SUPERIOR COURT OF CALIFORNIA, COUNTY OF LOS ANGELES

DATE: 09/27/13			DEPT. 53
HONORABLE STEVEN J. KLEIFIELD	JUDGE	M. RIVERA	DEPUTY CLERK
HONORABLE	JUDGE PRO TEM		ELECTRONIC RECORDING MONITOR
# C. VAUGHN, C.A.	Deputy Sheriff	NONE	Reporter

8:30 am BC402036

LUCENT TECHNOLOGIES INC ET AL
VS
STATE BOARD OF EQUALIZATION OF
THE STATE OF CALIFORNIA
*170.6 TERRY A. GREEN
c/w: BC341568 & BC448715

Plaintiff Counsel

NO APPEARANCES

Defendant Counsel

NATURE OF PROCEEDINGS:

NOTICE OF RULING ON SUBMITTED MATTER;

The court having taken the cross motions for summary judgment under submission, makes the following ruilng, attached to this mintue order, and is incorporated herein by reference.

CLERK'S CERTIFICATE OF MAILING

I, the below-named Executive Officer/Clerk of the above-entitled court, do hereby certify that I am not a party to the cause herein, and that on this date I served the
MINUTE ORDER
upon each party or counsel named below by placing the document for collection and mailing so as to cause it to be deposited in the United States mail at the courthouse in LOS ANGELES California, one copy of the original filed/entered herein in a separate sealed envelope to each address as shown below with the postage thereon fully prepaid, in accordance with standard court practices.

Dated: 09/27/13

Sherri R. Carter, Executive Officer/Clerk

MINUTES ENTERED
09/27/13
COUNTY CLERK

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NATURE OF PROCEEDINGS:

By: ______________________________
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MINUTES ENTERED
09/27/13
COUNTY CLERK

RULING ON SUBMITTED MATTER

BC402036

LUCENT TECHNOLOGIES V. STATE BOARD OF EQUALIZATION

CROSS-MOTIONS FOR SUMMARY JUDGMENT

A hearing was held on August 26, 2013. The Court considered the moving papers, oppositions, and replies. The Court took the matter under submission and now rules as follows:

This is an action for refund of sales and use taxes assessed by the State Board of Equalization ("BOE") and paid by AT&T Corp. ("ATT") and Lucent Technologies, Inc. ("Lucent"). There are two time periods at issue. The first is January 1, 1995 to January 31, 1996, which the parties refer to as "Lucent I"; the second is February 1, 1996 to September 30, 2000, which the parties refer to as "Lucent II." Lucent seeks a refund of sales and use taxes paid in the amount of $24,590,037.68.

The case is currently set for a court trial. The parties filed cross-motions for summary judgment, or in the alternative, summary adjudication.

Many of the facts are undisputed. Plaintiffs are and were global suppliers of products and services supporting, among other things, landline and wireless telephone services, the Internet, and other public and private data, voice, and multimedia communications networks using terrestrial and wireless technologies. Plaintiffs manufactured and sold switching equipment ("switches") to their telephone customers, which allowed the customers to provide telephone calling and other services to the end customers. The switches required software, provided on "storage media," to operate. The software was provided to the telephone customers pursuant to written agreements. The parties disagree regarding the extent to which these transactions are subject to sales tax.

Revenue and Taxation Code section 6006 defines a "sale" as "any transfer of title or possession, exchange, or barter, conditional or otherwise, in any manner or by any means whatsoever, of tangible personal property for a consideration."

"Tangible personal property" is defined in section 6016 as "personal property which may be seen, weighed, measured, felt, or touched, or which is any other manner perceptible to the senses."

The "sales price" upon which the tax is imposed is, in relevant part, "the total amount for which tangible personal property is sold . . . ." Rev. and Tax Code section 6011.

While application of the code sections would seem to be relatively straight-forward, a complication arises where, like here, the transfer involves both tangible and intangible personal property. The Legislature has addressed this issue in the area of technology transfers.

Revenue and Taxation Code sections 6011(c)(10)(A) and 6012(c)(10)(A) exempt from sales and use taxes "intangible personal property transferred with tangible personal property in any technology transfer agreement, if the technology transfer agreement separately states a reasonable price for the tangible personal property." In turn, a "technology transfer agreement" is "any agreement under which a person who holds a patent or copyright interest assigns or licenses to another person the right to make and sell a product or to use a process that is subject to the patent or copyright interest." Section 6011(c)(10)(D); 6012(c)(10)(D).

If the technology transfer agreement does not "separately state a reasonable price for the tangible personal property," there are two alternative methods for valuing the tangible personal property, which must be considered in order. R&T sec. 6011(c)(10)(B) and (C); 6012(c)(10)(B) and (C).

The issues presented are whether the agreements at issue were "technology transfer agreements" as a matter of law, and if so, whether there is a triable issue of fact as to the amount of the refund due based on the value of the tangible personal property.

The evidence submitted in support of Lucent's motion for summary judgment, or in the alternative, summary adjudication, sets out a prima facie case, summarized as follows:

ATT was a global supplier of products and services supporting, among other things, landline and wireless telephone services, the Internet, and other public and private data, voice, and multimedia communications networks using terrestrial and wireless technologies. These products and services were offered by a division of ATT known as the Network Systems Division. On February 1, 1996, ATT spun off its Network Systems Division to Lucent.

ATT and Lucent manufactured and sold switches to their customers, including telephone company customers. The switches were responsible for processing telephone calls and operating hundreds of features. A switch allowed telephone users to connect to one another through local and long distance telephone connections. A switch also allowed telephone service providers to make and offer for sale to their customers various products such as call forwarding, caller ID, call waiting, conference calling, music-on-hold, and voice mail.

Switches consisted of computer processors frames (or cabinets), shelves, drawers, circuit packs, cables, trunks, and other pieces of hardware. No two switches were alike. Each switch was operated by a "switch-specific software program" or "SSP" that was uniquely created for that switch to enable the switch to perform the particular functionalities desired by the telephone company customer, such as processing telephone calls and providing features to be sold to the end consumer.

The SSPs drew upon the Lucent basic code, only a portion of which was used by each telephone company customer, depending on the functionalities desired and the geographic location it serviced. The basic code was integrated with the customer's specifications through the use of "office dependent instructions" ("ODI"), which contained instructions unique to each switch, such as information as to where the switch was located within the network, the lines and trunks connecting to the switch, and the routing of calls to and from the switch, taking into account the particular functionalities that the customer desired. The ODI enabled the particular subset of the available basic code that was appropriate for the switch and the customer's desired functionalities.

Lucent downloaded the desired release level of the basic code onto "storage media," consisting of nine-track or digital audio tape. It downloaded the ODI created for the switch onto a separate tape. Pursuant to written agreements, the tapes were then shipped to the customer's office where the switch was kept, and the basic code and ODI were loaded onto the switch. This was accomplished by copying the basic code and the ODI from the storage media onto the switch hard drive. This enabled the switches to perform the functions desired by the customer.

As Lucent is the plaintiff suing for a tax refund, it would have the burden of proving its case by a preponderance of the evidence at trial. In moving for summary judgment, Lucent must produce evidence that would require a reasonable trier of fact to find any underlying material fact more likely than not. Aguilar v. Atlantic Richfield Co. (2001) 25 Cal. 4th 826, 851.

Lucent contends that the decision of the Court of Appeal in Nortel Networks Inc. v. Board of Equalization (2011) 191 Cal. App. 4th 1259 supports its position and is controlling.

According to the decision in that case, Nortel designed, manufactured, and sold "switches" to Pacific Bell Telephone Co. As explained by the Court of Appeal, a switch is hardware, comprised of computer processors, frames, shelves, drawers, circuit packs, cables, and trunks. The switches would process telephone calls, and handle features such as conference calling, call waiting, and voice mail. Each location where the switches were housed had different needs and required different equipment, which was specified based on an inspection by Nortel engineers.

The switches required software to perform their desired functions. Nortel and Pacific Bell entered into "licensing agreements" that gave Pacific Bell the right to use Nortel's software programs in the switches. The software was of two types: prewritten operator workstation programs, which connect customers to operators, data center programs, and switch connection programs; and "switch-specific" programs ("SSP"), which operate the switch and enable it to process telephone calls. Each SSP is unique, created for a specific switch.

The SSPs were created by Nortel programmers, and each was copyrighted. Each SSP incorporated one or more processes that was subject to, and implemented, Nortel's patent interests. The licensing agreements forbade Pacific Bell from giving a copy of the SSPs to third parties.

To create an SSP, Nortel took portions of its immense "basic code" and merged it into "translations, parameters, and instructions designed specifically for a given installation, resulting in an SSP." This made the switch operable for the customer's desired functions. The basic code, which by itself would be unusable, was not available to any customers.

A Nortel applications engineer would develop hardware specifications based on the projected needs of the customer. A software engineer would obtain information from the customer regarding "switch-specific parameters," which is "information used to determine the amount of memory needed, software resources, and the timing of events and optional features." The customer information was entered into "tools," pre-written programs used to create SSPs. The tools would integrate the basic code with the customer's specifications, "developing a new code and generating an SSP." Based on the needs of the customer, Nortel would need to create a new SSP to provide more features or to expand capability.

The completed SSPs were shipped to Pacific Bell on "storage media," consisting of discs, magnetic tapes, or cartridges. Pacific Bell was also provided with three pre-written programs – "the data center program, the operator workstation program, and the switch-connection program." As described by the Court of Appeal:

> The licensing agreements allow Pacific Bell to copy the software from the storage media and load it into the operating memory of a switch's computer hardware. This authorization to copy the software onto its computers allows Pacific Bell to use the software without violating Nortel's copyright. . . . The license gives Pacific Bell the right to produce telephonic communications, without fear of infringing upon Nortel's patents.

BOE assessed sales tax on the sale of the SSPs as well as the three pre-written programs. Nortel paid the taxes, exhausted administrative remedies, and brought an action for refund of the taxes. After a bench trial, the trial court found that the licensing fees for the SSPs was not taxable, but that the amounts charged for use of the pre-written programs was subject to sales taxes. Both sides appealed.

The Court summarized its holdings at the outset:

"This appeal requires an interpretation of the Sales and Use Tax Law. (Rev. & Tax. Code §6001 et seq. Nortel Networks Inc. sells telephone switching equipment in California. Income from switch *hardware* sales is indisputably taxable by the State of California. The question is whether sales tax is imposed on the *software* that Nortel licenses to operate the switching equipment. The Board of Equalization (the Board) determined that Nortel owed sales tax on software it licensed between January 1994 and December 1997. Nortel paid the tax then sued for a refund. . . .

We conclude that the software licensed by Nortel is exempt from sales tax under the technology transfer agreement (TTA) statutes because it (1) is copyrighted, (2) contains patented processes, and (3) enables the licensee to copy the software, and to make and sell products—telephone calls—embodying the patents and copyright. (§§ 6011, subd. (c)(10)(D), 6012, subd. (c)(10)(D).) The Board's attempt to limit the scope of the TTA statutes by excluding prewritten computer programs is an invalid exercise of its regulatory power. The TTA statutes encompass 'any' transfer of an interest subject to a patent or copyright, which includes prewritten programs licensed by Nortel."

As noted by counsel for Lucent at oral argument, one could almost substitute the names of the plaintiff and the monetary amounts, and the facts would be essentially the same. This does not end the inquiry, however, as to whether there are triable issues of fact in this case based on the evidence presented. BOE contests the sufficiency of the evidence submitted by Lucent, and offers its own evidence that was not considered in Nortel.

The following is a brief summary of the evidence submitted in support of Lucent's motion:

DECLARATION OF MARGARET G. GELSI

She is employed by Alcatel-Lucent USA, Inc., formerly known as Lucent Technologies Inc. She has been employed by it and its predecessors for 17 years, initially as an assistant corporate secretary and more recently as secretary. She is responsible for corporate subsidiary governance, law operations and other law-related activities. She sets out the history of Alcatel-Lucent, and its connection to American Telephone and Telegraph Company and its former subsidiaries and divisions, including Western Electric Company, Inc.; Bell Telephone Laboratories, Incorporated; AT&T Technologies, Incorporated; and AT&T Bell Laboratories from 1982 to the present.

DECLARATION OF MARYANN N. McGRATH

She is a senior paralegal employed by AT&T Services, Inc. Her duties include preparation of corporate documents relating to all domestic subsidiaries of AT&T Corp., including documents regarding mergers, entity formations, dissolutions, other corporate changes, and governance matters, as well as maintenance of corporate information relating to all domestic subsidiaries of AT&T Corp. in the AT&T Inc. corporate database. She authenticates three documents regarding separation agreements and mergers.

DECLARATION OF TONYA W. CRAIG

She is the financial project Controller, AT&T Mobility Account, at Alcatel-Lucent USA Inc. She has worked for it and its predecessors since 1985. She discusses three spreadsheets summarizing the taxes paid on licensing fees during both periods at issue.

DECLARATION OF JEFFREY VARGA

He is an attorney for Lucent. Attached to his declaration are documents stipulated by the parties to be authentic, genuine, true, and correct copies of the originals, and which may be presented to and considered by the Court. These include various agreements, invoices, and patents, as well as two schedules of taxes and other information based on $5,524,501 of licensing fees in Lucent I, and $243,842,592.51 in licensing fees in Lucent II. They also include tax schedules and tax calculation summaries.

DECLARATION OF VERNON B. TERRELL, CUSTODIAN OF RECORDS

He is senior director of contract management for the Americas at Alcatel-Lucent. He has worked for it and its predecessors since 1987. He is currently senior director of contract management for the Americas since 2004. His testimony concerns thirteen unsigned agreements submitted with the motion. He testifies that he searched for and was unable to locate signed copies of the agreements. He further states that it was, and always has been, Lucent's custom and practice to enter into executed agreements, and that invoices would be issued only after the corresponding agreement was fully executed.

DECLARATION OF RONALD J. MROZ

He is the senior manager in the Switching Product Management organization since 2005. He has worked with switches and software for switches in several capacities since 1978 in several entities which eventually became Lucent Technologies Inc. He describes switches generally; explains software relating to switches and how they work; describes switch-specific software and software otherwise associated with switches.

He reviewed the schedules of taxes based on licensing fees and pertinent parts of the agreements listed therein. He provides a valuation of the storage media and the documentation for the periods in question. He reviewed the patents and determined that all switch-specific software at issue embodied and implemented at least one process claimed by at least one of the patents listed in his declaration.

DECLARATION OF CAROL J. PARTYKA

From 1980 to 1990 she negotiated contracts with telephone company customers for the sale of telephonic equipment and for the licensing of software that operated or was otherwise associated with this telephonic equipment. Since 1990, she has been working with operations support systems, which are computer systems and software that telecommunications providers use to manage their network and to carry out functions needed to operate and administer their telephone switches. She has been the product manager or worked with the product manager of 12 programs, described as "software otherwise associated with switches." She testifies that the table in her declaration indicates the maximum number of storage media transferred with the right to use the software otherwise associated with switches at issue. She provides a valuation of the storage media. She also provides a valuation of the documentation transferred with the right to use the software otherwise associated with switches at issue, setting out the maximum separate prices at which the documentation or like documentation was previously sold, or offered for sale, to third parties. She does this by identifying the maximum number of locations where such documentation was shipped; the maximum number of copies of documentation accompanying each release of each particular software otherwise associated with switches at issue; and the maximum number of releases of each such software during the period at issue.

DECLARATION OF MARIO A. VERRI

He is plaintiff's tax director, state and local tax. He is responsible for causing taxes to be paid to a number of state and local taxing agencies in the United States, including the BOE. He is responsible for pursuing claims for refund of taxes determined to be erroneously or illegally determined and/or collected, and filing claims for refund. He lists the sales and use taxes paid by AT&T during the Lucent I period.

DECLARATION OF OLIVER STRUBLE

He is the assistant tax director for Lucent, joining the AT&T tax department in 1987. He is responsible for sales and use tax compliance and audits. He testifies to the sales taxes paid, and for which refund is sought, during the Lucent I and Lucent II periods. The claim for refund is $4,343,682 for the Lucent I period and $19,991,087.83 for the Lucent II period.

DECLARATION OF CHARLES L. WARREN

He is an intellectual property attorney employed as an "of counsel" by the Carmen Patti Law Group, LLC in Chicago, specializing in intellectual property since 1979. This includes patents, trademarks, copyrights and trade secret law. He worked for Lucent or its predecessors until 2001, when he went to his current position, continually providing consulting services to Lucent with respect to intellectual property issues. His responsibilities included:

Working with the technical staff to identify inventions, discoveries, improvements, and ideas, and corresponding patent considerations for such inventions, discoveries, improvements, and ideas contained in, among other things, software created and developed by Lucent; to counsel technical staff to ensure that copyright protections would be afforded to the software developed and created by Lucent, including the software at issue in this action; and to ensure that devices and processes created by AT&T and Lucent were patented where appropriate.

He testifies that all the software at issue in the action was subject to Lucent's copyright and patent interests. He authenticates the patents, attached as exhibits to his declaration.

DECLARATION OF PETER S. MENELL, PH.D., J.D.

A professor of law at Boalt Hall, in Berkeley, with intellectual property law as his primary interest, he opines that the agreements at issue in this case are technology transfer agreements within the meaning of Revenue and Taxation Code sections 6011(c)(10)(D) and 6012(c)(10)(D). The Court has sustained BOE's objection to this declaration on the ground that this opinion would invade the province of the Court; hence this declaration is not considered by the Court in reaching its conclusions.

SUMMARY OF BOE'S OPPOSITION TO LUCENT'S MOTION

BOE argues that computer code, when stored on a physical medium, is tangible personal property. It submits the declaration of Eric Fullerton in support of its position (while the declaration was submitted in support of the BOE's motion for summary judgment and not in opposition to Lucent's motion for summary judgment, the Court will consider it, because the issues in the two motions are substantially identical).

Mr. Fullerton is a professor in the department of electrical and computer engineering and the department of nanoengineering at the University of California, San Diego. He is also a chaired professor and director of the Center for Magnetic Recording Research. An extremely well-qualified expert in his field, Mr. Fullerton provides a scholarly explanation of the physical transformations which occur as a result of application of software to storage media. His declaration is offered to show that the software has a physical presence, leading to the conclusion that software is tangible rather than intangible.

His conclusions are as follows:

"a. When information is stored on digital media such as magnetic tape, compact discs or any other tangible media, the tangible media is physically changed.

b. In magnetic tape, the local directions of the magnetization of grains are reoriented in the recording processes.

c. For compact discs, the reflectivity of the disc surface is changed by the formation of pits during the fabrication of CDs, the laser-induced transformation of organic dyes for CD-R discs or laser-induced transition of the atomic structure of a thin metallic layer for CD-RW discs.

d. When information is stored on a tangible media, that information can be sensed, measured and otherwise perceived.

e. For magnetic tape, this information can be measured using a magnetic recording read head that detects the stray magnetic fields generated by the magnetic pattern in the tape that reflects the stored information. These fields can also be sensed and measured using a Bitter colloid technique, optically using the Kerr or Faraday effect, by a magnetoresistive microscope or a magnetic force microscope.

f. The information stored on a CD can be sensed and measured by a laser in a CD drive, by an optical microscope or by an electron microscope."

While there is reference in the Nortel decision that the BOE was unable to present expert testimony at the trial, and that the trial court relied exclusively on the testimony of experts called by Nortel, it is doubtful that this evidence would have made any difference either in the decision of the trial court or the Court of Appeal. That there are complex physical changes that occur in the process of applying code to storage media is not surprising. This does not create a triable issue of material fact. The role of storage media, in that case in the form of discs, was described in Microsoft Corp. v. Franchise Tax Board (2012) 212 Cal. App. 4th 78, 92 (citing Nortel):

> [W]e question whether plaintiff's Gold Master disks are analogous to film negatives and master recordings. The disks themselves were not essential to the reproduction process. Rather, they were simply a means used to transmit plaintiff's software programs. Presumably plaintiff could have used other, outmoded methods to transfer such data to the OEMs (), including floppy discs, punch cards, or even paper printouts of the code itself. Thus, there was nothing unique about the Gold Master disks themselves. Instead, they served merely as a convenient storage medium to transfer plaintiff's copyrighted content.

As it did in Nortel, BOE argues that the contracts at issue in this case are not "technology transfer agreements." This is an argument that was made and rejected in Nortel. The agreements at issue in this case are indistinguishable from those in Nortel, which were clearly found to be technology transfer agreements.

BOE submits the declaration of R. Polk Wagner, professor of law at University of Pennsylvania Law School, where his principal area of teaching and research is intellectual property law, with a particular focus on patent law. His assignment was to render opinions concerning whether use of the code in question would violate a patent or copyright in the absence of an agreement. He concludes that this would be a complex question based on his assumptions regarding the meaning of "subject to the patent or copyright interest" in the TTA statutes. He opines that:

"The phrase 'subject to the patent or copyright interest' is not defined, but likely refers to patent or copyright infringement." He then sets out the various elements that would need to be proved to find patent infringement under United States Code Title 35 and interpretive case law. He also sets out the various elements that would need to be proved to find copyright infringement under United States Code Title 17.

The Court has sustained Lucent's objection to this opinion testimony that it invades the province of the Court. Were the Court to rule otherwise and consider his opinion, the Court finds that it is directly at odds with the Nortel decision. The Court of Appeal held that the agreements at issue there were technology transfer agreements, without regard to any analysis or application of patent or copyright infringement law. As noted by Lucent in its reply, this is not a patent or copyright infringement case.

The Court finds that Professor Wagner's declaration does not create a triable issue of material fact as to whether the agreements in this case are technology transfer agreements.

BOE disputes the sufficiency of the evidence in support of Lucent's motion. It contends that Lucent cannot prove that **all** of the agreements giving rise to the licensing transactions were "technology transfer agreement[s]."

As stated above, a "technology transfer agreement" is defined in section 6011(c)(10)(D) and 6012(c)(10)(D):

"(D) For purposes of this paragraph, 'technology transfer agreement' means any agreement under which a person who holds a patent or copyright interest assigns or licenses to another person the right to make and sell a product or to use a process that is subject to the patent or copyright interest."

BOE contends that Lucent must establish the existence of the interest at the time the agreement was entered into. The Court agrees with Lucent that the relevant inquiry should be the existence of the patent or copyright interests during the time period for which the sales taxes were imposed. If BOE were correct, the existence of a patent or copyright interest at the time of the allegedly taxable transactions in question could be nullified by some defect at the inception of the agreement well before the transactions occurred.

BOE would have Lucent be put to the task of specifying, for each agreement, the ownership of the precise patent or copyright interest licensed to the customer. The Court finds that the evidence offered by Lucent in support of its motion is sufficient to transfer the burden of producing evidence sufficient to raise a triable issue of fact to BOE; BOE has not done so.

"There is a triable issue of material fact if, and only if, the evidence would allow a reasonable trier of fact to find the underlying fact in favor of the party opposing the motion in accordance with the applicable standard of proof." Aguilar v. Atlantic Richfield Co. (2001) 25 Cal. 4th 826, 850. A reasonable trier of fact could not find that any of the agreements which are the subject of this motion are not "subject to the patent or copyright interest" of the plaintiffs.

BOE argues that "if *Nortel* is ultimately determined to be precedential authority on the specific point of computer code tangibility, this Court should not follow that precedent. . . . *Nortel* on this reading would be in direct conflict with the California Supreme Court's opinion in [Navistar International Transportation Corp. v. State Board of Equalization (1994) 8 Cal. 4th 868], which did directly address and make a decision on the issue of the tangibility of software." This point was emphasized in oral argument.

Interestingly, the Nortel court **relied** in part on Navistar in reaching its decision. It quoted the following language from Navistar at 8 Cal. 4th 868, 881:

"In the enactment of [R&T] section 6010.9 the Legislature has recognized that the design, development or creation of a custom computer program to the special order of a customer is primarily a service transaction and, for that reason, not subject to sales tax." 191 Cal. App. 4th at 1271.

In that case, Navistar sold the assets of a wholly owned subsidiary, which included drawings and designs, manuals and procedures, and computer programs. The BOE determined that these items were tangible personal property that had been transferred as part of a sale and were therefore taxable. The BOE assessed a deficiency, which Navistar paid. Navistar brought an action for a refund. The trial court agreed with the BOE, the Court of Appeal affirmed the decision of the trial court, and the California Supreme Court granted review.

The BOE addresses only the Supreme Court's discussion and holding with respect to the computer programs. These programs were described as follows: "Approximately 74 percent of the programs were business system programs pertaining to financial accounting, business operation planning, and economic forecasting; roughly 18 percent of the programs were engineering programs, such as design and testing programs; and approximately 8 percent of the programs were 'distributed computing systems,' such as computer-aided design programs, basic research programs, and programs that controlled automated machinery operations. The computer programs also contained trade secrets." 8 Cal. 4th at 873.

Navistar argued that the computer programs were "custom software" and therefore exempt from sales tax under R&T section 6010.9, which exempts "custom computer programs" from taxation. The Supreme Court held that the computer programs at issue were not "custom computer programs" as defined in 6010.9. In doing so, the Supreme Court declined to address the "recent amendments to sections 6011 and 6012 regarding the taxation of technology transfer agreements." 8 Cal. 4th at 880.

The Nortel court engaged in a detailed analysis of sections 6010.9, 6011 and 6012, and held that section 6010.9 did not apply to either the "switch-specific programs" or the "pre-written software." It held that the TTA statutes broadly encompass "*any* agreement under which a person who holds a patent or copyright interest assigns or licenses to another person the right to make and sell a product or to use a process that is subject to the patent or copyright interest." The court stated that the TTA statues do not make an exception for pre-written software that is subject to a patent or copyright interest. Section 6010.9 would apply, and the transaction would be taxable, where there was a transfer of a pre-written or "canned" program not subject to a patent or copyright, and is held for general or repeated sale or lease. 191 Cal. App. 4th at 1277-1278.

The Court finds that Nortel is not in "direct conflict" with Navistar. Navistar did not address the taxation of technology transfer agreements under R&T sections 6011 and 6012. The Nortel court considered Navistar in reaching its decision. Nortel is directly on point. The software licensed by Lucent is exempt from sales tax under the TTA statutes as a matter of law. There is no triable issue of material fact on this point.

To obtain summary judgment, Lucent also must show the absence of a triable issue of fact with respect to the amount to be refunded.

Lucent presents evidence that the licensing fees charged by Lucent to its telephone company customers for licensing the right to use the software at issue transferred with the storage media and documentation pursuant to the agreements at issue was $303,264,716.51. BOE assessed tax on the entire amount; Lucent paid sales and use taxes in the amount of $24,773,185.38. In its moving papers, Lucent claims it is entitled to a refund of $24,590,037 in taxes paid.

Lucent calculates this amount by determining the maximum value of the tangible personal property, i.e., storage media and documentation, transferred with the software pursuant to the agreements. Lucent calculates the maximum value, under the TTA statutes, as $2,154,678.81. It attributes $219,788 to storage media, and $1,934,890.81 to documentation, using the valuation method set out at 6011(c)(10)(B) and 6012(c)(10)(B). At the highest possible rate of tax during the period at issue, 8.5%, the allowable tax would at most be

$183,147.70. Lucent subtracts the $183,147.70 from the $24,773,185.38, to reach the erroneously assessed tax amount of $24,590,037.

BOE argues that even if Lucent prevails on all other issues, Lucent overstates the refund to which it would be entitled by $87,656.25. Lucent concedes the overstatement, and reduces the amount for which it seeks a refund to $24,502,381.43. There is therefore no triable issue of fact with respect to the amount of the refund due to Lucent.

There being no triable issues of fact, Lucent's motion for summary judgment is GRANTED. BOE's motion for summary judgment is DENIED.

While Lucent claims entitlement to prejudgment interest, the issue of prejudgment interest was not briefed in the papers. The Court vacates all future dates and sets the matter for hearing on November 18, 2013 at 08:30am in department 53 to determine whether Lucent is entitled to prejudgment interest, and if so, in what amount. Plaintiff shall submit a proposed judgment awarding a refund in the sum of $24,502,381.43, with a space for an award of prejudgment interest. The parties are to file briefs addressing whether Lucent is entitled to prejudgment interest; from what date or dates should prejudgment interest be calculated; what is the rate of interest; and what amount of prejudgment interest should be inserted into the judgment on the day of the hearing.

Lucent shall file and serve its brief no later than 15 court days before the hearing; BOE shall file and serve its brief no later than 10 court days before the hearing; Lucent may file and serve a reply brief no later than five court days before the hearing. Briefs are not to exceed 5 pages.