

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE**

----- X
RED HAT, INC., :
 :
Plaintiff, :
 :
Plaintiff, : Civil Action No.: 03-772-SLR
 :
vs. :
 :
THE SCO GROUP, INC. (formerly Caldera :
International, Inc.) :
 :
Defendant. :
----- X

**MEMORANDUM OF LAW IN SUPPORT OF
RED HAT, INC.'S MOTION FOR RECONSIDERATION**

Josy W. Ingersoll (#1088)
Adam W. Poff (#3990)
Young Conaway Stargatt & Taylor, LLP
The Brandywine Building
1000 West Street, 17th Floor
P.O. Box 391
Wilmington, DE 19899-0391
Telephone: (302) 571-6672
Facsimile: (302) 571-1253

William F. Lee
Mark G. Matuschak
Michelle D. Miller
Donald R. Steinberg
Hale and Dorr LLP
60 State Street
Boston, MA 02109
Telephone: (617) 526-6000
Facsimile: (617) 526-5000

Attorneys for plaintiff
Red Hat, Inc.

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PRELIMINARY STATEMENT

Red Hat, Inc. (“Red Hat”) hereby submits this memorandum in support of its motion pursuant to Local Rule 7.1.5 seeking reconsideration of the Court’s April 6, 2004 Order (the “Order”) staying Red Hat’s litigation against The SCO Group, Inc. (“SCO”) (the “Delaware Action”) pending the outcome of SCO’s lawsuit against International Business Machines Corp. (“IBM”) (the “Utah Action”). The Court imposed the stay based on its misapprehension that both the Delaware Action and the Utah Action involve “the core issue of whether the LINUX system contains any misappropriated UNIX system source code.” Order at 5 ¶ 2b. Red Hat seeks reconsideration on two independent grounds.

First, when it ordered the stay *sua sponte* without briefing from the parties, the Court did not have the benefit of case law and facts that would have shown that a stay based on the prior pending Utah Action is inappropriate here. Invoking priority of the first filed case to stay the second-filed action is only proper when the parties and issues in the two litigations are the same. Neither criterion is satisfied here. To the contrary, the Utah Action – in which SCO has twice amended its complaint and IBM has asserted and twice amended multiple counterclaims – fundamentally concerns the contractual relationship between IBM and SCO, whereas the Delaware Action concerns the damage that SCO has done and is continuing to do to Red Hat and Red Hat’s customers. Indeed, of the nine claims and fourteen counterclaims in the Utah Action, only SCO’s copyright claim, asserted for the first time in its Second Amended Complaint six months *after* Red Hat initiated this lawsuit, and IBM’s counterclaim for a declaration of noninfringement (filed eight months after the Delaware Action) could be argued to share subject matter with one of Red Hat’s seven claims. Those claims, however, do not concern the “same subject matter” as Red Hat’s copyright claim because whether IBM infringed SCO’s copyright and whether Red Hat infringed SCO’s copyright are two distinct inquiries.

Second, the Court should reconsider the stay in order to prevent manifest injustice to Red Hat – which injustice is evident from new evidence not previously before the Court. SCO has recently filed additional lawsuits against end users that allege that these end users have breached an agreement with SCO or are infringing SCO’s rights in UNIX. Staying this suit leaves SCO open to pursue the very activities that necessitated Red Hat’s complaint in the first instance – a campaign against LINUX (including Red Hat LINUX) to force Red Hat’s customers to enter into licenses to use open source code that SCO did not even develop. By contrast, absent a stay, Red Hat would be able to vindicate its rights (rights which are not dependent on the Utah Action’s results). In turn, Red Hat’s customers would thereafter be able to assert defensive nonmutual collateral estoppel in response to SCO’s infringement suits against them.

For these reasons, Red Hat respectfully requests that this Court reconsider its Order and vacate the stay. In the alternative, Red Hat respectfully requests that the Court modify its order to enjoin SCO from threatening or initiating additional lawsuits against Red Hat or its customers based on alleged copyright infringement through use of LINUX until the stay is lifted.

STATEMENT OF FACTS

A. SCO’s Initial Complaint and Amended Complaint Against IBM Did Not Include a Copyright Infringement Claim.

SCO filed the Utah Action on March 6, 2003 (the “Utah Complaint”). See Declaration of Josy Ingersoll (“Ingersoll Decl.”) Exhibit A. The Utah Complaint alleged four causes of action: (1) misappropriation of a trade secret under Utah statutory law; (2) unfair competition based on allegations that IBM’s course of conduct is undermining SCO’s economic value in the UNIX operating system; (3) interference with SCO’s contracts with its customers; and (4) breaches of the AT&T/IBM UNIX agreements to which SCO now claims to have rights. See id. pp. 23-31.

IBM answered the Utah Complaint on April 30, 2003. See Ingersoll Decl. Exhibit B (Defendant International Business Machines Corporation’s Answer to the Complaint of Plaintiff Caldera Systems, Inc. d/b/a/The SCO Group (“Answer”). IBM did not assert any counterclaims in the Answer. On May 20, 2003, IBM amended the Answer, but still did not assert any counterclaims. See id. Exhibit C (Defendant International Business Machines Corporation’s Amended Answer to the Complaint of Plaintiff Caldera Systems, Inc. d/b/a The SCO Group (“Amended Utah Answer”).

SCO filed an Amended Complaint on July 22, 2003. See Ingersoll Decl. Exhibit D (Amended Complaint (“Amended Utah Complaint”). The Amended Utah Complaint alleged six claims for: (1) breach of a software agreement for the UNIX system V source code; (2) breach of a sublicensing agreement; (3) breach of the Sequent Software Agreement; (4) unfair competition; (5) interference with a contract; and (6) misappropriation of a trade secret under the Utah statute. SCO did not assert a copyright infringement claim against IBM in either the initial or Amended Utah Complaint. See id.

B. Red Hat’s Complaint Sought Declaration of Noninfringement Under Federal Copyright Law with Respect to Red Hat LINUX.

Red Hat commenced the Delaware Action on August 4, 2003. See Red Hat, Inc.’s Complaint (“Delaware Complaint”). Red Hat sought declaratory and injunctive relief, as well as damages, against SCO based on seven causes of action: (1) a declaratory judgment that no version of LINUX sold, used or distributed by Red Hat infringes SCO’s rights under the Copyright Act; a Declaratory Judgment that no version LINUX sold or used by Red Hat misappropriates any SCO trade secret; (3) violation of Section 43(a) of the Lanham Act based on false advertising; (4) violation of Delaware statutory law based on SCO’s engagement in deceptive trade practices; (5) unfair competition; (6) tortious interference with Red Hat’s

business relationships; and (7) trade libel and disparagement by making false and disparaging statements regarding Red Hat's products, services and business practices. Id. pp. 19-23.

C. SCO Added a Claim for Copyright Infringement Against IBM After IBM Filed Counterclaims, and Six Months After Red Hat Filed the Delaware Action.

On August 6, 2003, IBM answered the Amended Utah Complaint and filed counterclaims against SCO. See Ingersoll Decl. Exhibit E (Defendant IBM's Answer to the Amended Complaint and Counterclaim-Plaintiff IBM's Counterclaims Against SCO ("Utah Counterclaims")). IBM asserted nine counterclaims against SCO, but none seeking a declaration of noninfringement: (1) breach of contract based on agreements between IBM and AT&T and amendments thereto; (2) violation of the Lanham Act with respect to IBM's AIX¹ and LINUX related products; (3) unfair competition that deprives IBM of the value of its AIX and LINUX related products; (4) intentional interference with prospective economic relations; (5) unfair and deceptive trade practices in violation of N.Y. Gen Bus Law § 349; (6) breach of the GNU General Public License; and (Counts 7 through 9) three claims that SCO has infringed separate IBM patents through SCO's products including UnixWare.

IBM amended its counterclaims against SCO on September 25, 2003 – again, without seeking a declaration of noninfringement. See Ingersoll Decl. Exhibit F (Counterclaim-Plaintiff IBM's Amended Counterclaims Against SCO ("Amended Utah Counterclaims")). IBM retained its original nine causes of action against SCO and added four more, for a total of thirteen. See id. IBM added a claim for promissory estoppel regarding SCO's statements about the General Public License; a claim for copyright infringement against SCO based on SCO's non-exclusive license to use IBM's copyrighted contributions to LINUX; a fourth patent infringement claim; and a declaratory judgment that SCO has engaged in all of the conduct set forth in the first

¹ AIX is IBM's version of UNIX, to which SCO claims it has revoked IBM's rights. See, e.g., Ingersoll Decl. Exhibit A ¶ 131. This software product is not at issue in the Delaware Action.

twelve causes of action. Id. pp. 21-37. IBM did not seek a declaratory judgment that IBM is not infringing any copyright allegedly owned by SCO. See generally id. Nor did IBM seek a declaratory judgment that IBM has not misappropriated any SCO trade secret. Id.

On February 27, 2004, SCO amended its complaint against IBM for a second time, expanding SCO's claims to from six to nine.² See Ingersoll Decl. Exhibit G (Second Amended Complaint ("Second Amended Utah Complaint")). The Second Amended Utah Complaint dropped SCO's earlier cause of action for misappropriation of a trade secret under Utah law, although SCO continued to allege in support of its unfair competition claim that IBM has misappropriated source code, methods, and confidential information from SCO.³ For the first time, the Second Utah Amended Complaint added a claim that IBM is infringing SCO's alleged copyrights through IBM's reproduction, preparation of derivative works of, and distribution of UNIX software, source code, object code, programming tools, and documentation related to UNIX. Id. ¶ 175. SCO added its claim for copyright infringement over six months after Red Hat brought its declaratory judgment action against SCO.

On March 29, 2004, IBM again amended its counterclaims, this time asserting fourteen claims against SCO. See Ingersoll Decl. Exhibit H (Counterclaim Plaintiff IBM's Second Amended Counterclaims Against SCO ("Second Amended Utah Counterclaims")). The Second Amended Utah Counterclaims retained the same claims as the First Amended Utah

² These claims are: (1) breach of IBM software agreement, on grounds that IBM exceeded the terms of a license that SCO terminated; (2) distribution by IBM of software in breach of a sublicense agreement that SCO also claims to have terminated; (3) breach of the Sequent Software Agreement, which SCO also claims have to terminated; (4) breach of Sequent Sublicensing Agreement, which SCO also claims to have terminated; (5) copyright infringement based on SCO's alleged ownership of certain code; (6) unfair competition based on a course of conduct designed to harm UNIX; (7) interference with contract based on inducing SCO's customers to breach contracts with SCO; (8) interference with contract based on an Asset Purchase Agreement that SCO is a party to with Novell, Inc.; and (9) interference with a business relationship, including a relationship with Hewlett Packard. See Ingersoll Decl. Exhibit G (Second Amended Complaint) pp. 32-61.

³ SCO, however, dropped "misappropriation of trade secrets" as a count and omitted the allegations in its original and Amended Utah Complaint in support of such a cause of action. Compare Ingersoll Decl. Exhibits A, D with id. Exhibit G.

Counterclaims, but added, for the first time, a counterclaim for a declaratory judgment that IBM's activities relating to LINUX do not infringe any enforceable copyrights owned by SCO. Id. ¶¶ 168-173. IBM's addition of this counterclaim occurred nearly eight months after Red Hat filed the Delaware Action.

D. SCO Has Begun to File Lawsuits Against End Users.

On March 3, 2004, SCO filed a lawsuit against AutoZone, Inc. ("AutoZone") in the United States District Court for the District of Nevada for copyright infringement. See Ingersoll Decl. Exhibit I (SCO's complaint against AutoZone ("AutoZone Complaint")). In the AutoZone Complaint, SCO alleges that its copyrighted material has been copied into LINUX versions 2.4 and 2.6 and that AutoZone is using, copying, modifying, and distributing the copyrighted material in violation of SCO's rights.

Also on March 3, 2004, SCO filed a lawsuit against DaimlerChrysler Corporation ("DaimlerChrysler") in Michigan state court. See Ingersoll Decl. Exhibit J (SCO's complaint against DaimlerChrysler (the "DaimlerChrysler Complaint")). The DaimlerChrysler Complaint alleges breach of contract and seeks a declaratory judgment that DaimlerChrysler breached a UNIX license agreement between SCO's predecessor and DaimlerChrysler's by failing to provide a certification that DaimlerChrysler did not contribute any UNIX software code into LINUX. See DaimlerChrysler Complaint ¶ 4, 27 and Exhibit B thereto. The DaimlerChrysler Complaint also alleges that DaimlerChrysler's failure to provide the demanded certification is based on DaimlerChrysler's "use of UNIX technology, in violation of the . . . Software Agreement, in migrating its installed base to the LINUX operating system." Id. ¶ 28.

E. SCO's Motion to Dismiss and the Court's April 6, 2004 Order.

Rather than answer Red Hat's complaint, SCO moved to dismiss this action and sought to stay discovery pending the outcome of its motion. Both of SCO's motions were fully briefed by

both parties prior to this Court's ruling. In addition, Red Hat moved to supplement the record with evidence that SCO had threatened Red Hat's actual customers and planned to continue to do so. See generally Motion to Supplement the Record ("Motion to Supplement"). In that motion, Red Hat presented evidence that, in addition to the 1,500 letters SCO had sent to actual and potential Red Hat customers in May 2003, SCO had sent a series of letters beginning on December 19, 2003 to Red Hat's customer Lehman Brothers Holdings, Inc. warning that its use of LINUX (and hence use of Red Hat LINUX) violates SCO's intellectual property rights in UNIX and threatening to take legal action against Lehman Brothers. See id. ¶¶ 5-7.

Red Hat also presented evidence that in February 2, 2004, SCO's president and Chief Executive Officer, Darl McBride, promised that SCO would be filing lawsuits against end users "by February 18" and "within the next few weeks." Id. ¶ 8. By filing the AutoZone and DaimlerChrysler Complaints on March 3, 2003, SCO began to carry out its threats.

In addition, although SCO argued that it intended to move to transfer this case to Utah or to stay this litigation during the pendency of the Utah Action (see Defendant's Consolidated Reply in Support of Defendant's Motion to Stay Discovery Pending Resolution of the Motion to Dismiss and its Motion for Enlargement of Time, at p.7), SCO never did so. Accordingly, the Court's issuance of the stay in this case was made *sua sponte* and without briefing by the parties.

ARGUMENT

I. STANDARD OF REVIEW.

A motion for reconsideration under Local Rule 7.1.5 is the functional equivalent of a motion to alter or amend judgment under Federal Rule of Civil Procedure 59(e). See Jones v. Pittsburgh Nat'l Corp., 899 F.2d 1350, 1352 (3d Cir. 1990). The purpose of a motion for reconsideration is to "correct manifest errors of law or to present newly discovered evidence." Max's Seafood Cafe v. Quinteros, 176 F.3d 669, 677 (3d Cir. 1999). Accordingly, the court may

alter or amend a judgment if the movant demonstrates at least one of three major grounds: (1) there is a change the controlling law, (2) there is new evidence, or (3) to correct a “clear error of law or fact or to prevent a manifest injustice.” See id. (citing North River Ins. Co. v. CIGNA Reins. Co., 52 F.3d 1194, 1218 (3d Cir. 1995)). In this District, reconsideration is also appropriate where the court decides an issue “that was outside the adversarial issues presented by the parties.” In re Hechinger Inv. Co. v. Fleet Retail Fin. Group, 303 B.R. 18, 23 (D. Del. 2003) (granting motion for reconsideration); see also Brambles USA, Inc. v. Blocker, 735 F. Supp. 1239, 1241 (D. Del. 1990) (setting forth standard for reconsideration under former Local Rule 3.3 and concluding that reconsideration is appropriate when court decides issues outside those presented by the parties).

Reconsideration, and hence modification of the Court’s April 6, 2004 Order, is appropriate here for two independent reasons: (1) the Court did not have the benefit of the law and the facts regarding the first filed rule when it decided *sua sponte* to stay the Delaware Action; and (2) reconsideration is necessary to prevent a manifest injustice to Red Hat, which injustice is clear from new evidence not available to the Court when it issued the Order.

II. WHEN IT ISSUED THE APRIL 6, 2004 ORDER, THE COURT DID NOT HAVE THE BENEFIT OF LAW AND FACTS DEMONSTRATING THAT THE FIRST FILED RULE IS INAPPLICABLE HERE.

While a court may properly decline to re-analyze its decision on a motion for reconsideration, a district court should consider previously overlooked facts and case law. See Max’s Seafood Cafe, 176 F. 3d at 678 (reversing denial of motion for reconsideration as abuse of discretion where court refused to receive overlooked evidence); see also Buffa v. N.J. State Dep’t of Judiciary, 56 Fed.Appx. 571, 575 (3d Cir. Jan. 14, 2003) (finding that the court had not erred in granting a motion for reconsideration where certain facts, arguments and case law had been overlooked); Worbetz v. Ward North Amer. Inc., 54 Fed.Appx. 526, 533 (3d Cir. Dec. 5,

2002) (finding that the court acted within its discretion by granting reconsideration of grant of summary judgment on one claim, where court had overlooked portions of defendant's opposing brief); Medtronic AVE, Inc. v. Cordis Corp., No. Civ. 03-402-SLR, 2003 WL 23112268, at *1 (D. Del. Dec. 11, 2003)(Robinson, J.)(granting reconsideration where the court overlooked and/or did not consider law and facts regarding arbitrability of patent disputes). The likelihood that the court may have overlooked law or facts is increased when the court goes beyond the issues presented by the parties. See, e.g., In re Hechinger, 303 B.R. at 23 (granting reconsideration because court had decided an issue that was outside the adversarial issue presented by the parties).

The Court based its decision to stay this action in favor of the Utah Action on its erroneous conclusion that the "core issue" in both cases is "whether the LINUX system contains any misappropriated source code." Order at 5 ¶ 2b. Based on this erroneous conclusion, the Court reasoned that it would be a waste of judicial resources to have two district courts resolving "the same issue, especially where the first filed suit in Utah involves the primary parties to the dispute." Id. The Court did not have or seek briefing from the parties on this issue before ruling.

The Court's reasoning, together with its order that "the parties shall each submit a letter every 90 days as to the status of the Utah litigation," id. ¶ 2c, suggest that the Court may not have had the benefit of critical case law and facts in making its decision. Specifically, the Court may not have been aware that Red Hat asserted its declaratory action for noninfringement six months before either SCO or IBM asserted a similar (albeit distinct) claim. The Court may also have overlooked law and facts establishing that the first filed rule does not apply here because the parties and the issues are not the same. For example, the Court may not have had the benefit of the facts that Red Hat is not a "primary part[y] to the dispute" in Utah. Similarly, in

concluding that the “core issue” involves misappropriated source code, the Court may not have had the benefit of the facts that SCO has withdrawn its misappropriation of trade secrets claim against IBM; that the Utah Action involves nine counts against IBM and fourteen counts against SCO; that of the twenty-three claims in the Utah Action, only the two copyright claims – which were filed over six months *after* Red Hat filed its declaratory action for noninfringement – overlap with any of Red Hat’s seven counts against SCO; and that resolution of Red Hat’s claims does not depend on the outcome of the Utah Action.

A. The First Filed Rule is Inapplicable Because Red Hat Was the First to File a Copyright Claim and Because Neither the Parties Nor the Issues are the Same in the Delaware and Utah Actions.

The “first to file” or “first filed” rule permits a court, in its discretion, to enjoin proceedings in favor of a previously filed action involving the same parties and issues. See EEOC v. Univ. of Pa. 850 F.2d 969, 971 (3d Cir. 1988) (finding that district court did not abuse its discretion by declining to invoke the rule to stay a second-filed action in favor of the first). The rule does not apply, however, where the parties and issues differ in each jurisdiction. Id.; see also Asten, Inc. v. Weavexx Corp., No. 99-593 GMS, 2000 WL 1728354, at * 2 (D. Del. Feb. 11, 2000) (first-filed rule should only apply when the competing actions involve the same parties and the same issues).

As a threshold matter, SCO should not be considered the first to file here. Although the Utah Action was technically filed first, that action contained no copyright claim – the core subject matter of the Delaware Action – until more than six months *after* Red Hat filed this action. Thus Red Hat was the first to file with respect to the core subject matter of the Delaware Action and the first filed rule should not have been applied.⁴ In any event, neither the parties nor

⁴ While it may be argued that SCO’s belated copyright infringement claim in the Utah Action (and IBM’s later-filed counterclaim for declaration of noninfringement) should be considered to have been filed first based on a “relation back” theory, the fact of the matter is that neither the original Utah Complaint nor the Amended Utah Complaint

the issues are the same in the Utah and Delaware Actions. Had the Court had the benefit of the relevant law and material facts when rendering its decision, the Court would have realized that the first filed rule is inapplicable here, and should not have been invoked to stay Red Hat's claims. See Univ. of Pa., 850 F.2d at 364 (the first filed rule gives the court "the power" to enjoin the subsequent prosecution of proceedings where "the same parties and the same issues [are] already before another district court"); see also Alltrade, Inc. v. Uniweld Prods., Inc., 946 F.2d 622, 628 n. 13 (9th Cir. 1991) (applying first filed rule where the parties and issues are not the same would be reversible error).

B. The Parties to the Delaware and Utah Actions are Not the Same.

Although courts in other jurisdictions have invoked the first filed rule to enjoin later-filed litigations even where the parties are not "identical," they have done so only where the lack of identity of parties was correctable and the two actions involved identical subject matter. See, e.g., RJF Holdings III, Inc. v. Refractec, Inc., No. 03-1600, 2003 WL 22794987, at * 2 (E.D.Pa. Nov. 24, 2003) (applying first filed rule where all parties in second filed litigation were subsequently added to the first filed litigation and parties agreed issues were identical); Whelan v. United Pac. Indus., Inc., No. 02-2519, 2002 WL 31513432, at *2 (E.D.Pa. Nov. 1, 2002)) (invoking first filed rule to enjoin second action; failure of first filed complaint to name patent owners named in second action was a correctable oversight, and issues were identical); see also British Telecomm v. McDonnell Douglas Corp., No. C-93-0677, 1993 WL 149860, at * 4 and n. 4 (N.D.Cal. May 3, 1993) (where the subject matter of both litigations was identical and "nothing prevented" party in second filed suit from attempting to join first suit, the fact that defendant was not a party in first suit did not "mandate" court to disregard first filed rule, but

included this subject matter in the dispute between SCO and IBM at the time that Red Hat filed the Delaware Action. Moreover, Red Hat is not a party to the Utah Action and none of the twenty-one other claims at issue in the Utah Action will resolve the issues between Red Hat and SCO regarding LINUX.

instead was “another of the factors this court must consider in exercising its discretion.”). In each of these cases, the parties agreed that the subject matter was the same in both actions.⁵

By contrast, and putting aside the question whether Red Hat would even be a proper party to the Utah Action, SCO’s decision not to join Red Hat as a party to the Utah Action is not a simple correctible error about failure to name a party such as a patent holder or parent corporation. Red Hat is not a party to the Utah Action because the Utah and Delaware Actions do not involve the same subject matter. See discussion infra Section II.C. Notably, moreover, no court in this District has departed from the Third Circuit’s “same parties” requirement in Univ. of Pa. to permit application of the first filed rule to stay a second suit where the plaintiff in the second suit is not a party to the first filed action. See, e.g., Tuff Torq. Corp. v. Hydra-Gear Ltd. P’ship, 882 F. Supp. 359, 365 (D. Del. 1994) (Robinson, J.) (declining to stay case based on first filed rule where parties were not identical and second case was proceeding more rapidly than the first).

C. The Issues in the Delaware and Utah Actions Are Not the Same.

1. The issue of “whether the LINUX system contains any misappropriated UNIX system source code” will not be decided in the Utah Action.

In casting as the “core issue” in both the Delaware and Utah Actions the question of “whether the LINUX system contains any misappropriated UNIX system source code,” the Court did not have before it the relevant facts concerning SCO’s claims against IBM and IBM’s claims against SCO. As a result, the Court may have misapprehended the number and nature of

⁵ Cf. Advanta Corp. v. Visa USA, Inc., No. 96-7940, 1997 WL 88906, at *2-3 (E.D.Pa. Feb. 19, 1997). The court in Advanta invoked the first filed rule against Advanta, which filed against Visa after Visa sued American Express concerning Advanta’s relationship with American Express. Visa did not originally join Advanta in the suit against American Express because of Visa’s customer relationship with Advanta, opting instead to use its informal Rules and Regulations process to deal with Advanta’s role in the Advanta-American Express relationship. Upon Advanta’s initiation of a second lawsuit against it, Visa amended its complaint to join Advanta in the first filed action against American Express. The court permitted the amendment to invoke the first filed rule because both actions involved the same basic subject matter (the American Express-Advanta relationship). See id. at 2-3.

those claims, which show that the subject matter of the Utah and Delaware Actions is not the same.

Specifically, SCO's campaign against LINUX goes well beyond IBM, and any suit against IBM necessarily resolves issues with respect to IBM and SCO, but not between SCO and the rest of the LINUX community. The Utah Action will thus resolve, at most, whether IBM contributed to UNIX certain LINUX code owned by SCO. It will not resolve the issue of whether others have misappropriated other UNIX code and added it to LINUX or whether others are infringing SCO's copyrights. Indeed, if IBM prevails in the suit, the question of "whether the LINUX system contains any misappropriated UNIX system source code" will still be completely open for SCO to assert against its next target. As a result, the "core issue" identified by the Court cannot and will not be resolved in the Utah Action, and therefore cannot serve as the basis for a stay.

2. The Utah Action is fundamentally a breach of contract action concerning SCO's and IBM's rights under various agreements, whereas the Delaware Action is concerned exclusively with SCO's actions aimed at Red Hat.

The Utah and Delaware Actions concern fundamentally different issues. The issue in the Delaware Action is whether the version of LINUX as sold, used or distributed by Red Hat infringes SCO's rights, whereas the SCO's copyright claim against IBM (and IBM's declaratory action against SCO for noninfringement) concerns whether IBM contributed UNIX code to LINUX. Thus, a finding of noninfringement by IBM does not fully answer the question with respect to the products sold or used by Red Hat, and a finding that IBM did not infringe does not necessarily preclude SCO from pursuing a different, meritless infringement theory in defense of Red Hat's declaratory judgment action.⁶ Most importantly, the counts of the Delaware

⁶ Of course, Red Hat would be able to assert offensive nonmutual collateral estoppel against SCO as to issues that were actually litigated in the Utah Action and necessary to the judgment, *see Parklane Hosiery, Inc. v. Shore*, 439 U.S. 322, 326 n. 4 (1979), *i.e.*, as to the issue of IBM's contributions to LINUX.

Complaint asserting SCO's anti-competitive conduct in its continuing campaign against LINUX – and seeking to halt SCO's threats to Red Hat's customers – will not be (and cannot be) decided in the Utah Action. As a result, the Delaware Action involves facts and claims not asserted in the Utah Action, and staying this case based on the first filed rule was inappropriate. See APV North Amer. v. SIG Simonazzi North Amer., 295 F. Supp. 393, 397 (D. Del. 2002) (finding first filed rule inapplicable where second filed action involved facts and claims not asserted in first filed action, and rejecting argument that “substantial overlap” of issues is sufficient in District of Delaware to satisfy “same issues” requirement).

III. THE CIRCUMSTANCES OF THIS CASE DEMAND THAT THE COURT VACATE THE STAY EVEN IF IT CONCLUDES THAT THE FIRST FILED RULE IS APPLICABLE, IN ORDER TO PREVENT MANIFEST INJUSTICE TO RED HAT AND ITS CUSTOMERS.

The Court should also grant reconsideration and vacate the stay on the independent ground that reconsideration is necessary to prevent manifest injustice to Red Hat. Even if the Court were inclined to give priority to the Utah Action because the initial litigation (as opposed to the copyright claim) was commenced first, the first filed rule “is not a mandate directing wooden application of the rule without regard to rare or extraordinary circumstances, bad faith, or forum shopping.” Tuff Torq, 882 F. Supp. at 364 (noting that the Third Circuit “has rejected that a district court must stay the second filed action without regard to the circumstances of the case.”). The letter and spirit of the first-filed rule are grounded on equitable principles. Univ. of Pa., 850 F.2d at 977. Thus, while the rule's primary purpose is to avoid burdening the federal judiciary and to prevent the judicial embarrassment of conflicting judgments, “fundamental fairness dictates the need for fashioning a flexible response to the issue of concurrent jurisdiction.” Id. (citations and internal quotations omitted).

It is “fundamentally unfair” to stay this litigation, especially since Red Hat is “not even a party to the first” action. See Tuff Torq., 882 F. Supp. at 365. By calling for the parties to report periodically on the status of the Utah Action, the Court appears to anticipate that the Utah Action might not proceed rapidly and to recognize that it would be fundamentally unfair to force Red Hat to wait.⁷ See Order at 5 ¶ 2c. Indeed, with twenty-three causes of action between the Utah parties concerning multiple contracts (with competing allegations of breach and termination rights), four separate patents, and numerous common law and statutory claims, the Utah Action is significantly more complex than the Delaware Action, which is based fundamentally on Red Hat’s lack of copyright infringement and SCO’s harassment campaign, and therefore is inherently capable of swifter judicial resolution.

Forcing Red Hat to await the outcome of a litigation that is likely to drag on for years, and, at the same time, permitting SCO to continue to harass Red Hat and its customers, damage Red Hat’s business, and threaten Red Hat’s livelihood, while preventing Red Hat from clearing its name of SCO’s accusations and hence preserving its business and its business relationships, is manifestly unjust to Red Hat. Indeed, the stay imposed by the Court enables SCO to continue, and even expand, its harassment campaign, thereby increasing its injury to Red Hat and Red Hat’s customers.⁸ At the same time, however, the stay renders Red Hat powerless to defend itself and thereby contain the damage from SCO’s allegations. Allowing SCO’s conduct to

⁷ Moreover, the Court’s order is also unfair to Red Hat insofar as it requires the parties to report periodically on the status and progress of the Utah Action, to which Red Hat is not a party. Neither Red Hat nor the Court will have the benefit of the adversarial process when the Court conducts its periodic review of whether the stay should be lifted based on the status of the Utah Action.

⁸ The damage to Red Hat and its customers has become even more clear from the new evidence of SCO’s recent lawsuits against end users. SCO’s suit against AutoZone accuses it of copyright infringement based on its use of LINUX. See Ingersoll Decl. Exhibit I. These new facts show that SCO – as it promised it would in February 2004 – is suing end users and that SCO may continue to sue end users who are actual or potential Red Hat customers on a theory that their use of a Red Hat LINUX product infringes SCO’s intellectual property rights.

continue unchecked, as the stay does, is thus manifestly unjust and contrary to the fundamental principles of fairness in which the first filed rule is rooted.

Accordingly, Red Hat respectfully requests that the Court exercise its discretion to modify its order in the interests of justice and efficiency, and in recognition of “the special circumstances of this case.” Tuff Torq, 882 F. Supp. at 365.

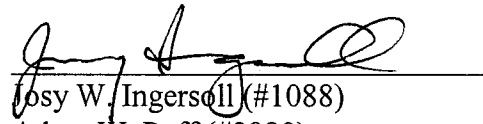
CONCLUSION

For the foregoing reasons, Red Hat respectfully requests that this Court reconsider and vacate its April 6, 2004 Order staying this action, or, in the alternative, modify its Order to enjoin SCO pending the stay from threatening or initiating any litigation against Red Hat or Red Hat’s customers based on alleged copyright infringement through use of LINUX.

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Respectfully submitted,

RED HAT, INC.
By its attorneys



Josy W. Ingersoll (#1088)
Adam W. Poff (#3990)
Young Conaway Stargatt & Taylor, LLP
The Brandywine Building
1000 West Street, 17th Floor
P.O. Box 391
Wilmington, DE 19899-0391
Telephone: (302) 571-6672
Facsimile: (302) 571-1253

William F. Lee
Mark G. Matuschak
Michelle D. Miller
Donald R. Steinberg
Hale and Dorr LLP
60 State Street
Boston, MA 02109
Telephone: (617) 526-6000
Facsimile: (617) 526-5000

CERTIFICATE OF SERVICE


I, Josy W. Ingersoll, Esquire, hereby certify that copies of the foregoing document were caused to be served on April 20, 2004 upon the following counsel of record:

BY HAND DELIVERY

Jack B. Blumenfeld, Esquire
Morris, Nichols, Arsht & Tunnell
1201 N. Market Street
Wilmington, DE 19801

BY FEDERAL EXPRESS

Mark J. Heise, Esquire
Boies, Schiller & Flexner, L.L.P.
Bank of America Tower
100 South East 2nd Street, Suite 2800
Miami, FL 33031



Josy W. Ingersoll