



# Alex Montagu

Founding Partner, MontaguLaw, P.C. New York, NY



# IP Licensing CLE

September 29, 2009

- I. Licensing Terms Checklist
- II. Drafting Mistakes – SCO Case
- III. Incorporation by Reference—  
    Enforceability of Extrinsic Documents
- IV. Choice of Law and Venue Issues



# Licensing Terms Checklist

*A reference document has been provided containing a list of standard terms that should be included in most licensing agreements.*



# Drafting Mistakes -- SCO Case

- *The SCO Group, Inc. v. Novell, Inc.*  
(10<sup>th</sup> cir. 8/24/2009)
- *The SCO Group, Inc. v. Novell, Inc.*  
(D. Utah, 8/10/2007)



# SCO Litigation

## Background

- In March 2003, SCO sued IBM, claiming that IBM had misappropriated portions of SCO's copyrighted code from UNIX and contributed these portions to Linux.
- Subsequently, Novell asserted that it was the owner of the copyrights in the UNIX code.
- SCO then filed a slander of title action against Novell, and the IBM case was postponed pending the outcome of the SCO-Novell litigation.



# SCO Litigation

## The Agreement

- THE APA stated, in part (emphasis added):

### 1.1 Purchase of Assets

(a) Purchase and Sale of Assets. 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, 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)

1

"Business" was defined as "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"



# SCO Litigation

## The Agreement

### Schedule 1.1(a)

- Assets

- “**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 (including revisions and updates in process), and all technical, design, development, installation, operation and maintenance information concerning UNIX and UnixWare, including source code, source documentation, source listings and annotation, appropriate engineering, notebooks, test data and test results, as well as all reference manuals and support materials normally distributed by Seller to end-users and potential end-users in connection with the distribution of UNIX and UnixWare”



# SCO Litigation

## The Agreement

### Schedule 1.1(b)

- Excluded Assets
- Intellectual Property:
  - A. **All copyrights and trademarks, except for the trademarks UNIX and UnixWare.**
  - B. All Patents.



# SCO Litigation

## The Amendment:

- The Excluded Assets Schedule was amended to read (emphasis added):  
“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.** However, in no event shall Novell be liable to SCO for any claim brought by any third party pertaining to said copyrights and trademarks.”



# SCO Timeline

- August 2007: District Court finds in favor of Novell on summary judgment
- September 2007: SCO filed for Chapter 11 bankruptcy
- November 2007: Bankruptcy Court lifts SCO's Chapter 11 immunity from legal action, allowing the action to proceed
- August 2008: SCO files for Notice of Appeal to the 10<sup>th</sup> Circuit
- August 2009: 10 Circuit partially reverses the District Court



# Incorporation by Reference-- Enforceability of Extrinsic Documents

- *DVD Copy Control Association v. Kaleidescape, Inc.*  
(Cal. App. 6 Dist, Aug. 12, 2009)
  - Background
    - DVD Copy Control Association is a not-for-profit organization that licenses digital descrambling software to manufacturers of DVD players. The DVD Association sued the maker of a product that allowed consumers to copy and store DVDs.
    - The DVD Association alleged that Kaleidescape had breached a licensing agreement relating to the DVD Association's DVD encryption unscrambling technology (the "Agreement").



## Incorporation by Reference—

### Enforceability of Extrinsic Documents:

*DVD Copy Control Association, Inc. v. Kaleidescape, Inc.*

Background: (continued)

- Kaleidescape argued, and the lower court agreed that the specifications relating to the unscrambling technology (the “Specifications”) were not part of the Agreement because they were not presented to Kaleidescape at the time the Agreement was executed.
- The Court of Appeals reversed, finding that the intent of the parties at the time the Agreement was executed was that Kaleidescape would be bound by specifications that the DVD association would provide at a later date.



## Incorporation by Reference— Enforceability of Extrinsic Documents

*DVD Copy Control Association, Inc. V. Kaleidescape, Inc.*

Background: (continued)

- The Court first looked at the general rule that terms of an extrinsic document may be incorporated by reference in a contract provided that:
  - A. the reference is clear and unequivocal
  - B. the reference is called to the attention of the other party and he consents thereto, and
  - C. the terms of the incorporated document are known or easily available to all parties.
- Because Kaleidescape was not able to review the terms of the Specifications prior to signing the Agreement, “under the incorporation-by-reference test, none of the specifications would be part of the License Agreement.” However, the Court found that “this result would be directly contrary to the unambiguous intent of the parties as expressed in the License Agreement.”



## Incorporation by Reference—

### Enforceability of Extrinsic Documents:

*DVD Copy Control Association, Inc. v. Kaleidescape, Inc.*

Background: (continued)

- Because Kaleidescape understood that the Specifications would be provided to it after the Agreement was executed, the Court concluded that Kaleidescape knew “it was taking a risk that the undisclosed specifications might preclude the type of device it planned to make.”
- Thus, the Court held that Kaleidescape’s promise to comply with the later-provided Specifications was valid and enforceable, and that it was bound by the terms contained in the Specifications.



# Incorporation by Reference--

## Enforceability of Extrinsic Documents:

*RealNetworks, Inc. v. DVD Copy Control*

*Association* (U.S. Dist. Ct. N.D.Cal, Aug. 11 2009)

- Background:

- This was another case involving the DVD Copy Control Association and the enforceability of the after-disclosed terms of its Agreement.
- The Court also found in favor of the DVD Association. The Court noted that RealNetworks (“Real”) was aware of the licensing process and expected to be bound by the after-disclosed specification terms.



# Incorporation by Reference— Enforceability of Extrinsic Documents

*RealNetworks, Inc. v. DVD Copy Control Association*

Background: (continued)

- In addition, Real did not return or certify that it had destroyed the Specifications after receiving them. The Court found that “this behavior indicates that Real understood it to be bound by the CSS General Specifications as well as the other technical specifications received after execution” of the Agreement.
- Therefore, the Court found that Real was bound by the Agreement, including the after-disclosed terms.



# Venue and Choice of Law Issues

- General Background
- Select the law of the forum. Otherwise, a different applicable law becomes an evidentiary issue.
- In international agreements, arbitration may be preferable; U.S. not a party to any international convention for the enforcement of foreign judgments, but U.S. and many other countries are a party to the 1958 New York Convention on the enforceability of arbitration awards.