

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

RED HAT, INC.,)
)
 Plaintiff,)
)
 v.) Civ. No. 03-772-SLR
)
 THE SCO GROUP, INC.,)
)
 Defendant.)

MEMORANDUM ORDER

At Wilmington this 6th day of April, 2004, having reviewed the pending motions and the papers filed in connection therewith;

IT IS ORDERED that:

1. The motion to dismiss filed by defendant The SCO Group, Inc. ("SCO") (D.I. 8) is denied.

a. The Declaratory Judgment Act limits the use of declaratory judgments to cases of "actual controversy." 28 U.S.C. § 2201; Aetna Life Ins. Co. v. Haworth, 300 U.S. 227, 239-40 (1937). Generally, the presence of an "actual controversy" within the Act depends on "whether the facts alleged, under all circumstances, show that there is a substantial controversy between the parties having adverse legal interests, of sufficient immediacy and reality to warrant the issuance of a declaratory

judgment." Maryland Cas. Co. v. Pacific Coal & Oil Co., 312 U.S. 270, 273 (1941). Plaintiff, as the party seeking to invoke the court's jurisdiction, bears the burden of proving by a preponderance of the evidence that an "actual controversy" exists at the time of the complaint's filing, and continues to exist throughout the pendency of the action. See International Med. Prosthetics Research Assoc. v. Gore Entrp. Holdings, 787 F.2d 572, 575 (Fed. Cir. 1986). Even when it is determined that an actual controversy exists, federal courts may decline to exercise that discretionary jurisdiction. See Public Affair Assoc. v. Rickover, 369 U.S. 111, 112 (1962) ("The Declaratory Judgment Act was an authorization, not a command. It gave federal courts competence to make a declaration of rights; it did not impose a duty to do so.").

b. In deciding whether to allow a claim for declaratory relief to proceed in patent and copyright cases, federal courts use a two-step analysis in determining whether an "actual controversy" exists. First, defendant's conduct must have created a reasonable apprehension on plaintiff's part that it will face a suit for infringement. This test is an objective one, focusing on whether the defendant's conduct rose to a level sufficient to indicate an intent to enforce its patent or copyright. Goodyear Tire & Rubber Co. v. Releasomers, Inc., 824 F.2d 953, 955 (Fed. Cir. 1987). Courts have not required an

express infringement charge. Id. at 956. Absent an express charge, courts must consider under the totality of the circumstances whether the defendant's conduct meets the first prong. Id. at 955. Second, plaintiff must have engaged in allegedly infringing acts or possessed the capability and definite intention to engage immediately in such acts. Id. This second prong, in essence, prohibits declaratory judgment plaintiffs from seeking advisory opinions on their potential liability for initiating some future activities. Arrowhead Indus. Water v. Ecolochem, Inc., 846 F.2d 731, 736 (Fed. Cir. 1988) (citations omitted). Declaratory judgment plaintiffs must be engaged in an actual making, selling, or using activity subject to an infringement charge or must have made meaningful preparation for such activity. Id. (citations omitted).

c. Plaintiff Red Hat, Inc. ("Red Hat") has alleged that defendant SCO is engaged in a campaign to create fear, uncertainty, and doubt about the LINUX operating system, with resulting direct harm to Red Hat. Moreover, Red Hat has submitted multiple press releases which indicate that SCO, in fact, has embarked on a campaign to protect its proprietary interests in its UNIX OS, particularly as against the LINUX industry which, SCO claims, is illegally appropriating its UNIX source code. (See, e.g., D.I. 10, exs. E, F, G) Although SCO chose as its first adversary International Business Machines

Corporation ("IBM") (the "Utah litigation") (see D.I. 10, exs. A, B), nevertheless, SCO has publicly stated that it has issues with Red Hat, that it will "likely file a new suit or amend its controversial lawsuit against IBM to target other companies" like Red Hat in the LINUX industry, that "[t]here will be a day of reckoning for Red Hat," and that "chances for negotiating with such companies [as Red Hat] appear to be slim." (D.I. 10, exs. E - G)

d. Under these circumstances, the court concludes that SCO's conduct has created a reasonable apprehension of suit. Moreover, there is no question that Red Hat is a LINUX software developer who is engaging in the allegedly infringing activities.

e. Given the court's conclusion, SCO's motion to stay discovery pending resolution of the motion to dismiss (D.I. 21) is denied as moot.

2. Despite the above ruling, the court has concluded that the instant action should be stayed pending a resolution of the Utah litigation between SCO and IBM.

a. From the materials of record, SCO has accused IBM of engaging in a scheme to "deliberately and improperly destroy the economic value of UNIX and particularly the economic value of UNIX on Intel-based processors" by, inter alia, "misappropriat[ing] the confidential and proprietary information

from SCO in Project Monterey."¹ Furthermore, SCO claims in its suit against IBM that "IBM . . . misused its access to the UNIX source code" by, inter alia, "working closely with the open source community [and] contributing technologies and resources" to the LINUX system, thus benefitting Red Hat, among others. (D.I. 10, ex. A)

b. From the allegations found in the complaint, the core issue of whether the LINUX system contains any misappropriated UNIX system source code must be decided. It is a waste of judicial resources to have two district courts resolving the same issue, especially when the first filed suit in Utah involves the primary parties to the dispute.

c. Therefore, this case is stayed pending further order of the court. The parties shall each submit a letter every 90 days as to the status of the Utah litigation. If, for any reason, that litigation is not progressing in an orderly and efficient fashion, the court may reconsider the stay.


United States District Court

¹Project Monterey is a 64-bit UNIX-based operating system for a new 64-bit Intel platform jointly developed by SCO, Intel, and IBM. (D.I. 10, ex. A)