest, as IBM does (without any authority), that a clear and unequivocal intent to waive certain rights can be inferred from acts taken after the filing of a suit to protect those rights. That SCO continued to honor pre-existing obligations to its own pre-existing customers does not remotely permit the inference that SCO intended to discontinue its enforcement of its contract rights.

IBM’s argument amounts to the astonishing claim that its breaches of its contractual obligations created a situation in which SCO had only two choices when it learned of those breaches: (1) abandon its customers and its Linux business overnight, thereby inflicting the

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<sup>28</sup> Contrary to IBM’s assertion, SCO issued a press release on April 14, 2003, announcing the proposed release of “SCO Linux Server 4.0 for the Itanium Processor Family,” but never released or sold the product. (Ex. 49 at Ex. E.)

<sup>29</sup> By suspending the sale of its Linux-related products – including the operating system, services, support, professional services, education, and layered applications – SCO lost approximately 5-10% of its revenues. (Ex. 49 ¶ 15.) In contrast, from May 14, 2003, until May 31, 2004 (when SCO last sold a unit of Linux Server 4.0), SCO sold 83 units and had 79 units returned, for a net revenue of \$1,849. (IBM Ex. 284 ¶ 15.) Since May 14, 2003, SCO has sold 403 units of OpenLinux 3.1.1 and had 51 units returned, for a net revenue of \$49,097. (Id. ¶ 5.)

maximum damage on those customers and itself as a result of IBM's breaches; or (2) immunize IBM for its improper conduct. IBM does not, because it cannot, cite any authority even suggesting that IBM, through its own improper conduct, could put SCO to such a choice. In light of all the circumstances – and particularly viewing those circumstances in the light most favorable to SCO – the Court could not possibly infer, as a matter of law, “a clear manifestation of intent” on SCO's part “to relinquish the protection” of the software agreements. Gilbert Frank, 70 N.Y.2d at 968.

2. SCO Has Not Made “Publicly Available” Source Code That IBM Misappropriated.

SCO provided customers who purchased Linux Server 4.0 with access to the product (including source code that is part of the Linux 2.4 kernel) through a confidential and individualized password for use at the log-in screen to SCO's website. (Ex. 49 ¶ 19.) SCO continued to make that source code available in that way through December 31, 2004, in light of SCO's continuing contractual obligations. In its Product Announcement for Linux Server 4.0 (dated November 19, 2002), SCO promised to offer purchasers the “SCO Linux Update Service” for twelve months, including “Access to an up-to-date repository of UnitedLinux and other updates for their system.” (Id. Ex. E.) When a purchaser registered at SCO's website for the SCO Linux Update Service, the purchaser was informed of its entitlement to “download and apply the latest updates” to its SCO Linux Server. (Id.)

Beginning in 2004, SCO stopped making available on its website any version of Linux. SCO has made diligent efforts since late 2003 to eliminate the availability of Linux on any current or archived SCO website, and is not currently aware that any version of Linux is available on any such website. (¶¶ 219, 231, 233.)

Instead, IBM went to illegal lengths to obtain Linux source code from SCO's website. Section 1030(a)(2)(C) of Title 18 of the United States Code, known as "The Computer Fraud and Abuse Act," makes it a felony for an unauthorized user to access a company's website. See, e.g., Creative Computing v. GetLoaded.com LLC, 386 F.3d 930, 933-35 (9th Cir. 2004); Theofel v. Farey-Jones, 359 F.3d 1066, 1078 (9th Cir. 2004); I.M.S. Inquiry Mgmt. Sys., Ltd. v. Berkshire Info. Sys., Inc., 307 F. Supp. 2d 521, 523-24, 526 (S.D.N.Y. 2004) (citing cases); see also SCO's Mem. in Opp. to IBM's Motion for Summary Judgment on Its Eighth Counterclaim (Nov. 30, 2004). Between October 31 and December 1, 2003, IBM repeatedly accessed the SCO log-in site but did not obtain access to the SCO Linux Server 4.0 files. (Ex. 49 ¶ 25.) After news of a bug in the website's security system was reported on the Internet, however, IBM exploited the bug to bypass the security system, hacked onto SCO's website, and downloaded the very files that IBM has now attached to its motion. (Id. ¶¶ 25-27.)

Again, in view of all the circumstances, especially as they are construed in the light most favorable to SCO, the fact that IBM impermissibly accessed source code that SCO made available only to its pre-existing customers – and only pursuant to what SCO believed were its contractual obligations to those customers – cannot remotely establish SCO's intentional waiver of its breach-of-contract claims against IBM as a matter of law.

#### **IV. SCO HAS TIMELY ASSERTED ITS CLAIMS RELATING TO RCU.**

IBM argues that SCO's claims relating to Sequent's disclosure of methods and concepts relating to RCU are time-barred because such methods and concepts were disclosed in a 1993 patent application. For several reasons, the argument is no basis for summary judgment.

First, IBM presents no evidence that any of SCO's predecessors knew or should have known of the patent application (in 1993) or issuance of the patent (in 1995). The question then becomes whether SCO's predecessors "should have known" about either event. As of 1993, patent applications were not even made public until the patent issued. (Ex. 342 (35 U.S.C. § 122 1994), 35 U.S.C. § 122 (2000).) Accordingly, the question is whether SCO's predecessors "should have known" that the RCU described in the patent had issued in 1995. SCO has shown that a rightholder is not held to a standard of monitoring all patent applications for possible violations of its rights, and that whether a party in SCO's position "should have known" about such a disclosure presents a classic question of fact. (See Part II.A.) IBM means to state otherwise by citing Dolgoff Holophase, Inc. v. E.I. Du Point de Nemours & Co., 212 N.Y.S.2d 769 (App. Div. 1995), but that case did not address and plainly did not overrule the long-established precedent under New York law establishing that a plaintiff's claim for breach of contract accrues only when the plaintiff knew or should have known about the breach at issue.

Second, with respect to the issuance of the patent in 1995, the patent of course served to establish that no one besides the patent-holder was entitled to use RCU, and gave no suggestion that IBM would open-source the code in RCU. (Ex. 139 ¶ 7.) The description of RCU in the patent thus hardly constituted an unprotected public disclosure of the methods and concepts therein, and even if SCO's predecessors had or could have known about the patent, would have constituted an immaterial breach of the Sequent Agreement. IBM cites no case even suggesting otherwise. IBM again means to state otherwise by citing Dolgoff, but the court in that case reached no conclusion whatsoever that the non-disclosure agreement at issue was breached upon the filing of a patent application or issuance of a patent.

Third, IBM presents no evidence that SCO knew or should have known that, subsequent to the non-public 1993 patent application, the RCU described therein was incorporated into Sequent's UNIX flavor. In contrast, SCO has produced evidence showing that the incorporation of RCU into Dynix or Dynix/ptx was not a well-known fact, even in the computer industry. (Ex. 139 ¶¶ 48-50.) Until such time as SCO's predecessors knew that the RCU described in the patent application or patent had been incorporated into Sequent's UNIX flavor, they would not even have had a reason to consider the patent application or issuance as an improper disclosure under the Sequent Agreement. Sequent's distributions of Dynix and Dynix/ptx do not even appear to have been marked with the RCU patent number. (Id. ¶ 50.) SCO did not know that RCU was in Dynix/ptx until its review of the Dynix/ptx source code produced in this case – which was not publicly available prior to this litigation. (Id. ¶ 50.)

**CONCLUSION**

SCO respectfully submits, for all of the reasons stated above and as set forth in Appendix A hereto, that this Court should deny IBM's Motion for Summary Judgment on SCO's Contract Claims (SCO's First, Second, Third and Fourth Causes of Action).

DATED this 11th day of November, 2006.

By \_\_\_\_\_



HATCH, JAMES & DODGE, P.C.  
Brent O. Hatch  
Mark F. James

BOIES, SCHILLER & FLEXNER LLP  
Robert Silver (admitted pro hac vice)  
Stephen N. Zack (admitted pro hac vice)  
Stuart H. Singer (admitted pro hac vice)  
Edward Normand (admitted pro hac vice)

*Attorneys for The SCO Group, Inc.*