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**UNITED STATES DISTRICT COURT**

**CENTRAL DISTRICT OF CALIFORNIA**

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| PARAMOUNT PICTURES CORPORATION, *et al.*,<br><br>Plaintiffs,<br><br>v.<br><br>REPLAYTV, INC., *et al.*,<br><br>Defendants.<br><br>AND CONSOLIDATED ACTIONS. | Case No. 01-09358 FMC (Ex)<br><br>Hon. Florence-Marie Cooper<br><br>**NEWMARK PLAINTIFFS' OPPOSITION TO ENTERTAINMENT COMPANIES' MOTION FOR RELIEF FROM STAY**<br><br>Hearing Date: November 10, 2003<br>Time: 10:00 a.m.<br>Place: Courtroom 750 |

## I. INTRODUCTION

All parties have stipulated that the bankrupt parties, SONICblue, Inc. and ReplayTV, Inc. (the "SONICblue parties"), should be dismissed from this action. Once the bankrupt defendants are dismissed from this action, there remains no legal or logical basis for continuing this Court's stay, which was imposed solely to conform with the automatic stay of debtor litigation provided for in section 362 of the Bankruptcy Code. It should be lifted in its entirety.

Although no basis remains for the Court's stay once the SONICblue parties have been dismissed, the Entertainment Companies have proposed only a partial and limited lifting of the Court's stay after dismissal of the bankrupt defendants. The Newmark Plaintiffs favor an orderly and logical schedule for further proceedings in this action. Such a schedule, however, must afford all parties an opportunity to fully present for the Court's consideration their proposals for how the litigation should proceed after the dismissal of the SONICblue parties. Because the partial lifting of the stay on the terms proposed by the Entertainment Companies would afford them an unwarranted procedural advantage, while constraining both the ability of the Newmark Plaintiffs to seek appropriate relief from this Court and the Court's ability to deal in an orderly and sensible fashion with all the issues in the case that are now ripe, the Newmark Plaintiffs must oppose it in its present form.

In particular, the Newmark Plaintiffs intend to seek leave to amend their complaint to add additional plaintiffs and class allegations and to seek class certification. The Entertainment Companies, on the other hand, seek to file a motion to dismiss the original complaint based upon their unilateral granting of a covenant not to sue to the five individual Newmark Plaintiffs. The Entertainment Companies' motion relies on the argument that, as the Complaint presently stands without class allegations, the claims it states on behalf of the current plaintiffs are moot. These two motions are obviously intertwined, as they both go to whether there remain viable claims for declaratory relief against the Entertainment Companies for consumer uses of the ReplayTV digital video recorder. To consider only one motion first, and the second one at a later time, would be wasteful, inefficient, and duplicative, and would prevent the Court from doing full and complete justice.

The simplest and most straightforward solution for the Court is to lift the stay entirely now that the basis for it in 11 U.S.C. § 362 has completely disappeared and to schedule the parties' proposed motions for a joint hearing. Short of that, any partial lifting of the stay should provide an opportunity for each party to bring its desired motions, should provide for a joint hearing of both motions and should allow discovery as needed for responding to the motions. Because the partial lifting of the stay proposed by the Entertainment Companies does not achieve these even-handed goals, it must be rejected.

## II. PROCEDURAL BACKGROUND

The Entertainment Companies have recited the procedural background for both this case and the current dispute. Entertainment Companies' Motion for Order Modifying The Court's March 24, 2003 Stay Order for Limited Purposes ("Motion") at 5-7. In brief, until recently this case had three sets of parties – the Entertainment Companies, the SONICblue parties and the Newmark Plaintiffs. The Entertainment Companies began this litigation when they brought four actions against the SONICblue parties collectively alleging secondary copyright liability for at least three specific uses of the ReplayTV device by consumers. The uses involved the "Commercial Advance" and "Send Show" features and the librarying functionality of the ReplayTV 4000 device. Subsequently, in June 2002, five individual consumers, (the "Newmark Plaintiffs") sought declaratory relief against the Entertainment Companies and the SONICblue parties that these uses of their ReplayTV devices were lawful, and were not copyright infringement. By order of this Court on August 15, 2002, the Entertainment Companies' suit was consolidated with the consumer claim. While discovery was still proceeding, the SONICblue parties filed for bankruptcy protection on March 21, 2003. On March 24, 2003, this Court issued a stay of these proceedings for all purposes, following the automatic stay in the Bankruptcy proceedings. *See* Declaration of Scott Cooper in Support of Motion, Exh. A.

SONICblue sold the ReplayTV assets to a third party, Digital Networks North America, Inc. ("DNNA") from bankruptcy on April 25, 2003. The parties have stipulated to dismiss the SONICblue parties from the litigation, and have secured relief from the automatic bankruptcy stay under 11 U.S.C. §362 for these purposes. See Order of Bankruptcy Court issued August 19, 2003,

Cooper Decl., Exh. B. Therefore, if this Court grants leave to lift the stay to permit the dismissal of the SONICblue parties, the underlying reason for the stay in these proceedings will be resolved.

**A. The Proposed Motions of Both Parties.**

In the interim, by letter dated July 24, 2003, the Entertainment Companies granted an unconditional covenant not to sue the five Newmark Plaintiffs for their past and future uses of their ReplayTV devices, and advised their intention to file a Motion to Dismiss the Newmark Plaintiffs' Complaint based upon that that covenant. Hinze Decl., Exh. B.

Also in the interim, over 60 additional consumer owners of ReplayTV devices with the same features as those owned by the Newmark Plaintiffs indicated interest in either joining the current lawsuit to obtain declaratory relief or obtaining a similar covenant not to sue in relation to their use of their ReplayTV devices. Hinze Decl., ¶8. On September 4, 2003, Newmark Plaintiffs' counsel advised the Entertainment Companies' counsel of their intention to amend the Newmark Plaintiffs' complaint to add additional parties in a telephone conversation between Mr. Rothken and Ms. Hinze for Newmark Plaintiffs' counsel and Mr. Cooper for the Entertainment Companies. Specifically, Newmark Plaintiffs' counsel advised that there were other consumer owners of ReplayTV devices similarly situated to the five Newmark Plaintiffs who have a reasonable apprehension of suit by the Entertainment Companies, and who wished to obtain certainty and predictability through a judicial declaration on the legality of consumer ReplayTV uses. Hinze Decl, ¶12. The Newmark Plaintiffs reiterated their intention to amend to add parties by letter on September 12, 2003. Hinze, Decl. ¶13, Exh. J.

In a telephone conversation on September 16, 2003, Newmark Plaintiffs' counsel asked the Entertainment Companies whether they would grant a similar covenant not to sue to other consumer owners of ReplayTV DVRs with the same features as those owned by the Newmark Plaintiffs. The Entertainment Companies have failed to grant such a covenant. See Hinze Decl. ¶14 and letter from Newmark Plaintiffs' Counsel to Entertainment Company Defendants' counsel dated October 17, 2003, Hinze Decl., Exh. N. Accordingly, the Newmark Plaintiffs seek leave to file a First Amended Complaint to secure declaratory relief on behalf of all ReplayTV owners similarly situated to the five Newmark Plaintiffs. Given the large number of similarly situated consumer

owners involved, a class action appears to be the appropriate vehicle for proceeding.

Despite counsels' discussions, the Entertainment Companies contend in their motion papers that Newmark Plaintiffs have not formally satisfied their obligations under Local Rule 7-3. While the Newmark Plaintiffs disagree, in order to avoid any argument about compliance with the rule, the Newmark Plaintiffs sent a further letter to the Entertainment Companies on October 17, 2003, advising them of Newmark Plaintiffs' intention to file a motion to seek leave to file a First Amended Complaint, and to move for certification of a class of persons similarly situated to the Newmark Plaintiffs. Hinze Decl., Exh. N. Attached as Exhibits O and P to the Declaration of Gwen Hinze filed herewith, are copies of the Newmark Plaintiffs' draft Motion for Leave to Amend the Complaint and the Newmark Plaintiffs' draft First Amended Complaint.

## III. ARGUMENT

### A. Now that SONICblue has been dismissed, the Stay Should be Lifted in its Entirety.

The Court's stay order of March 24 was occasioned by the SONICblue parties' filing for bankruptcy protection. The Court stayed these proceedings to conform with the automatic bankruptcy stay imposed by 11 U.S.C.§362. Once the bankrupt parties have been dismissed as parties, as all parties have agreed to do by stipulation, the basis for the stay will no longer exist, and the Court should lift the stay for all purposes.

Federal courts have a "virtually unflagging obligation" to "exercise the jurisdiction given them." *Colorado River Water Cons. Dist. v. U.S.*, 424 U.S. 800, 817 (1976). This obligation is at its strongest in cases like this one that present claims arising under federal law that are within the exclusive jurisdiction of the federal courts (as are the copyright claims here) and in which there is no parallel concurrent litigation raising the same issues. In particular, a party seeking a stay of litigation as one-sided and prejudicial as the one proposed by the Entertainment Companies must demonstrate that it will be harmed if the stay is not granted: "[T]he suppliant for a stay must make out a clear case of hardship or inequity in being required to go forward, if there is even a fair possibility that the stay for which he prays will work damage to some one else." *Landis v. North American Co.*, 299 U.S. 248, 255 (1936).

Thus, once the SONICblue parties are dismissed, it is not the burden of the Newmark Plaintiffs to demonstrate that the stay should be lifted. Rather, it is the burden of the Entertainment Companies to demonstrate a compelling hardship justifying the stay despite the dismissal of SONICblue and ReplayTV, or more accurately, justifying keeping the Newmark Plaintiffs stayed while the Entertainment Companies move to dismiss. They have failed to meet that burden.

**B. Even if the Stay is Not Lifted in Its Entirety, it Should be Lifted in An Even-handed Manner to Allow the Two Motions to Be Heard Simultaneously.**

The Entertainment Company Defendants have consistently refused to accept Newmark Plaintiffs' proposal to lift the stay for all purposes following dismissal of the SONICblue parties, even though it would permit them to file their proposed motion to dismiss immediately. Hinze Decl. ¶6-12. They have instead continued to proffer various versions of a more limited lifting of the stay, each of which, while also permitting resolution of the Entertainment Companies' proposed motion to dismiss, would limit the Newmark Plaintiffs' ability to file their proposed motion for leave to amend and to pursue appropriate relief from the Court.

There is no reason in either law or equity why the stay should be lifted in the one-sided manner proposed by the Entertainment Companies. To the contrary, this would result in a strategic procedural advantage to the Entertainment Companies, and simultaneously constrain the ability of the Newmark Plaintiffs to seek appropriate procedural relief.

In the course of meet and confer sessions with the Entertainment Companies in an effort to reach agreement on a proposal to bring both parties' proposed motions before the court in a orderly and sensible manner, the Newmark Plaintiffs agreed to stipulate to a limited lifting of the stay that would have allowed the Newmark Plaintiffs only 1) to file their Motion for Leave to File a First Amended Complaint for simultaneous hearing with the Motion to Dismiss, and 2) to seek discovery, if required, in response to the Entertainment Companies' proposed Motion to Dismiss. See Hinze Decl.¶17. The Entertainment Companies rejected this and have instead insisted on using the existence of the stay as a procedural gerrymandering tool to allow them to have their Motion to Dismiss heard before this Court prior to consideration of the Newmark Plaintiffs Motion for Leave to Amend.

In their motion, the Entertainment Companies state two procedural reasons for their rejection of the Newmark Plaintiffs' proposed modification of the Entertainment Companies' draft stipulation. First, they claim that the proposal is premature because the actual brief in support of the Newmark Plaintiffs' Motion for Leave to Amend and the proposed Amended Complaint had not been proffered. Second, they assert that the Newmark Plaintiffs had failed to satisfy their meet and confer obligations under local Rule 7-3. Motion 9:25-28. Neither reason has any bearing here. First, there is no basis in law for the Entertainment Companies' contention that the stay should not be lifted until the other party has seen the briefs for any subsequent motions and a proposed Amended Complaint. Indeed, the Newmark Plaintiffs had not seen the Entertainment Companies' Motion to Dismiss until this pending motion was filed. In any event, the Newmark Plaintiffs have now proffered a draft Motion for Leave to File an Amended Complaint and the draft First Amended Complaint. Second, it is clear that the Newmark Plaintiffs satisfied Local Rule 7-3 by informing the Defendants that they intended to ask for leave to amend the complaint to add parties in the as September 4, 2003 telephone call and the letter of September 12, 2003. Hinze Decl., ¶¶9-10 and Exh. G. Moreover, any deficiency in that regard due to the failure to use the words "class action" has been addressed by the letter of October 17, 2003. Hinze Decl.18, Exh. N.

Finally, the Entertainment Companies claim that their intention to move to dismiss the Newmark Plaintiffs' case should create an additional basis for continuing the stay.[1] The Court should reject this contention for two reasons.

First, the Entertainment Companies have not cited a single authority that supports their contention. The cases that they have cited concern the appropriateness of merits discovery during pendency of a motion to dismiss, a matter not at issue here.[2] In agreeing to stipulate to a more

[1] The Entertainment Companies also reference concern about the Newmark Plaintiffs argument that they should be allowed to issue any discovery needed to respond to the Motion to Dismiss. The difference between the two positions is that the Newmark Plaintiffs sought to preserve the option of issuing the necessary discovery directly, while the Entertainment Companies wanted to require the Newmark Plaintiffs to have to return to this court to seek "leave" to issue discovery needed to oppose the Motion to Dismiss. There is no basis for requiring another trip to this court (with all of the attendant processes under the local rules) before Plaintiffs can seek information they need to properly respond to Defendants' dispositive motion.

[2] *Alaska Cargo Transport, Inc., v. Alaska Railroad Corporation, 5 F.3d 378* (9th Circ., 1993) (merits discovery stayed pending disposition of motion to dismiss on 11th Amendment immunity);

limited lifting of the stay, the Newmark Plaintiffs have already voluntarily agreed to forego merits discovery pending the outcome of the two motions. Those cases do not address, much less hold, that a proposed motion to dismiss should preclude consideration of a motion for leave to amend the very complaint at which the motion to dismiss is directed.

Second, there is no reason to delay consideration of Newmark Plaintiffs' Motion for Leave to Amend their Complaint. It is logically intertwined with the question of whether the complaint should be dismissed, and if anything it should be considered first. It is only after the contents of the operative complaint are settled that the question of whether the complaint states a viable claim can be sensibly answered.

Rule 15(a) of the Federal Rules of Civil Procedure instructs that leave to amend must "be freely given if justice requires." In accordance with Rule 15's liberal policy favoring amendments to facilitate decisions on the merits, courts are at liberty to, and often do, grant leave to amend when an opposing motion to dismiss is before the court. *Archibald v. McLaughlin*, 181 F. Supp.175, 177 (D.D.C., 1960) (motion for leave to file an amended complaint granted where motion to dismiss for lack of subject matter jurisdiction pending before court; "the practice is to permit amendments freely . . . particularly to remedy objections raised on motions to dismiss"); *Wilson v. Du Pont*, 30 F.R.D. 37 (E.D. Pa.37) (motion for leave to amend granted when pending motion for summary judgment concerning validity of proposed amendment).

The Newmark Plaintiffs do not seek to argue the merits of the proposed amendment in this proceeding; that is for a separate proceeding. However, in deciding the issue before the Court – the proposed scheduling of parties' motions -- the Court should consider the liberal policy underlying Rule 15 and the common practice of considering motions to amend in conjunction with motions to

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*Little v. City of Seattle*, 863 F.2d 681, 685 (9th Cir, 1989) (merits discovery stayed pending ruling on immunity because discovery could not have affected immunity decision); *Jarvis v. Regan*, 883 F.2d 149 (9th Circ., 1987) (merits discovery stayed pending motion to dismiss because discovery not required to address factual issues raised by defendant's motion to dismiss); *Lowery v. F.A.A.*, 1994 WL 912632 (E.D.Ca., 1994) (denial of motion for stay of discovery pending summary judgment motion); *Orchid Biosciences , Inc. v. St. Louis University*, 198 F.R.D. 670 (S.D.Ca, 2001) (merits discovery stayed pending dispositive motion, but discovery as to jurisdiction issues permitted where jurisdiction in issue); *Rae v. Union Bank*, 725 F.2d 478 (9th Circ., 1984) (discovery stayed pending motion to dismiss because no factual issues raised by motion).

dismiss, and it should give weight to the fact that the proposed amendments to the Newmark Plaintiffs' complaint relate directly to the arguments at the heart of the Entertainment Companies' Motion to Dismiss.

Granting the Entertainment Companies' request to hear their proposed Motion to Dismiss in advance of the Newmark Plaintiffs' Motion for Leave to File an Amended Complaint would confer an unwarranted procedural advantage on the Entertainment Companies over the Newmark Plaintiffs. On the other hand, either lifting the stay entirely or lifting it partially but in an even-handed fashion would impose no hardship on any party and would allow the Court to deal with this litigation in a sensible, logical, and efficient manner.

Viewed in their true light, the Entertainment Companies' efforts to secure a ruling on their Motion to Dismiss in advance of the Newmark Plaintiffs' Motion for Leave to Amend together with their attempt to "buy out" the current named consumer plaintiffs by unilaterally granting a covenant not to sue the Newmark Plaintiffs over a year after commencement of litigation, is an attempt to create a procedural mootness end-run around very "live" issues of significant public importance that implicate a large group of consumer owners of ReplayTV DVRs.

On the other hand, the Newmark Plaintiffs' request that the Court lift the stay and hear all parties' proposed motions together, would not result in injustice to the Entertainment Companies. In the interests of judicial efficiency, comity and equity, the Newmark Plaintiffs therefore respectfully request that the Court consider all parties' proposed motions at the same hearing.

## IV. CONCLUSION

The real question before the Court is whether it should hear the Entertainment Companies' proposed Motion to Dismiss ahead of the Newmark Plaintiffs' Motion for Leave to Amend their Complaint. Quite obviously, judicial efficiency, the efficiency of the parties, and the need to do full and complete justice argue in favor of a joint hearing.

Both sets of motions go to the same question, at the very heart of this case – namely, whether this case should go forward, and if so, in what manner. The Newmark Plaintiffs contend that it is only if both sets of motions are considered together that the Court can make that decision in an informed manner that accords fairness to all parties.

Accordingly, the Entertainment Companies' motion to partially and one-sidedly lift the stay must be denied. The Newmark Plaintiffs respectfully request that the Court lift the stay for all purposes following dismissal of the bankrupt parties, or, alternatively, that any partial lifting of the stay be done in an even-handed manner.[3]

DATED: October 27, 2003

ELECTRONIC FRONTIER FOUNDATION

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[3] The Newmark Plaintiffs respectfully submit two proposed orders. The first lifts the stay entirely. The second would accomplish an even-handed partial lifting of the stay through the following modifications of the order sought by the Entertainment Company Defendants:

(a) substituting for paragraph (iii) of that Order that "the Newmark Plaintiffs' Motion for Leave to File the First Amended Complaint pursuant to Federal Rules of Civil Procedure 15(a) and 23 and supporting papers, as well as opposition and reply papers in connection therewith;"

(b) adding new paragraph (iv) to that Order that "An application by the Newmark Plaintiffs for leave to serve Discovery requests on the Entertainment Companies for information relating to the Entertainment Companies' Motion to Dismiss the Newmark Plaintiffs' Complaint;";

(c) adding new paragraph (v) to that Order, that "The Clerk shall be instructed to schedule the Newmark Plaintiffs' Motion for Leave to Amend for hearing on the same day as the Entertainment Companies' Motion to Dismiss.".