

No. 99-07344

IN THE

**UNITED STATES
COURT OF APPEALS
FOR THE FIFTH CIRCUIT**

XYZ SOFTWARE INC. OF TEXAS

Plaintiff - Appellant,

vs.

NOTRACE INC.

Defendant - Appellee.

**REPLY BRIEF OF APPELLANT
XYZ SOFTWARE**

On Appeal from the United States District Court
for the Southern District of Texas, Houston Division
The Honorable John R. Jones

Smith & Associates, P.L.C..

Houston, Texas 77074

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PRELIMINARY STATEMENT

The case arose from Notrace's surreptitious exploitation of numerous XYZ software licenses. Although Notrace only possessed a finite number of licenses for XYZ software, it shamelessly copied the software to dozens of computers in six different geographical locations. NOTRACE also admittedly gave third parties access to XYZ software in violation of an express provision of its licensing agreement with XYZ. Notrace's theft and unauthorized distribution surfaced after the death of Notrace employee Ray Cowlip. Although the trial court granted summary judgment on XYZ's breach of contract and copyright infringement claims, as well as its unfair trade practices and unfair competition claims, the trial court did not issue a written opinion on its granting of summary judgment in Notrace's favor. The trial court did order that Notrace stop improperly using XYZ software but then denied XYZ any damages for that improper use.

In its opening brief, XYZ argued that the trial court improperly denied its summary judgment motion regarding Notrace's piracy and distribution of MPS¹ software and improperly granted Notrace's summary judgment motion. The trial court erroneously denied XYZ's motion for summary judgment despite Notrace's own

¹MPS refers to MPS as well as Allband unless otherwise noted.

admission that it violated the licensing agreement when it copied the software to computers at a Parisian company. No other material issues of fact remain precluding summary judgment on this issue. (Appellant's Brief pp. 15-22). Moreover, the trial court improperly granted summary judgment on the breach of contract claims and copyright infringement claims because numerous issues of material fact existed. First, the licensing agreement was ambiguous as to whether it governed all five software components. (Appellant's Brief pp. 24-30). Second, issues of fact exist as to whether Notrace has corporate licenses for Allband, Zband, and ONET because Notrace's conclusory allegations that it possessed corporate licenses are not supported by the record. (Appellant's Brief pp. 31-34). Triable issues of fact also exist as to whether Notrace distributed XYZ software to third parties in violation of the licensing agreement. (Appellant's Brief pp. 35-39). The granting of summary judgment in Notrace's favor must be reversed due to the existence of these triable issues of fact. As to XYZ's copyright infringement claim, XYZ offered conclusive proof that Notrace infringed the MPS copyright. Contradictory evidence also exists regarding whether Notrace had corporate licenses for non-MPS software and whether Notrace was a co-owner of ONET. (Appellant's Brief pp. 38-40). Thus, summary judgment was improper. Finally, XYZ urged this Court to remedy the judgment omitting compensation for Notrace's last-vestige use of the software under the contract which

the trial court granted to XYZ during the summary judgment hearing. (Appellant's Brief pp. 42-43).

In its brief, Notrace contends that the trial court properly granted summary judgment. Although Notrace submits 27 pages of argument contesting XYZ's rendition of the facts and evidence, Notrace argues that no triable issues of fact existed precluding summary judgment on all claims in its favor. (Appellee's Brief pp. 11-33). Notrace also argues that this Court cannot modify the judgment by inserting the intended damages because such constitutes substantive changes. (Appellee's Brief pp. 34-37).

This Reply Brief is necessary to refocus this Court's attention on the purpose of summary judgment, namely to dispose of cases where one party proves its case as a matter of law and where there are no triable issues of fact. With the exception of XYZ's claim for breach of contract for Notrace's admitted unauthorized use of MPS in Paris, material issues of fact exist on all other issues. The parties offered contradictory evidence on the parties' intent in entering into the licensing agreement. Did the agreement govern all future licenses and XYZ software in addition to MPS and Allband? Did the agreement limit Notrace's use of the software to its licenses or did it provide unlimited world-wide copying and distribution? The parties also offered contradictory evidence regarding whether Notrace possessed corporate

licenses for Allband, Zband, and ONET. With the exception of the MPS breach of contract claim, the issues before the trial court and before this Court are not proper for summary judgment. A jury and not the trial court should weigh evidence and judge the credibility of witnesses. XYZ respectfully urges this Court to reverse the lower court's judgment.

ARGUMENT

I. THE TRIAL COURT IMPROPERLY DENIED XYZ'S MOTION FOR PARTIAL SUMMARY JUDGMENT BECAUSE XYZ PROVED ENTITLEMENT TO JUDGMENT AS A MATTER OF LAW.

The trial court improperly denied XYZ's summary judgment motion. Summary judgment is appropriate if the record discloses "that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law." *Gulf States Ins. Co. v. Alamo Carriage Serv.*, 22 F.3d 88, 90 (5th Cir. 1994), *citing* Fed. R. Civ. P. 56. Where the record taken as a whole could not lead a rational trier of fact to find for the non-moving party, there is no genuine issue for trial. *Id.*, *citing* *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574 (1986). XYZ proved as a matter of law that Notrace breached its contract by using MPS at a Parisian company. Not only did Notrace admit that it did not possess a corporate license or a license for use of MPS in Paris, but any alleged verbal waiver by XYZ was prohibited

by the contract. Further, Notrace's conclusory statements regarding its waiver and estoppel arguments are contradicted by the record. Accordingly, the trial court's denial of XYZ's summary judgment motion on this issue should be reversed.

A. XYZ Proved as a Matter of Law that Notrace Breached the Licensing Agreement and Its MPS Licenses by Using MPS in Paris.

Summary judgment was improper because XYZ proved its MPS breach of contract claim as a matter of law. Of the four elements of breach of contract, Notrace only contests that it breached the contract. Yet Notrace admits that it violated the licensing agreement absent XYZ's permission by copying MPS to a Parisian company.

1. Notrace Does Not Contest that the Agreement Governed MPS, that XYZ Performed Under the Contract, and that XYZ Suffered Damages From the Breach.

In its brief, Notrace does not contest that XYZ proved three of the four elements of breach of contract as a matter of law: (1) the existence of a valid contract governing MPS; (2) that XYZ performed under the contract; (3) or that XYZ suffered damages. (Appellee's Brief pp. 11-18). As discussed in Appellant's Brief, XYZ did prove these three issues as a matter of law. (Appellant's Brief pp. 17-21). Accordingly, if this Court finds that XYZ also established that Notrace breached the licensing agreement and licenses, then it should reverse the denial of XYZ's summary judgment motion.

2. XYZ Proved as a Matter of Law that Notrace Breached its Licensing Agreement by Buying Only Four MPS Licenses yet Using MPS in Six Locations.

XYZ also proved the fourth element of a breach of contract claim by providing undisputed evidence that Notrace only purchased four MPS licenses, yet used MPS in six locations. “Summary judgment is proper ‘if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to judgment as a matter of law.’” *Lulirama Ltd., Inc. v. Axcass Broadcast Serv., Inc.*, 128 F.3d 872, 876 (5th Cir. 1997). Notrace’s contention that “XYZ offers no evidence that Notrace was not authorized to use MPS in their Paris office” is meritless. (Appellee’s Brief p. 17). To the contrary, XYZ offered a plethora of evidence in support of its motion for summary judgment on its MPS breach of contract claim, including Notrace’s own admissions obtained during deposition. Notrace conceded during the deposition of Dillion Alexander that “[w]e did not purchase a license for this software [in Paris].” (R.E.- Tab 10, 401; R:376).

The record clearly shows that Notrace did not own a corporate MPS license and that it breached the licensing agreement by using MPS in Paris. (R.E. - Tab 13, 66-65; R:227 ¶9, 225 ¶16). Although Notrace claims that a corporate license only required a purchase of \$50,000 in MPS licenses and that it purchased \$60,000 in MPS licenses,

nowhere in its brief does Notrace assert that it owned a corporate MPS license. (Appellee's Brief p. 5, 11-17). Notrace even concedes in its brief that it purchased only four MPS licenses, rather than a MPS corporate license. (Appellee's Brief pp. 3, 4-5). Such a concession is required because the proposal required a total purchase of eight MPS licenses. (R:182). In fact, the invoice for the fourth license purchased states that it is the first license purchased under the proposal. (R.E.:Tab-13, 62). Accordingly, XYZ proved as a matter of law that Notrace did not own a MPS corporate license and that it breached the licensing agreement as well as its licenses with XYZ.

Notrace's claim in response that the absence of specific CPU or location designations in Exhibit A of the licensing agreement excuses its use of MPS in Paris is meritless.² (Appellee's Brief pp. 11-14). To the contrary, the fact that Exhibit A to the licensing agreement does not designate specific CPUs or facility locations for MPS use does not defeat XYZ's right to summary judgment on this issue because it is irrelevant to the MPS breach of contract claim. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248 (1986) (immaterial or irrelevant factual issues do not preclude summary

²Notrace confuses XYZ's arguments regarding XYZ's right to summary judgment on the MPS issue and those arguments regarding Notrace's failure to prove its right to summary judgment on the remaining software issues. (Appellee's brief pp. 11-14). Contrary to Notrace's claims, XYZ never argued that the licensing agreement was ambiguous as to the MPS, only in regards to the other software. (Appellant's brief pp. 15-23).

judgment). The evidence is undisputed that Notrace exceeded the scope of its MPS licenses. Despite its purchase of only four MPS licenses, Notrace concedes that it used the MPS software in a minimum of six locations. (Appellee's Brief p. 2; R:402). Notrace admitted in a June 16, 1988 letter that the MPS licenses were for the Midland, Dallas, Houston, and Denver offices. (R:401). Thus, Notrace breached the licensing agreement and the licenses by using this software in other offices, such as Paris. Therefore, despite the licensing contract's absence of language limiting use to specific CPUs or to specific locations, Notrace breached its four individual MPS licenses by admittedly using MPS and Geoband at six locations on multiple CPUs.

Moreover, Notrace's argument that the licensing agreement provided company-wide use of MPS despite its purchase of only four MPS licenses is patently illogical and does not preclude summary judgment. (Appellee's Brief pp. 14). Only genuine issues of fact preclude summary judgment. *Anderson*, 477 U.S. at 248. First, a Notrace executive admitted that unless it received XYZ's permission, XYZ was not in compliance with its use of MPS software in Paris. (R.E.-Tab 12, p. 107, lines 7-23). Second, Notrace's actions in purchasing four MPS licenses for its Midland, Dallas, Houston, and Denver offices are patently inconsistent with its purported belief that the licensing agreement provides company-wide use of XYZ software. (R:401). Third, this interpretation conflicts with the language of the licensing agreement which

provides that software can be moved³ from one CPU to another “without charge, provided the Licensee informs XYZ in writing of such change and an amendment to Exhibit A shall be made.” (R.E. - Tab 4). Accordingly, the lack of any designation of specific locations in Exhibit A does not defeat XYZ’s right to summary judgment on Notrace’s breach of contract concerning the MPS and Geoband licenses, and the trial court’s judgment should be reversed.

B. No Other Triable Issues of Fact Remain.

The trial court should have granted XYZ’s summary judgment motion because no triable issues of fact remain. Not only is the evidence discussed above uncontradicted, but Notrace failed to show the existence of any material issues of fact pertaining to its affirmative defenses of estoppel, waiver, and ratification.⁴ A party is entitled to summary judgment if it shows that there is absence of proof to support an issue on which the nonmoving party bears the burden of proof. *Celotex Corp. v. Catrett*, 477 U.S. 317, 325 (1986); *accord Fontenot v. Upjohn Co.*, 780 F.2d 1190, 1194 (5th Cir. 1986) (to obtain summary judgment on opposing party’s affirmative

³The common usage of “move” denotes transfer from one CPU to another rather than copying software onto a second CPU.

⁴Contrary to Notrace’s claims on appeal that XYZ failed to raise the issue of summary judgment on Notrace’s affirmative defenses, XYZ specifically argued in accordance with its Motion for Partial Summary Judgment that Notrace failed to offer any evidence supporting its claim of ratification, estoppel, and waiver. (Appellant’s Brief pp. 21-23).

defenses, movant must simply disprove the existence of any essential element). Because Notrace failed to raise any genuine issues of fact on its affirmative defenses of estoppel, waiver, and ratification, the trial court erred in denying XYZ's summary judgment motion on the MPS issue.

1. Notrace's Estoppel, Waiver, and Ratification Arguments are Contractually Barred Because Any Waiver by XYZ of a Breach Must be in Writing.

Notrace's claim that it received verbal, rather than written, consent to install MPS in Paris does not raise a genuine issue of fact. The license agreement, which undisputedly governed MPS, explicitly provides that any waiver of any breach by Notrace must be authorized in writing by XYZ. (R.E.-Tab 4, 552, §15.3; R:225, ¶16). In its brief, Notrace does not refute nor discuss this contractual provision. (Appellee's Brief pp. 11-18). Yet Notrace offered no summary judgment evidence that Notrace received written authorization for its installation of MPS in Paris. Accordingly, no triable issues of fact remain regarding Notrace's affirmative defenses of ratification, estoppel, and waiver.

2. Notrace's Claim that It Received Permission to Use the MPS Software in Paris is Directly Contradicted by the Record.

In addition to being contractually barred, Notrace's claim that it received verbal authorization for its use of MPS in Paris also is not supported by the record.

(Appellee's Brief pp. 22-23). Judgment as a matter of law is proper where there is no legally sufficient evidentiary basis for a reasonable jury to find in a party's favor. *King v. Ames*, 179 F.3d 370, 373 (5th Cir. 1999). Any testimony that Notrace believed it had a corporate license in 1995 does not raise a material issue of fact. (R:380, line 10 - 379, line 12). Notrace transferred the MPS software to Paris in 1994, one year before the purported permission was received. (R:344, lines 11-222). Thus, no material issues of fact regarding purported verbal permission to use MPS in Paris exist, and XYZ's summary judgment motion should be granted.

3. Notrace's Claim that XYZ Knew of its Company-Wide Use of the MPS Software is Also Directly Contradicted by the Record.

No material issues of fact exist regarding Notrace's vaguely articulated estoppel/waiver/ratification argument because Notrace failed to show that XYZ knew of its use of MPS software in Paris. Notrace's reliance upon *Lulirama Ltd. v. Access Broadcast Servs.*, 128 F.3d 872, 879-80 (5th Cir. 1997) in support of its affirmative defenses is bewildering because *Lulirama* discussed the creation of an implied nonexclusive license based upon a licensor's conduct in a work for hire situation. *Id.* at 879-880. The facts of this case involves a written rather than implied licensing agreement. Moreover, unlike the facts in *Lulirama*, no evidence exists that XYZ knew that Notrace was using MPS in Paris.

In its brief, Notrace states that XYZ installed the MPS and Zband software on Notrace's computers and therefore knew of its company-wide use of XYZ software. (Appellee's Brief p. 13). In support, Notrace cites to Dillon Alexander's deposition testimony and to the contract which provides that XYZ shall do the installation on designated computers. (R.E. - Tab 4, 556). This cited provision of the contract does not support Notrace's claim. Instead, the fact that Notrace admitted through deposition testimony that Notrace employees, and not XYZ employees, installed and maintained the MPS software in Paris supports XYZ's claim that Notrace surreptitiously installed MPS software in Paris in breach of their contract.

Like its reliance on the contract provision, Notrace's reliance upon Dillon Alexander's testimony is also misplaced. Alexander testified that XYZ's Greg Warren installed software on Notrace computers, but Alexander admitted that he did not know on which computers Warren did the installation. (R:202, 104 - lines 20-25). Evidence that Notrace installed MPS software in Paris also reveals the falsity of Notrace's claim that it could not install XYZ software or updates without XYZ's assistance. (Appellee's Brief p. 6). Notrace had no trouble installing MPS in Paris or incorporating XYZ software into its own proprietary software without any assistance from XYZ. Accordingly, no material issues of fact exist regarding Notrace's

affirmative defenses, and the denial XYZ's summary judgment motion should be reversed.

II. THE TRIAL COURT IMPROPERLY GRANTED NOTRACE'S SUMMARY JUDGMENT MOTION AS TO XYZ'S BREACH OF CONTRACT CLAIM BECAUSE NOTRACE FAILED TO SHOW IT WAS ENTITLED TO SUMMARY JUDGMENT AS A MATTER OF LAW.

Notrace failed to show that it was entitled to summary judgment as a matter of law and that no material issues of fact existed. First, XYZ proved its breach of contract claim as to the MPS software as a matter of law. Second, Notrace's claim that it was allowed company-wide use of XYZ software on multiple CPUs at multiple locations notwithstanding its purchase of individual licenses is illogical and contradicted by the agreement between the parties. (Appellee's Brief pp. 11-16, 18-19). Third, even if Notrace's interpretation of the contract is reasonable, then two reasonable interpretations exist rendering summary judgment as to the non-MPS software improper. Fourth, material issues of fact exist precluding summary judgment: (1) whether the licensing agreement covers all five software components; (2) whether Notrace had corporate licenses; and (3) whether Notrace distributed XYZ software to third parties.

A. Notrace Failed to Prove Entitlement to Summary Judgment as a Matter of Law Because the Licensing Agreement did not

Provide for Company-Wide Unlimited Usage of XYZ Software.

Notrace contends that the agreement does not limit the number of computers at which Notrace could use XYZ software because it did not designate specific facilities or CPUs in Exhibit A to the licensing agreement. (Appellee's Brief pp. 11-14). The unreasonableness of this interpretation is apparent from the language of the licensing agreement which provides that software can be moved from one CPU to another "without charge, provided the Licensee informs XYZ in writing of such change and an amendment to Exhibit A shall be made." (R.E. - Tab 4).

Moreover, allowing company-wide use of XYZ software would contravene the intent of the parties in selling and purchasing multiple software licenses. If such was the case, why would Notrace purchase four MPS licenses for its Dallas, Midland, Houston, and Denver offices? (R:401). Why would Notrace concede in deposition testimony that its use of XYZ software in Paris violated the licensing agreement absent some approval by XYZ? (R.E.-Tab 12, p. 107, lines 7-23). Notrace attempts to reconcile its inconsistent actions with its assertion that the licensing agreement did provide unlimited access by claiming that the licensing agreement only applied to MPS. (Appellee's Brief p. 14). Regardless, Notrace's actions in buying numerous

MPS licenses still exposes the frivolousness of its claim that the licensing agreement provided unlimited copying of XYZ software.

B. In the Alternative, if Notrace's Claims are Reasonable, Two Reasonable Interpretations Exist, Rendering the Contract Ambiguous, and Summary Judgment was Improper.

Should this Court determine that Notrace's interpretation of the contract was reasonable, which XYZ contests, more than one reasonable interpretation exists. Summary judgment is inappropriate where a contract is ambiguous and its interpretation turns upon issues of fact. *Fireman's Fund Ins. Co. v. Murchison*, 937 F.2d 204, 207 (5th Cir. 1991). In its brief, XYZ presented another reasonable interpretation of the licensing agreement. (Appellant's Brief p. 28). Failure to specifically limit use of XYZ software to designated CPUs and locations in the licensing agreement does not magically supplant the purpose of licenses, namely to provide software for a particular geographic location. Accordingly, specific limitations on software use were provided by the software licenses in addition to the licensing agreement.

C. Notrace Failed to Prove Entitlement to Summary Judgment Because Material Issues of Fact Exist as to Whether the Licensing Agreement Covers All Five Software Components.

Notrace claims that whether the licensing agreement governed all five software components is immaterial because the agreement allowed company-wide use of all XYZ software. (Appellee's Brief p. 15). The scope of the licensing agreement is material because whether Notrace exceeded its software licenses is at the heart of both the breach of contract and copyright infringement claims. Consequently, the existence of conflicting evidence concerning the parties' intent in entering into the contract precludes summary judgment.

XYZ offered evidence showing that the licensing agreement did cover all five software components. The licensing agreement specifically provided that Exhibit A would be amended as additional CPUs are licensed or as hardware is upgraded or replaced. (R:417 ¶1). The existence of an attached exhibit specifically listing the MPS and Zband software suggests that other software was to be added as purchased by Notrace. (R.E.- Tab 4, 550). Further, Carl George testified that XYZ intended the agreement to cover all future software licenses as well. (R:211). In fact, ONET was not published until after the 1991 licensing agreement. (R:325, 322). It was Notrace's duty to update the agreement because XYZ did not have unlimited access to Notrace facilities and was unaware of the extent of Notrace's use of XYZ software.

In contrast, Notrace argues that because the licensing agreement only lists MPS and Zband it does not apply to ONET. (Appellee's Brief p. 18-19). Yet Notrace

admitted in a June 16, 1998 letter that “[w]e believe that there are two controlling documents, the License Agreement of 1991 and the XYZ letter of November 8, 1994.” (R:399). In that letter, Notrace asserted its purported rights under the licensing agreement in an attempt to obtain corporate licenses for non-MPS software. (Id.) Notrace cannot now credibly argue on appeal that the agreement did not govern all XYZ software licenses. The existence of conflicting evidence precludes summary judgment.

D. Material Issues of Fact Exist Regarding Whether Notrace had Corporate Licenses for Zband, and ONET Software.

Material issues of fact exist as to whether Notrace obtained corporate licenses under the proposal. The proposal, which was entered into under the licensing agreement, was signed after Notrace breached the licensing agreement by its unauthorized use of MPS in Paris. (R:184-185; R.E.: Tab 4). Once XYZ discovered this breach after Cowlip’s death, XYZ had the right to terminate the licensing agreement, as well as the proposal. (R.E.: Tab 4, ¶6).

Notrace claims it had corporate licenses for Zband, and ONET and that XYZ conceded the existence of corporate licenses in its first and second demand letters. (Appellee’s Brief p. 4). After discovering its error, XYZ sent a revised demand letter reflecting Notrace’s lack of corporate licenses. (R:130). Notrace also claims that it

was allowed to purchase single host licenses. (Appellee’s Brief p. 20). The letter Notrace cites in support was not authorized nor signed by XYZ. (R:170). As is evident from this conflicting evidence, numerous material issues of fact exist as to whether Notrace possessed corporate licenses for zband, and ONET. Accordingly, the trial court improperly granted summary judgment on the breach of contract claims pertaining to use of this software.

E. Material Issues of Fact Exist as to Whether Notrace Distributed XYZ Software to Third Parties.

Material issues of fact also exist as to whether Notrace breached its contract by distributing XYZ software to third parties. The licensing agreement provided that “Licensee’s rights under this Agreement are prohibited from being assigned, sub-licensed, pledged, or otherwise transferred without XYZ’s prior written consent, and any such prohibited action shall render this contract null and void.” (R.E. - Tab 4, 555). The agreement also required XYZ to take all reasonable steps to ensure that XYZ products are not made available or directly disclosed to any individual, firm, or corporation which was not covered by the agreement. (R.E. - Tab 4, 553). The existence of conflicting evidence on whether Notrace violated its contract with XYZ by allowing third parties access to XYZ software precludes summary judgment.

XYZ offered evidence that Notrace transferred XYZ software to third parties without authorization. Notrace concedes that it incorporated XYZ software into its own proprietary software. (Appellee's Brief pp. 2, 5). A Canadian company as well as the Parisian company in which Notrace was only a half-owner had access to ANSER, and to XYZ's software as well. (R.E. - Tab 7, 462; Tab- 6, 463; R:452, p. 129-30). Although Notrace employee Richard Handler contends that XYZ did not object to the software exchange with the Canadian company, no prior written approval was produced nor obtained by Notrace as required by the contract. (R:415; R.E. - Tab 4, 555). Finally, Notrace admitted that contract workers had access to the ANSER software and the imbedded XYZ software and that "maybe if they were a particularly clever individual they could have stolen the software from us." (R.E. - Tab 9, 446, p. 189). The licensing agreement prohibited any access rather than theft.

In response, Notrace contends without any supporting case law that it did not disclose XYZ software to parties who were not covered by the licensing agreement. (Appellee's Brief pp. 23-28). First, Notrace claims that XYZ stated through Doug Jones' deposition testimony that XYZ could not factually support the allegations of distribution to third parties. (Appellee's Brief pp. 23-24). A careful reading of the record shows that Jones' testimony was in response to the question "[o]n what do you base your allegations in your lawsuit that Notrace violated your agreements by *selling*

your software to other parties and disclosing it to other parties?” (R:484, p. 172). Jones was misled into responding that he believed there was a lack of factual proof supporting sale of software to third parties. Evidence did exist of Notrace’s distribution and exposure of XYZ software to third parties due to Notrace’s own admissions that it made XYZ software available to a Canadian company, its contract workers, and the Parisian operation without prior written approval by XYZ.

Second, Notrace argues that the terms of the licensing agreement and licenses allowed disclosure of XYZ software to the Canadian company, the Parisian operation, and contract workers because they were covered under the licensing agreement as “employees, agents, or other third party” working on behalf of Notrace. (Appellee’s Brief p. 25). The ambiguity of the contract regarding whom is covered under the agreement creates material issues of fact precluding summary judgment.

Finally, Notrace asserts that the Parisian company was either a Notrace-controlled office or a company working on Notrace’s behalf. (Appellee’s Brief p. 27). Again, Notrace does not cite any case law in support of its conclusory statement that Notrace’s half-ownership converted the Parisian company into a Notrace “affiliate.” The credibility of Notrace’s assertions that it never distributed XYZ software to its Parisian partners because they were not personally involved in the day-to-day

company operations remains a question of fact for the jury. Summary judgment was improper.

III. THE TRIAL COURT IMPROPERLY GRANTED SUMMARY JUDGMENT AS TO XYZ'S COPYRIGHT INFRINGEMENT CLAIM BECAUSE TRIABLE ISSUES OF FACT EXIST WHETHER Notrace ACTED IN EXCESS OF ITS LICENSING AGREEMENT.

The trial court also erroneously granted summary judgment as to XYZ's copyright infringement claim. Summary judgment is only appropriate where there are no genuine issues of material fact and the moving party is entitled to judgment as a matter of law. *Owsley v. San Antonio Ind. Sch. Dist.*, __ F.3d __, 1999 WL 652272, *1 (5th Cir. Sept. 13, 1999). Here, Notrace not only failed to prove as a matter of law that it did not infringe XYZ's copyrights, but material issues of fact also exist precluding summary judgment.

A. Notrace Failed to Prove as a Matter of Law that It Did Not Infringe XYZ's Copyrights.

To state a *prima facie* case of copyright infringement, the plaintiff must show ownership of copyrighted material and copying of that material by the defendant. *Feist Publications, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 361 (1991). XYZ established both elements of copyright infringement.

First, XYZ showed that it possessed ownership in copyrightable material. “A plaintiff has complied with the statutory formalities for establishing ownership when the Copyright Office receives the plaintiff’s application for registration, fee, and deposit.” *Lakedreams v. Taylor*, 932 F.2d 1103, 1108 (5th Cir. 1991). XYZ submitted summary judgment proof showing its registration of copyrights for its plotting software. (R:332-238, 501).

Notrace’s allegations that XYZ did not possess a copyrightable ownership interest are spurious. (Appellee’s Brief p. 29). Notrace ignores this court’s opinion in *Lakedreams* and instead relies upon a case from the Ninth Circuit. *See Kodadek v. MTV Networks, Inc.*, 152 F.3d 1209, 1211 (9th Cir. 1998) (“copyright registration ... is a prerequisite to a suit based on a copyright”). In addition to being merely persuasive authority, *Kodadek* is also distinguishable on its facts. In that case, the plaintiff never filed even a copy of his original artwork. Instead, the plaintiff attempted to recreate his artwork from memory. *Id.* at 1211. In this case, XYZ did deposit the original information with its application. In fact, XYZ urges this Court to take judicial notice of its certificate of registration for each of its five software components which are public record.⁵ Accordingly, Notrace cannot and has not

⁵The certificates are attached to this brief for the Court’s convenience.

shown as a matter of law that XYZ does not possess ownership in copyrightable materials, and summary judgment was improper on the copyright infringement claim.

Notrace also failed to prove as a matter of law that Notrace had an absolute defense to a copyright infringement claim due to its possession of licenses. Notrace argues that a copyright owner waives his right to sue for copyright infringement when he grants a nonexclusive license to use his copyrighted material. *citing Lulirama Ltd., Inc. v. Access Broadcast Servs.*, 128 F.3d 872, 883 (5th Cir. 1997); *Graham v. James*, 144 F.3d 229, 236 (2d Cir. 1998); *Jacob Maxwell, Inc. v. Veeck*, 110 F.3d 749, 753 (11th Cir. 1997); *Herbert v. United States*, 36 Fed. Cl. 299, 304 n. 3 (1996); *Harris v. Emus Records Corp.*, 734 F.2d 1329, 1334 (9th Cir. 1984). Although the Second and Eleventh Circuits do not allow copyright infringement claims where a non-exclusive license has been granted to the defendant, the language cited from *Harris* applies to patent and not copyright law. *See Herbert*, 36 Fed Cl. at 304 (“Under patent law, a license has been characterized as an agreement not to sue the licensee for infringement.”). This language in *Harris* was expanded in *Herbert* to include copyright licenses as well as patent license but the language in *Herbert* is dicta. *Herbert*, 36 Fed. Cl. at n.3.

The only Fifth Circuit case cited by Notrace does not support Notrace’s proposition and is distinguishable on the facts. In *Lulirama*, the parties disagreed over

the existence of the license, and the plaintiff never argued that the defendant was liable for copyright infringement because it exceeded the scope of its license. *Lulirama*, 128 F.3d at 880-83. Notrace does not cite any authority by this Court that copyright infringement claims are unavailable in situations where a defendant exceeds the scope of its license.

Although there is a split among the circuits, XYZ respectfully submits that Notrace should be liable for copyright infringement because it exceeded the scope of its license. *See S.O.S. Inc. v. Payday, Inc.*, 886 F.2d 1081, 1087 (9th Cir. 1989) (“A licensee infringes the owner’s copyright when its use exceeds the scope of its license”); *accord MacLean Associates, Inc. v. Wm. M. Mercer-Meidinger-Hansen, Inc.*, 952 F.2d 769 (3d Cir. 1991); *cf. Graham v. James*, 144 F.3d 229, 236 (2d Cir. 1998) (holding a copyright owner who grants a nonexclusive license to use his copyrighted material waives his right to sue the licensee for copyright infringement); *Jacob Maxwell, Inc. v. Veeck*, 110 F.3d 749, 753 (11th cir. 1997) (grant of nonexclusive license waived grantor’s right to sue for breach of copyright while license was in effect). Previous opinions by this Court suggest that a nonexclusive license is an affirmative defense rather than an absolute bar to a copyright infringement claim. In *Lulirama*, this Court stated that the existence of a license authorizing use of copyrighted material is an affirmative defense that is borne by the

defendant. *Lulirama*, 128 F.3d at 884; *see also Batiste v. Island Records, Inc.*, 179 F.3d 217 (5th Cir. 1999) (this court did not dismiss copyright infringement claim against publisher who held license as a matter of law). Such an affirmative defense would not exist if a plaintiff waived his or her right to bring a copyright infringement claim due to its granting of a nonexclusive license. Here, Notrace failed to show that it acted within the scope of its licenses. In fact, the evidence conclusively proves that Notrace exceeded the scope of its license by copying and distributing MPS to the Parisian company.

Second, Notrace failed to prove as a matter of law that it did not infringe XYZ's copyrights. In fact, XYZ conclusively proved that Notrace infringed XYZ's MPS copyright by copying MPS to the Parisian company without prior approval. Notrace also allowed the Parisian partners access to MPS without XYZ's permission. Accordingly, the trial court erred in granting summary judgment on the copyright infringement claim.

B. Material Issues of Fact Exist as to Whether Notrace Infringed XYZ's Copyrights.

Material issues of fact exist regarding whether Notrace infringed XYZ copyrights by its wholesale copying of XYZ software to dozens of computers at a half-dozen locations in violation of its licenses and whether it infringed XYZ

copyrights by allowing third parties access to XYZ software. Although, XYZ proved such infringement as to MPS as a matter of law, material issues of fact exist concerning Zband, and ONET. Notrace concedes that it incorporated XYZ software into its own proprietary software which it then distributed to a Canadian company. (Appellee's Brief pp. 2, 5). Notrace also concedes that it copied XYZ software to computers at a Parisian company in which Notrace was only a half-owner. (R.E. - Tab 7, 462; Tab- 6, 463; R:452, p. 129-30). Finally, Notrace admits that it allowed contract workers access to the ANSER software and the imbedded XYZ software. (R.E. - Tab 9, 446, p. 189).

In response, Notrace argues that the terms of the licensing agreement and licenses allowed disclosure of XYZ software to the Canadian company, the Parisian operation, and contract workers because they were covered under the licensing agreement as "employees, agents, or other third party" working on behalf of Notrace. (Appellee's Brief p. 25). Notrace also contends, without any supporting case law, that a half-owned Parisian company is a Notrace affiliate covered under the licensing agreement. Because the licensing agreement does not clearly delineate who was covered under the agreement and because other material issues of fact exist regarding the coverage of the licensing agreements, material issues of fact needed to be resolved by the trier of fact rather than by the court.

Moreover, other material issues of fact exist as to whether Notrace was a co-owner of ONET. Notrace argues that Notrace was a co-author of the XYZ software because one of their employees helped debug the software in a “work for hire situation.” (Appellee’s Brief pp. 33-34). “As a general rule, the author is the party who actually creates the work, that is the person who translates an idea into a fixed, tangible expression entitled to copyright protection.” *Lulirama Ltd., Inc. v. Access Broadcast Services, Inc.*, 128 F.3d 872, 876 (5th Cir. 1997). Thus, even if Cowlip was a Notrace employee performing work for hire, his alleged contribution to assisting in the debugging of the software does not conclusively establish that Notrace was a co-author of the software.

Accordingly, the case cited by Notrace for the proposition that co-owners can use copyrighted material in their businesses is inapplicable because evidence in those cases established that the defendant was a co-owner of the copyrighted material. *See Ultralite Container Corp. v. American President Lines, Ltd.*, 170 F.3d 784 (7th Cir. 1999). No evidence was presented that Cowlip “created” ONET. Regardless, even if Notrace was a co-owner of ONET, which XYZ contests, Notrace also violated XYZ’s copyrights for the other four software components. The trial court improperly granted summary judgment on this claim.

IV. THE JUDGMENT SHOULD BE AMENDED AND/OR MODIFIED TO INCLUDE THE TRIAL COURT'S AWARD OF LAST-VESTIGE-USE DAMAGES.

The trial court's judgment improperly omitted compensation for Notrace's last-vestige use of XYZ's software as ordered during the summary judgment hearing. This Court may remedy such clerical mistakes. Fed. R. Civ. P. 60(a); *Warner v. City of Bay St. Louis*, 526 F.2d 1211, 1212 (5th Cir. 1976). During the summary judgment hearing, the trial court ordered that "Notrace must pay the contract fee through the last vestige-only use." (R.E. - Tab 5, 519). Although Notrace contends that the trial court allowed for free transition (Appellee's Brief p. 34), this free period only covered the 60-day transition period. (R:8, lines 9-12). Notrace was still responsible for paying for its use of XYZ software which was due to XYZ at the time of the trial.

Notrace argues that this error is not a clerical error because the trial court issued the judgment notwithstanding XYZ's Motion for Reconsideration on this ground. (Appellee's Brief p. 35). A review of the Motion for Reconsideration shows that XYZ complained of the trial court's cancellation of the trial setting. XYZ urged that such cancellation of a trial setting a substantive error. At that point, XYZ was unaware that all damages would be omitted from the final judgment.

Moreover, as is apparent from its statements during the summary judgment hearing, the trial court clearly intended to award last-vestige use damages. (R.E. - Tab 5, 519). The trial court's failure to include this amount in the judgment is mere oversight. XYZ is not asking this Court to alter the judgment by recalculating damages. *See Warner*, 526 F.2d at 1212 (court refused to increase percentage rate from 6% to 8% in judgment under auspices of Rule 60(a)). Instead, XYZ requests that the Court remedy the omission of compensation clearly due to XYZ which the trial court granted to XYZ during the summary judgment hearing. Accordingly, XYZ respectfully urges this Court to remedy this error.

CONCLUSION

For the foregoing reasons, Appellant XYZ SOFTWARE respectfully request this Court reverse the decision of the District Court granting Appellee Notrace Technologies Inc.'s Summary Judgment Motion, grant Appellant's partial Summary Judgment Motion, reinstate this case for trial to dispose of disputed issues of fact, and grant to Appellant such other and further relief to which it may be justly entitled.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that two copies of the foregoing Brief and a 3/12 inch computer disk containing a computer readable copy of the foregoing Brief in Word Perfect 8.0 format were sent via first class mail to _____, counsel for Appellee, on this 4th of January, 1999.

Michael Louis Minns, Esq.

CERTIFICATE OF COMPLIANCE

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