No. 24-569

In the
Supreme Court of the United States

BMC SOFTWARE, INC.,

Petitioner,

v.

INTERNATIONAL BUSINESS MACHINES CORPORATION,

Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Fifth Circuit

BRIEF IN OPPOSITION

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QUESTION PRESENTED

A unanimous Fifth Circuit panel applied New York law to resolve a dispute in federal court under diversity jurisdiction concerning the interpretation of a *sui generis* contract without resolving any issue of federal law. Without recorded dissent, the Fifth Circuit then denied a petition for rehearing en banc that asked the full court to correct purported state-law errors.

The question presented is:

Whether this Court should grant plenary review to resolve a factbound contract dispute governed by New York law.

PARTIES TO THE PROCEEDING

Respondent (defendant-appellant below) is International Business Machines Corporation.

Petitioner (plaintiff-appellee below) is BMC Software, Inc.

CORPORATE DISCLOSURE STATEMENT

International Business Machines Corporation ("IBM") certifies that it does not have a parent corporation and that no publicly held corporation owns 10% or more of its stock.

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INTRODUCTION

This is a state-law contract dispute governed by New York law. It presents only issues of New York law on which the New York Court of Appeals, and not this Court, is the final arbiter. The decision below never even mentioned federal law. In short, this case is about as uncertworthy as it gets.

Petitioner BMC Software, Inc. ("BMC") is a private-equity-backed company that sells software for mainframe computers. Respondent International Business Machines Corporation ("IBM") is a company that sells its own competing software and—during the period relevant to this case—also provided IT-support services for various third-party customers, including customers that used some BMC software. Litigation between BMC and IBM arose because the parties disagreed about how to interpret language that appears in one of their contracts, but in literally no other contract between any other parties in recorded history. That *sui generis* contract language prohibited IBM, in its capacity as IT servicer, from "displac[ing]" BMC software with IBM software on the mainframe systems belonging to certain mutual customers—including AT&T—but expressly authorized IBM to "discontinue" BMC software "for other valid business reasons." App.9 (emphasis omitted).

In the decision below, a unanimous Fifth Circuit panel invoked applicable principles of New York contract law and concluded that IBM had by far the superior reading of the contract—namely, that IBM could not use inside knowledge gained as an IT servicer to unfairly compete with BMC by affirmatively encouraging mutual customers to replace BMC software with its own software, but that IBM could "replace BMC software with IBM software" at a mutual customer's own independent "request." App.15. Because "it is undisputed" that the mutual customer here (AT&T) "initiated" the relevant software "switchover" "independently and without any lobbying or influence of IBM," App.11, the Fifth Circuit determined that IBM did not breach the contract and therefore reversed the extraordinary $1.6 billion windfall that the district court had awarded to BMC. And when BMC sought rehearing en banc—in a petition that asserted a "direct[] conflict[] with … state law precedent" and suggested certification to the New York Court of Appeals as an alternative, CA5.Dkt.213 at viii, 16—the full court unanimously denied that request too.

As the Court has admonished, "the interpretation of private contracts is ordinarily a question of state law, which this Court does not sit to review." *Volt Info. Scis., Inc. v. Bd. of Trs. of Leland Stanford Junior Univ.*, 489 U.S. 468, 474 (1989). That principle suffices to deny BMC's petition.

Presumably recognizing as much, BMC suggests that, even though the Fifth Circuit never once mentioned federal law in the decision below, it nevertheless succeeded in resolving "important federal issues" and generating a circuit "split." Pet.9-10 (capitalization altered). That assertion is as fanciful as it sounds. In reality, the court of appeals did not even definitively resolve the state-law unfair-competition issue that BMC claims somehow involved a stealth resolution of a federal antitrust or intellectual-property question. And that state-law unfair-competition concern was not dispositive, but just one of several grounds that the court identified for rejecting BMC's reading of the contract—each of which was explicitly rooted in state, not federal, law.

In the end, BMC's petition reduces to a plea for error correction on an issue of state law on which this Court does not have the final word. Worse still, there is no error to correct, and numerous alternative grounds for reversing BMC's unjustified windfall that the panel did not even reach. The Court should deny the petition and bring BMC's quest to revive a windfall judgment to a definitive end.

STATEMENT OF THE CASE

A. Factual Background

1. BMC is a portfolio company of the global investment firm Kohlberg Kravis Roberts & Co., Inc., which manages more than a half-trillion dollars in assets. *See* Pet.ii; KKR, https://www.kkr.com/ (last visited Feb. 5, 2025). Among other things, BMC develops and licenses software for mainframe computers, which are high-performance computers used primarily by large organizations. *See* App.1-2. Several other companies—including IBM—develop and sell mainframe-software tools that compete with BMC's software. *See* App.1-2, 44. Unlike BMC, however, IBM also used to provide IT-outsourcing services—*i.e.*, other companies hired IBM to service their mainframe systems, even if they used non-IBM software (such as BMC software).[1] *See* App.2.

[1] In 2021, IBM spun off its managed-infrastructure-services business as a new independent company called Kyndryl.

In 2015, IBM and BMC entered into an Outsourcing Attachment ("2015 OA") to a 2008 Master Licensing Agreement ("MLA"). App.2. Among other things, the 2015 OA facilitated IBM's ability to service mutual customers' BMC software by giving IBM the option (in §1.1 of the agreement) to "access and use" the customer's existing BMC software licenses when providing IT support, thereby making it unnecessary for IBM to purchase duplicative licenses that the customer had already purchased. App.2, 8-9. When IBM chose to exercise this "access and use" option, it triggered the provision at the heart of this dispute: §5.4. Section 5.4 is a restrictive covenant applicable to 54 mutual customers, including AT&T, and it provided: "[W]hile IBM cannot displace any BMC Customer Licenses with IBM products, IBM may discontinue use of BMC Customer Licenses for other valid business reasons." App.3 (alterations adopted). As relevant here, §5.4 also expressly incorporated "[a]ll terms of Section[] 5.1," which in turn provided that IBM must use customer-owned BMC licenses "solely for the purposes of supporting the BMC Customer who owns such licenses." App.3.

Versions of §5.4's "non-displacement provision" appeared in prior iterations of the outsourcing attachment, and IBM and BMC had long disputed the proper reading of the clause. *See* App.59. IBM consistently interpreted the provision as allowing it to execute *customer*-initiated requests to replace BMC software with IBM software. And IBM acted on that interpretation. In 2008, for instance, IBM replaced BMC software with IBM software at the request of the Bank of Ireland. *See* App.60-61. IBM did so again in 2013 at the request of National Australia Bank. *See*

App.65. BMC, by contrast, interpreted the provision as categorically preventing IBM from replacing BMC software with IBM software even at the mutual customer's request. While the 2015 OA narrowed the application of the non-displacement provision to just 54 parties, neither side accepted the other's effort to materially change the disputed language. *See* App.3-4.

2. In 2015, after a series of acquisitions, AT&T found itself with three separate mainframe systems employing combinations of IBM, BMC, and third-party software. *See* App.41. "[C]ost considerations" and "larger standardization goals" led AT&T to decide to discontinue its BMC software and use only IBM software and other third-party software. App.5, 70-71, 141. While AT&T asked IBM, which was already managing AT&T's software environment, to help execute the switchover, the evidence in this case shows that "AT&T independently decided to displace BMC software," and BMC no longer claims otherwise. App.11, 15 (emphasis omitted).

IBM and AT&T separately assessed whether IBM could execute AT&T's request consistent with §5.4's non-displacement provision, and both separately determined that the answer was yes because AT&T, not IBM, had conceived of and directed the project. *See* ROA.7493.[2] Accordingly, IBM agreed to assist AT&T, removed 14 BMC software products, and replaced them with IBM software that AT&T had already purchased and was using. *See* App.4-5, 41. IBM also "replace[d]" five BMC products with third-

[2] "ROA" refers to the record on appeal in the Fifth Circuit.

party products and "retire[d]" one other BMC product. App.41. Because AT&T had purchased "perpetual license[s]" for the discontinued BMC products, BMC had already received full payment for those products. App.47, 124, 139-141. And IBM generated no new software sales by virtue of the switchover because AT&T had already purchased perpetual licenses for all the necessary IBM products too. *See* ROA.3962-63.

B. Procedural History

1. In 2017, BMC invoked diversity jurisdiction and sued IBM in the Southern District of Texas on the (mistaken) premise that IBM—not AT&T—had initiated the switchover. *See* ROA.86-87 ¶¶1-2. BMC brought 12 claims, including breach of §1.1, §5.1, and §5.4 of the 2015 OA and §8 of the MLA, fraudulent inducement, unfair competition, and misappropriation of trade secrets. App.35-36. The district court rejected nearly all those claims, concluding that IBM did not breach §1.1 or §5.1 of the 2015 OA or §8 of the MLA; did not engage in unfair competition; and did not misappropriate any trade secrets. *See* App.120-26. But the court awarded summary judgment to BMC on the claimed breach of §5.4, concluding—in two short paragraphs that referenced "New York principles of contract interpretation"—that the non-displacement provision categorically precluded IBM from complying with a customer's request to replace unwanted BMC software with IBM software. App.22.

Because AT&T had already paid BMC for perpetual licenses, BMC could claim lost profits only in relation to the loss of some fees for ongoing servicing and updates. By BMC's own telling, that amounted to

$5.6 million per year and $104.5 million in perpetuity. *See* App.139. But the district court rejected BMC's lost-profits claim because it found that AT&T, not IBM, had independently decided to discontinue BMC software, and so AT&T would have discontinued the licenses and servicing payments to BMC even if it needed to use a third party, rather than IBM, to execute the switchover. *See* App.140-41.

Nevertheless, the district court awarded BMC a whopping *$717 million* in compensatory damages, on the theory that IBM had a contractual obligation to purchase a duplicative set of all the BMC licenses that AT&T wanted to discard just so it could remove them for AT&T. App.132-33. On top of that, the court assessed another $717 million in *punitive* damages, on the theory that IBM had fraudulently induced BMC into signing a contract that, at least as interpreted by the district court, gave BMC the deal of the century. App.6. Awarding those massive sums also required the court to sidestep contractual provisions strictly limiting compensatory damages to $5 million and foreclosing punitive damages altogether. All told, the court awarded BMC approximately $1.6 billion—one of the largest awards in a commercial dispute in U.S. history. *See* App.6.

2. IBM challenged that judgment on multiple grounds in the Fifth Circuit. IBM led with the argument that it had not breached §5.4 in the first place, as the district court's entire damages award hinged on the purported breach. *See* CA5.Dkt.72 at 27-32. IBM also argued that, even if there had been a breach, BMC failed to prove that it suffered any compensable damages—let alone a $717 million

windfall—owing to IBM's performance of the purely ministerial task of removing software from AT&T's mainframe system that AT&T would have removed with or without IBM's assistance. *See* CA5.Dkt.72 at 32-42. And IBM objected to the punitive-damages award, which rested on the far-fetched theory that IBM's bare signing of the 2015 OA constituted a "misrepresentation" simply because the district court had rejected, ex-post, IBM's interpretation of the contract—even though IBM had repeatedly told BMC before and during their negotiations that it understood §5.4 to permit customer-initiated switchovers. *See* CA5.Dkt.72 at 42-52. Finally, IBM asked the court of appeals to enforce the contact's express limitations on damages. *See* CA5.Dkt.72 at 52-56.

The Fifth Circuit reversed, reaching only the threshold breach-of-contract issue. The court began by observing that "New York law governs our interpretation of the 2015 OA," App.7, as everyone, including BMC, had agreed, *see, e.g.*, CA5.Dkt.134 at v (BMC stating that this case is "controlled" by "familiar state-law … contract principles"). Applying those familiar state-law principles, the court "disagree[d] with BMC's and the district court's interpretation of [§]5.4 for several reasons" and proceeded to enumerate four of them. App.9.

"First," the court observed that the interpretation of the contract advocated by BMC and embraced by the district court turned on the notion that "the verbs 'displace' and 'discontinue' bear distinct meanings in Section 5.4." App.10. As the court explained, however, "New York law does not countenance BMC's stark dichotomy between 'displace' and 'discontinue'"; instead, "[a] holistic reading of the provision better harmonizes the entirety of the provision and accords with other parts of the parties' contract." App.10. Reading the entirety of §5.4 as a unified whole, the court concluded that the "'cannot displace' clause prohibits IBM from competing unfairly with BMC by using its outsourcing services to (a) gain inside knowledge as to how BMC's customers use BMC software and (b) sell IBM software to the same customers with this special knowledge"—while the "may discontinue" clause allows IBM to discontinue BMC software "in favor of its own software" provided that the mutual customer initiated the request. App.10-11.

That made this an easy case because "it is undisputed, as found by the district court, that AT&T initiated this switchover independently and without any lobbying or influence of IBM." App.11; *see also* App.12 n.5 ("Notably, the district court concluded in its post-trial opinion that IBM did not breach Section 5.1 because Section 5.1 purely required IBM to act 'for the sole purpose of supporting AT&T' when accessing and using AT&T's BMC licenses, and 'IBM used the licenses to achieve what AT&T wanted done—and nothing more.'").

The Fifth Circuit also found its interpretation of §5.4 "supported" by other provisions of the agreement. App.12. For example, the court explained that §5.1—which §5.4 expressly incorporated—allowed IBM to "'use, access, install and have operational responsibility' for the BMC licenses owned by licensees like AT&T, so long as IBM used those licenses 'solely for the purposes of supporting the BMC Customer who owns such licenses.'" App.12. Once again, the court emphasized, that "is exactly what IBM did when it executed AT&T's policy to partially replace BMC software with IBM software in the AT&T mainframes." App.12-13. The court also found it significant that "Paragraph 3 of the 2008 MLA … outlines five restrictions on IBM's use of BMC's software, but not one of those bars IBM from substituting BMC's software for IBM software in a customer's mainframe at the customer's request." App.12. To rule in BMC's favor, the court explained, thus would require it to "rewrite the parties' agreements to enforce a restriction that is not there," which courts "may not" do under New York law. App.12.

"Second," the Fifth Circuit concluded that "BMC's interpretation … renders the descriptor 'other valid business reasons'" in §5.4 "superfluous." App.10. If "displace" and "discontinue" "bore wholly distinct meanings," the court explained, "there would be no need for Section 5.4 to say that IBM may not 'displace' under some circumstances but may 'discontinue' for other reasons." App.10. Instead, §5.4 "would simply state: while IBM 'cannot displace any BMC Customer Licenses with [IBM] products, [IBM] may discontinue use of BMC Customer Licenses.'" App.10 (emphasis omitted). And "[t]his revision of the section … renders 'for other valid business reasons' superfluous, contrary to New York law." App.10-11.

"[T]hird," the Fifth Circuit concluded that BMC's interpretation "arbitrarily and unreasonably cabin[ed]" the "other valid business reasons" language in §5.4. App.10. For example, under BMC's view, IBM could "replace BMC's software with *any other* competing software at AT&T's request, so long as the competing software is not that of IBM." App.13. "Alternatively, Section 5.4 would require AT&T to discharge IBM as its IT-outsourcer if it decided to replace BMC's software with software of the customer's choice, but only if it elects IBM replacement software." App.13. All of that contradicted the "well settled" rule "under New York law" "'that a contract should not be interpreted to produce an absurd result.'" App.13. The court also observed that "BMC's interpretation of Section 5.4 enables it to micromanage AT&T's decision to use IBM as an outsourcer for replacement software even after AT&T has chosen no longer to be a BMC customer." App.13. The court found such micromanagement "commercially unreasonable and therefore unsustainable under New York law." App13.

"Fourth," and finally, the Fifth Circuit expressed concern—without definitively resolving the matter—that "BMC's reading of Section 5.4 … risks making Section 5.4 an unenforceable illegal restriction on competition under New York law." App.10, 14. As the court explained, "in determining whether to enforce a restrictive covenant like Section 5.4" under New York law, it had to assess (among other things) "'whether [BMC] has demonstrated a legitimate business interest that warrants the enforcement of' the restriction." App.14. Based on BMC's own briefing, §5.4 served only one *legitimate* business interest: "to 'prevent[] IBM from leveraging its special position as an IT-outsourcer, its access to BMC products in client environments, and the unique knowledge it thereby gains to unfairly compete for BMC's software clients.'" App.14; *see* CA5.Dkt.134 at 30. And this case "had nothing to do with this sort of gamesmanship," as "AT&T independently decided to displace BMC software" here." App.14-15 (emphasis omitted). So, "[u]nder these circumstances," enforcing the restrictive covenant would not protect any *legitimate* BMC interest, but rather would serve the *illegitimate* purpose of constraining AT&T's ability to change software providers. App.15. Given that dynamic, the district court's reading of "Section 5.4 runs a serious risk of being an unenforceable restrictive covenant." App.10.

For all those reasons, the Fifth Circuit concluded: "The only reasonable reading of Section 5.4 that comports with New York law is the holistic reading that takes account of all the language of the provision at issue. Under that reading, IBM could not, on its own accord, supplant BMC's software in AT&T's mainframe system with IBM software. But IBM could replace BMC software with IBM software in AT&T's mainframes at AT&T's request. The phrase 'other valid business reasons' unambiguously requires this result. IBM did not breach Section 5.4 by agreeing to provide IT services to perform this task. In concluding otherwise, the district court erred." App.15 (citation omitted). Because the Fifth Circuit reversed the judgment below on the breach-of-contract issue that was the premise for the district court's fraud finding and punitive-damages award, the Fifth Circuit had no occasion to reach IBM's multiple alternative arguments for why the district court judgment could not stand.

3. BMC sought en banc review on two issues. First, it claimed that the panel decision "depart[ed] from New York contract law" by "discount[ing] plain meaning" and "misappl[ying] canons of construction." CA5.Dkt.213 at 4, 6 (capitalization altered). Second, it argued that "the panel departed from New York law on the enforceability of private agreements." CA5.Dkt.213 at 12 (capitalization altered). "Each" of these questions, BMC maintained, "presents a "direct[] conflict[] with … state law precedent," which is a "proper" basis "for en banc rehearing." CA5.Dkt.213 at viii. For good measure, BMC also requested (for the first time) certification of both state-law issues to the New York Court of Appeals. CA5.Dkt.213 at 16. The Fifth Circuit denied the petition with no noted dissent. *See* App.195-196.

REASONS FOR DENYING THE PETITION

The unanimous decision below rejected BMC's breach-of-contract claim by applying settled principles of New York law to a *sui generis* set of facts. The parties did not press any issue of federal law when debating the meaning of the contract on appeal, and the court did not pass upon any such issue either. Indeed, the Fifth Circuit's decision is notably bereft of *any* citation to a federal statutory, regulatory, or constitutional provision. All of that was reflected in BMC's rehearing petition, which asked the full Fifth Circuit to correct state-law errors and sought certification on those state-law issues. That suffices to deny this petition, as this Court is not in the business of adjudicating disputes over private contracts that present no federal question.

Straining to manufacture a federal-law issue, BMC insists that the Fifth Circuit "federalized" this "state-law dispute." Pet.2. That would have been a neat trick, but a quick skim of the court's short opinion confirms that this argument is divorced from reality. The lone portion of the opinion with which BMC takes issue—the fourth of four reasons for rejecting BMC's construction—expressly invoked New York unfair-competition law—not federal antitrust or intellectual-property law—and it did not even definitively resolve the state-law issue that it flagged. BMC is thus really just asking this Court for error correction in a state-law contract dispute—which is what BMC expressly sought in its rehearing petition, and what this Court has admonished repeatedly falls outside its purview.

In all events, there is no error to correct. The Fifth Circuit correctly concluded that the plain text of §5.4 of the 2015 OA prohibited IBM from replacing BMC software with IBM software on its own initiative, but unambiguously allowed IBM to conduct a switchover at a customer's independent request.

Even if this Court were interested in exploring the federal-law issues discussed in BMC's petition, moreover, it should do so in a case in which the parties actually litigated those issues, and the courts below actually decided them. None of that happened here. Instead, the parties and courts debated how state law applies to *sui generis* contract language, and the Fifth Circuit's factbound analysis resolving that debate is exceedingly unlikely to matter to anyone beyond the parties here. Indeed, it is unlikely to matter even to BMC in the end, since the breach-of-contract argument was just the first of multiple arguments for reversal that would await the panel on remand (none of which has anything to do with federal law).

In short, the petition does not come close to satisfying the Court's criteria for plenary review. The Court should deny it.

I. The Fifth Circuit's Unanimous Decision Does Not Present Any Question Of Federal Law, But Instead Just Applies Settled New York Contract Law.

BMC insists that this case "warrants the Court's review" because it "raises significant federal issues." Pet.9. In BMC's view, the decision below "cannot be squared" with decisions from other courts of appeals applying "Section 2 of the Sherman Act" to "vindicat[e] the federal-law rights of copyright owners," "will negatively impact federal precedent under Section 1 of the Sherman Act," and "injects confusion into the body of federal law concerning the intersection of antitrust and intellectual property." Pet.10, 13, 16. Each of those submissions suffers from the same fatal flaw: The court below did not apply federal antitrust or intellectual-property law. Indeed, its decision does not even mention, let alone apply, any federal law at all.

The Fifth Circuit instead made abundantly clear at the outset of its analysis that "New York law governs" this contract dispute. App.7. And its subsequent reasoning confirms that it meant what it said. The court enumerated "several reasons" why it could not accept the interpretation of §5.4 of the 2015 OA advanced by BMC and embraced by the district court, and each relied explicitly and exclusively on New York law: (1) "*New York law* does not countenance" BMC's simplistic "dichotomy between 'displace' and 'discontinue,'" but instead demands a "holistic reading" that accounts for text, context, and structure; (2) BMC's interpretation "renders 'for other valid business reasons' superfluous, contrary to *New York law*"; (3) BMC's interpretation is "unsustainable under *New York law*" because it "produce[s] an absurd result" or "one that is commercially unreasonable"; and (4) BMC's reading "risks making Section 5.4 an unenforceable illegal restriction on competition under *New York law*." App.9-16 (emphases added). BMC does not even try to conjure a federal issue out of the first three grounds, and the fourth is just as explicitly grounded in state law and state law alone.

It should go without saying that this Court does not take cases to "resolve" disputes that "do[] not present a question of federal law." *Sandoz Inc. v. Amgen Inc.*, 582 U.S. 1, 18 (2017). Indeed, BMC does not (and cannot) contend otherwise. It instead embarks on an elaborate effort to demonstrate that the Fifth Circuit "federalized" what BMC *agrees* is a "state-law dispute." Pet.2. That is a neat turn of phrase and brings to mind federal agents deputizing state law-enforcement for limited purposes or the federal-enclaves provisions that borrow state law as federal law to govern activities on federal enclaves. *See, e.g.*, *Parker Drilling Mgmt. Servs., Ltd. v. Newton*, 587 U.S. 601, 611 (2019); *King v. United States*, 917 F.3d 409, 433 (6th Cir. 2019), *rev'd sub nom.*, *Brownback v. King*, 592 U.S. 209 (2021).

But all that actual federalizing is done explicitly, not *sub silentio*, and it certainly takes something more to "federalize" state contract law than to avert to state unfair-competition laws that may have rough analogs in uncited federal antitrust principles. And that is all that is involved here.

By BMC's telling, when the court expressed concern about "making Section 5.4 an unenforceable illegal restriction on competition *under New York law*," App.14 (emphasis added), it somehow issued a "binding" and "sweeping" "holding" "that will "transform[] … licensing protections … into illegal 'restraint[s] of trade' under the Sherman Act" "any time [they] might constrain the options available to third parties," Pet.2, 9, 14, 16. Each step in BMC's analysis is fatally flawed. To begin with, although BMC insists that the Fifth Circuit announced a "binding" "holding" when conducting its unfair-competition analysis under New York law, Pet.9, 16, the decision below tells a more modest story. The court simply observed—after providing three other reasons for rejecting it—that BMC's interpretation "*risks* making Section 5.4 an unenforceable illegal restriction … under New York law." App.14 (emphasis added); *see also* App.10 ("Fourth, as construed by BMC, Section 5.4 runs a serious *risk* of being an unenforceable restrictive covenant." (emphasis added)). BMC does not and cannot explain how a passage that went out of its way to *avoid* definitive resolution of the state-law issue that the court confronted constitutes a "binding" "holding" on anything, much less on a federal-law issue that the court did not address.

Moreover, while BMC portrays the Fifth Circuit's fleeting observations about the anticompetitive "risk" posed by BMC's interpretation of §5.4 as "sweeping"—indeed, an existential threat to all license restrictions implicating third parties—in reality the court made crystal clear that it was not addressing anything beyond the unique "circumstances" of this case. App.15. As it explained, the first step in the analysis that New York courts apply when confronting a restrictive covenant required the panel to assess "'whether BMC has demonstrated a legitimate business interest that warrants the enforcement of' the restriction." App.14. And the court *agreed* with BMC that §5.4 furthered a legitimate interest: to "prevent[] IBM from leveraging its special position as an IT-outsourcer, its access to BMC products in client environments, and the unique knowledge it thereby gains to unfairly compete for BMC's software clients." App.14 (quoting CA5.Dkt.134 at 30). It just concluded that enforcing the covenant under the particular facts at issue here would not serve that legitimate interest because "AT&T *independently* decided to displace BMC software." App.15. That good-for-this-case-only factfinding and reasoning is about as far as it gets from "sweeping."

In all events, whatever else may be said about the Fifth Circuit's brief discussion of restrictive covenants, it most certainly is not a binding and sweeping holding about *federal* law. The court explicitly conducted its unfair-competition analysis "pursuant to state law," not federal law. App.15. BMC tries to dismiss that critical qualification as "irrelevant" by applying the transitive property—*i.e.*, by reasoning that New York unfair-competition law and federal antitrust law are "the same," rendering a holding on the former a holding on the latter too. Pet.13. The first half of that reasoning is dubious enough. As the New York Court of Appeals has explained, New York state courts "do not move in lockstep with the Federal courts in [the] interpretation of antitrust law," *Anheuser-Busch, Inc. v. Abrams*, 520 N.E.2d 535, 539 (N.Y. 1988), and "the ruling of a Federal court interpreting a Federal Statute has no direct bearing upon a [New York] court's analysis of an analogous provision enacted by the [New York] Legislature," *People v. Roth*, 420 N.E.2d 929, 930 (N.Y. 1981). But even setting that aside, it well-settled in the Fifth Circuit (and elsewhere) that "[o]pinions that 'never squarely address[] [an] issue' … are not precedential 'by way of *stare decisis*.'" *Petteway v. Galveston Cnty.*, 111 F.4th 596, 603 (5th Cir. 2024). That principle is equally fatal to BMC's suggestion that the Fifth Circuit's decision implicates "the federal-law rights of copyright owners," Pet.13; while the petition uses the word "copyright" 60 times, the decision below never even mentions it. Because the court below plainly did not squarely address any question of federal law, it could not have announced any "binding" or "sweeping" "holdings" about it. That suffices to defeat any claim that the decision "conflicts with decisions of other circuits" that really *did* apply federal antitrust and intellectual-property law, or otherwise "deepens confusion on important federal issues." Pet.9 (capitalization altered).

In short, the *sine qua non* of a viable petition for certiorari is a question of federal law. Because BMC does not and cannot establish that this case involves one, that is the end of the road.

II. The Decision Below Correctly Applied New York Contract Law.

What BMC really seeks is error-correction on the interpretation of a contract governed by New York law. That is not remotely certworthy, but there is no error to correct in all events.

1. As the Fifth Circuit explained, its decision is rooted in New York's "longstanding rules of contract interpretation," which require courts to ascertain "the intent of the parties … within the four corners of the contract, giving a practical interpretation to the language employed and reading the contract as a whole." App.8 (quoting *Tomhannock, LLC v. Roustabout Res., LLC*, 128 N.E.3d 674, 675 (N.Y. 2019)). Under those settled principles, "[p]articular words should be considered, not as if isolated from the context, but in the light of the obligation as a whole and the intention of the parties manifested thereby." App.8 (quoting *Donohue v. Cuomo*, 184 N.E.3d 860, 870-71 (N.Y. 2022)).

Because "the best evidence of the parties' intent is what they express in their written contract," *Goldman v. White Plains Ctr. for Nursing Care, LLC*, 896 N.E.2d 662, 664 (N.Y. 2008), the court focused on the contract's text, *see* App.8-12. It began with §5.1 of the 2015 OA ("Access and Use"), which authorizes IBM to "use, access, install and have operational responsibility of the BMC Customer Licenses ... provided that the BMC Customer Licenses are used *solely for the purposes of supporting the BMC Customer who owns such licenses*." App.8-9. As the court explained, this means that "IBM could access and use BMC's software without itself paying a license fee but only to support BMC customers who owned BMC software licenses." App.9.

The Fifth Circuit next explained that, when (as here) IBM operated under §5.1, it had to abide by §5.4, which provided that, "for certain listed customers (including AT&T), 'while IBM cannot *displace* any BMC Customer Licenses *with IBM products*, IBM may *discontinue* use of BMC Customer Licenses *for other valid business reasons*.'" App.9 (alterations adopted). The court acknowledged BMC's position that §5.4 "categorically bars IBM from replacing BMC software with IBM software in a mainframe at a customer's request." App.9. But it rejected that interpretation because traditional "rules of construction" led it to conclude that §5.4 permits IBM to replace BMC software with IBM software when (as here) the customer "initiate[s] th[e] switchover independently." App.8, 11.

In reaching that conclusion, the Fifth Circuit started with dictionary definitions of "displace" and "discontinue," which reveal that the terms have closely related meanings. App.9-10. The former connotes "remov[ing]" something, while the latter connotes "ceas[ing] to use" something. App.10 (quoting *Webster's Third New Int'l Dictionary* (1981)). The court rejected BMC's effort to draw a "stark dichotomy between" these two similar terms as artificial because to do so would violate the canon against superfluity, "contrary to New York law." App.10-11. As it explained, if "displace" and "discontinue" "bore wholly distinct meanings," then the phrase "other valid business reasons" would serve no purpose. App.10. If that was what the parties intended, then Section 5.4 "would simply state: while IBM cannot displace any BMC Customer Licenses *with IBM products*, IBM may discontinue use of BMC Customer licenses." App.10-11 (alterations adopted).

The Fifth Circuit then explained why IBM's interpretation of §5.4 better "harmonize[d] all of the provision's language in accord with [New York] law." App.11. On the one hand, "the 'cannot displace' clause prohibits IBM from competing unfairly with BMC by using its outsourcing services to (a) gain inside knowledge as to how BMC's customers use BMC software and (b) sell IBM software to the same customers with this special knowledge." App.11. On the other hand, the "may discontinue" clause allows IBM to "discontinu[e] BMC[] software in favor of its own software" for "other valid business reasons," including when a customer "initiate[s] th[e] switchover independently." App.10-11.

The Fifth Circuit observed that its interpretation is "supported by other provisions in the parties' agreements." App.12. For example, §5.1—which is expressly incorporated into §5.4—allowed IBM to access and use mutual customers' BMC licenses "for the purposes of supporting the BMC Customer." App.12. "That is exactly what IBM did when it executed AT&T's policy to partially replace BMC software with IBM software in the AT&T mainframes." App.12-13. BMC's reading, by contrast, would affirmatively frustrate the BMC customer who had already paid BMC for the license, by preventing its favored servicer from implementing the customer's own decision to replace BMC software with IBM software.

The Fifth Circuit also recognized that BMC's "cramped reading" would "produc[e] absurd results," which New York law disfavors. *See* App.13. For instance, under BMC's reading, IBM would have to pay hundreds of millions of dollars in licensing fees to BMC to comply with AT&T's request to replace unwanted BMC software with preferred IBM software, but could "replace BMC's software with *any other* competing software at AT&T's request" at no additional cost—and anyone besides IBM could replace BMC software *with IBM software*. App.13. Moreover, as discussed, BMC's reading "risk[ed] making Section 5.4 an unenforceable illegal restriction on competition" since prohibiting IBM from complying with customer-initiated requests would not further BMC's legitimate interest in ensuring that IBM did not use inside information to gain an unfair advantage. App.14.

In sum, the Fifth Circuit correctly concluded, based on a careful analysis of the contract's text, context, and purpose, that there is "only [one] reasonable reading of Section 5.4": It prohibited IBM from swapping its own software for BMC software "on its own accord," but allowed IBM to perform such a switchover "at AT&T's request." App.15. And because it is "undisputed" that AT&T decided to pursue the switchover at issue here "independently and without any lobbying or influence of IBM," that compelled the conclusion that IBM "did not breach Section 5.4." App.11, 15-16.

2. Nearly all of BMC's criticisms of the Fifth Circuit's decision attack a straw man: what BMC describes as a "sweeping ruling" that "a license

restriction is unreasonable and unenforceable any time it might constrain the options available to third parties." Pet.9, 27. As explained, however, the decision holds no such thing. The decision below says precisely nothing about copyright or intellectual-property law. And far from forming "the crux of the court's decision," Pet.2, the discussion of New York unfair-competition law merely provided additional confirmation of what the text, context, and structure of the parties' contract already made clear, *see* App.9-15.

What is more, BMC mischaracterizes the substance of the Fifth Circuit's concerns about unfair competition. BMC repeatedly insists that it "had good reasons to prevent IBM from using its proprietary software for free while poaching its clients."[3] Pet.18; *see* Pet.19. But the court below never suggested otherwise. To the contrary, the court *agreed* that §5.4 legitimately "prevent[s] IBM from leveraging its special position as an IT-outsourcer, its access to BMC products in client environments, and the unique knowledge it thereby gains to unfairly compete for BMC's software clients." App.14; *accord* App.11. It just concluded that none of those legitimate interests was at stake here because it was undisputed that IBM did none of those things. App.13. Far from marking any sweeping error, that conclusion makes eminent sense, as BMC plainly has no legitimate interest in impeding the ability of customers to switch from BMC to IBM software for reasons entirely of their own.

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[3] To set the record straight, IBM did not use BMC software for "free"; IBM paid millions of dollars for the right to access BMC software pursuant to the 2015 OA. *See* ROA.14382 (§1.2).

BMC fares no better with its accusations that the Fifth Circuit "refused to apply the plain meaning of the contract," Pet.7, "held" that it cannot enforce §5.4 "as written," Pet.17, and "replac[ed] the plain text negotiated by sophisticated parties with a judge-made carveout," Pet.9; *accord* Pet.2. One need only read the opinion for a unanimous panel to see that none of that is remotely true. The court focused first and foremost on the text of §5.4, interpreting the key words in the critical context of both the words immediately surrounding them and the contract as a whole, and with the aid of well-established canons. App.8-13. There is nothing remotely "non-textual" about any of that, *contra* Pet.17, 22; indeed, that is how this Court interprets text as well, *see, e.g.*, *West Virginia v. EPA*, 597 U.S. 697, 721 (2022) ("It is a fundamental canon of statutory construction that the words of a statute must be read in their context and with a view to their place in the overall statutory scheme.").

BMC protests that the Fifth Circuit's reading of §5.4 "resulted in two different words"—"displace" and "discontinue"—"meaning the exact same thing." Pet.22. But not even BMC really buys the argument that "displace" and "discontinue" have fundamentally different meanings. After all, BMC itself has agreed throughout this case that "discontinue" encompasses "transition[ing]" a customer from BMC software to the software of someone *other than* IBM, CA5.Dkt.134 at 27—as it must since, §5.4 would otherwise prohibit IBM from assisting mutual customers with replacing BMC products *at all*. So, by BMC's own telling, "displace" and "discontinue" both encompass the same basic act—the replacement of BMC products—which suffices to defeat any claim that the parties must have intended those terms to mean significantly different things. Conversely, BMC does not deny the redundancy problem its own reading creates, in that it would render the phrase "'for other valid business reasons' superfluous, contrary to New York law," App.10-11. *See* Pet.21-22.

In short, no amount of rhetoric can change what the Fifth Circuit actually said. And what the Fifth Circuit actually said was correct and certainly comes nowhere close to presenting any potential error for this Court to correct.

III. This Factbound State-Law Dispute Is An Exceedingly Poor Vehicle For Exploring Any Of The Federal-Law Issues BMC Raises.

For all the reasons already discussed, this case does not present the question that BMC maintains "merits this Court's attention," as the Fifth Circuit did not hold that "a license use restriction is unreasonable and unenforceable if it could reduce the commercial options available to third parties." Pet.22-23. But even if there were some certworthy federal issue lurking *sub silentio* in the Fifth Circuit's decision, this case would be an exceedingly poor candidate for this Court's review.

For one thing, the case involves a contractual provision that is a veritable legal unicorn; indeed, after eight years of litigation, BMC still has not found anyone other than IBM or BMC that has ever included comparable language in a contract (and the twists and turns of this litigation make it an unlikely candidate for inclusion in any future contract). Indeed, not only will this Court's review make no difference to anyone besides BMC, it is highly unlikely to make any difference to BMC itself. The state-law unfair competition issue that BMC now seeks to recast as an issue of federal law was just one of four grounds the Fifth Circuit identified for rejecting BMC's breach-of-contract claim. And the breach-of-contract issue was just one of multiple arguments IBM advanced in the Fifth Circuit for reversal. Indeed, BMC's misguided view of the contract was not even the most glaring error in a district court decision that converted a commercial dispute under contracts with a $5-million damages cap and a bar on punitive damages into a $1.6 billion tort award, half of which involved punitive damages. The most BMC could hope for here is a remand to the Fifth Circuit for the panel to consider the multiple other fatal flaws with the district court's judgment.

But whatever BMC's hopes, the only realistic outcome here is denial. The decision below presents no issue of federal law. If this Court ever decides to confront the federal issue BMC identifies, it should do it in a case where the parties briefed the issue below and the lower court actually decided the issue. None of that happened here.

CONCLUSION

This Court should deny the petition.

Respectfully submitted,

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