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15 **UNITED STATES DISTRICT COURT**  
16 **CENTRAL DISTRICT OF CALIFORNIA**

17 PARAMOUNT PICTURES CORPORATION, ) Case No. 01-09358 FMC (Ex)  
*et al.*, )  
18 )  
Plaintiffs, ) **PLAINTIFFS' REPLY MEMORANDUM**  
19 ) **OF POINTS AND AUTHORITIES IN**  
v. ) **SUPPORT OF THEIR MOTION TO**  
20 ) **AMEND THE COMPLAINT**  
REPLAYTV, INC., *et al.*, )  
21 ) DATE: January 12, 2004  
Defendants. ) TIME: 10:00 a.m.  
22 ) PLACE: Courtroom 750  
AND CONSOLIDATED ACTIONS. )  
23 )  
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1 I. INTRODUCTION

2 Having successfully driven into bankruptcy a company offering an innovative product,  
3 using the legal claim that its customers are copyright infringers, and having dragged the consumer  
4 Plaintiffs through nearly a year of intensive discovery and motion practice, the Entertainment  
5 Companies now attempt to employ procedural tactics to avoid a legal determination about whether  
6 their legal claims have merit. If successful, these maneuvers will deny Plaintiffs and the 5,000  
7 other current ReplayTV digital video recorder owners relief from the Entertainment Companies’  
8 ongoing copyright infringement accusations and reported plans to initiate lawsuits against them.  
9 Almost as importantly, though, the success of the Entertainment Companies here will deny all  
10 Americans the opportunity to enjoy innovative interactive television technologies, since no  
11 company will be willing to risk SONICblue’s fate in order to bring a similar product to market.

12 This case concerns the over 5,000 current owners of ReplayTV 4000 DVRs with the  
13 Commercial Advance and Send Show features (“ReplayTV DVRs”), but it also raises a more  
14 fundamental legal question, the answer to which impacts nearly all Americans who watch  
15 television. That legal question is whether copyright law permits copyright holders to use their  
16 rights over television programs and movies to control technologies that consumers use to watch  
17 those programs in their living rooms.<sup>1</sup> The two particular technologies at issue here allow  
18 consumers to avoid watching commercials in a slightly better manner than they can using current  
19 fastforwarding technologies and to “send” recorded television programming from one machine to  
20 another over a closed network.

21 If leave to amend is denied and this case is dismissed, the Entertainment Companies will  
22 have used the unproven threat of copyright liability, combined with expensive entertainment  
23 lawyers, to squelch the contested features without ever facing the legal determination of whether  
24 their legal claims have merit. As a consequence, the Plaintiffs, both the individuals and the

25 \_\_\_\_\_  
26 <sup>1</sup> Or, as the U.S. Supreme Court put it when the same basic argument was rejected in the context of  
27 VCRs, “It seems extraordinary to suggest that the Copyright Act confers upon all copyright owners  
28 collectively, much less the two respondents in this case, the exclusive right to distribute VTR’s  
simply because they may be used to infringe copyrights. That, however, is the logical implication  
of their claim.” *Sony Corp. v. Universal Studios*, 464 U.S. 417, 441, note 21 (1984).

1 proposed class, will remain under threat of litigation, a threat recently reconfirmed by media  
2 reports that the movie industry plans to follow the record industry in filing lawsuits against  
3 consumers for sharing television shows. Hinze Decl., ¶8, Exh. E. In addition, the Entertainment  
4 Companies will have succeeded in chilling technology innovators who wish to provide similar  
5 technologies to consumers in the future. It is no coincidence that no other company has offered a  
6 product with features like Send Show and Commercial Advance; none of them can afford to risk  
7 the “death by litigation” suffered by SONICblue.

8 The Plaintiffs here seek to vindicate use of these technologies on behalf of all owners of  
9 ReplayTV DVRs and to create the legal space for future technologists to offer the same or similar  
10 products. To do so they must have their day in court. They are already much of the way there,  
11 having undergone a long and expensive discovery and preliminary motion process, the fruits of  
12 which will be lost if this case is dismissed. Having sparked this litigation with their claims that  
13 Plaintiffs are copyright infringers, the Entertainment Companies should not now be allowed to  
14 avoid a judicial determination through the belated grant of an unenforceable and unilateral  
15 “covenant not to sue” to only five of the 5,000 individuals affected by their actions.

16 Leave to amend should be granted. Amendment to cure potential mootness is commonplace  
17 and favored, especially when the parties have already spent significant resources litigating the case.  
18 Thus, even if the Entertainment Companies belated, unilateral “covenant not to sue” moots the case  
19 as to the five individual Plaintiffs, it does not do so for the proposed class or class representative,  
20 who have pointedly not been offered the same. The “covenant not to sue” is not sufficient to meet  
21 the Defendants’ heavy burden to prove that the Plaintiffs’ reasonable apprehension of litigation  
22 will not recur. Finally, the Entertainment Companies legal position has not only remained the  
23 same, the unchallenged record evidence indicates that they are planning to initiate litigation against  
24 individuals for using features such as the “Send Show” feature. This Court has already  
25 acknowledged the important public policy issues at stake here, and that it is in the public interest  
26 that the case proceed. Given all of these factors, and the others detailed previously and below,  
27 amendment should be allowed.

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## II. ARGUMENT

### A. The Entertainment Companies' Jurisdictional Arguments Erroneously Confuse Standing and Mootness

In both their opposition to Plaintiffs' motion to amend the complaint (the "Opposition") and in their briefing in support of their related motion to dismiss, the Entertainment Companies have presented a confused and mistaken picture of the governing principles of federal jurisdiction. In particular, they have conflated the related but distinct doctrines of standing and mootness. Once those doctrines are untangled and correctly understood, it becomes clear that the Court has continuing jurisdiction both over the Newmark Plaintiffs' original complaint and to permit amendment of the complaint.

As the Court noted in its order of August 15, 2002 ("Order"), the "actual controversy" standard of the Declaratory Judgment Act, 28 U.S.C. § 2201, is as broad as, and identical to, the "Case or Controversy" standard of Article III of the Constitution. Order at 5; *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 239-40 (1937). One aspect of the case or controversy requirement of Article III is that the plaintiff have standing, i.e. that the plaintiff have an injury in fact that is causally linked to the defendant and that is redressable by judicial action. *Friends of the Earth v. Laidlaw Environmental Services, Inc.*, 528 U.S. 167, 180-81 (2001). Standing is measured by the facts that exist at the time the lawsuit is initiated. *Id.* at 180, 188-91; *Biodiversity Legal Found. v. Badgley*, 309 F.3d 1166 (9th Cir. 2002) ("Standing is determined as of the commencement of the litigation."). It is the plaintiff's burden to establish these facts. *Friends of the Earth*, 528 U.S. at 180, 190.

Mootness is a distinct doctrine. *Id.*, 528 U.S. at 180, 189-91. Mootness arises when a case which originally had both proper jurisdiction and standing loses its character as a live controversy between the parties because of subsequent events. See *ibid.* Thus, subsequent events, even though they can moot an action, cannot destroy standing that properly existed at the beginning of the lawsuit. *Biodiversity Legal Found.*, 309 F.3d at 1171 ("[I]f it is determined that Appellants had standing at the time this case was filed, 'mootness' rather than 'standing' becomes the proper inquiry on appeal."); *Clark v. City of Lakewood*, 259 F.3d 996, 1006 (9th Cir. 2001) ("Standing is

1 determined by the facts that exist at the time the complaint is filed. Mootness inquiries, however,  
2 require courts to look to changing circumstances that arise after the complaint is filed[.]” (citation  
3 omitted)).

4 The difference between the doctrines is important. Circumstances that would establish the  
5 plaintiff’s lack of standing if they existed at the outset of the lawsuit are insufficient to establish  
6 mootness if they occur after the commencement of the lawsuit: “The plain lesson of these cases is  
7 that there are circumstances in which the prospect that a defendant will engage in (or resume)  
8 harmful conduct may be too speculative to support standing, but not too speculative to overcome  
9 mootness.” *Friends of the Earth*, 528 U.S. at 190.

10 Where, as here, a defendant claims that its voluntary conduct has ended the controversy that  
11 existed between the parties at the commencement of the litigation, that claim is one of mootness,  
12 not lack of standing, and it is the defendant’s burden—and a heavy one—to establish that its  
13 actions have mooted the lawsuit:

14 It is well settled that a defendant’s voluntary cessation of a challenged practice does  
15 not deprive a federal court of its power to determine the legality of the practice. If it  
16 did, the courts would be compelled to leave the defendant free to return to his old  
17 ways. In accordance with this principle, the standard we have announced for  
18 determining whether a case has been mooted by the defendant's voluntary conduct is  
19 stringent: A case might become moot if subsequent events made it absolutely clear  
20 that the allegedly wrongful behavior could not reasonably be expected to recur. The  
21 heavy burden of persuading the court that the challenged conduct cannot reasonably  
22 be expected to start up again lies with the party asserting mootness.

23 *Id.*, 528 U.S. at 189 (citations, internal quotation marks, and ellipsis omitted).

24 “Mootness doctrine thus . . . protects plaintiffs from defendants who seek to evade sanction  
25 by ‘protestations of repentance and reform.’ ” *Gwaltney of Smithfield v. Chesapeake Bay Found.*,  
26 484 U.S. 49, 66-67 (1987). Moreover, “by the time mootness is an issue, the case has been brought  
27 and litigated, often (as here) for years. To abandon the case at an advanced stage may prove more  
28 wasteful than frugal.” *Friends of the Earth*, 528 U.S. at 191-192.

This Court correctly held sixteen months ago that it had Article III jurisdiction over this  
case. Order at 8. The Entertainment Companies do not contest for purposes of this motion that the  
Newmark Plaintiffs possessed standing when this action was first filed. See Opp. at 9:10-16. The  
Entertainment Companies argue instead that because of their conduct in proffering a so-called



1 “covenant not to sue,” “the existing Newmark Plaintiffs no longer have standing.” Opp. at 7:8-9;  
2 see also *id.* at 5 n. 3, 9:5.

3 The Entertainment Companies’ argument is doctrinally incoherent because it characterizes  
4 as a *standing* argument what is properly a *mootness* argument, i.e., their argument that the  
5 Entertainment Companies by their voluntary conduct subsequent to the commencement of  
6 litigation have removed the previously existing controversy between the parties. However, as  
7 explained above, the standards for these two doctrines are very different. In particular, in a  
8 mootness case, the burden of proof falls on the Entertainment Companies and is significantly  
9 higher than the standing standard. The Entertainment Companies’ argument is also meritless  
10 because it relies on *standing* cases to attempt to demonstrate that this action has now become *moot*,  
11 and studiously avoids the mootness jurisprudence that properly governs this case. (Indeed, through  
12 a remarkable series of linguistic contortions, the Entertainment Companies manage to avoid ever  
13 even uttering the word “moot” anywhere in their papers.)

14 The Supreme Court has forcefully condemned precisely the erroneous conflation of  
15 standing and mootness committed here by the Entertainment Companies. *Friends of the Earth*, 528  
16 U.S. at 174 (“In directing dismissal of the suit on grounds of mootness, the Court of Appeals  
17 incorrectly conflated our case law on initial standing to bring suit, see, e.g., *Steel Co. v. Citizens for*  
18 *Better Environment*, 523 U.S. 83 (1998), with our case law on post-commencement  
19 mootness . . .”).

20 The jurisdictional question here is not the initial standing question of whether Plaintiffs  
21 have carried their burden of showing a reasonable apprehension of liability but the mootness  
22 question of whether the Entertainment Companies have carried their “heavy burden” of showing  
23 that it is “absolutely clear” that because of their voluntary actions Plaintiffs will never face a  
24 reasonable apprehension of liability in the future. *Friends of the Earth*, 528 U.S. at 189. They have  
25 not met that burden.

26 **B. The Three Newmark Plaintiffs Properly Remain Named Plaintiffs Because the**  
27 **Entertainment Companies Have Failed to Carry Their Heavy Burden of**  
28 **Showing Mootness**

“Issues of mootness often involve ‘highly individualistic . . . appraisal of the facts of each

1 case' to determine if the doctrine applies." *Alaska Ctr. for the Env't v. United States Forest Serv.*,  
2 189 F.3d 851, 856 (9th Cir. 1999). "As just noted, a defendant claiming that its voluntary  
3 compliance moots a case bears the formidable burden of showing that it is absolutely clear the  
4 allegedly wrongful behavior could not reasonably be expected to recur." *Friends of the Earth*, 528  
5 U.S. at 190. The Entertainment Companies have not carried their "heavy," *id.* at 189, and  
6 "formidable," *id.* at 190, burden of demonstrating mootness.

7 The Entertainment Companies base their argument that the Newmark Plaintiffs' original  
8 complaint is moot on their self-styled "covenant not to sue," a voluntary act which they contend  
9 has removed all threat of copyright liability, and the dismissal of SONICblue due to its bankruptcy-  
10 induced sale of the ReplayTV assets. Neither of these meets the Defendants' heavy burden to  
11 demonstrate mootness. The ReplayTV DVR owners, especially the non-Newmark Plaintiff class  
12 members, could still face litigation in the future.

13 As to the so-called "covenant," it is not a true covenant not to sue. A true covenant is an  
14 enforceable bilateral contract in which one party agrees, usually as part of a litigation settlement,  
15 not to sue the other. *See, e.g., S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1092 n. 15 (9th Cir.  
16 1989). Covenants not to sue arose as a device for circumventing the common law rule that a  
17 settlement and release of one joint tortfeasor released all other tortfeasors; by covenanting not to  
18 sue, rather than releasing, the settling tortfeasor, the plaintiff could preserve its claims against the  
19 nonsettling tortfeasors. *Federal Sav. & Loan Ins. Corp. v. Butler*, 904 F.2d 505, 510 & n. 5 (9th  
20 Cir. 1990). As a gratuitous promise made without consideration, however, the Entertainment  
21 Companies' so-called covenant is not a contract at all, but merely a unilateral and unenforceable  
22 assertion of the Entertainment Companies' present intent regarding their future actions. Because of  
23 the lack of consideration, the Entertainment Companies' covenant not to sue also fails as a  
24 copyright license, either express or implied. *Foad Consulting Group, Inc. v. Musil Govan*  
25 *Azzalino*, 270 F.3d 821, 828 n. 11 (9th Cir. 2001) ("to be enforceable, the [copyright license]  
26 would have to be backed by consideration and otherwise satisfy the formation requirements of state  
27 contract law"); see also *id.* at 825-28; accord, 3 M. Nimmer and D. Nimmer, *Nimmer on Copyright*,  
28 § 10.02[B][5] ("Nonexclusive licenses are revocable absent consideration."). Thus, it provides no

1 true assurance that the original Newmark Plaintiffs will not be subject to suit in the future, and does  
2 not protect them from the reasonable apprehension of suit to which every ReplayTV DVR owner is  
3 subject.

4 In asserting that their statement that they will not sue Newmark Plaintiffs in the future is a  
5 voluntary cessation sufficient to moot this action, the Entertainment Companies rely on a novel, *sui*  
6 *generis* rule that the Federal Circuit created 12 years ago in the field of patent law that has never  
7 been applied by the Ninth Circuit. See *Spectronics Corp. v. H.B. Fuller Co.*, 940 F.2d 631, 636  
8 (Fed. Cir. 1991); *Super Sack Mfg. Corp. v. Chase Packaging Corp.*, 57 F.3d 1054, 1059 (Fed. Cir.  
9 1995); *Intellectual Prop. Dev., Inc. v. TCI Cablevision of Cal., Inc.*, 248 F.3d 1333, 1341 (Fed. Cir.  
10 2001). In those cases, the Federal Circuit has held that in a patent declaratory relief action, a  
11 patentee’s unilateral gratuitous promise not to sue the plaintiff estops the patentee from ever suing  
12 the plaintiff.

13 These decisions are explained by the well-developed and unique law of patent license by  
14 estoppel. Patent law conceptualizes every patent license as a covenant by the licensor not to sue  
15 the licensee: “[A] patent license agreement is in essence nothing more than a promise by the  
16 licensor not to sue the licensee.” *Spindelfabrik Suessen-Schurr Stahlecker & Grill GmbH v.*  
17 *Schubert & Salzer Maschinenfabrik Aktiengesellschaft*, 829 F.2d 1075, 1081 (Fed. Cir. 1987).  
18 Under patent law, an irrevocable license can arise by estoppel without consideration. *De Forest*  
19 *Radio Tel. Co. v. United States*, 273 U.S. 236, 241 (1927); *Wang Lab. v. Mitsubishi Elecs. Am.*,  
20 103 F.3d 1571, 1581 (Fed. Cir. 1997). Thus, the patent estoppel recognized by the Federal Circuit  
21 in *Spectronics* and its progeny is a form of implied patent license. However the logic underlying  
22 the patent law covenant not to sue doctrine has no parallel in the copyright context. Under  
23 copyright estoppel, no license arises and the copyright holder can revoke the estoppel with respect  
24 to future infringements by giving notice to the infringer and thereby terminating the infringer’s  
25 reliance on the copyright holder’s previous acquiescent conduct. See, e.g., *Peer Int’l Corp. v. Luna*  
26 *Records*, 887 F. Supp. 560, 567 (S.D.N.Y. 1995).

27 Thus, the Entertainment Companies’ unenforceable gratuitous statement of their present  
28 intent not to sue the Newmark Plaintiffs in the future is revocable and illusory. Because they are

1 free to revoke or ignore their gratuitous statement and sue the Newmark Plaintiffs in the future, it is  
2 impossible for the Entertainment Companies to make it “absolutely clear” that the Newmark  
3 Plaintiffs are indisputably free from any possible copyright liability in the future. Thus they have  
4 failed to carry their “heavy burden” of demonstrating that they have mooted the claims of the  
5 Newmark Plaintiffs by their voluntary conduct. *Friends of the Earth*, 528 U.S. at 189.  
6 Accordingly, this Court has jurisdiction to permit amendment of the complaint, and the Newmark  
7 Plaintiffs may continue as Plaintiffs in this action under the amended complaint.

8 **C. Even if the Entertainment Companies Had Mooted the Claims of the Original**  
9 **Newmark Plaintiffs by Their Covenant Not to Sue, Amendment of the**  
10 **Complaint Would Remain Proper**

11 Even if the “covenant not to sue” successfully moots the case as to the five original  
12 Newmark Plaintiffs, it does not do so for the proposed class and class members. Despite specific  
13 requests, the Entertainment Companies have pointedly failed to offer a similar covenant to the rest  
14 of the 5,000 ReplayTV DVR owners.<sup>2</sup> Settled law favors amendment to preserve potentially moot  
15 claims, especially where, as here, the case has progressed nearly to the end of discovery and  
16 dismissal would waste both judicial and party resources.

17 The Entertainment Companies rely on three standing cases in support of their argument that  
18 the Court lacks jurisdiction to permit amendment of the complaint. *Lierboe v. State Farm Mut.*  
19 *Auto. Ins. Co.*, 2003 U.S. App. LEXIS 24182 at \*13 (9th Cir. 2003); *Summit Office Park, Inc. v.*  
20 *United States Steel Corp.*, 639 F.2d 1278, 1283 (5th Cir. 1981); *Lans v. Gateway 2000, Inc.*, 84  
21 F.Supp.2d 112, 116 (D.D.C. 1999). In each of these cases, the plaintiff never had standing at the  
22 outset of the litigation. Although the Entertainment Companies note this, and that the cases did not  
23 address mootness, they fail to acknowledge the significance of this distinction. As noted above, in  
24 a case in which the plaintiff lacks standing, the court lacks jurisdiction at the outset. By contrast,  
25 where as here standing exists at the outset, a court has jurisdiction over the action, and in the event  
26 a claim becomes moot a court can and should grant amendment if by amendment the complaint can

26 <sup>2</sup> A 'Covenant Not to Sue' preserves the legal cause of action [against others] while at the same  
27 time it bars the right of recovery from the particular person with whom the covenant is made.  
28 *Southern Pacific v. Raish*, 205 F.2d 389, 393 (9th Cir. 1953), *citing* 76 C.J.S., Release β 44; *Pellet*  
*v. Sonotone Corp.*, 26 Cal.2d 705 (1945).

1 be made to state a valid claim. *Lierboe* at \*13 (“this is not a mootness case, in which substitution  
2 or intervention might have been possible”). Amendment is proper to cure defects in subject matter  
3 jurisdiction, even if it is necessary to add new parties to do so. *Polich v. Burlington Northern, Inc.*,  
4 942 F.2d 1467, 1472 (9th Cir. 1991); *DCD Programs, Ltd. v. Leighton*, 833 F.2d 183, 186 (9th Cir.  
5 1987). Permitting amendment recognizes that “by the time mootness is an issue, the case has been  
6 brought and litigated, often (as here) for years. To abandon the case at an advanced stage may  
7 prove more wasteful than frugal.” *Friends of the Earth*, 528 U.S. at 191-192. This is plainly the  
8 case here; were the Plaintiffs required to bring a new class action, which they likely could, they  
9 would have to recreate the substantial discovery already exchanged in this case, including from  
10 both SONICblue and the new owner of the ReplayTV assets, as well as from the Entertainment  
11 Companies.<sup>3</sup> Thus, even if the Entertainment Companies were correct that the claims of the  
12 original Newmark Plaintiffs had been mooted, amendment to add similarly situated parties would  
13 remain proper.

14 **D. Amendment Is Proper under Fed. R. Civil P. 15**

15 1. Amendment Is Proper Because ReplayTV DVR Owners Continue to Have a  
16 Reasonable Apprehension of Litigation

17 The Entertainment Companies’ central argument against the proposed amendment is that  
18 the Court does not have jurisdiction because the Plaintiffs no longer have a reasonable  
19 apprehension of liability sufficient to support a suit under the Declaratory Judgment Act. As  
20 explained above, however, this is a question of mootness, not standing, and must be judged by the  
21 higher standard of “possibility of recurrence” rather than whether a “reasonable apprehension of  
22 liability” still exists.

23 This Court recognized in its previous Order finding jurisdiction that initially the question of  
24 “reasonable apprehension” must be “viewed from the perspective of” the Plaintiffs. Order at 7:13.  
25 Thus, the question here is whether, from the Plaintiffs’ perspective, the success of the  
26 Entertainment Companies in driving SONICblue into bankruptcy and their unilateral decision to

27 <sup>3</sup> This Court is well aware of the multiple discovery battles in this case so far; a new action would  
28 undoubtedly require relitigation of most, if not all, of those issues.

1 issue a document to five of the over 5,000 owners of ReplayTV DVRs removes the “reasonable  
2 apprehension” of liability previously found by the Court such that it cannot possibly recur.  
3 Previously, the court based its holding on the observation that: “[T]he Entertainment Defendants  
4 have, with a great deal of specificity, accused the Newmark Plaintiffs (and other RePlayTV DVR  
5 owners) of infringing the Entertainment Defendants’ copyrights, and have demonstrated the will to  
6 protect copyrights through litigation.” Order at 7. Not only has that observation not changed, but  
7 subsequent events have enhanced the concern that undergirded the Plaintiffs original decision to  
8 seek declaratory relief:

- 9 • The Entertainment Companies’ have not retracted or withdrawn their allegations  
10 that use of the ReplayTV DVR’s Send Show and Commercial Advance features by  
11 consumer owners infringes their copyrights.
- 12 • The Entertainment Companies have convinced the new ReplayTV owner, Digital  
13 Networks North America, Inc. (“DNNA”), to remove the Commercial Advance and  
14 Send Show features of the ReplayTV DVR. The DNNA press release confirms that  
15 the features were removed “to accommodate copyright owners’ concerns.”  
16 Declaration of Gwen Hinze in support of Plaintiffs’ motion for leave to amend  
17 (“Hinze Declaration”), ¶ 11, Exh. H. The Entertainment Companies have  
18 themselves admitted that the features were removed after “settlement  
19 communications” with DNNA. Entertainment Companies’ motion for order  
20 modifying stay order of March 24, 2003, at 9:19. Not only does this provide further  
21 evidence that the Entertainment Companies’ maintain their position that the  
22 Plaintiffs are copyright infringers, but it also means that any legal cover provided to  
23 Plaintiffs by SONICblue’s defense of the two features is gone and will not likely be  
24 resumed by DNNA.
- 25 • Despite years of protestation that they would not sue consumers for copyright  
26 infringement, over 380 lawsuits have recently been filed against individuals by  
27 recorded music copyright owners, including sister companies within the same  
28 corporate family as the Entertainment Companies. Hinze Decl. ¶¶6-7, Exh. C and D.

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- Widely-publicized news stories report that the heads of the major studios, including the Entertainment Companies, held a summit meeting in September 2003, where the Entertainment Companies voted to begin preparations for lawsuits against individuals who record and share television programming with technologies such as the ReplayTV DVR. Hinze Decl. ¶8, Exh. E.
  - The Entertainment Companies have pointedly failed to grant the other consumer ReplayTV DVR owners a covenant not to sue despite being requested to do so. Hinze Decl. ¶14. Similarly, in both their Opposition to Plaintiffs’ motion for leave to amend and their own Motion to Dismiss, the Entertainment Companies have conspicuously failed to state that they will not sue individual ReplayTV DVR owners.
  - This case has been through over a year of intense motion practice and discovery during which thousands of documents have been exchanged among the parties. Discovery was near its close when SONICblue filed bankruptcy, with only final motions to compel remaining.
  - Most importantly, consumer ReplayTV DVR owners are continuing to use the Commercial Advance and Send Show features in ways which the Entertainment Companies contend constitutes copyright infringement of their works.

19           Attempting to downplay these facts, the Entertainment Companies mischaracterize the  
20 history of this case and the applicable law. For instance:

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- The Entertainment Companies’ characterize their copyright infringement allegations as “two-year old statements” made in an action against an unrelated “third party” (Entertainment Companies’ Opposition, at 15:2-3) and an “expression of a legal position in a withdrawn pleading.” This is simply incorrect. The Entertainment Companies have not “withdrawn” their pleadings and have not retracted their public statements. They have merely dismissed SONICblue without prejudice due to bankruptcy and the sale of the ReplayTV assets. There is no “repentance and reform” here. See *Gwaltney of Smithfield, supra*. The allegations in the lawsuits,

1 while originally made two years ago, clearly represent the Entertainment  
2 Companies' current legal position. They remained in force directly against  
3 SONICblue until the dismissal was registered by the Court on November 17, 2003 –  
4 just one month ago.

- 5 • The Entertainment Companies also misstate Ninth Circuit caselaw concerning  
6 reasonable apprehension of liability, attempting for the second time to allege that  
7 behavior that can be “objectively viewed as a threat of litigation” is required.  
8 Opposition at 16:22; Entertainment Companies' (first) Motion to Dismiss at 6-7. As  
9 this Court noted in ruling on the Entertainment Companies' previous motion to  
10 dismiss, Ninth Circuit caselaw does not require a direct threat of suit; continuing  
11 activity that creates a reasonable apprehension of litigation from the point of view of  
12 the plaintiff is sufficient. Order at 5:24-27, *citing, among others, Societe de*  
13 *Conditionnement en Aluminium v. Hunter Engineering Co., Inc.*, 655 F.2d 938, 643-  
14 44 (9th Cir. 1981). Thus, the fact that the Entertainment Companies have not yet  
15 sued or directly threatened any ReplayTV DVR users does not establish that the  
16 actual controversy that the Court previously recognized to exist has dissipated,  
17 much less that it will not recur.
- 18 • Most importantly, the Entertainment Companies have failed to mention – let alone  
19 refute – the widely-publicized news reports that they have begun preparations for  
20 lawsuits against individuals who record and share television programming with  
21 technologies like the ReplayTV DVR. The Entertainment Companies do not merely  
22 possess an “uncommunicated subjective state of mind” (Opposition, at 12:9-12),  
23 they are actively using the media to communicate their views about the legality of  
24 the ReplayTV DVR to consumer ReplayTV owners.

25 2. Amendment Is Not Futile

26 Second, the Entertainment Companies argue that leave to amend should be denied because  
27 amendment would be futile as there is no actual controversy between the parties and the mere  
28 failure to grant a covenant not to sue to the new class members and representative is insufficient to



1 create one. They rely on *K-Lath, Division of Tree Island Wire (USA), Inc. v. Davis Wire*  
2 *Corporation*, 15 F.Supp.2d 952 (C.D.Cal., 1998). *K-Lath* is easily distinguishable from the present  
3 case. First, the plaintiff in *K-Lath* was found to have “manufactured” controversy, by initiating the  
4 exchange of correspondence inviting the defendant to inspect its competing lath product and then  
5 seeking declaratory relief after the defendant refused to inspect or comment on prior art and  
6 reserved its rights to enforce its patent. On those facts, the Court found that the defendant’s failure  
7 to assure the plaintiff that its product did not infringe the defendant’s patent did not constitute an  
8 actual controversy. By comparison, the Entertainment Companies initiated this dispute by making  
9 very specific allegations that consumer ReplayTV DVR owners’ use of their devices constitute  
10 copyright infringement. They did so consistently, in both public statements and their four lawsuits  
11 against SONICblue, and those statements remain their legal position. There is no credible sense in  
12 which the Plaintiffs could be said to have “manufactured” the controversy here.

13 Second, unlike the Entertainment Companies, the defendant in *K-Lath* specifically stated  
14 that it had no plans to sue the plaintiff (*K-Lath*, 15 F. Supp. 2d 952, 957 “[we] are not threatening  
15 K-Lath and have no plans to sue K-Lath...”). By comparison, the Entertainment Companies have  
16 conspicuously failed to disclaim any intention of suing individual consumer ReplayTV DVR  
17 owners, nor have they refuted the recent news reports that they have begun preparations to file  
18 lawsuits against individuals for recording and sharing television programming with technologies  
19 such as the ReplayTV DVR.

20 Finally, in *K-Lath*, the *only* conduct relied on by the plaintiff to establish an “actual  
21 controversy” was the defendant’s failure to inspect K-Lath’s product to determine if it “would be  
22 willing to execute a covenant not to sue, or concede the invalidity of their patent.” In the present  
23 case the Entertainment Companies unilaterally issued their purported “covenant” and did so only to  
24 certain affected individuals, pointedly failing to issue the same to the others similarly situated when  
25 requested to do so.

26 3. Because the Entertainment Companies Raise no other Rule 15 Objection,  
27 Amendment Is otherwise Proper

28 Other than alleged futility, the Entertainment Companies have raised no substantial

1 objection to the proposed amendments. The burden is on the party opposing amendment to show  
2 prejudice, *DCD Programs, Ltd*, 853 F.2d at 187, and the Entertainment Companies have not done  
3 so here.<sup>4</sup> The Entertainment Companies have not challenged that the new consumer ReplayTV  
4 DVR owners seeking the same declaratory relief should be allowed to join this action, nor have  
5 they contested that a class action is the procedurally appropriate vehicle to proceed with a  
6 declaratory relief action on behalf of a proposed class comprising over 5000 individuals. However,  
7 in their Opposition's Procedural Background section, the Entertainment Companies appear to claim  
8 that the Plaintiffs have delayed in seeking amendment, or in the alternative, argue that the Plaintiffs  
9 should have commenced the action as a class action. However, they fail to acknowledge that the  
10 case was stayed until the court's order of November 12, 2003, and that, accordingly, the  
11 amendment was sought at the first available opportunity to do so.

12 Moreover, the fact that an action *could* have been brought as a class action does not  
13 establish that it *should* have been and does not weigh against the appropriateness of the current  
14 proposed amendment. It was procedurally appropriate and judicially efficient for the Plaintiffs to  
15 commence their suit as a declaratory relief action on behalf of the five original Newmark Plaintiffs,  
16 which, if granted, would have provided guidance to all consumer ReplayTV DVR owners and  
17 likely served as defensive collateral estoppel against the Defendants. The fact that Plaintiffs might  
18 equally have brought the action in a representative capacity as a class action does not establish that  
19 it was procedurally inappropriate not to do so. In filing their original declaratory relief action, the  
20 Plaintiffs sought to provide consumer ReplayTV DVR owners with certainty, and chose a  
21 procedural vehicle which would best serve the interests of judicial efficiency in light of the  
22 preceding SONICblue litigation. Indeed, from a procedural perspective, the need to seek leave to  
23 covert into a class action only arose after the Entertainment Companies sought to prevent a judicial

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25 <sup>4</sup> Instead, the Entertainment Companies cynically claim concern for the privacy of the new class  
26 representative and members. The Entertainment Companies newly found concern for the privacy  
27 of the ReplayTV owners is interesting, given their previous attempts to force SONICblue to  
28 monitor and report on the owners' uses of the devices. In any event, the privacy interests of  
unnamed class members are properly addressed in the context of the class certification motion and  
amendment of the complaint is proper even if no class is ever certified. The Newmark Plaintiffs  
have produced copies of their ReplayTV hard drives and all other requested discovery to the  
Entertainment Companies. The new class representative stands ready to do the same.

1 determination upon which all consumer owners could have relied by unilaterally offering a  
2 “covenant not to sue” to the five original Plaintiffs over a year after they commenced litigation in  
3 an effort to moot the case.

4 In the absence of any sustainable argument against amendment, both law and equity weigh  
5 in favor of granting leave for the Plaintiffs’ proposed amendments.

6 **III. CONCLUSION**

7 For the foregoing reasons, Plaintiffs’ motion to amend the complaint should be granted.

8  
9 DATED: December 22, 2003

ELECTRONIC FRONTIER FOUNDATION

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1 **PROOF OF SERVICE**

2 ***Paramount Pictures Corporation v. ReplayTV***  
3 **CASE NO. CV 01-9358 FMC (EX)**  
4 **(Consolidated With Case No. CV 02-04445 FMC (EX))**  
5 **US District Court, Central District of California**

6 I am over the age of 18 years, am not a party to this action and am employed by Plaintiff's  
7 Counsel, Electronic Frontier Foundation.

8 On December 23, 2003, I served the within:

9 **PLAINTIFFS' REPLY MEMORANDUM OF POINTS AND AUTHORITIES IN**  
10 **SUPPORT OF THEIR MOTION TO AMEND THE COMPLAINT**

11 on the parties in said action by US MAIL by depositing the originals or copies, as noted below, in  
12 an envelope, postage prepaid in a US MAIL BOX addressed as follows:

13 Scott P Cooper	Robert H Rotstein
14 Simon Block	McDermott Will & Emery
15 Proskauer Rose	2049 Century Park E, 34th Fl.
16 2049 Century Park E, Ste 3200	Los Angeles, CA 90067-3208
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20  
21 Robert M. Schwartz  
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23 1999 Avenue of the Stars  
24 Los Angeles CA 90067-6035  
25 Fax No. 310-246-6779  
26 arader@omm.com  
27 rschwartz@omm.com  
28

29 I declare under penalty of perjury under the laws of the State of California that the  
30 foregoing is true and correct.

31 Dated: December 23, 2003

32 \_\_\_\_\_  
33 BARAK R. WEINSTEIN