IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF UTAH

CENTRAL DIVISION

THE SCO GROUP, INC., **Plaintiff,** **vs.** **NOVELL, INC.,** **Defendant.**	**MEMORANDUM DECISION AND ORDER** **Civil Case No. 2:04CV139DAK**

This matter is before the court on the following motions: Novell's Motion for Partial Summary Judgment or Preliminary Injunction [Docket No. 147]; SCO's Cross-Motion for Summary Judgment or Partial Summary Judgment on Novell's Third, Sixth, Seventh, Eighth and Ninth Counterclaims [Docket No. 180]; Novell's Motion for Summary Judgment on SCO's First Claim for Slander of Title for Failure to Establish Special Damages [Docket No. 277]; Novell's Motion for Partial Summary Judgment on SCO's Non-Compete Claims in its Second and Fifth Claims [Docket No. 273]; Novell's Motion for Partial Summary Judgment on Copyright Ownership of SCO's Second Claim for Breach of Contract and Fifth Claim for Unfair Competition [Docket No. 271]; Novell's Motion for Partial Summary Judgment on its Fourth Claim [Docket No. 171]; SCO's Cross-Motion for Partial Summary Judgment on Novell's Fourth Claim [Docket No. 224]; SCO's Motion for Partial Summary Judgment on its First, Second, and Fifth Claims and Novell's First Claim [Docket No. 258]; and Novell's Motion for Summary Judgment on SCO's First Claim for Slander of Title and Third Claim for Specific

Performance [Docket No. 275]. The court held hearings on these motions on January 23, 2007, May 31, 2007, and June 4, 2007, and took the motions under advisement. After carefully considering the memoranda and other materials submitted by the parties, and the law and facts applicable to these motions, the court issues the following Memorandum Decision and Order.

BACKGROUND

The SCO Group, Inc. ("SCO") began this action in state court asserting a single cause of action against Novell, Inc. ("Novell") for slander of title based on public statements Novell made claiming that it had retained the UNIX and UnixWare copyrights when it sold certain assets of its UNIX and UnixWare business to SCO's predecessor in interest. After Novell removed the case to this court, the parties proceeded to add several claims and counterclaims to the action. SCO added claims for breach of the parties' Asset Purchase Agreement and Technology License Agreement, specific performance, copyright infringement, and unfair competition. Novell added counterclaims against SCO for slander of title, breach of the Asset Purchase Agreement, declaratory relief regarding the parties' rights and obligations under the Asset Purchase Agreement, restitution/unjust enrichment, and accounting.

UNIX was originally developed by AT&T. In 1983, AT&T developed a new version of UNIX called UNIX System V, Release 1. Other versions were also subsequently developed. These releases are referred to as SVR1, SVR2, SVR3, and SVR4, or generically SVRX. In 1993, Novell purchased UNIX-related assets from AT&T's subsidiary, UNIX System Laboratories, and paid over $300 million for those assets. Decl. Tor Braham at ¶ 4.

A. The APA and Contemporaneous Agreements

(1) The APA

SCO's predecessor in interest, Santa Cruz Operations Inc.,[1] and Novell entered into an Asset Purchase Agreement ("APA") dated September 19, 1995. Decl. Mark James Ex. 1 ("APA"). The APA acknowledges in its "Recitals" section that Novell was "engaged in 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 (collectively, the "Business")." APA Recital A. It is further stated in the APA that the Boards of Directors of Novell and Santa Cruz "believe it is in the best interests of each company . . . that [Santa Cruz] acquire certain of the assets of, and assume certain of the liabilities of [Novell] comprising the Business (the "Acquisition"). *Id.* Recital B. As part of the consideration for the Acquisition, Santa Cruz agreed to issue Novell 6,127,500 shares of Santa Cruz's Common Stock, which some witnesses have approximated to be worth between $125 to $150 million at the time of the transaction. *Id.* Recital C.

Article I of the APA outlines the Acquisition by breaking it down into categories relating to the purchase of assets, payments, the transfer of customers, non-assignment of certain items, transitional contracts, the license back of assets, and the closing. *Id.* §§ 1.1-1.7. The APA's provision entitled "Purchase and Sale of Assets" provides:

> On the terms and subject to the conditions set forth in this Agreement, Seller will sell, convey, transfer, assign and deliver to

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[1] Five years after the APA, Santa Cruz was purchased by Caldera. Caldera changed its name to The SCO Group.

> Buyer and Buyer will purchase and acquire from Seller on the Closing Date (as defined in Section 1.7) 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. Notwithstanding the foregoing, the Assets to be so purchased shall not include those assets (the "Excluded Assets") set forth on Schedule 1.1(b).

Id. § 1.1(a). With respect to their "Intellectual Property" provisions, Schedule 1.1(a) and Schedule 1.1(b) are consistent. Schedule 1.1(b) sets forth as Excluded Assets the following "Intellectual Property": "All copyrights and trademarks, except for the trademarks UNIX and UnixWare" and "All Patents." *Id.* Sched. 1.1(b) § V.A, V.B. Schedule 1.1(a) sets forth as Assets to be transferred the following "Intellectual Property": "Trademarks UNIX and UnixWare as and to the extent held by Seller (excluding any compensation Seller receives with respect of the license granted to X/Open regarding the UNIX trademark)." *Id.* Sched. 1.1(a) § V.

Another significant aspect of the APA is the agreement between the parties with respect to future SVRX Royalties. Under the payment provisions of the APA, Novell retained "all rights to the SVRX Royalties notwithstanding the transfer of the SVRX Licenses to [Santa Cruz]." *Id.* § 1.2(b). Santa Cruz agreed to pass through one-hundred percent of the SVRX Royalties to Novell, and Novell agreed to pay Santa Cruz a five percent administrative fee. *Id.* Santa Cruz obtained "legal title and not an equitable interest in such royalties within the meaning of Section 541(d) of the Bankruptcy Code." *Id.* More specific details of the parties' agreement regarding SVRX Royalties will be discussed later in this Background Section.

(2) The Bill of Sale

The APA itself did not transfer assets. Rather, it described the assets that would be transferred in the future when the transaction closed. The APA provided that at the transaction's

Closing, Novell would deliver a "Bill of Sale" transferring Novell's title to the "Assets" described in the APA to Santa Cruz. Under Section 1.7 of the APA, Novell was to deliver to Santa Cruz "all bills of sale, endorsements, assignments, consents to assignments to the extent obtained and other instruments and documents as [Santa Cruz] may reasonably request to sell, convey, assign, transfer and deliver to [Santa Cruz] [Novell's] title to all the Assets." *Id.* § 1.7(b)(iii).

Accordingly, Novell and Santa Cruz executed a "Bill of Sale" on December 6, 2005, when the transaction closed. Decl. Mark James Ex. 3. The Bill of Sale stated that in accordance with Section 1.1(a) of the APA, Novell "does hereby transfer, convey, sell, assign, and deliver" to Santa Cruz "all of the Assets." *Id.* The Bill of Sale further stated that all capitalized terms had the meanings set forth in the APA as amended by Amendment No. 1. *Id.* Therefore, the Assets so transferred were those listed on Schedule 1.1(a) and not those listed on Schedule 1.1(b). *See* APA § 1.1(a). Moreover, the Bill of Sale recognized that it was intended only to document "the sale and assignment of the Assets to Buyer, and that the [APA] is the exclusive source of the agreement and understanding between Seller and Buyer respecting the Assets." Decl. Mark James Ex. 3.

(3) The TLA

The APA also required Santa Cruz to execute a separate license granting Novell the right to use technology included in the transferred Assets and derivatives, subject to certain limitations. APA § 1.6. Section 1.6 of the APA states that Santa Cruz must execute a license agreement concurrent with the Closing of the APA which grants Novell "a royalty-free, perpetual, worldwide license to (i) all of the technology included in the Assets and (ii) all

derivatives of the technology included in the Assets." *Id.*

Novell and Santa Cruz implemented this requirement by executing the Technology License Agreement ("TLA") on December 6, 1995, in connection with the APA's Closing. Decl. Mark James Ex. 4 ("TLA"). The TLA states that Novell retains a "non-exclusive, non-terminable, worldwide, fee-free license" to use "Licensed Technology" under certain conditions. TLA II.A. As with the parties' Bill of Sale, the TLA states that certain defined terms, such as "Licensed Technology," have the "meanings attributed to such terms in the Asset Purchase Agreement." *Id.* I. The term "Licensed Technology" is defined in the APA as "all of the technology included in the Assets and all derivatives of the technology included in the Assets." APA § 1.6.

With regard to internal business operations, the TLA granted Novell an unrestricted license to "use, reproduce and modify, and authorize its customers to use, reproduce, and modify, Licensed Technology." TLA II.A.(1). With regard to external use, the TLA granted Novell a license to "sublicense and distribute, and authorize its customers to sublicense and distribute, such Licensed Technology and modifications thereof, in source and binary form." *Id.* II.A.(2). This license as to external use was subject to the following limitation: "provided, however, that (1) such technology and modifications may be sublicensed and/or distributed by Novell solely as part of a bundled or integrated offering ("Composite Offering"); (ii) such Composite Offering shall not be directly competitive with core application server offerings of SCO, and (iii) the Licensed Technology shall not constitute a primary portion of the value of such Composite Offering." *Id.* SCO contends that these provisions constitute a non-compete provision, whereas Novell argues that they are merely a limitation on its license.

The TLA further stated that this limitation "shall cease to exist" in the event of a "Change of Control" of Santa Cruz. *Id.* B. The TLA states that "Change of Control" shall have the meaning attributed to it in the APA. *Id.* I. Under Section 1.6 of the APA, which provides for the license back of assets and which provides the basis for entering the TLA, it states that "the license agreement shall also provide [Novell] with an unlimited royalty-free, perpetual, worldwide license to the Licensed Technology upon the occurrence of a Change of Control of [Santa Cruz] described in Section 6.3(c) hereof." APA § 1.6. Section 6.3(c) of the APA is entitled "Expansion of Seller's Rights Relating to the Licensed Technology upon a Change of Control" and provides that

> [u]ntil two (2) years from the Closing Date, in the event [Santa Cruz] has merged with, sold shares representing 50% or more of the voting power of [Santa Cruz] to, sold all or substantially all of [Santa Cruz's] assets to, or engaged voluntarily in any other change of control transaction with, any party identified by [Novell] on Schedule 6.3(a) hereof, or in the event any party identified by [Novell] on Schedule 6.3(a) hereof, shall acquire shares representing 50% or more of the voting power of [Santa Cruz], [Novell] shall automatically have unlimited, royalty-free, perpetual rights to the Licensed Technology.

Id. § 6.3(c).

Section 1.6 of the APA further provides that "[i]n the event of a Change of Control of [Novell] (as described in Section 6.6 hereof), the license granted pursuant to the license agreement shall be limited to [Novell's] products either developed or substantially developed as of the time of the Change of Control." *Id.* § 1.6. Section 6.6(c) of the APA is entitled "Change of Control" and provides that

> For purposes of this Agreement, a "Change of Control" with respect to one party shall be deemed to have occurred whenever (i)

> there shall be consummated (1) any consolidation or merger of such party in which such party is not the continuing or surviving corporation, or pursuant to which shares of such party's common stock would be converted in whole or in part into cash, other securities or other property, other than a merger of such person in which the holders of such party's common stock immediately prior to the merger have substantially the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (2) any sale, lease, exchange or transfer (in one transaction or a series of related transactions) of all or substantially all the assets of such party, or . . . (v) any other event shall occur with respect to such party that would be required to be reported in response to Item 6(e) (or any successor provision) of Schedule 14A of Regulation 14A promulgated under the Exchange Act."

Id. § 6.6(c)

In 2001, Santa Cruz sold its UNIX business to Caldera Systems, Inc., the immediate predecessor to SCO. The assets sold by Santa Cruz included all of the UNIX assets that it had purchased from Novell in 1995, plus other assets that collectively accounted for 100% of Santa Cruz's operating income and 94.7% of its net revenues.

In the TLA, the parties recognized that the TLA and the APA "constitute the entire understanding between the parties with respect to its subject matter, and supersede all prior understandings, both written and oral, between them relating to such subject matter." TLA VIII.

(4) Amendment No. 1

On December 6, 1995, a few months after the APA was signed and the date the transaction closed, Novell and Santa Cruz signed Amendment No. 1. Decl. Mark James Ex. 2 ("Am. No.1"). Amendment No. 1 made several clarifying amendments, including specific revisions to Schedule 1.1(a) and 1.1(b). Am No. 1 ¶¶ K, L. "All other terms and conditions of the [APA] remain[ed] in full force and effect." Am. No. 1 at 10. Amendment No. 1 did not

change the description of Intellectual Property that was included and excluded from the transferred Assets under Schedules 1.1(a) and 1.1(b). *See id.* ¶¶ K, L.

Amendment No. 1 also made amendments to the APA with respect to the agreement regarding SVRX Licenses and Royalties that will be discussed in a later section.

(5) Extrinsic Evidence

Both parties have submitted a substantial amount of evidence in connection with the negotiation and execution of the APA and its amendments, as well as the parties' conduct after the APA was signed.

(a) Purpose of Agreement

Santa Cruz's stated purpose for entering the APA with Novell and acquiring the UNIX and UnixWare business was to be the supplier of Unix to the industry and to develop a future consolidated version of Unix that ran on an Intel processor. Decl. Mark James Ex. 6 ("Mohan Dep.") at 38-39. Beyond that, SCO has provided little evidence as to its intent with respect to specific provisions of the Agreement or its business strategy for structuring such a complex relationship between the parties. Novell, however, has produced significant evidence as to its business strategy and intent with respect to specific provisions.

In early 1995, Novell decided to divest itself of certain UNIX-related assets. Decl. James R. Tolonen at ¶ 4. Although Novell wanted to sell the entire UNIX and UnixWare business to focus on its Netware product, it became clear during negotiations with Santa Cruz that Santa Cruz could not afford to purchase the entirety of Novell's UNIX and UnixWare assets and rights. *Id.* ¶ 4. Consequently, Novell and Santa Cruz focused on a more limited deal that also included a forward looking revenue stream for Novell.

Novell has submitted evidence that an important consideration for its sale of UNIX assets was Santa Cruz's commitment to develop enhanced UnixWare products that were compatible with Novell's Netware product. The APA required Santa Cruz to develop a merged product that would combine Novell's version of the UNIX operating system with Santa Cruz's version of UNIX. APA § 4.18. Novell and Santa Cruz hoped that the merged product would provide a commercially successful alternative to Microsoft's Windows system. Decl. Tor Braham at ¶ 8. Novell's Netware product needed an alternative operating system if it was to compete with Microsoft. *Id.* Novell also had a strong interest in the development of a commercially successful UNIX operating system that would run on Intel's 64-bit processors because it would expand the market for Netware. *Id.* ¶ 13-14; Decl. David Bradford at ¶ 1,3; Decl. James Tolonen at ¶ 12.

Novell had concerns about entrusting the future of UNIX and Novell's UNIX-related interests to Santa Cruz. Decl. David Bradford at ¶ 7. David Bradford, Novell's Senior Vice President and General Counsel, states that there were serious concerns about Santa Cruz's viability as a company, and Novell became focused on building in protections for Novell in the event that Santa Cruz went bankrupt. *Id.* ¶ 8.

First, Santa Cruz was given legal title to SVRX Licenses "and not equitable interest in such royalties within the meaning of Section 541(d) of the Bankruptcy Code." APA § 1.2(b). According to the principal drafter of the APA, Tor Braham, this provision was added to decrease the risk that Novell's receipt of SVRX revenues would be impacted if Santa Cruz went into bankruptcy. Decl. Tor Braham ¶ 10.

Second, Novell asserts that it intended to exclude all copyrights from the assets to be transferred in order to protect its future SVRX revenues. *Id.* at 18-19; Decl. David Bradford ¶¶

11-12; Decl James Tolonen ¶ 11. In the event Santa Cruz went into bankruptcy, the UNIX and UnixWare copyrights would not be part of the bankruptcy estate and the bankruptcy trustee could not assert an interest in them. Decl. Tor Braham ¶ 14, Decl David Bradford ¶ 9; Decl. James Tolonen ¶ 12. Excluding copyrights from the transferred assets also protected Novell's other UNIX-related interests. Retaining ownership of the copyrights would strengthen Novell's rights to negotiate buy-outs of the SVRX Licenses and to receive future revenues. Decl. Tor Braham ¶ 14; Decl. James Tolonen ¶ 12. Furthermore, it put Novell in a better position to ensure successful development of future versions of the UNIX operating system.

SCO's extrinsic evidence regarding Santa Cruz's inability to proceed with a cash deal appears to conflict. Many of SCO's witnesses refer to the value of the stock Santa Cruz provided as consideration as evidence that such a sum would purchase Novell's whole UNIX-related business. Such testimony, however, is at odds with other witness testimony stating that the deal would not have proceeded without the creation of a future revenue stream for Novell. Testimony that additional revenue was necessary is consistent with the amount Novell paid for its acquisition of UNIX assets from AT&T and the fact that the shares of stock Santa Cruz transferred were only part of the consideration provided in the APA.

The consideration provided through future royalties significantly complicated the agreement and the parties' ongoing relationship. SCO, however, has provided virtually no evidence from its perspective as to the purpose of or strategy behind the creation of a continuing stream of revenue for Novell other than some testimony that it could not afford to acquire it and the deal would not have proceeded otherwise.

(b) Drafts of Agreement

The correspondence between Novell and Santa Cruz prior to the date the APA was signed shows that significant revisions were made to the agreement. A September 8, 1995 draft of Schedule 1.1(a), which listed the assets to be transferred, included "all patents, patent applications, copyrights . . . and all other intellectual property . . . that pertain to Unix or UnixWare." Decl. Tor Braham at ¶ 15, Ex. 6.

Novell's outside counsel drafted a new schedule of assets to be included in the asset transfer as well as a schedule of assets to be excluded from the transfer. *Id.* ¶ 15. The new Schedule 1.1(a) deleted copyrights, patents, and all other intellectual property from the assets to be transferred. The revised Schedule 1.1(a) included only the UNIX and UnixWare trademarks as the "Intellectual Property" included in the transaction. The new Schedule 1.1(b), which listed the assets excluded from the transfer, listed all copyrights, all patents, and all trademarks except for the UNIX and UnixWare trademarks.

Novell submitted evidence demonstrating that during the negotiations, David Bradford, Tor Braham, Aaron Alter, and Burt Levine all reviewed and approved the language in the Excluded Assets Schedule 1.1(b). *Id.* ¶ 16. SCO has not provided evidence from witnesses on the Santa Cruz side of the transaction with respect to their review of the asset schedules. In fact, there is no evidence from any of Santa Cruz's outside counsel and very little evidence from Santa Cruz's in-house legal department regarding the drafting of the APA.

(c) Parties' Conduct

Both parties have also submitted in support of their respective interpretations of the APA extrinsic evidence of the parties' conduct in relation to the APA.

The day before the APA was signed, David Bradford, Novell's Senior Vice President and General Counsel, presented the agreement to the Novell Board of Directors for approval and reviewed its terms with them. The minutes from that board meeting state: "RESOLVED . . . Pursuant to the Asset Purchase Agreement . . . Novell will retain all of its patents, copyrights, and trademarks (except for the trademarks UNIX and UnixWare) . . . ." Decl. David Bradford at ¶¶ 13-14, Ex. 1.

On September 20, 1995, SCO claims that the parties issued a joint press release regarding the APA, stating that "[a]ccording to the terms of the agreement, SCO will acquire Novell's UnixWare business and UNIX intellectual property." Novell questions whether it was a "joint" press release because unlike a typical joint press release, the September 20, 1995 press release does not contain Novell's logo, contact information, or company description. Instead, it contains information only for Santa Cruz. In any event, the press release does not provide specific information about whether copyrights transferred. It is undisputed that trademarks did transfer, which would account for a statement that intellectual property passed. However, the vague use of the term "intellectual property" could not be read to include *all* intellectual property because it is also undisputed that no patents were transferred. Therefore, the press release, whether a joint statement or not, provides little information in its reference to unspecified "intellectual property." Novell also issued two press releases about the APA, which are on Novell's website, and neither mention of the transfer of copyrights or, more broadly, the transfer of intellectual property.

On October 4, 1995, two weeks after the signing of the APA, David Bradford certified a Notification and Report Form to the Federal Trade Commission. Decl. Mark James Ex. 84. The

language used in the Form was consistent with the language of the APA's "Recitals," stating that Santa Cruz was acquiring "certain assets" of Novell's UNIX and UnixWare business. *Id.* In a section of the Form entitled "Assets to be Acquired," Novell stated: "The assets to be acquired by SCO are described with particularity in Schedule 1.1(a) of the Agreement." *Id.* Schedule 1.1(a) was the list of assets included in the transfer. Novell also included specific portions of Schedule 1.1(a) in the Form which SCO claims could be read to mean that the whole business transferred. The Form, however, clearly directed the FTC to the Agreement for the details regarding the assets being transferred.

After the APA closed in December 1995, Santa Cruz came into physical possession of the UNIX copyright registrations because they were kept in the business files of the UNIX unit in New Jersey, which transferred to Santa Cruz under the APA. Decl. Mark James Ex. 23-25. The UNIX unit and its business files remained in New Jersey throughout the changes in ownership of the business—from AT&T to UNIX System Laboratories to Novell to Santa Cruz. Burt Levine Dep. at 19-20. SCO asserts that its possession of these registrations is evidence that the parties intended to transfer UNIX and UnixWare copyrights under the APA. Novell contests that this evidence is relevant or indicative of the parties' intent under the APA. Novell makes no assertion that it ever attempted to remove the registrations from the New Jersey facility or otherwise obtain physical possession of them. Greg Jones 30(b)(6) Dep. at 177-79. Rather, Novell comments only that the physical possession of the registrations was not a concern or viewed as a necessity to it.

Since 1995, Santa Cruz and SCO have shipped UNIX-related products with copyright notices affixed to them and entered into hundreds of license agreements for UNIX Products

containing express representations and warranties of SCO's rights and ownership in the intellectual property required to provide the licensed product. Decl. Edward Normand Ex. 27, 28. Novell notes that products were shipped with joint copyright notices that indicated Novell's original UNIX and UnixWare code and SCO's ownership of modifications to that code. For example, one of the joint copyright notices states: "Copyright 1996 The Santa Cruz Operation, Inc. All rights reserved. Copyright 1984-1995 Novell, Inc. All rights reserved." Decl. James McKenna at ¶ 5. SCO claims that this copyright notice indicates that Novell transferred the copyrights in 1995 under the APA, and Novell contends that the notice indicates Novell's continued ownership of the copyright to the original UnixWare code and SCO's ownership only of the copyright to modifications to that code made the year after the APA (1996). Furthermore, Novell asserts that if Santa Cruz owned the copyright to both the original code and the derivative work, the copyright notice would not have mentioned Novell at all.

With respect to licenses containing any incorrect representations and warranties, Novell contends it was not aware of any such licenses. Novell claims that the first license agreement with Integration Design does not appear to involve UNIX and UnixWare licenses so it would not have been necessary to submit it to Novell for approval. Normand Decl. Ex. 30. SCO itself has admitted that the other two licenses, with Lucent Technologies and Samsung Electronics, also did not need to be shown to Novell for approval. Supp. Brakebill Decl. Ex. 25, Response No. 7. In any event, none of these three licenses contains any representation or warranty of SCO's copyright ownership.

(d) Witness Testimony

There is extrinsic evidence from several individuals who were involved at different stages of the negotiations of the APA and from business people involved in the transition of the business to Santa Cruz. Interestingly, many of the witnesses who were on the Novell side of the APA transaction went to work for Santa Cruz as a result of the deal. The relevance of much of the testimony is questionable because few have a recollection of actual discussions regarding the transfer or retention of copyrights. Many witnesses give an opinion as to whether they think the copyrights should have transferred, but they fail to establish an adequate foundation to support their opinion. Given the volume of the testimony presented to the court and the number of attorneys and business people involved in the transaction, it is surprising that there is not more testimony on the drafting and negotiation of the intellectual property provisions from both sides of the deal.

Novell was represented in the transaction by the law firm of Wilson, Sonsini, Goodrich & Rosati ("Wilson Sonsini"). Tor Braham managed Wilson Sonsini's team, was the primary negotiator with respect to the contract language, and was the primary drafter of the APA text.[2] Braham testified that the APA was not a "straight up asset purchase" because Santa Cruz did not have the cash to buy both the UNIX assets that Novell had purchased in 1993 plus Novell's UnixWare business. Decl. Tor Braham ¶ 7. As a result, the deal became more complex, and

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[2] The record is not clear as to whether Braham was the primary drafter of the APA for Novell or both parties. Nevertheless, in the APA, the parties agreed that they had both been represented by counsel during the negotiation and execution of the agreement and waived the application of any law "providing that ambiguities in an agreement . . . will be construed against the party drafting such agreement." APA § 9.9.

Novell needed to negotiate provisions into the contract to protect its business and legal interests. *Id.*

Braham had regular communications with Novell's General Counsel, David Bradford, and tried to achieve Novell's goals as communicated by Bradford. *Id.* ¶ 6. During the negotiations, Bradford indicated to Braham that Novell was unwilling to transfer intellectual property rights in UNIX and UnixWare, including patents and copyrights. *Id.* ¶ 14. Accordingly, Braham's team revised an early draft of a Schedule of Assets that had included patents, copyrights, and trademarks and drafted a new schedule of included assets and a schedule of excluded assets. *Id.* ¶ 15. Braham also made changes to Section 1.1(a) of the APA where the distinction between included and excluded asset schedules is made with respect to the assets transferred. *Id.* ¶ 19.

Braham testified that to his knowledge, and based on his review of the Wilson Sonsini files, at least four representatives of Novell reviewed and approved the excluded assets provision. *Id.* ¶ 16. During the course of the negotiations, the Wilson Sonsini team transmitted drafts of the two schedules to Santa Cruz representatives, and drafts would be redlined to show changes. *Id.* ¶ 17. Braham testified that although the APA did not transfer copyright ownership to Santa Cruz, Santa Cruz received other rights and interests in UNIX and UnixWare that gave it a license to copy and use Novell's copyrighted code as needed to implement the activities contemplated by the APA. Furthermore, it was Braham's understanding that while Novell retained the copyrights in the original code, Santa Cruz would own the copyrights in any code that it wrote and Novell would need a license to such code. *Id.* ¶ 23. Therefore, Braham added the term "Licensed Technology" in Section 1.6 of the APA during the drafting process to refer to newly developed

code and other technology in UNIX and UnixWare–such as trade secrets, software know-how, etc.–that were not excluded from the assets transferred to Santa Cruz. *Id.* ¶¶ 22, 23.

Robert Frankenberg, then-President and CEO of Novell, testified in a deposition that his initial intent in entering into negotiations, intent at the time the APA was signed, and intent when the transaction closed was that Novell would transfer copyrights to UNIX and UnixWare technology to Santa Cruz. Decl. Mark James Ex. 7 ("Frankenberg Dep.") at 7, 135. This testimony is obviously at odds with the minutes of the Board meeting and the testimony of the chief drafters of the APA for Novell. Somewhat self-contradictorily as well, Frankenberg also testified that he had high-level discussions with the negotiating team and recalled discussing the fact that retaining UNIX copyrights would facilitate Novell's exercise of rights with respect to capitalizing the SVRX revenue stream and facilitate the negotiation of SVRX License buyouts. *Id.* at 65-66, 68. The evidence submitted as to Frankenberg's role shows that he was not intimately involved in the deal. Frankenberg testified that he was involved in high-level discussions but was not involved in the negotiation or drafting of the APA. He further stated that he did not review the details of the deal and he signed the APA on the basis of the recommendation of his team. *Id.* at 68.

David Bradford, Novell's Senior Vice President and General Counsel, oversaw the negotiation and drafting of a contract between Novell and Santa Cruz. Decl. David Bradford at ¶ 4. During the negotiations of the APA, he discussed with Braham the need to increase Novell's protections in the transaction, including but not limited to retaining Novell's intellectual property rights in UNIX and UnixWare. *Id.* ¶ 9. Bradford testified that the exclusion of copyrights was intentional and "should any person suggest otherwise, they are mistaken." *Id.* ¶ 12. Bradford

reviewed the terms of the APA with the Novell Board of Directors at a meeting held on September 18, 1995, the day before the APA was signed. *Id.* ¶ 13. Bradford received the final APA on the day it was executed and was responsible for reviewing it and approving it for final signature by Frankenberg. *Id.* ¶ 17. Bradford wrote a memorandum reflecting his approval of the APA. *Id.* He testified in this litigation that he still agrees with the statement that the APA is "an accurate reflection of the business and legal terms and conditions negotiated between the parties." *Id.*

James Tolonen, Novell's Chief Financial Officer from 1989 through 1998, testified that he was actively involved in the preparation of the APA. Tolonen Decl. ¶¶ 3, 7. Tolonen interacted with Bradford, who he described as the "point person" heading up Novell's negotiation team, and Braham. *Id.* ¶¶ 8, 9. Tolonen reviewed drafts of the APA and reviewed the final version of the APA to ensure that its terms were consistent with the intent of the deal. *Id.* ¶¶ 9, 10. Tolonen testified that "[a]s reflected in the plain language of the executed [APA], Novell intended to retain and did retain, as an 'Excluded Asset,' all copyrights, including all UNIX and UnixWare copyrights." *Id.* ¶ 11.

Ed Chatlos, Novell's Senior Director for UNIX Strategic Partnerships and Business Development, was a primary negotiator for Novell during the business negotiation of the deal. Chatlos' Declaration states that he left Novell voluntarily in 1996, but it does not indicate his current employment. Decl. Mark James Ex. 12 ("Chatlos Decl.") at ¶ 4. He did disclose in his deposition, however, that his wife has been employed by SCO since the time of the APA in 1995. Decl. Mark James Ex. 13 ("Chatlos Dep.") at 49. During the business negotiations of the APA, Chatlos recalled disputes over the price because SCO could not pay the full purchase price as

contemplated by Novell. *Id.* at 36. He testified that the royalty payments were used as a resolution to bridge the gap. *Id.* Chatlos also testified that there was no discussion about excluding or including copyrights because he believes it was implicit in the deal that the copyrights would be transferred. *Id.* at 122-24. He testified that he was not involved in any discussions with Novell's negotiation team regarding concerns of a potential bankruptcy by Santa Cruz. However, he also testified that he believes that the APA reflects the intent of the agreement. *Id.* at 130. Although he continued to review drafts of the agreement, his deposition testimony reflects that he had little recollection of the work done by Novell's legal team. *Id.* at 105. He could not recollect David Bradford's role in the deal or the names of the attorneys at Wilson Sonsini who worked on the APA. *Id.* at 37, 80.

Duff Thompson, a former Novell executive who now chairs SCO's litigation committee, testified that testified that his recollection of the deal was the initial direction from Frankenberg to sell the whole business. Decl. Mark James Ex. 10 ("Thompson Decl.") at ¶ 4. Thompson did not recall "any specific discussions around copyrights" or any "discussion with SCO about the excluded asset schedule" during negotiation of the deal. Decl. Mark James Ex. 11 ("Thompson Dep.") at 86. Ty Mattingly testified that Thompson was "not really involved in the details of the Novell, Santa Cruz transaction." Mattingly Dep. at 70-71. He stated that Thompson was "checked out" during the drafting of the APA and was "not in the office that often." *Id.* at 71-72. He also testified that he relied on Tor Braham and his team for the detail drafting of the agreement. *Id.* at 30-31. Braham confirmed that Thompson "was not involved in negotiating or drafting the APA contract language." Decl. Tor Braham ¶ 24. However, Thompson testified that if Novell had intended to retain the copyrights, it would have said "you get all the business

except the copyrights." Thompson Dep. at 133.

Ty Mattingly, Novell's Vice President for Strategic Relations at the time of the APA, testified in his deposition that it was his belief that Novell sold the Unix business to SCO, and that SCO paid roughly 125 million dollars because it bought the UNIX business from Novell "basically in its entirety." Decl. Mark James Ex. 9 ("Mattingly Dep.") at 10. He further explained that his view was that "[t]he only things that did not go with that was a kind of an agent relationship whereby SCO was collecting the SVRX royalties from existing OEMs at the time we sold that business and then giving the bulk of those moneys back to Novell." *Id.* at 29-32. Mattingly, however, also testified that his role "related only to high level business strategy" and he was "not involved in the details of the legal document." *Id.* at 66. He admitted that he was involved "very superficially" in the "last two or three weeks before the contract was executed," which was "when the back and forth concerning the legal provisions was taking place." *Id.* at 68-69.

Burt Levine, a former Novell in-house attorney who went to work for Santa Cruz after the APA, testified that he worked on some early drafts of the APA but cannot remember which specific provisions. Levine did testify, however, that during APA negotiations, he reviewed and marked up drafts of Schedules 1.1(a) and (b). Decl. Mark James Ex. 14 ("Levine Dep.") at 72-74. He revised the list of included assets but did not add copyrights. *Id.* at 74. He then faxed his markup to outside counsel, who passed on his comments to Santa Cruz's outside counsel, Brobeck Phleger. *Id.* at 72-73, 77-80. However, he testified that he would have been surprised to hear that Novell retained the UNIX and UnixWare copyrights. Assuming, however, that the copyrights were excluded from the APA, he testified that SCO would have an inherent license to

use those copyrights in the business. *Id.* at 89.

William Broderick, a contract manager and member of the Novell APA transition team who is now the Director of Software Licensing for SCO, testified that his understanding of the sale of assets was that the UNIX copyrights were transferred. Decl. Mark James Ex. 15 ("Broderick Decl.") ¶¶ 1, 6, 11. Although SCO claims that Broderick testified that his understanding was based on Novell's explanation of the transaction during company-wide meetings and meetings of the transition team, he testified in his deposition that he did not recall any specific discussion about the transfer of copyrights. *Id.* Ex. 16 ("Broderick Dep.") at 49-51.

Alok Mohan, CEO of Santa Cruz at the time of the APA, testified that he believes Santa Cruz bought the whole business, including copyrights. Mohan Dep. at 138-40. But he was not aware that the subject of UNIX copyrights was specifically addressed in the contract. *Id.* at 143-44. Mohan testified that he was involved in the negotiations "only at a high level," not in the "detail level of negotiations." *Id.* at 10-11. He was also not involved in the "specific drafting of the documents," was not on a distribution list of individuals at Santa Cruz to receive drafts of the agreement, and did not recall the firm or attorneys Santa Cruz hired to represent it in the transaction. *Id.* at 10-11, 14-17. He testified that "the issue of copyrights in or out was not discussed with me." *Id.* 261-62. Furthermore, he contends that Novell did not tell him that it had kept the copyrights, but he also admits that Novell did not tell him that it had given them to Santa Cruz either. *Id.* at 261-262. He did believe, however, that Santa Cruz "tried to make the document represent . . . the intent . . . . And we captured, I thought at that time, what the intent was." *Id.* at 13.

Doug Michels, Senior Vice President of Santa Cruz at the time of the APA, stated in his deposition that "the only way that I know of, and anyone on my team knew of, to buy a software business is to buy the copyrights, and there is no way we would have ever done a deal to buy a software business where we didn't get the copyrights and all the other intellectual property." Decl. Mark James Ex. 18 ("Michels Dep.") at 134. Michels testified that he was very involved in the initiation of the APA, but that he was only involved in two or three meetings with Novell after the initial discussion about the deal. *Id.* at 11-12. He did not draft any language of the APA or review drafts of it. He does not recall "even vaguely" any debates in which he participated regarding the drafting of the APA. *Id.* at 12-13. He also does not recall any discussion by anyone either at Novell or Santa Cruz regarding the transfer or retention of UNIX copyrights. *Id.* at 50-52.

Jim Wilt, a business development executive at Santa Cruz, testified that it was his understanding and intent during the negotiations that SCO would acquire Novell's entire UNIX and UnixWare business, including the copyrights. Decl. Mark James Ex. 19 ("Wilt Decl.") ¶ 8. He viewed the copyrights as essential to the acquisition of a software company. *Id.* Ex. 20 ("Wilt Dep.") at 76-80. Although SCO refers to Wilt as the lead negotiator for Santa Cruz, Ed Chatlos testified that Wilt "dropped out" in the latter half of the negotiations of the Santa Cruz-Novell deal and Wilt, himself, concurred that he was less active at the end of the negotiations when the APA was being drafted. Chatlos IBM Dep. at 184-185; Wilt Dep. at 20-21. He also testified that the lawyers did the drafting of the APA. Wilt testified that he did not recall anyone from Novell stating that copyrights were being transferred. Wilt Dep. 57-59.

SCO also relies on the understanding of Kimberlee Madsen, a paralegal in Santa Cruz's legal department. Decl. Mark James Ex. 22 ("Madsen Dep.") at 6-7. She testified that she participated in the negotiations leading up to the drafting of APA and reviewed and drafted some of the agreement. Madsen Dep. at 13. She testified that it was always her understanding that the UNIX copyrights were part of the assets Santa Cruz purchased and she could not recall anyone in the negotiation team discussing the retention of copyrights. *Id.* at 79.

B. Amendment No. 2 to the APA

Approximately a year after the APA was signed, on October 16, 1996, Novell and Santa Cruz executed Amendment No. 2 to the APA. Decl. Mark James Ex. 5 ("Am. No. 2"). APA Amendment No. 2 amends the Schedule of Excluded Assets in Schedule 1.1(b) to exclude "All copyrights and trademarks, except for the copyrights and trademarks owned by Novell as of the date of the [APA] required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies." Am. No. 2 § A.

Amendment No. 2 did not specify which copyrights, if any, were "required for SCO to exercise its rights with respect to the acquisition of the UNIX and UnixWare technologies." Amendment No. 2 also did not contain any provision actually transferring ownership of copyrights or other assets from Novell to Santa Cruz. Amendment No. 2 states that the APA was amended "[a]s of the 16th day of October 1996." *Id.* Therefore, it did not retroactively amend the APA as of the date the APA was signed or the date the transaction closed. Furthermore, the parties did not execute a "Bill of Sale" or any similar document transferring copyrights from Novell to Santa Cruz in connection with Amendment No. 2, nor did they amend the previous Bill

of Sale. Moreover, Amendment No. 2 did not make any corresponding amendment to the transferred assets on Schedule 1.1(a).

During negotiations on Amendment No. 2, SCO attempted to effectuate a transfer of the copyrights of UNIX and UnixWare, but Novell rejected the proposal. Decl. Allison Amadia at ¶ 6, 8, 10. During the summer of 1996, Steve Sabbath, Santa Cruz's General Counsel, telephoned Allison Amadia, in-house counsel for Novell, about amending the APA. *Id.* ¶ 6. She testifies that Sabbath stated to her that the original APA explicitly excluded copyrights to UNIX and UnixWare and that Santa Cruz wanted to amend the original to give Santa Cruz those copyrights. *Id.*

Amadia had not been involved in the original deal. After her conversation with Sabbath, she reviewed the APA and contacted Novell's outside counsel, Tor Braham, to gain his understanding of the transaction. *Id.* ¶ 7. Through these efforts, she learned that ownership of the UNIX and UnixWare copyrights did not transfer to Santa Cruz under the APA. *Id.*

Sabbath later sent Amadia a draft proposal revising Schedule 1.1(b) of the APA to read: "All copyrights and trademarks, except for the copyrights and trademarks owned by Novell as of the date of this Amendment No.2, which pertain to the UNIX and UnixWare technologies and which SCO has acquired hereunder. . . ." *Id.* ¶ 8, Ex. 1. Novell rejected the proposed amendment. *Id.* ¶ 10. Amadia told Sabbath that while Novell was willing to affirm that Santa Cruz had a license under the APA to use Novell's UNIX and UnixWare copyrighted works in its business, Novell would not transfer ownership of any copyrights. *Id.*

Instead of a blanket exception for copyrights pertaining to UNIX and UnixWare technologies, the final version of Amendment No. 2 was limited to copyrights that were

"required for SCO to exercise its rights with respect to the acquisition of the UNIX and UnixWare technologies." Amend. No. 2 § A. The final version of Amendment No. 2 also deleted Santa Cruz's proposed reference to copyrights "which SCO has acquired hereunder." Amendment No. 2 does not include any reference to an acquisition or transfer of copyrights.

Jim Tolonen, Novell's Chief Financial Officer and Novell's business executive assigned to Amendment No. 2, confirms that it was never Novell's intent to transfer copyrights by way of Amendment No. 2. Decl. Jim Tolonen at ¶ 13, 14. He states that he would not have signed it if he had believed it would do so. *Id.* ¶ 15. He testifies that Amendment No. 2 was also not meant to "clarify" what the parties intended to transfer in the original APA. *Id.* ¶ 14. Rather, he states that Novell intended to retain the UNIX and UnixWare copyrights in the APA, and Amendment No. 2 confirmed that Santa Cruz would be allowed to continue to use the Novell-retained copyrights–as it had been doing–as was required to exercise its rights under the APA. *Id.* ¶ 16.

Sabbath has no recollection of negotiating the copyright portion of Amendment No. 2. SCO relies on the testimony of Robert Frankenberg and Ed Chatlos regarding Amendment No. 2. However, both men had left Novell before Amendment No. 2 was negotiated and had no involvement in the negotiation of the amendment. Frankenberg Dep. at 86; Chatlos Decl. ¶ 4. SCO relies on the testimony of several other individuals involved in the business, but none of them admits to being involved in the negotiations of Amendment No. 2 or to having any specific recollection of the negotiations with respect to the transfer of copyrights.

C. Santa Cruz/Caldera Assignment Agreement

Santa Cruz assigned various items of intellectual property to Caldera in an agreement dated May 7, 2001 ("Assignment Agreement"). Supp. Brakebill Decl. Ex. 1 ("Caldera

Agreement"). That Assignment Agreement purports to transfer various UNIX and UnixWare copyrights. Caldera Agreement § 1, Sched. C. In the Assignment Agreement, Santa Cruz made representations and warranties with respect to the intellectual property rights being transferred. *Id.* § 8(v). The Assignment Agreement states that Santa Cruz "has no knowledge of any fact that would prevent [Caldera's] registration of any Rights related or appurtenant to the Inventions and Works or recording the transfer of Rights hereunder (except that Assignor may not be able to establish a chain of title from Novell Inc. but shall diligently endeavor to do so as soon as possible)." *Id.*

The initial draft of the Assignment Agreement had provided an unlimited representation and warranty from Santa Cruz. Supp. Brakebill Decl. Ex. 5, at § 8(v). In transmitting the draft, Caldera's attorney proposed that Santa Cruz's assignment of intellectual property obtained from Novell would require the inclusion in the Assignment Agreement of "a single exhibit from the Novell/SCO Asset Purchase Agreement." *Id.* at 1. Four days later, an in-house attorney at Santa Cruz responded with a redlined draft that included an exception to Santa Cruz's representation and warranty stating "[e]xcept for the inability to obtain third party acknowledgments to establish a chain of title." *Id.* Ex. 6 at § 8(v). Four days later, Caldera's counsel circulated a final draft of the agreement with a cover email stating that Santa Cruz was "trying to get Novell to sign a global IP assignment, for chain of title purposes." *Id.* Ex. 7 at 1. But the final draft recognized that Santa Cruz may not be able to establish a chain of title from Novell. *Id.* Ex. 1 at § 8(v).

D. Private Communications Between SCO and Novell

In late 2002, Darl McBride, SCO's CEO, contacted Novell on several occasions seeking copies of records concerning SCO's intellectual property rights to UNIX. Greg Jones Decl. ¶ 13.

On January 4, 2003, McBride received an email from Michael Anderer, a consultant for SCO retained to examine its intellectual property. Supp. Brakebill Decl. Ex. 12. Anderer stated that the APA "transferred substantially less" of Novell's intellectual property than Novell owned. Anderer noted that Santa Cruz's "asset purchase" from Novell "excludes all patents, copyrights, and just about everything else." *Id.* Anderer cautioned that "[w]e really need to be clear on what we can license. It may be a lot less than we think."

On February 4, 2003, McBride contacted Christopher Stone, Vice Chairman of Novell, and stated that he wanted Novell to "amend" the APA to give SCO "the copyrights to UNIX." Supp. Brakebill Decl. Ex. 17; *id.* Ex. 18 ("Stone Dep." at 108-09). Then, on February 25, 2003, McBride twice called a Novell employee in business development, David Wright, and said, "SCO needs the copyrights." Wright passed on McBride's request to Novell's in-house legal department. Supp. Brakebill Decl. Ex. 13. McBride's request was memorialized in an email written that day by a Novell in-house attorney, Greg Jones. *Id.*

Also early in 2003, McBride and Chris Sontag of SCO contacted Greg Jones regarding the UNIX copyrights. *Id.* Ex. 8 ("Decl. Greg Jones") at ¶¶ 13, 14; Decl. Christopher S. Sontag ¶ 6. McBride stated that "the asset purchase agreement excluded copyrights from being transferred" and that it was a "clerical error." Jones Dep. at 182. On February 20, 2003, Chris Sontag also sent a draft letter to Novell that sought to clarify the parties' rights under the APA. Decl. Christopher S. Sontag Ex.

Again in March 2003, McBride called Stone to ask him if Novell would "give him some changes so he could have the copyrights." Christopher Stone Dep. at 248-49. Ralph Yarro, Chairman of SCO, requested an in-person meeting with Stone. In that meeting, on May 14,

2003, Yarro told Stone that he wanted Novell to amend the APA to give SCO the copyrights. Supp. Brakebill Decl. Ex. 17 at 4; Stone Dep. at 137-8. Stone refused. *Id.* On May 19, 2003, McBride called Stone and Joe LaSala, Novell's General Counsel, and again requested that Novell convey the copyrights to SCO. McBride said, "we only need you to amend the contract so that we can have the copyrights." Stone Dep. 249-250. Stone made notes in June 2003 memorializing both conversations. Supp. Brakebill Decl. Ex. 17.

E. SCOsource Initiative

In approximately this same time frame, in January 2003, SCO launched its SCOsource initiative, which was an effort to obtain license fees from Linux users based on claims to Unix System V intellectual property. McBride commented that "SCO owns much of the core UNIX intellectual property, and has full rights to license this technology and enforce the associated patents and copyrights."

Under the SCOsource licensing program, SCO offered intellectual property licenses to Linux end-users. The purported purpose of these licenses is to allow UNIX vendors to use SCO's UNIX intellectual property and to compensate SCO for the UNIX intellectual property that it claims is found in Linux. In May 2003, SCO sent 1500 end-user corporations a letter threatening suit based on SCO's assertion that it owned the UNIX copyright and that Linux infringes on its UNIX intellectual property. Decl. Mark James Ex. 42. Novell and IBM were among the recipients of this letter.

SCO generated participation in and revenues from its licensing program. Decl. Mark James Exs. 80, 81. Despite success with some licensees, however, SCO's campaign generated

controversy that impacted its core software business. Internal SCO documents demonstrate that SCO's sales force was having difficulties selling the SCOsource licenses for a variety of reasons.

F. Public Statements

On March 6, 2003, SCO filed suit against IBM alleging, among other things, that IBM had violated its UNIX Software and Sublicensing Agreements by disclosing UNIX-derivative source code. A few months later, while the public was reacting to SCO's claim that the use of Linux required a UNIX license, Novell went public with a statement of its belief that it had not transferred the UNIX copyrights to SCO. On May 28, 2003, Novell's Chairman, President, and CEO Jack Messman announced publicly that Novell did not transfer the UNIX and UnixWare copyrights to SCO, and that SCO was not the owner of the copyrights. Decl. Mark James Ex. 36.

SCO and Novell continued the ownership dispute in a series of public statements over the next several months. On June 6, 2003, Novell issued a press release stating that SCO had sent Amendment No. to Novell the night before, that Novell was not aware of having the amendment in its files, and that the amendment "appears to support SCO's claim that ownership of certain copyrights for UNIX did transfer to SCO in 1996." *Id.* Ex. 38.

On June 26, 2003, Novell notified SCO that "[u]pon closer scrutiny . . . Amendment No. 2 raises as many questions about copyright transfers as it answers. Indeed, what is most certainly not the case is that 'any question about whether UNIX copyrights were transferred to SCO as part of the Asset Purchase Agreement was clarified in Amendment No. 2' (as stated in its June 6 press release)." *Id.* Ex. 43.

In June or July 2003, SCO registered certain copyrights in UNIX System V and UnixWare with the United States Copyright Office. In September and October 2003, Novell

submitted certifications to the United States Copyright Office claiming to be the owner of the same UNIX System V and UnixWare copyrights.

Because SCO alleges in its Complaint that it owns the copyrights to UNIX and UnixWare, it claims "Novell's wrongful claims of copyrights and ownership in UNIX and UnixWare have caused, and continue to cause, irreparable harm to SCO." In response to discovery, SCO maintained that Novell's statements impeded its ability to make sales in its SCOsource business. Christopher Sontag Dep. at 117. SCO identifies approximately a dozen prospective customers who mentioned the cloud over SCO's title to UNIX copyrights as one of its reasons not to purchase a SCOsource license. Decl. Mark James Exs. 49, 57, 58, 62, 79, 88. Several customers also stated that their reasons for not entering into a SCOsource license was due to their skepticism as to the necessity of obtaining a Unix license to operate Linux.

G. SVRX Licenses

Apart from the dispute with respect to copyright ownership, the parties have had ongoing disagreements as to their respective roles concerning SVRX licenses and royalties. A significant part of the consideration for the APA came from Novell's receipt of future SVRX Royalties and royalties from the transfer of and future sales of UnixWare products. APA § 1.2(b).

Under the APA, Novell and SCO agreed to an arrangement whereby Novell would continue to receive one hundred percent of the SVRX Royalties. *Id.* Santa Cruz was to collect and pass through these royalties to Novell, and Novell, in turn, would pay Santa Cruz an administrative fee of five percent of the SVRX Royalties. Novell retained "all rights to the SVRX Royalties notwithstanding the transfer of the SVRX Licenses to [Santa Cruz]." *Id.* Santa

Cruz "only has legal title and not equitable interest in such royalties within the meaning of Section 541(d) of the Bankruptcy Code." *Id.*

Section 1.2(b) states that SVRX Royalties are "defined and described in Section 4.16." Under Section 4.16(a), Santa Cruz was to "administer the collection of all royalties, fees and other amounts due under all SVRX Licenses (as listed in detail under Item VI of Schedule 1.1(a) hereof and referred to herein as "SVRX Royalties")." *Id.* § 4.16(a). Item VI of Schedule 1.1(a), in turn, states, "All contracts relating to SVRX Licenses listed below." Instead of providing a list of license agreements with various other parties, however, the Schedule then provides a list of UNIX System V software releases, including UNIX System V Release Nos. 2.0, 2.1, 3.0, 3.1, 3.2, 4.0, 4.1, and 4.2, and "[a]ll prior UNIX System releases and versions preceding UNIX System V Release No 2.0." *Id.* Sched. 1.1(a)(VI).

Schedule 1.1(b) to the APA, the Excluded Assets schedule, specifically memorializes that the APA did not transfer any rights to the SVRX Royalties to Santa Cruz. Listed as an excluded asset in Schedule 1.1(b) is "[a]ll right, title and interest to the SVRX Royalties, less the 5% fee for administering the collection thereof pursuant to Section 4.16." *Id.* Sched.. 1.1(b)(VIII).

Section 4.16(b) of the APA also contains a significant provision regarding the parties' authority with respect to SVRX Licenses. This section provides that Santa Cruz "shall not, and shall not have the authority to, amend, modify, or waive any right under or assign any SVRX License without the prior written consent of [Novell]." APA § 4.16(b). Under this section, Novell retained the sole discretion to direct Santa Cruz to amend, supplement, modify, waive, or assign any rights under or to any SVRX Licenses. *Id.* Novell was also granted authority to take any action on Santa Cruz's behalf that Santa Cruz may fail to take concerning the SVRX

Licenses. *Id.* Furthermore, Santa Cruz acknowledged that it had no right to "enter into future licenses or amendments of the SVRX Licenses, except as may be incidently involved through its rights to sell and license the Assets or the Merged Product . . . or future versions thereof of the Merged Product." *Id.*

With respect to UnixWare royalties, Section 1.2(b) of the APA states: "In addition, [Santa Cruz] agrees to make payment to [Novell] of additional royalties retained by [Novell] in respect of the transfer of UnixWare and on account of [Santa Cruz]'s future sale of UnixWare products." *Id.* § 1.2(b). The parties agreed that "[t]he amounts and timing of additional royalties to be paid in connection with [Santa Cruz]'s sale of the UnixWare products are identified in detail on Schedule 1.2(b) hereto." *Id.* Schedule 1.2(b) identifies the "Royalty Bearing Products" for which Santa Cruz was to pay royalties on and provides a structure for the payment of the royalties. *Id.* Sched. 1.2(b). Schedule 1.2(b) also states that the royalty obligation set forth in this schedule would terminate after Novell received payments equal to $84 million or December 31, 2002, whichever is sooner. *Id.* Sched. 1.2(b)(c). Schedule 1.2(b)(f) also recognized that Santa Cruz had the right to convert existing SVRX-based customers to a UnixWare derived product. *Id.* Sched. 1.2(b)(f). The Schedule then sets forth a process for determining if a customer is validly converted from SVRX to UnixWare. *Id.*

(a) Amendments Relating to SVRX Licenses

Amendment No. 1 to the APA further obligated Santa Cruz to give Novell: (1) an estimate of the total SVRX Royalties amount within six days following the calendar month when the royalties are received; and (2) a "report detailing all such royalties" within one calendar month following each calendar month in which SVRX Royalties are received by Novell. Decl.

Mark James Ex. 2 ("Am. No. 1") ¶ E(f). "Such monthly reports shall be separately broken down by revenue type (i.e. source code right to use fees, gross and net binary per copy fees, and support fees), by product, by customer, by quarterly period by which distribution occurs, and by country . . . of distribution." *Id.*

Amendment No. 1 expands SVRX licenses to include those contracts relating to certain "Auxiliary Products" expressly identified in Attachment A to that Amendment. *Id.* ¶ K.4(i). The first line of Schedule 1.1(a)(VI) was amended to read "All contracts relating to the SVRX Licenses and Auxiliary Product Licenses (collectively "SVRX Licenses") listed below." *Id.*

Amendment No. 1 also modifies Section 4.16(b) to create two limited exceptions where Santa Cruz has "the right to enter into amendments of the SVRX Licenses." *Id.* ¶ J. Santa Cruz could enter into amendments of SVRX Licenses (1) as may be incidentally involved through its rights to sell and license UnixWare software or the Merged Product or (2) to allow a licensee under a particular SVRX License to use the source code of the relevant SVRX products on additional CPUs or to receive additional distribution from Santa Cruz of such source code. *Id.*

Amendment No. 1 further amended the APA to permit Santa Cruz to retain 100% of four "categories of SVRX Royalties": (1) fees attributable to stand-alone contracts for maintenance and support of SVRX products listed under Item VI of Schedule 1.1(a) of the APA; (2) source code right to use fees under existing SVRX Licenses from the licensing of additional CPU's and from the distribution by Buyer of additional source code copies; (3) source code right to use fees attributable to new SVRX licenses approved by Novell pursuant to Section 4.16(b); and (4) royalties attributable to the distribution by Santa Cruz and its distributors of binary copies of SVRX products, to the extent such copies are made by or for Santa Cruz pursuant to Santa

Cruz's own licenses from Novell acquired before the APA through previous agreements. *Id.* ¶ E.(e).

Approximately one year later, Amendment No. 2 to the APA also made amendments to Section 4.16 of the APA. Decl. Mark James Ex. 5 (Am. No. 2"). Amendment No. 2 was entered the same day as the parties agreed to a buy-out agreement with IBM with respect to SVRX Licenses. Under Section B of Amendment No. 2, Novell and Santa Cruz agreed to a procedure that would govern "any potential transaction with an SVRX licensee which concerns a buy-out of any such licensee's royalty obligations." Am. No. 2 at ¶ B(1)-(5). The parties agreed to provide written notification to each other upon becoming aware of any potential buy-out transaction, to both attend any meetings or negotiations with the licensee unless agreed otherwise, to jointly consent to any written proposals to be presented to licensees prior to its delivery to the licensee, and to meet to discuss any potential buy-out transaction. *Id.* The parties further agreed that a buy-out transaction should not occur without the prior written consent of both parties. *Id.*

As part of this section regarding the newly-agreed process for managing buy-out transactions, Amendment No. 2 provides that "[t]his Agreement does not give Novell the right to increase any SVRX licensee's rights to SVRX source code, nor does it give Novell the right to grant new SVRX source code licenses. In addition, Novell may not prevent SCO from exercising its rights with respect to SVRX source code in accordance with the Agreement." *Id.* ¶ B(5).

(b) SVRX Buyout Agreements with IBM and Sequent

Between 1985 and 1996, IBM entered into various agreements, supplements, and amendments concerning its rights to use UNIX System V software products. Decl. Kenneth

Brakebill Ex. 5-12. On February 1, 1985, IBM and AT&T entered into a software agreement, sublicensing agreement, substitution agreement, and side letter. *Id.* Ex. 5-8. Between April 21, 1986 and January 25, 1989, IBM and AT&T executed numerous supplements to the agreements entered in 1985. *Id.* Ex. 9-12. These supplements granted IBM additional rights to UNIX SVRX releases listed in Item VI of Schedule 1.1(a) of the APA. *Id.*

Novell became the successor-in-interest to AT&T's rights under these agreements when it purchased UNIX Systems Laboratories in 1993. AT&T and its subsidiaries, and then Novell, used a combination of agreements in licensing its SVRX technology, including software agreements, sublicensing agreements, and product supplements. *See id.* Ex. 5, 6. The software and sublicensing agreements set forth rights and obligations for the use and distribution of the technology. While each agreement had a given purpose, the agreements referred to and incorporated each other. For example, the IBM and Sequent Software Agreements provide that "additional supplements may be added to this Agreement . . . . Each such additional Supplement shall be considered part of this Agreement." *Id.* Ex. 5, 15. Furthermore, the Software Agreement provides that "[t]his Agreement and its Supplements set forth the entire agreement and understanding between the parties as to the subject matter hereof." *Id.* The IBM and Sequent Sublicensing Agreements provide that "[t]his Sublicensing Agreement, together with the Software Agreement and its Supplement(s), set forth the entire agreement and understanding between the parties as to the subject matter hereof." *Id.* Ex. 6, 17.

On October 17, 1996, IBM entered into Amendment No. X, which was executed by Novell and Santa Cruz on October 16, 1996. *Id.* Ex.13. Amendment X modified the terms of IBM's previous agreements and supplements thereto, referring to them collectively as Related

Agreements. Amendment X granted IBM additional source code rights and an "irrevocable, fully paid-up, perpetual right to exercise all of its rights under the Related Agreements beginning January 1, 1996 at no additional royalty fee."[3] *Id.* at § 1. The irrevocable nature of these rights, however, are not to "be construed to limit Novell's or SCO's rights to enjoin or otherwise prohibit IBM from violating any and all of Novell's or SCO's rights under this Amendment No. X, the Related Agreements, or under general patent, copyright, or trademark law." *Id.*

In Amendment No. X, the parties explicitly recognized that although SCO had purchased the Related Agreements, Novell "retained certain rights with respect to" that set of agreements. *Id.* Recitals. As consideration for the rights granted by Amendment No. X, IBM paid Santa Cruz $10,125,000 in two installments–one payment of $4,860,000, and a second payment of $5,265,000. *Id.* § 4. In November 1996 and January 1997, when Santa Cruz received these payments, it treated 100% of the money as SVRX Royalties payable to Novell, subject to the 5% administrative fee that Santa Cruz would pay itself. *Id.* Ex. 14 at 1; 43 at 1, 3.

Novell and Santa Cruz separately executed a General Release Agreement on October 16, 1996, which settled all disputes between the parties concerning IBM's buyout of royalty obligations.

Between April 18, 1985 and November 9, 1989, AT&T also entered into various agreements for licensing rights to UNIX System V software products with Sequent. In particular, on April 18, 1985, AT&T entered into a Software Agreement giving Sequent the right to, among other things, use, modify, and prepare derivative works of an SVRX product identified in Item VI

[3] IBM did agree, however, to pay for any additional copies of source code of the software product–UNIX System V, Release 3.2–according to the fees listed in a prior product supplement.

of Schedule 1.1(a) to the APA. *Id. Ex.* 15, 16. On January 28, 1986, AT&T and Sequent entered into a Sublicensing Agreement that gave Sequent the right to sublicense the software products designated in the 1985 agreement. *Id.* Ex. 17. Between 1986 and 1989, Sequent and AT&T executed several supplements to the previous agreements. *Id.* Ex. 18-22.

Novell became the successor-in-interest to AT&T's rights under the Sequent agreements in 1993. Santa Cruz administered collection of revenue to be passed on to Novell from these agreements with Sequent. For example, in January of 1997, Santa Cruz passed along revenue to Novell in the amount of $6,560.49, and noted a five percent administrative fee. *Id.* Ex. 43 at 3. In July of 1999, IBM purchased Sequent in a stock transaction and assumed its rights and obligations under the Sequent agreements.

(c) Termination of IBM SVRX License

In March of 2003, as part of SCO's SCOsource campaign, SCO sent a letter to IBM notifying it that it would terminate IBM's license to SVRX technology as of June 13, 2003, if IBM did not remedy certain alleged breaches of that license. Decl. Kenneth Brakebill Ex. 25. On June 9, 2003, Novell wrote to SCO explaining that Section 4.16(b) of the APA gave Novell the right to require SCO to waive any rights under any SVRX License and authorized Novell to take such action on behalf of SCO should SCO fail to so act. *Id.* Ex. 27.

On June 11, 2003, SCO responded to Novell, refusing to take the action requested by Novell but making reference to the IBM agreements as "IBM's SVRX Licenses." *Id.* Ex. 28. On June 12, 2003, Novell sent SCO a letter explaining the legal basis for Novell's waiver, including Novell's right to take action at its sole discretion. *Id.* Ex. 30. When SCO failed to take the action demanded by Novell, Novell sent another letter to SCO that waived "any purported right

SCO may claim to terminate IBM's SVRX Licenses enumerated in Amendment No. X or to revoke any rights thereunder." *Id.* Ex. 31. Notwithstanding Novell's directive, SCO publicly announced on June 16, 2003, that it had terminated IBM's Software and Sublicensing Agreements as of June 13, 2003. *Id.* Ex. 32.

On October 7, 2003, in response to public positions being taken by SCO concerning code developed by IBM, Novell again sent SCO a letter notifying it of Novell's Section 4.16(b) authority and directing SCO to waive any purported right it may claim. *Id.* Ex. 33. SCO responded stating that "[y]our analysis of the obligations that IBM . . . owe[s] to SCO pursuant to the relevant Software Agreements is incorrect. However, we need not debate the incorrectness of your views, particularly Novell's purported ability to waive any and all licensees' obligations under the Software Agreements, because, as you are well aware, we are currently litigating these issues with IBM." *Id.* Ex. 34.

The next day, Novell again wrote to SCO stating that because SCO had failed to take the action directed by Novell, Novell was waiving any claim SCO was making to require IBM to treat IBM code as subject to the confidentiality obligations or use restrictions of the IBM agreements. *Id.* Ex. 35. SCO responded that Novell was without authority to make such a waiver and thus it had no force and effect. *Id.* Ex. 36.

At no point during the written correspondence between SCO and Novell in 2003 did SCO argue that the IBM agreements were not SVRX Licenses under the APA or that the SVRX licenses are limited to binary licenses or binary royalty streams. SCO did not state the reasoning behind its actions or inactions.

(d) Termination of Sequent License

On May 29, 2003, SCO sent a letter to Sequent notifying it that SCO intended to terminate the Sequent agreements relating to SVRX technology as of September 2, 2003, for, among other things, allegedly violating the source code restrictions on Sequent's Dynix software product which SCO said was subject to Sequent's System V Release 4.0 License. Decl. Kenneth Brakebill Ex. 26. On August 11, 2003, SCO sent another letter to Sequent purporting to terminate the Sequent License, retroactively as of July 30, 2003. *Id.* Ex. 37.

On August 14, 2003, IBM, acting on behalf of Sequent, responded to SCO's termination notice by stating that it did not believe it had breached the Sequent License and requesting more information on the alleged breach. *Id.* Ex. 38. IBM also rejected SCO's claim that it had any right to terminate the Sequent License. On February 6, 2004, Novell sent a letter to SCO outlining the lack of support for SCO's position and directing SCO to waive any purported right it may claim to require Sequent to treat Sequent Code as subject to the confidentiality obligations or use restrictions of Sequent's System V Release 4.0 License. *Id.* Ex. 38. SCO refused to waive its purported rights, and Novell purported to waive them on SCO's behalf. *Id.* Ex. 39-41.

(e) Sun and Microsoft Agreements

Another dispute between the parties relating to the SVRX royalty and license provisions of the APA focuses on SCO's execution of agreements with Sun Microsystems ("Sun") and Microsoft in 2003. On February 25, 2003, SCO executed an agreement with Sun in which Sun paid SCO approximately $10 million for the right to use, reproduce, prepare derivative works, market, disclose, make, and sell certain UNIX technology, including source and object (binary) code. Decl. Michael Jacobs, Ex. 9 ("2003 Sun Agreement"). The 2003 Sun Agreement purports

"to amend and restate" a Software License and Distribution Agreement, signed March 17, 1994, between Sun and Novell. *Id.* Recitals. In the 1994 Sun Agreement, Sun obtained a license that included certain UNIX System V technology. The 2003 Sun Agreement re-licenses the SVRX technology licensed in the 1994 Sun Agreement and licenses additional SVRX technology to Sun. *Id.* Ex. 10.

SCO also executed an agreement with Microsoft on April 30, 2003, and several amendments to that agreement over the following three months. *Id.* Ex. 11, 12 ("2003 Microsfot Agreement"). Microsoft paid SCO $16,750,000 for the license rights, a liability release, and for options to purchase additional licenses. *Id.* §§ 1, 3.5, 4.1. Under the Agreement, Microsoft received various rights to UNIX System V technology. SCO agreed to deliver to Microsoft this UNIX System V software in both binary and source form, which includes the same versions of Unix System V software that are expressly referenced as SVRX Licenses in the APA.

SCO did not contact Novell for approval before executing the 2003 Sun Agreement or the 2003 Microsoft Agreement. And Novell did not authorize either agreement. The agreements gave SCO its first profitable year in history. *Id.* Ex. 7 at 9. SCO never remitted to Novell any monies it received from either of the agreements. Decl. Joseph LaSala at ¶ 4.

On July 11, 2003, when Novell had not received any royalty reports from SCO for over half a year, it sent SCO a letter demanding royalty reports and payments as required by the APA. *Id.* ¶ 6, Ex. 1. In response, on July 17, 2003, SCO submitted limited royalty payments from November 2002 through May 31, 2003. *Id.* Ex. 2. These payments did not mention any royalties from the 2003 Sun or Microsoft Agreements. *Id.* ¶ 6.

Novell conducted an audit of SCO's compliance with the APA's agency provisions at the end of 2003. On November 21, 2003, Novell demanded copies of the Sun and Microsoft Agreements. Decl. Michael Jacobs Ex. 13 at 2. SCO did not respond. On December 29, 2003, Novell again contacted SCO requesting copies of the agreements. *Id.* Ex. 14. On January 7, 2004, SCO replied that it anticipated being in a position to respond in the near future. *Id.* Ex. 15. Novell sent subsequent inquiries in February, March, April, and November of 2004. SCO did not produce the agreements. *Id.* Ex. 16-19.

On February 7, 2006, Novell finally received the Sun and Microsoft Agreements from SCO in a production of documents pursuant to a discovery request in this litigation. SCO has had financial problems, posting operational losses for all years except 2003 when it entered into the Sun and Microsoft Agreements. Decl. Michael Jacobs Ex. 7, 21, 22. Because of the decrease in SCO's revenues and assets, Novell fears that it will be unable to collect on its claim for royalties.

DISCUSSION

I. Cross Motions on Copyright Ownership

The cross motions on the copyright ownership issue include: (1) SCO's motion for complete summary judgment on Novell's First Claim for slander of title on the basis that SCO purportedly owns the copyrights at issue; (2) SCO's motion for partial summary judgment on its slander of title claim, breach of contract claim, and unfair competition claim on the issue of whether SCO owns the UNIX and UnixWare copyrights; and (3) Novell's motion for summary judgment on SCO's slander of title and specific performance claims asserting that the plain language of the relevant contracts demonstrates that Novell owns the copyrights at issue.

As in all contract disputes, the court must begin its analysis of whether the UNIX and UnixWare copyrights were transferred to SCO with the language of the contract.[4] Both parties argue that the plain language of the APA supports their respective positions.

The APA's provision entitled "Purchase and Sale of Assets" provides:

> On the terms and subject to the conditions set forth in this Agreement, Seller will sell, convey, transfer, assign and deliver to Buyer and Buyer will purchase and acquire from Seller on the Closing Date (as defined in Section 1.7) 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. Notwithstanding the foregoing, the Assets to be so purchased shall not include those assets (the "Excluded Assets") set forth on Schedule 1.1(b).

APA § 1.1(a).

SCO asserts that the APA provided for the transfer of the copyrights where it provided for the transfer of all of Novell's "right, title, and interest in and to" the Assets on Schedule 1.1(a), and Schedule 1.1(a), in turn, identifies "all rights and ownership of UNIX and UnixWare, including but not limited to all versions of UNIX and UnixWare and all copies of UNIX and UnixWare." *Id.* APA § 1.1(a), Sched. 1.1(a).

SCO's analysis of the transfer of copyrights, however, completely ignores the Excluded Assets on Schedule 1.1(b). Section 1.1(a) specifically states that the "Assets to be so purchased shall not include those assets (the "Excluded Assets) set forth on Schedule 1.1(b). Because Section 1.1(a) of the APA transfers the Assets on Schedule 1.1(a) and excludes the assets on Schedule 1.1(b), the proper course of analysis is to examine both schedules.

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[4] Pursuant to the terms of the APA, the agreement "shall be governed by and construed in accordance with the laws of the State of California regardless of the laws that might otherwise govern under applicable principles of conflicts of laws thereof." APA § 9.8.

Not surprisingly in the transfer of a software business, the schedules both contain sections on intellectual property. With respect to their "Intellectual Property" provisions, Schedule 1.1(a) and Schedule 1.1(b) are consistent. Schedule 1.1(b) excludes from transfer "[a]ll copyrights and trademarks, except for the trademarks UNIX and UnixWare" and "[a]ll Patents." *Id.* APA Sched. 1.1(b) § V.A, V.B. Schedule 1.1(a) transfers only "[t]rademarks UNIX and UnixWare as and to the extent held by Seller (excluding any compensation Seller receives with respect of the license granted to X/Open regarding the UNIX trademark)." *Id.* APA Sched. 1.1(a) § V.

SCO claims that it is improper to rely on the Intellectual Property provision of the Excluded Asset Schedule in the original APA, because Amendment No. 2 revised that provision to read "All copyrights and trademarks, except for *the copyrights and trademarks owned by Novell as of the date of the Agreement required for SCO to exercise its rights with respect to the acquisition of UNIX and UnixWare technologies.*" APA Amend. No. 2 (emphasis added to demonstrate amendment). Throughout this litigation, SCO has vacillated between arguing that the transfer of copyrights was effectuated by the APA and contending that the transfer was effectuated instead by Amendment No. 2. It now argues that the court must look only to the APA as amended by Amendment No. 2. Novell, however, contends that the court must analyze whether the APA as amended when the transaction closed transferred the copyrights and also whether Amendment No. 2, which was entered a year later, effectuated a transfer of the copyrights retroactively or at that time.

Novell takes issue with SCO's argument that the "all copyrights" exclusion in Schedule 1.1(b) of the APA no longer exists for purposes of construing the APA because the exclusion was subsequently modified by Amendment No. 2. Amendment No. 2, executed a year after the

APA, states that it amends the APA as of October 16, 1996, not the date of the original APA or the Closing date of the original APA. The APA does not constitute an instrument of conveyance because it merely describes the assets that Novell "will" sell in the future. The instrument of conveyance for the APA was the Bill of Sale that the parties signed on the date the APA closed. When the parties executed Amendment No. 2 a year later, it was not made retroactive, did not amend the previous Bill of Sale, did not refer to a new Bill of Sale, and did not itself contain any language of conveyance to transfer any copyrights. Novell contends that there is no basis for concluding that the Bill of Sale, executed on December 6, 1995, could have transferred any assets contained in an amendment executed ten months later without some language in the amendment allowing that to occur.

SCO cites to *Nish Noroian Farms v. Agricultural Labor Relations Board*, for the proposition that "[a] written instrument must be construed as a whole, and multiple writings must be considered together when part of the same contract." 35 Cal. 3d 726, 735 (Cal. 1984). In *Nish Noroian*, the court concluded that a waiver provision in an earlier settlement had to be examined in light of the formal agreement entered later which incorporated and superseded it. *Id.* The court referred to Sections 1641 and 1642 of the California Civil Code, which also provide basic contractual interpretation rules. Rule 1641 states that a contract is to be interpreted to give effect to every provision of the contract, when practicable. Cal. Civ. Code § 1641. And Rule 1642 states that contracts relating to the same matters, between the same parties, and made as parts of substantially one transaction, are to be taken together. *Id.* § 1642.

These legal principles, however, do not suggest that the court should analyze the transfer of copyright issue without giving any consideration to the text of the original APA. Rather, the

court must consider the original APA, the agreement executed in connection with the APA's closing, Amendment No. 2, and Amendment No. 2's relationship to the original APA and the agreements executed in connection with its closing. The court concludes that the proper way to analyze the issue, therefore, is to look at the Agreements in turn in the same chronological order that the parties entered the agreements. *See Universal Sales Corp. v. Cal. Press Mfg. Co.*, 128 P.2d 665, 671-72 (Cal. 1942) (suggesting that the court place itself in the same situation in which the parties found themselves at the time of contracting).

A. Did Copyrights Transfer Under the APA and Contemporaneous Agreements?

SCO's plain language argument relies on cases holding that "[i]n a non-consumer setting such as this, a transfer of all right, title and interest to computer programs and software can only mean the transfer of the copyrights as well as the actual computer program or disks." *Shugrue v. Continental Airlines Inc.*, 977 F. Supp. 280, 285-86 (S.D.N.Y. 1997); *see also Relational Design & Tech., Inc. v. Brock*, 1993 WL 191323, at *6 (D. Kan. May 25, 1993); *Schiller & Schmidt, Inc. v. NordiscoCorp.*, 969 F.2d 410, 413 (7th Cir. 1992). These cases, however, do not support SCO's contention. Each of these cases recognized that the terms "all right, title, and interest" transferred copyrights when there was no other language addressing copyrights.

In *Shugrue*, the court found a transfer of the copyrights based on the language "all right, title, and interest" because "[n]o exception was carved out for copyrights" and "no rights, titles, or interests were retained." 977 F. Supp. at 285. Similarly, in *Schiller & Schmidt*, the court noted that "the agreement does not mention the word 'copyright.'" 969 F.2d at 413.

Furthermore, the *Relational Design* case, cited by SCO, does not actually support SCO's position. The court concluded that where a contract stated that a party would own "all rights to

the completed program with no licensing or royalties fees due," the contract transferred only ownership in a material object–the source code–not the copyright embodied in the object. 1993 WL 191323, at *6 ("Ownership of a copyright, or of any exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied.").

In any event, because there is specific language in the APA regarding the inclusion and exclusion of copyrights, the cases SCO relies upon are factually distinguishable from this case. Even if this court were to accept SCO's contention that Schedule 1.1(b) of the original APA should not be considered because it was later amended, Schedule 1.1(a) of the original APA specifically addresses intellectual property and includes only trademarks. It is unlikely that any of the cases SCO relies upon would have agreed that a transfer of other intellectual property rights, such as copyrights and patents, occurred when only trademarks are identified under the heading of "Intellectual Property." In interpreting the plain language of the APA in this case, Schedule 1.1(a), itself, represents a limitation of the intellectual property the parties intended to transfer.

SCO's plain language arguments also focus on Recitals A and B and Section 1.3(a)(i) of the APA. SCO claims that these provisions demonstrate the parties' intent that "all of the Business" be transferred to Santa Cruz and, therefore, that the APA transferred copyrights. Recital A defines Novell's UNIX and UnixWare "Business" to include the development of a line of software, the sale of binary and source code licenses to the 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. Recital B defines the "Acquisition" contemplated by the parties to mean that Santa Cruz would "acquire certain of the assets of, and assume certain of the liabilities

of [Novell] comprising the Business." Section 1.3(a)(i), which provides the intent of the parties with respect to the transfer of customers, states that "[i]t is the intent of the parties hereto that all of the Business . . . be transferred to Buyer."

These general provisions provide little insight into whether the parties intended to transfer the UNIX and UnixWare copyrights to Santa Cruz. The Business is not defined specifically enough to include copyrights. And the definition of the Acquisition of the Business merely states that Santa Cruz would acquire *certain of the assets* comprising the Business. Where there are specific provisions of the document detailing the assets being transferred and the assets being excluded, such as Schedules 1.1(a) and 1.1(b), the more specific provisions control. *National Ins. Underwriters v. Maurice Carter*, 17 Cal. 3d 380, 386 (1976) ("[W]hen a general and particular provision are inconsistent, the latter is paramount to the former."). Schedule 1.1(a) provides that the only intellectual property Santa Cruz was acquiring were the UNIX and UnixWare trademarks. Moreover, there is nothing inconsistent with the provisions cited by SCO and the more specific schedules provided for in the APA. Recital B specifically defines the Acquisition as certain assets comprising the Business.

SCO further argues that the agreements executed by the parties in connection with the Closing of the APA support its position that copyrights transferred under the APA. "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." *Harm v. Frasher*, 181 Cal. App. 2d 405, 412-13 (Ct. App. 1960). On the Closing Date, Novell and Santa Cruz executed the Bill of Sale which provides that it "does hereby transfer, convey, sell, assign, and deliver to Buyer . . . all of the Assets" in accordance with Section 1.1(a) of the APA. SCO

asserts that the Bill of Sale expressly effectuated the transfer of all assets identified in Section 1.1(a) of the APA, which included "all rights and ownership" of UNIX and UnixWare. Again, however, SCO fails to recognize that the term "Assets" in the APA is a defined term that does not include any of the assets on the Excluded Assets schedule. Moreover, the Bill of Sale specifically states that the defined terms have the meanings given in the APA and that the provisions of the APA control. Therefore, the Bill of Sale did not grant additional rights to any party, does not create an ambiguity with respect to any term in the APA, and did not effectuate a transfer of assets that was not provided for in the APA.

In addition, SCO contends that the TLA confirms that Novell transferred the copyrights to Santa Cruz on the Closing Date because Section 1.6 of the APA expressly provided for a license back to Novell of the technology transferred to Santa Cruz. Under the TLA, Santa Cruz granted a license to Novell with certain restrictions and specified that SCO owned the "Licensed Technology." SCO contends that Section 1.6 and the TLA would be senseless had Novell retained the ownership of the copyrights because Novell would not have needed a license to the Licensed Technology.

SCO, however, does not recognize that the TLA provided that the term Licensed Technology had the meaning given to it in the APA. The APA defines "Licensed Technology" as "all of the technology included in the Assets and all derivatives of the technology included in the Assets." The term Assets is defined in the APA as those assets included on Schedule 1.1(a) but not those assets excluded from transfer on Schedule 1.1(b). Novell would need a license to be able to use these other aspects of the technology sold to Santa Cruz and derivatives of the transferred assets. Because the "Licensed Technology" included rights distinct from Novell's

UNIX and UnixWare copyrights, it makes sense that Novell would need a license back with respect to those assets. Furthermore, the same logic would imply that Novell transferred ownership of UNIX-related patents because Novell would not have needed a license to these patents if it retained ownership. SCO's admission that Novell did not transfer ownership of the patents refutes SCO's argument that the TLA implies that Novell must have transferred ownership of all UNIX-related technology to Santa Cruz. The plain language of the APA, therefore, is in harmony with the plain language of the TLA.

Furthermore, SCO's attempt to rewrite "all copyrights" in Schedule 1.1(b) to mean "NetWare Copyrights Only" is contrary to the plain language of the Schedule 1.1(a) and Schedule 1.1(b). Schedule 1.1(b) clearly distinguished UNIX and UnixWare trademarks as assets being transferred. Schedule 1.1(a) also clearly transferred only UNIX and UnixWare trademarks. If the parties intended to transfer UNIX and UnixWare copyrights as well, they could have easily demonstrated that intent while they were making the distinction for UNIX and UnixWare trademarks. There is nothing in the text of the APA that would support an interpretation of "all copyrights" to mean only Netware copyrights.

In *Blumenfeld v. R. H. Macy & Co.*, 92 Cal. App. 3d 38 (1979), the California Court of Appeals rejected a similar attempt to interpret "all" to mean "less than all." The trial court relied on extrinsic evidence to interpret a contract assigning "all claims against third parties relating to the [shopping] Center" as limited to claims against current tenants of the Center. The court of appeals reversed, holding that the "all-inclusive language of the agreement is not reasonably susceptible of the meaning advanced." *Id.* at 46.

The language of Schedule 1.1(b) is not reasonably susceptible to being interpreted to

mean "all copyrights except for UNIX and UnixWare copyrights." The parties clearly delineated that the UNIX and UnixWare trademarks were exceptions and they clearly chose not to make a similar exception for the copyrights. There is also no basis for reading the language to mean that the only copyrights excluded were NetWare copyrights. If the parties had intended to exclude only NetWare copyrights, it would have been simple to use "NetWare copyrights" instead of "all copyrights. However, the parties used "all copyrights." The exclusion of "all copyrights" was all inclusive. Interestingly, SCO does not argue that Schedule 1.1(b)'s exclusion of "all patents" means "only Netware patents." The use of "all patents" after "all copyrights" clearly shows that "all copyrights" cannot be interpreted to mean "only Netware copyrights" while "all patents" means "all patents."

The court concludes that the APA as amended by Amendment No. 1 excluded UNIX and UnixWare copyrights from the Assets transferred to Santa Cruz by the Bill of Sale. The Bill of Sale executed by the parties on December 6, 1995, transferred ownership to Santa Cruz of the Assets as defined by the APA and Amendment No. 1. Thus, the scope of the Assets transferred by the Bill of Sale is determined by the definition of Assets set forth in the APA and Amendment No. 1. Amendment No. 1 made some revisions to Schedules 1.1(a) and (b) but did not change the description of the Intellectual Property included and excluded from the transfer. A review of Schedule 1.1(a) listing transferred assets and Schedule 1.1(b) listing Excluded Assets demonstrates that the transferred assets did not include the UNIX and UnixWare copyrights. The only "Intellectual Property" listed in the Schedule 1.1(a) list of assets to be transferred are the UNIX and UnixWare trademarks. Schedule 1.1(a) did not identify UNIX or UnixWare copyrights as an asset to be transferred. Conversely, the Schedule 1.1(b) list of "Excluded

Assets" expressly excluded from the transferred assets "[a]ll copyrights and trademarks, except for the trademarks UNIX and UnixWare." Thus, the language of the APA and Amendment No. 1 at the time of the Bill of Sale is clear: all copyrights were excluded from the transfer.

Apart from the language of the agreements, SCO maintains that it has provided the court with extrinsic evidence that the parties intended the APA to transfer the UNIX and UnixWare copyrights to Santa Cruz. Under California law, extrinsic evidence is admissible both to support interpretations of contracts to which the language at issue is reasonably susceptible and to demonstrate the parties' intent under contractual provisions that the court deems to be ambiguous. *Universal Sales Corp. v. Call Press Mfg. Co.*, 128 P.2d 665, 671-72 (Cal. 1942). Therefore, oral testimony and other extrinsic evidence are not admissible to support an interpretation of a contract that is contrary to the plain language. The critical issue is "whether the offered evidence is relevant to prove a meaning which the language of the instrument is reasonably susceptible." *Dore v. Arnold Worldwide, Inc.*, 39 Cal. 4th 384, 391 (2006). If the contract is not reasonably susceptible to the proposed interpretation, extrinsic evidence is inadmissible and does not create a triable issue of fact that would defeat summary judgment. *Id.* at 388, 391-93.

When a contract is integrated, "extrinsic evidence is admissible only to supplement or explain the terms of the agreement—and even then, only where such evidence is consistent with the terms of the integrated document." *EPA Real Estate Partnership v. Kang*, 12 Cal. App. 4th 171, 175-77 (1992). The APA includes an express integration clause stating that the "Agreement, and the Schedules and Exhibits" "constitute the entire agreement among the parties with respect to the subject matter . . . and supersede all prior agreements and understanding, both

written and oral." APA § 9.5. Novell and Santa Cruz further agreed, in connection with the Bill of Sale, that the APA is an integrated agreement not to be altered by any other understandings: "It is acknowledged and agreed . . . that the Agreement is the exclusive source of the agreement and understanding between the Seller and Buyer respecting the Assets." Bill of Sale ¶ 5.

The parol evidence rule precludes SCO from relying on extrinsic evidence to try to rewrite the exclusion of "all copyrights" from APA because the language is unambiguous and not reasonably susceptible to SCO's interpretation. Moreover, even if the court considered the extrinsic evidence, there is significant evidence that the exclusion "all copyrights" was deliberate and consistent with the basic objectives of the APA. While there is no specific evidence that business executives negotiated the issue of copyrights, the changes to the drafts of the agreement show that a significant change occurred. Novell has provided extrinsic evidence supporting the change in the language and the fact that it was relayed to SCO, whereas SCO has failed to present any evidence from witnesses on its side of the transaction who had any involvement with the actual drafting or negotiation of the language in the contract.

Attorneys for Novell and Santa Cruz exchanged specific communications about the scope of the assets to be transferred. The initial draft of the APA included "all patents, patent applications, copyrights . . . and all other intellectual property . . . that pertain to Unix or UnixWare" in the list of assets to be transferred to Santa Cruz. Novell then revised the list of assets to be transferred by deleting patents and copyrights, leaving only UNIX and UnixWare trademarks as intellectual property to be transferred. These revisions were sent to SCO sometime before September 18, 1995, because the September 18, 1995 draft, which ultimately became the final versions of Schedule 1.1(a) and Schedule 1.1(b), already included such changes.