

**UNITED STATES DISTRICT COURT
DISTRICT OF CONNECTICUT**

UNIVERSAL CITY STUDIOS, INC.;)	
PARAMOUNT PICTURES CORPORATION;)	
METRO-GOLDWYN-MAYER STUDIOS INC.;)	
TRISTAR PICTURES, INC.;)	
COLUMBIA PICTURES INDUSTRIES, INC.;)	
TIME WARNER ENTERTAINMENT CO., L.P.;)	Case No. 300CV72RNC
DISNEY ENTERPRISES, INC.; AND)	
TWENTIETH CENTURY FOX FILM CORP.,)	
)	
Plaintiffs,)	
v)	
)	
JERAIMEE HUGHES,)	
)	
Defendant.)	September 28, 2000

MEMORANDUM OF LAW IN SUPPORT OF MOTIONS TO DISMISS

Defendant Jeraimie Hughes submits this Memorandum of Law in support of his pending motions to dismiss on the grounds that pursuant to Fed. R. Civ. P. 17(a), the within action has not been brought by the real parties in interest, as Matshushita Electric Industrial Co. Ltd. (“MEI” or “Matshushita”), Toshiba Corporation (“Toshiba”), and the DVD Copy Control Association, Inc. (“DVD CCA”) are the real parties in interest, not the plaintiff motion picture studios. In the alternative defendant argues that plaintiffs have failed to join necessary parties, MEI, Toshiba, and the DVD CCA, as required by Fed. R. Civ. P. 12(b)(7) and 19(a). Defendant also submits that dismissal of the plaintiffs’ complaint is appropriate pursuant to Fed. R. Civ. P. 12(b)(6) because plaintiffs have failed to state a cause of action. The Content Scrambling System (“CSS”), which

plaintiffs claim Decrypted CSS (“DeCSS”) allegedly circumvents, is not a “technological measure that effectively controls access to a work” under the statutory provisions of the Digital Millennium Copyright Act (“DMCA”) under which plaintiffs have based their claim against defendant since it has no role in determining whether a person using CSS has the right to make use of the work.

I. Summary of Grounds for Motions.

A. The complaint should be dismissed because under F.R.C.P. 17(a) plaintiffs are not the real party in interest. The eight named plaintiffs claim that they are “the major motion picture studios in the United States,” and that “[e]ach plaintiff is engaged in the business of producing, manufacturing, and/or distributing copyrightable material, including, specifically motion pictures.” Complaint at ¶ 2. Plaintiffs have conceded that they are members of the digital versatile disc (“DVD”) industry, and that they are merely direct licensees or contractors of direct licensees, of the contents scramble system. Complaint at ¶ 18. By bringing an action alleging circumvention of the CSS system by DeCSS, plaintiffs have attempted to bring an action for the benefit of MEI, Toshiba and the DVD CCA, licensors of CSS, who are the real parties in interest and whose presence is necessary for a just adjudication.¹

B. The complaint should likewise be dismissed under F.R.C.P. 12(b)(7) because plaintiffs have failed to join a necessary party under F.R.C.P. 19. Aside from the arguments supporting defendant’s F.R.C.P. 17 motion herein, MEI, Toshiba and the DVD CCA are also necessary parties to this action pursuant to F.R.C.P. 19(a)(1). Failure to include Matsushita, Toshiba

¹ It is remarkable that the first CSS encryption case, *DVD Copy Control Association, Inc. v. McLaughlin*, (Santa Clara County, California 2000)(Doc. No. 786804) was brought on behalf of the DVD CCA. The subsequent New York action, *Universal City Studios, et al. v. Reimerdes*, (S.D.N.Y. 2000)(11 Civ. 0277(LAK)), brought in the Southern District of New York, was later brought by the very same plaintiffs as the within action.

and the DVD CCA as parties in the within action would subject Mr. Hughes to the substantial risk of incurring incomplete relief as well as risk exposing him to double or multiple obligations, a concern of F.R.C.P. 19(a)(2)(ii). If the eight named members of the motion picture industry are allowed to prosecute this action, there is no protection for Mr. Hughes, as well as any other persons similarly situated, that would prevent Mr. Hughes from later being sued for alleged DMCA violations by MEI, Toshiba and the DVD CCA. The fact that MEI, Toshiba and the DVD CCA would be able to bring separate and independent claims based upon the same facts and allegations asserted in the present action, seeking essentially the same damages that are being sought in this action, means that if the action proceeds without MEI, Toshiba and the DVD CCA, and the present within plaintiffs were successful, defendant would remain subject to multiple obligations on the same claim. See *Smith v. Kessner*, 183 F.R.D. 373, 375 (S.D.N.Y. 1998), *Rose v. Simms*, 1995 WL 702307, at *6 (S.D.N.Y. Nov. 29, 1995); *Avon Cosmetics (FEBO) Ltd. v. New Hampton, Inc.*, 1991 WL 90808 at *4 (S.D.N.Y. 1991).

- C. The complaint likewise should be dismissed under F.R.C.P. 12(b)(7) because adjudication of the within claims by plaintiffs without MEI, Toshiba and the DVD CCA could impair or impede those parties' ability to protect their interests in the CSS technology. Therefore, under F.R.C.P. 19(a)(2)(i), compulsory joinder under the "impair or impede clause" is warranted to protect the absent parties ability to protect their interests. As discussed above, MEI, Toshiba and the DVD CCA are the owners of and sole licensing entity for CSS technology. Complaint at ¶ 18. See also Complaint for Injunctive Relief for Misappropriation of Trade Secrets, *DVD Copy Control Association v. McLaughlin, et. al.*, ¶¶ 1, 33, 40-44 (Santa Clara County, California 1999)(Doc. No. CV-786804). **[Exhibit A]**. Clearly, any

decision as to the legitimacy of distributing DeCSS has direct and immediate consequences to MEI, Toshiba and the DVD CCA's interests in the CSS technology. Plaintiffs do not adequately represent the interests of MEI, Toshiba and DVD CCA because plaintiffs only represent but one portion of the industries represented in the DVD CCA. The interests of the computer and consumer electronics industries, which also comprise the DVD CCA, are unrepresented² and subsequently the action should be dismissed for failure to join a necessary party.

- D. The within complaint should also be dismissed under F.R.C.P. 12(b)(6) because plaintiffs erroneously invoke § 1201(a)(2) of the DMCA. CSS is not an "access control device" as defined by the DMCA. "Access" is the "right to make use of". Thus, an access control device effectively controls access to a work by determining *when one has the right to make use of a work*. CSS makes no such determination; the consumer has the unfettered right to make use of a work embodied on DVD when he or she has lawfully acquired the DVD, for example by purchase from a retailer.

² It is of interest to note that in the California action, plaintiff DVD CAA alleged that the DVD CCA was specifically created in order to represent and balance these competing interests. Complaint for Injunctive Relief for Misappropriation of Trade Secrets, *DVD Copy Control Association v. McLaughlin, et. al.*, at ¶¶ 40-41 (Santa Clara County, California 1999)(Doc. No. CV-786804).

II. Facts and argument relevant to all motions.

A. The Digital Millennium Copyright Act.

This present case presents a unique opportunity to identify the intent and develop a logical interpretation and implementation of the anti-circumvention provisions of the Digital Millennium Copyright Act (the “DMCA”) 17 U.S.C. § 101 *et seq.* [Exhibit B]. The DMCA was adopted by Congress and signed into law October 28, 1998 following the passage of two intellectual property treaties by the World Intellectual Property Organization (“WIPO”), the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty, which were signed in Geneva, Switzerland in December 1996.³ Those two new WIPO treaties included substantively identical provisions on technological measures of protection, also commonly referred to as the “black box” or “anticircumvention” provisions.

The WIPO treaties contained provisions requiring signature parties to provide “adequate legal protection and effective legal remedies against the circumvention of effective technological measures” that are used by the holders of intellectual property rights. H.R. REP. No. 105-796 at 64 (1998).

Significantly, the House noted that:

It is the understanding of the conferees that technological measures will most often be developed through *consultative, private sector efforts* by content owners, and makers of computers, consumer electronics and telecommunications devices. The conferees expect this consultative approach to continue as a constructive and positive method. One of the benefits of such consultation is to allow testing of proposed technologies to determine whether there are adverse effects on the ordinary performance of playback and display equipment in the market place, and to take steps to eliminate or substantially mitigate those effects before technologies are introduced. The public interest is well-served by such activities.

³ Defendant does not agree that the passage of the WIPO treaties required the adoption of the DMCA. Moreover, the DMCA went far beyond the text of the treaty in imposing restrictions on circumvention devices.

Persons may also choose to implement a technological measure without vetting it through an inter-industry consultative process, or without regard to the input of affected parties. Under such circumstances, such a technological measure may materially degrade or otherwise cause recurring appreciable adverse affects on the authorized performance or display of works. *Steps taken by the makers or servicers of consumer electronics, telecommunications or computing products used for such authorized performances or displays solely to mitigate these adverse affects on product performance* (whether or not taken in combination with other lawful product modifications) shall not be deemed a violation of sections 1201(a) or (b).

Id. at 64-65. [emphasis added].

The DMCA was enacted with certain anti-circumvention provisions. Section 1201(a)(1) of the DMCA governs the *act* of circumventing “a technological measure that effectively controls access to a work protected under this title.”⁴ Plaintiffs have brought the within action, however, solely under § 1201(a)(2), which “supplements the prohibition against the act of circumvention in paragraph (a)(1) with prohibitions on creating and making available certain technologies ... developed or advertised to defeat technological protections against unauthorized access to a work.”⁵ A secondary anti-circumvention provision, of which plaintiffs make no mention and allege no violation, is § 1201(b), which “prohibits devices primarily designed to circumvent effective technological protection measures that limit the ability of the copyrighted work to be copied, or otherwise protect the copyright rights of the owner of the copyrighted work.”⁶ While defendant does not believe that § 1201(b) would apply to his actions, in order for the Court to fully appreciate the impropriety of plaintiff’s application of the DMCA, that section is discussed herein.

The distinction between the two sections is important. Section 1201(a) prohibits both use of and trafficking in certain devices that perform access control, while § 1201(b) does not prohibit the

⁴ § 1201(a)(1) does not come into effect until October 28, 2000.

⁵ H.R. REP. 105-551, pt. 1, at 18 (1998).

⁶ S. REP. NO. 105-190, at 12 (1998).

act of circumventing, but only seeks to prevent certain devices that perform copying from being distributed. There are also substantive exceptions to both provisions, many of which apply to the alleged acts of Mr. Hughes.

B. DVDs and the licensing of CSS.

Plaintiffs, eight major motion picture studios, distribute many of their copyrighted motion pictures for home use on DVDs. DVDs contain copies of the motion pictures as well as other materials in digital form. DVDs are the latest generation of technology allowing consumers to view motion pictures in their homes.⁷ DVDs provide very high quality images that are digitally formatted on a convenient 5-inch disc that is resistant to wear and damage and allows for attractive consumer features not presently available in other video formats. Generally, the video DVDs released by the plaintiff motion picture studios incorporate CSS. Complaint at ¶ 19. CSS is a proprietary encryption scheme. Declaration of John J. Hoy at ¶ 12 (Dec 29, 1999), *DVD Copy Control Association v. McLaughlin, et. al.* (Santa Clara County, California 1999)(Doc. No. CV-786804) (“John Hoy Decl.”)(“The CSS system is proprietary”). **[Exhibit C]**.

Matshushita and Toshiba developed the CSS standard for encryption of the work contained on the DVD disc. John Hoy Decl. at ¶ 10 (“Toshiba and Matsushita Electric Industrial Co., Ltd. developed the Contents Scramble System.”). CSS was thus developed and owned by two electronics manufactures, and not by plaintiffs: “A: ...[Matshushita was] the developer of CSS. Q: They owned CSS[?]. A: Yes, along with Toshiba.” (Tr. 502:11-13 (Marsha King - Executive Vice-president, Worldwide Business Affairs for Warner Home Video (“King”)), *Universal City Studios, et al. v. Reimerdes*, (S.D.N.Y. 2000)(11 Civ. 0277(LAK)) **[Exhibit D]**; (Tr. 507:25-508:4 (King)),

⁷ DVDs can store any digital information. There are several standards for this including DVD-Audio and DVD-ROM. Video DVD is the sole technology at issue in this case.

Universal City Studios, et al. v. Reimerdes, (S.D.N.Y. 2000)(11 Civ. 0277(LAK)) (“Q. Who owns CSS at the moment? A. I don’t know if it is Matsushita or DVD-CCA. . . .[I]t’s either a combination of Matsushita and Toshiba or they have transferred it to the DVD-CCA. . . .”) These companies began licensing CSS in 1996. John Hoy Decl. at ¶ 14 (“Beginning on or about October 31, 1996, DVD CCA's predecessor-in interest began licensing CSS technology”).

However, the various industries involved in the DVD business (motion picture, computer, and consumer electronics companies) determined that in order to balance their disparate interests, the licensing of CSS technology ought to be jointly controlled and administered by the companies in the three industries. John Hoy Decl. at ¶¶ 20-21. Thus, the DVD CCA was formed in December 1998 as a not-for-profit trade association to represent all three interested industries. *Id.* at ¶ 22. In December 1999 Matsushita and Toshiba assigned their licensing interests in the CSS technology to the DVD CCA. *Id.* at ¶ 23- 24. *See also*, (Tr. 502:8-9 (King)), *Universal City Studios, et al. v. Reimerdes*, (S.D.N.Y. 2000)(11 Civ. 0277(LAK)) (“A. Matsushita issued licenses for a long time before the DVD-CCA, an interim license.”). Thus, MEI, Toshiba and the DVD CCA are the owners and sole authorized licensing entity for CSS. Complaint for Injunctive Relief for Misappropriation of Trade Secrets, *DVD Copy Control Association v. McLaughlin, et. al.*, ¶¶ 1, 33, 40-44 (Santa Clara County, California 1999)(Doc. No. CV-786804).

Presently, the DVD CCA sublicenses CSS to hundreds of other entities according to multiple license categories, but under one general license (“CSS Agreement” [Exhibit E]). John Hoy Decl. at ¶¶ 14, 24. The CSS Agreement sets the conditions under which the licensing entity may implement CSS. *Id.* at ¶ 14. Plaintiffs may or may not be licensees of CSS. Complaint at ¶ 18.

C. The Congressional intent of the DMCA.

Plaintiffs have alleged that Mr. Hughes' publication of DeCSS on his website has violated § 1201(a)(2) by offering a device (DeCSS) that allegedly circumvents CSS and has a limited commercially significant purpose. Complaint at ¶¶ 23-24. However, the Court should be aware that DeCSS was specifically developed, using property lawfully obtained (through the purchase of a DVD), as an initial step towards the development of an open source solution for DVD players that incorporates many popular consumer features. Congress never intended to proscribe such activity under the DMCA:

...[I]t is not easy to draw the line between legitimate and non-legitimate uses of decoding devices. ... The bill, as reported, presents a reasonable compromise by preventing only the manufacture, or sale of devices that [quoting from § 1201(a)(2)]: (1) are "primarily designed" to grant free, *unauthorized* access to copyrighted works; (2) have only limited commercially significant purpose or use other than to grant such free access; or (3) are intentionally marketed for use in granting such free access. *This would not include normal household services such as Videocassette Recorders or personal computers, since such devices are not "primarily designed" to circumvent technological protections granting access to copyrighted works, have obvious and numerous commercially significant purposes, and are not intentionally marketed to circumvent such protections.*

H.R. REP. 105-551, pt. 1, (1998) (emphasis added).⁸

⁸ Even if one assumes, *arguendo*, that Mr. Hughes' actions somehow violate the DMCA, they do not violate the section plaintiffs invoke. Section 1201(a)(2), which prohibits trafficking in devices that circumvent access control is equivalent to "market[ing] siege engines or catapults ... [that] generally facilitate penetration of the stronghold." 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT §12A.03[D][1] (1999). The prohibition in § 1201(b), which section plaintiffs do not invoke, is much different. The *act* of circumventing with regard to § 1201(b) is not prohibited, as any potential crime is already governed by the Copyright Act itself. S. REP. NO. 105-190, at 27 (1998) ("Thus, for example, where a copy control technology is employed to prevent the unauthorized reproduction of a work, the circumvention of that technology would not itself be actionable under Section 1201, but any reproduction of the work that is thereby facilitated would remain subject to the protections embodied in title 17.") Thus, § 1201(b) is not about breaking and entering, but to continue the analogy, is equivalent to "a guest invited inside the manor [who] contravenes the seigneur's edicts . . ." 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT §12A.03[D][2] (1999). While Defendant does not believe that § 1201(b) would apply either, for reasons that are not relevant to the current discussion, this section at least comes closer to reaching DeCSS than § 1201(a)(2).

As discussed further below, Mr. Hughes' actions simply do not fall under § 1201(a)(2).

1. Plaintiffs knowingly licensed CSS with many consumer unfriendly features.

Although the DVDs released into international commerce were intended to permit authorized display by consumers, it soon became apparent that lawfully purchased DVDs had many consumer unfriendly features. More specifically, DVDs incorporated regional playback controls that prevent DVDs from one region (i.e., North America) from playing on a playback device from another region (i.e., Europe). Furthermore, consumers were forced to continually watch advertisements or other materials in order to watch the main feature of a DVD. DVD playback devices also intentionally degrade the output signal so that display is only suitable for standard televisions or computer monitors. Owners of HDTV are not permitted to enjoy the higher fidelity of their expensive screens. The DVD CCA refuses to license CSS without requiring these consumer unfriendly features.

The GNU/Linux platform⁹ is an open source operating system developed by an open community of Internet users to be an alternative solution to proprietary operating systems (such as Microsoft Windows) for running applications on a computer. GNU/Linux was developed through the free and cooperative endeavors of many computer users throughout the world (the "Open Source" development model), and is now a common, if not prevalent, platform for operating computers. It is the position of the open source community that the best way to develop a more efficient and error free environment for running applications on a computer is through the Open

⁹ Linux is an implementation of the UNIX operating system kernel that runs on a number of hardware platforms, including Intel and Motorola microprocessors. GNU (a recursive acronym for "GNU's Not UNIX") is a UNIX-compatible software system developed by the Free Software Foundation. Together, GNU/Linux are a full operating system and offer a viable operating system alternative to the Microsoft Windows operating system. GNU/Linux is distributed through open source licenses, which permit anyone to download source code, modify and redistribute it.

Source development model, rather than the closed and proprietary model used by Microsoft and others.

As DVDs began to be widely distributed in commerce, it became clear that the DVDs could only be played with consumer unfriendly restrictions in place. Furthermore, the excessively restrictive licensing of CSS by the DVD CCA prevented the development of alternative, open source DVD players in which the users themselves could improve the product.¹⁰

2. DeCSS was the first step toward independent development of a consumer-friendly, open source DVD player.

There are obvious and commercially significant reasons for developing an consumer friendly, open source DVD player. Thus, in late 1999, Jon Johansen, a Norwegian user of GNU/Linux, and two others created the program “DeCSS” by reverse engineering CSS. (Tr. 616:15, 617:9, 619:20, 22, 623:1-3 (Jon Johansen (“Johansen”)), *Universal City Studios, et al. v. Reimerdes*, (S.D.N.Y. 2000)(11 Civ. 0277(LAK)[**Exhibit F**].) DeCSS permits the movie files on a lawfully acquired DVD to be copied to a computer hard drive. *Id.* at 619:15-16 (“[DeCSS] is a program which decrypts DVD movies and stores them on your hard drive.”). Developing the ability to decrypt DVD files is an obvious first step in creating a DVD player. *Id.* at 622:21 - 623:6. In other words, the purpose of DeCSS was to assist the LiViD¹¹ project in creating a full-featured, consumer-friendly, open source GNU/Linux DVD player. *Id.*

¹⁰ Since the filing of this action the DVD CCA has begun negotiations to license CSS to certain companies that claim that they will create DVD players that run on GNU/Linux, but the consumer unfriendly license restrictions will remain. Moreover, Defendant has no knowledge that such DVD players actually exist, the term of art being “vaporware.” (a term used to designate hardware and software products that have been announced and advertised but are not yet available.)

¹¹ LiViD (Linux Video DVD) is an open source development project to provide video and DVD support for GNU/Linux.

3. DeCSS enables fair use and its publication is not proscribed by § 1201(a)(2).

The DeCSS program enables “fair use” of works embodied on DVDs,¹² and its publication by Mr. Hughes on his website is not at all prohibited by § 1201(a)(2). Indeed, the legislative history of the DMCA’s anticircumvention provisions demonstrates a clear Congressional intent to preserve fair use for lawfully acquired works:

§ 1201(a)(1) ... does not apply to the subsequent actions of a person once he or she has obtained authorized access to a copy of a work protected under Title 17, *even if such actions involve circumvention of additional forms of technological protection measures*. In a fact situation where *access is authorized*, the traditional defenses to copyright infringement, *including fair use*, would be fully applicable. So, an individual would not be able to circumvent in order to gain unauthorized access to a work, but would be able to do so in order to make fair use of a work which he or she has lawfully acquired.

H.R. REP. 105-551, pt. 1 (1998)(emphasis added).

A sound fair use doctrine is critical to continued interoperability of various systems, which in effect allows the Internet to exist and grow. Fair use encourages others to build freely on the ideas and information in a work while guaranteeing the author’s right to their original expression.... We should not tolerate discriminatory treatment based on a means of distribution or an alternative technology. Fair use in one medium should be fair use in another.

Congressional Record, 143. CONG. REC. S 8723 (September 3, 1997, Ashcroft) (introducing S. 1146, precursor to the DMCA)(emphasis added).

It is anticipated that most acts of circumventing a technological copyright protection measure will occur in the course of conduct which itself implicates the copyright owners rights under Title 17. This subsection [1201(b)] is *not intended in anyway to enlarge or diminish those rights*. Thus, for example, where a copy control technology is employed to prevent the unauthorized reproduction of a work, the circumvention of that technology would not itself be actionable under section 1201,

¹² CSS was implemented under an extremely restrictive licensing scheme. Plaintiffs should not now be heard to complain that other parties’ solutions to the imposition of consumer unfriendly features is somehow illegal or unauthorized. There is nothing in the DMCA or any other statute that does or can convey to copyright owners the legal power to control the market in products for the exhibition of copyrighted works. Plaintiffs are overreaching by attempting to suppress lawful use of their works.

but any reproduction of the work that is thereby facilitated would remain subject to the protections embodied in Title 17.

S. REP. 105-190 (1998)(emphasis added).

What we wanted to do was come up with ways to adapt the protection of intellectual property to a modern technological era without duly diminishing people's rights to enjoy things. We do not want to prevent the public from having the enjoyment of their products. ... *There is a balance here.* We want to protect property, but we do not want to deter people from making this widely available.

Congressional Record, 144 Cong. Rec. H.7074 (August 4, 1998, motion by Coble to pass H.2281 (DMCA) as amended)(emphasis added).

However, Congress was also very much concerned with the potential misuse of the DMCA to stifle the development of new technology:

If history is a guide, however, someone may yet try to use this bill as a basis for initiating litigation to stop legitimate new products from coming to market. ... I have sought to make it clear that any such effort to use the courts to block the introduction of new technology should be bound to fail.

Congressional Record, 144 Cong. Rec. S 4884 (May 14, 1998, Ashcroft).

The creation of DeCSS is part of the LiViD group's open source development process to create a full-featured, consumer-friendly, open source DVD player. CSS was legitimately reverse-engineered precisely for this reason. Because of the restrictive and consumer unfriendly aspects of the CSS Agreement, the LiViD DVD player will be very popular with consumers. This Court should not permit plaintiffs to use the DMCA to suppress innovative, consumer-friendly products and eliminate competition for DVD players.

Shortly after its development, DeCSS was made available on the Internet and was copied on numerous sites and is presently readily available to much of the world. This wide posting of DeCSS follows the principles of the Open Source development movement. The principles of open source, reflecting the principles of free speech embedded in our First Amendment, hold that software source

code should be widely distributed in our global community so that programmers can easily read, modify and further distribute software freely. The goal is to allow for unfettered exchange and development of ideas and technology. Defendant Jeramee Hughes is webmaster of one of the hundreds of websites that copied and posted DeCSS on the Internet. He is an active participant in the Open Source movement and is a strong supporter of its principles.

With the present one count Complaint, plaintiffs now contend that the posting of DeCSS on the Internet is not permissible free speech but somehow violates § 1201(a)(2) of the DMCA and seek to enjoin defendant from posting DeCSS on the Internet. It should be noted that in two prior cases in California and New York, no instance of copyright infringement has been alleged, established or demonstrated, either by these plaintiffs or by the CSS licensor, the DVD CCA.

III. Argument in Support of Rule 12(b), 17 and 19 Motions.

A. Plaintiffs are not Real Parties in Interest.

Every federal civil action must be prosecuted in the name of the real party in interest. Fed. R. Civ. P. 17(a). F.R.C.P. 17(a) requires that “the action must be brought by the person entitled under the governing substantive law to enforce the asserted right.” *Whelan v. Abell*, 953 F.2d 663, 672 (D.C. Cir. 1992), cert. Denied, 506 U.S. 906 (1992). *See also United HealthCare Corp. v. American Trade Insurance Co., Ltd.*, 88 F.3d 563, 568-69 (6th Cir. 1996)(“this rule requires that the party who brings an action *actually possess*, under the substantive law, the right sought to be enforced”)(emphasis added); *Boeing Airplane Co. v. Perry*, 322 F.2d 589, 591 (10th Cir. 1963), *cert denied*, 375 U.S. 984 (1964)(“the ‘real party in interest’ is the one who, under applicable substantive law, has the legal right to bring the suit”).

Defendant therefore brings this motion to dismiss based on the fact that plaintiffs do not own the technological measure upon which the claim is based. The party who possesses the right to be

enforced in a claim under § 1201 must be able to claim ownership of the technological measure at issue. In this instant matter the real party in interest must be the actual owner of CSS, which is not the plaintiffs.

1. Ownership of the technological protection measure determines the entity who may enforce the right.

Under the DMCA, Congress has attempted to create a new scheme to protect intellectual property in the digital age. However, by prohibiting certain tools or devices by which a person only might infringe another's copyright, Congress has sought to criminalize conduct which does not constitute nor contribute to infringement. This new scheme has been called "paracopyright."¹³ Like other forms of intellectual property such as patent and copyright, paracopyright is produced by federal statute and creates a right of exclusion for an information product. In this case the information products are certain technological protection measures for copyrighted works. Paracopyright establishes a right to prevent others from "manufactur[ing], import[ing], offer[ing] to the public, provid[ing], or otherwise traffic[king]" in devices that circumvent certain technological protection measures.

However, the question presented and raised by the present case is how broadly the paracopyright scheme of the DMCA can be construed. There is the very real risk that an overly-broad application of the DMCA paracopyright scheme will conflict with First Amendment rights and the traditional balance of interests under present copyright laws.¹⁴ Only a narrowly-crafted

¹³ The term "paracopyright" was first coined by Professor Peter Jaszi. JeanAne Marie Jiles, Comment, *Copyright Protection in the New Millennium: Amending the Digital Millennium Copyright Act to Prevent Constitutional Challenges*, 52 ADMLR 443, 450 n.33 (2000). The term was subsequently used by 62 copyright law professors in a letter to Congress and Congress itself recognized this terminology. H.R. REP. 105-551 pt 2. (1998). See also Speech of Hon. Tom Bliley of Virginia, 144 CONG. REC. E2136-02 (12 Oct 1998).

¹⁴ "[Analysis of § 1201] leads to the conclusion that its entire edifice of user exemptions is of doubtful puissance. The user safeguards so proudly heralded as securing balance between owner and user interests, on

interpretation of this new law can prevent an upset of the First Amendment as well as prevent an application of the DMCA that is not in accordance with Congressional intent.

Therefore, and in accordance with traditional intellectual property law, one of the first considerations this Court must address is with whom or what entity rests the right to enforce the paracopyright. *Whelan v. Abell*, 953 F.2d 663, 672 (D.C. Cir. 1992), *cert. denied*, 506 U.S. 906 (1992)(The “action must be brought by the person entitled under the governing substantive law to enforce the asserted right.”). In the DMCA, Congress has made a statutory grant of standing, § 1203(a), which states that “[a]ny person injured by a violation of section 1201 or 1202 may bring a civil action in an appropriate United States district court for such violation.” However, since the nature and type of injury is not made clear, a deeper look at the structure of § 1201 is called for. Defendant argues that the injured party, if any, is not the plaintiff motion picture studios, but MEI, Toshiba and the DVD CCA.

Certainly, plaintiffs allege injury, but this does not end the inquiry as to whether plaintiffs are entitled to bring the within suit. It is important to note that while Congress may have intended to benefit copyright holders, that does not prove that Congress gave the *carte blanche* enforcement right to copyright holders. It is often the case in legislation that goals and means are separate. Indeed, a claim of an amorphous injury is not a harm that creates a substantive right. Even if plaintiffs would benefit from the present litigation, that is not enough to make them the real party in interest. *Armour Pharmaceutical Co. v. Home Ins. Co.*, 60 F.R.D. 592, 594 (N.D. Ill. 1973) (“[M]erely because one may benefit by the result in litigation does not make him a ‘real party in interest.’”)(Insured, not

inspection, largely fail to achieve their stated goals. If the courts apply section 1201 as written, the only users whose interests are truly safeguarded are those few who personally possess sufficient expertise to counteract whatever technological measures are placed in their path.” David Nimmer, *A Riff on Fair Use in the Digital Millennium Copyright Act*, 148 U. Pa. L. Rev. 673, 739-740 (2000)(citations omitted).

insurer, is real party in interest when there is no actual subrogation of insured's rights.); *In Re Barrow*, 87 B.R. 879, 886-887 (Bkrcty E.D. Va. 1988). In other words, it is not enough that plaintiffs allege that they are injured; they must show that they are the party entitled to bring suit under the DMCA.

Not surprisingly, plaintiffs do not allege any specific injury¹⁵. Complaint at ¶ 28. This is because the harm contemplated by the DMCA is not copyright infringement, nor can it be contributory copyright infringement, since the Copyright Act already provides the mechanism to enforce both causes of action. 17 U.S.C. § 501(a). *See also Sony Corp. of America v. Universal City Studios, Inc*, 464 U.S. 417, 486-487, 104 S. Ct. 774, 811 (1984). The locus of the injury is *not* the copyrights owned by plaintiffs. The harm allegedly caused by Mr. Hughes, if any, must be to plaintiffs' interests in the technological protection measure CSS. As shown below, however, plaintiffs have no legal interest in CSS apart from the rights granted by their licenses.

Therefore, following established principles of intellectual property law, legislative intent, and specific language of the DMCA, to invoke the prohibitions of either § 1201(a) or (b) plaintiffs must prove that they have ownership of the technological measure in question. Plaintiffs cannot satisfy this prerequisite. In fact, plaintiffs by their own admission, "adopted CSS as direct licensees or by contracting through CSS licensees." Complaint at ¶ 18.

It is the intent of Congress that only the owner of the technological measure may bring an action for injury under the DMCA. By bringing the within action, plaintiffs are essentially arguing that they could adopt any particular technological protection measure under a non-exclusive license, even a protection measure already in the public domain, and then exclude other licensees by claiming

¹⁵ Nor have they done so in the prior New York action.

that their use of the device violated plaintiffs' rights under § 1201.¹⁶ This would have the effect of depriving the developers of technical protection measures of rights they chose not to part with by license. In other words, by bringing the within action, plaintiffs are claiming that if they license a technological protection measure and the licensor reserves the right to take action (or not to take action) against infringers, plaintiffs may ignore the license. Congress clearly did not have the intent to increase protection for intellectual property rights for copyright holders by stripping intellectual property rights from the creators of technological protection measures. More importantly, Congress did not express an intent to permit plaintiffs to ignore licensing restrictions under which they are contractually obligated.

Defendant's interpretation of the legislative intent is fully consistent with the settled law for determining the real party in interest for intellectual property (patent, copyright and trademark):

A license means only leave to do a thing which the licensor would otherwise have a right to prevent. Such a license grants to the licensee merely a privilege that protects him from a claim of infringement by the owner of the patent monopoly. He has no property interest in the monopoly of the patent, nor any contract with the patent owner that others shall not practice the invention. Hence the patent owner may freely license others, or may tolerate infringers, and in either case no right of the patent licensee is violated. *Practice of the invention by others may indeed cause him pecuniary loss, but it does him no legal injury. ... Infringement of the patent can no more be a legal injury to a bare licensee than a trespass upon Blackacre could be an injury to one having a nonexclusive right of way across Blackacre.* Therefore it is obvious that a bare licensee can neither sue alone, nor join with the patent owner, in an infringement suit.

Western Electric Co. v. Patent Reproducer Corp. 42 F.2d 116, 118 (2nd Cir. 1930), *certiorari denied*, 282 U.S. 873, 51 S.Ct. 78, 75 L.Ed. 771 (1930), (citations omitted)(emphasis added). *See also, Waterman v. MacKenzie*, 138 U.S. 252, 252, 11 S.Ct. 334, 334, 34 L.Ed. 923 (1891); *Amgen, Inc. v. Chugai Pharmaceutical Co., Ltd.*, 808 F. Supp. 894, 899-900 (D. Mass. 1992); *Sanofi, S.A. v. Med-Tech Veterinarian Products, Inc.*, 565 F. Supp. 931, 936-937 (N.J. 1983); *Leo Feist, Inc. v. Young*, 138 F.2d 972, 974 (7th Cir. 1943)(similar doctrine applies to copyright); *U-Haul Int'l Inc.*

¹⁶ To extend plaintiffs' argument *ab absurdum*, if there is no requirement to claim ownership, plaintiffs would be able to adopt technological protection measures in the public domain and assert dominion over them as well.

v. Jartran, Inc., 793 F.2d 1034, 1038-1039 (9th Cir. 1986)(similar doctrine applies to trademark). See also, generally, Wright & A. Miller, 6A FED. PRAC. & PROC. CIV. 2d § 1547 (1990).

Plaintiff's interpretation is also inconsistent with § 1201(c)(3), which states that:

Nothing in this section shall require that the design of, or design and selection of parts and components for, a consumer electronics, telecommunications, or computing product provide for a response to any particular technological measure, so long as such part or component, or the product in which such part or component is integrated, does not otherwise fall within the prohibitions of subsection (a)(2) or (b)(1).

This subsection, known as the “no affirmative mandate clause”, prohibits copyright holders from forcing hardware and software developers to also adopt or “respond” to particular technological measures that copyright holders might adopt. The clause has the effect of requiring copyright holders and equipment manufacturers to enter into licensing agreements to determine the parties' respective obligations and rights.

Where, as in this case, the developer of the technological measure has reserved certain rights under the licensing agreement, including the right to bring action against non-licensees, it would be contrary to Congressional intent as well as the plain language of the statute to permit plaintiffs to assume rights that they did not acquire through license. Permitting plaintiffs to bring suit is the equivalent of forcing a signator to the CSS licensing agreement (such as an electronics manufacturer) to adopt the position with regard to CSS taken by plaintiffs, when in fact that signator did not accept that obligation to follow plaintiffs in the licensing agreement.

Furthermore, plaintiffs interpretation is contrary to their own previous admissions. Plaintiffs acknowledge that they do not have the right to grant authority to circumvent CSS. (Tr. 454:12-18 (King), *Universal City Studios, et al. v. Reimerdes*, (S.D.N.Y. 2000)(11 Civ. 0277(LAK)) [**Exhibit D**]. It is simple logic that if plaintiffs cannot grant authority to circumvent CSS, neither can they deny it, as the authority to make those decisions lies with another party. This is, of course, because

plaintiffs do not own the CSS encryption scheme. If plaintiffs did have ownership of CSS, they would certainly be able to grant such authority to circumvent. When plaintiffs licensed (or contracted through a licensee) CSS, they accepted whatever MEI, Toshiba and the DVD CCA chose to do with the system in accordance with said license. Therefore, the right to decide what is circumvention and what is not (and thus the right to bring suit under §1201), lies only with the owners and licensor of CSS.

Plaintiffs' proposed interpretation of their right to bring suit under the DMCA would also distort and conflict with existing copyright and patent law. If CSS, as a technological protection measure, was patented and non-exclusively licensed to plaintiffs, then plaintiffs are claiming the right to bring what is essentially a patent infringement suit, or a suit that, at the very least, overlaps with an infringement suit. A non-exclusive license for a patent would not permit plaintiffs to bring an infringement suit. *Western Electric Co. v. Patent Reproducer Corp.* 42 F.2d 116, 118 (2nd Cir. 1930), *certiorari denied*, 282 U.S. 873, 51 S.Ct. 78, 75 L.Ed. 771 (1930).

Plaintiffs have instead chosen to attempt an end-run around well-settled patent law by bring an action under § 1201. This is not mere conjecture, as both Matshushita and Toshiba claim to have filed patent applications with respect to CSS. CSS Agreement at ¶ "A". Moreover, it is likely that future technological protection devices will be patented, or at the least, copyrighted. Since Congress did not state an explicit intention to change settled patent and copyright licensing law under the DMCA, plaintiffs' statutory interpretation has no foundation.

In contrast, defendant's interpretation is consistent with developing practice under § 1201 of the DMCA. In *Sony Computer Entertainment America, Inc. v. Gamemasters*, 87 F. Supp. 2d 976 (N.D. Ca. 1999), it was the owner of the rights in the technological protection measure that brought suit. Sony Computer Entertainment America, Inc. ("SCEA"), distributes and markets the PlayStation

game console (“PlayStation”) in North America, develops and publishes software for the PlayStation, and manages the U.S. third party licensing program. Under the licensing program, there are more than four dozen third party developers of copyrighted software for the PlayStation. Yet, when Gamemasters allegedly violated § 1201, it was not the third party developers that brought suit, but SCEA itself, nor did any third party developers intervene in the suit.

Indeed, several of the current plaintiffs in the instant action have not brought suit nor intervened in other § 1201 proceedings where they have licensed a technological protection measure. In *Real Networks, Inc. v. Streambox, Inc.*, 2000 WL 127311 (W.D. Wash. 2000), it was again the owner of the technological protection measure that brought suit. Real Networks (“Real”) is a pioneer in streaming media delivery on the Internet. Real develops and markets software products and services designed to enable users of personal computers and other consumer electronic devices to send and receive audio, video and other multimedia services using the Web. Real’s streaming servers and players incorporate technological protection devices for copyrighted works. At least some of the within plaintiffs have adopted Real’s streaming technology for their copyrighted works.

In December 1999, Real brought suit against Streambox alleging, among other things, that the “Streambox VCR”, which permitted consumers to record streaming content even when that content contained Content Management Information (“CMI”) denying copying, violated § 1201. Despite the fact that at least some of the within plaintiffs have licensed and used Real’s streaming technology to provide their copyrighted works on the Internet, plaintiffs neither brought suit against Streambox nor moved to intervene. Indeed, not a single content provider of Real’s software moved

to intervene. Plaintiffs should not now be allowed to assert a wholly inapposite interpretation of the DMCA merely because the medium is different.¹⁷

¹⁷ “We should not tolerate discriminatory treatment based on a means of distribution or an alternative technology. Fair use in one medium should be fair use in another.” *Congressional Record*, 143 Cong. Rec. S8723 (September 3, 1997, Ashcroft). Real Networks originally brought suit under §1201(b), but later revised the suit to include § 1201(a)(2) as well. A preliminary injunction was issued without the Court making a final determination as to which subsection was appropriate. An interlocutory appeal was begun, but the case was settled in the interim. Plaintiffs’ interpretation of this case will likely be to deny that Real had the authority to settle, since Plaintiffs could still maintain an action against Streambox.

2. Requiring ownership as an element of the complaint also prevents the development of conflicting claims.

At present, there are numerous DVD CCA members from a wide spectrum of industries. Defendant Hughes submits that since MEI, Toshiba and the DVD CCA are the owners and the sole licensor of the CSS technology, by agreement of the DVD CCA's members as demonstrated in the CSS Agreement, *only* MEI, Toshiba and the DVD CCA are permitted to bring suit under the DMCA. To allow plaintiffs' to continue the present action would expose Mr. Hughes to potential multiple suits, from additional members of the DVD CCA, claiming the same DMCA violations. Such proliferation of litigation is clearly neither intended nor mandated by the DMCA. Under our rules of procedure, such potential exposure to Mr. Hughes is neither equitable nor just. F.R.C.P. 19. Moreover, the interests of the licensees may conflict – how would the Court determine which plaintiffs had priority if some copyright holders claimed DeCSS violated § 1201 and other copyright holders claimed DeCSS was legitimate? It is impossible for this Court to interpret and enforce the DMCA without first determining which entit(ies) own(s) CSS and has(have) the right to bring suit under the DMCA.

Additionally, without inclusion of the DVD CCA, relevant and dispositive discovery is not be accessible in this case. One purpose of Rule 17 is to ensure proper access to discoverable materials. *Celanese Corp. of America v. John Clark Industries*, 214 F.2d 551, 556 (5th Cir. 1954). Relevant discovery in this case includes access to both CSS procedural and technical specifications in order to determine the exact extent of the technological measure in question. Plaintiffs do not have access to all the CSS specifications, unless they are members of each membership category under the

CSS Agreement. CSS Agreement at ¶ 4.1. MEI, Toshiba and the DVD CCA, as owners and licensors, have access to all specifications.

Finally, Defendant's arguments are consistent with the requirement that "there must be a causal connection between the injury and the conduct complained of – the injury has to be fairly traceable to the challenged action of the defendant, and not the result of the independent action of some third party not before the court." *Lujan v. Defenders of Wildlife*, 504 U.S. 555, 560-61, 112 S.Ct. 2130, 119 L.Ed.2d 351 (1992) (internal quotation marks and citations omitted); *United States v. Hays*, 515 U.S. 737, 743, 115 S.Ct. 2431, 2435, 132 L.Ed.2d 635 (1995). In the instant matter, the chain of causality is broken because any injury to plaintiffs must first be traced through MEI, Toshiba and the DVD CCA, by reason of the license agreement, and then to Defendant. To hold otherwise would mean that any licensee of a technological protection measure could bring suit under § 1201, regardless of the limitations of the license. Thus, the prerequisite of showing ownership both defines the real party in interest and satisfies the minimum criterion for standing established by Article III.

3. Plaintiffs are mere licensees of CSS and thus not entitled to bring this action.

Since plaintiffs do not own CSS, their interest in CSS is wholly determined by the license by which they adopted CSS. Plaintiffs, by their own admission, are mere licensees of CSS. Complaint at ¶ 18. Plaintiffs' licenses do not grant them the authority to bring this action.

The DVD CCA licenses CSS under the CSS Agreement. Declaration of John J. Hoy at ¶ 14 (Dec 29, 1999), *DVD Copy Control Association v. McLaughlin, et. al.* (Santa Clara County, California 1999)(Doc. No. CV-786804) [**Exhibit C**]. The CSS Agreement sets the conditions under which the licensing entity may implement CSS. *Id.* A preliminary question for the interpretation of the license, however, is the choice of law to apply.

Although this is a federal question case, state contract law should apply by analogy to patent law cases involving patent licenses. The CSS Agreement is nothing more than a commercial contract between private parties. *See Bartsch v. Metro-Goldwyn-Mayer, Inc.*, 391 F.2d 150, 153-154 (2d Cir. 1968); *Power Lift, Inc. v. Weatherford Nipple-Up Sys., Inc.*, 871 F.2d 1082, 1085 (Fed.Cir.1989) (explaining that a license agreement is a contract governed by ordinary principles of state contract law); *Kiwanis Int'l v. Ridgewood Kiwanis Club*, 806 F.2d 468, 472 n. 8 (3d Cir. 1986) (explaining that trademark license agreement is a contract to be interpreted under state law). If reasonable, a contractual choice of law should be accepted. *Pfizer Inc. v. Elan Pharmaceutical Research Corp.*, 812 F.Supp. 1352, 1359-60 (Del. 1993). The CSS Agreement contains a choice of law provision designating California. CSS Agreement at ¶ 10.4(a) Therefore, the CSS Agreement must be interpreted so as to give effect to the mutual intention of the parties. (Cal. Civ. Code §1636). The intention of the parties is to be ascertained from the "clear and explicit" language of the contract.

(Cal. Civ. Code §§ 1638-1639). And, unless given some special meaning by the parties, the words of a contract are to be understood in their "ordinary and popular sense." (Cal. Civ. Code § 1644).

The CSS Agreement constitutes the entire agreement and supersedes all other agreements between the parties. CSS Agreement at ¶ 10.1. *See also* CSS Agreement at ¶ 2.5 (“Licensee acknowledges and agrees that the licenses granted herein are the *only* licenses granted to Licensee, and that no other licenses are granted, expressly, by implication or by estoppel, now or in the future.”) (emphasis added). Moreover, any rights not granted are reserved by the Licensor (DVD CCA). CSS Agreement at ¶ 2.5 (“As between Licensor and Licensee, all rights not expressly granted to Licensee under this Agreement in and to CSS and the Proprietary Information are reserved and retained by Licensor.”). It is also important to note that the CSS Agreement was signed after the passage of the DMCA in October 1998, as the DVD CCA was formed in December 1998. John Hoy Decl. at ¶ 22.

The CSS Agreement thus provides licensees with a non-exclusive, nontransferable right to CSS. CSS Agreement at ¶ 2.1. Indeed, the CSS Agreement is quite explicit on this point:

OWNERSHIP. All Proprietary Information and media containing Proprietary Information as provided by Licensor to Licensee shall remain the property of Licensor or its licensors. Except as provided in Article 2, this Agreement does not give Licensee any license or other right to the Proprietary Information. CSS Agreement at ¶ 7 (emphasis and capitalization in original).

The right to bring suit against non-licensees is reserved by the DVD CCA. By plain and unambiguous language, the CSS Agreement specifically contemplates that non-licensees will adopt CSS and that the licensor *might* bring suit to prevent this, but there is no obligation. CSS Agreement at ¶ 5.2(h)(ii). Indeed, the paragraph *requires* that if a suit is brought, the *licensor* (the DVD CCA) must initiate the suit to prohibit development of CSS by non-licensees. *Id.* If plaintiffs had a right to bring suit to

suppress unlicensed versions of CSS, the contract would have specifically granted them the right to prosecute such an action as the within suit. CSS Agreement at ¶ 2.5.

The exclusion of the CSS licensee's right to bring suit appears purposeful. The CSS Agreement explicitly provides for other third party beneficiary rights, such that certain licensees may seek to enforce particular obligations of other licensees. CSS Agreement at ¶ 9.5. The rights to bring particular actions are clearly defined and delimited and therefore preclude the within action by plaintiffs, even under a under third party beneficiary theory. The present action by plaintiffs clearly violates the contract they signed.

Even if this Court were to accept that plaintiffs are third party beneficiaries of the CSS Agreement, the third party beneficiary rights to sue thereunder are also limited in that the capacity of plaintiffs to settle a given suit is severely constrained:¹⁸

Licensees shall have no right to, and Licensee agrees that it will not, enter into any settlement that ... (iii) impacts any of the rights in and to CSS held by Licensor, MEI, or Toshiba or to any intellectual property rights embodied therein unless Licensor, MEI and/or Toshiba, as the case may be, shall have provided prior written consent thereto. CSS Agreement at ¶ 9.5(d).

The right to settle, compromise or abandon a claim are important indicators of ownership. *Kenrich Corp. v. Miller*, 256 F. Supp 15, 18 (E.D. Pa. 1966) *aff'd Kenrich Corp. v. Miller*, 377 F.2d 312 (3d Cir. 1967). Since plaintiffs are severely limited in their ability to settle this case upon compromise, they cannot claim ownership of CSS. Since MEI, Toshiba, and the DVD CCA are the only real parties in interest, and because plaintiffs' interests in CSS do not rise to that of a real party in interest, their complaint should be dismissed.

4. Only an action brought by MEI, Toshiba and the DVD CCA is appropriate

¹⁸ Restrictions on settlement apply only to third party beneficiary suits against other licensees. Plaintiffs have *no* right to settle the present action since, under the license they agreed to, they have no right to bring the suit.

The basis for the real party in interest rule was stated by the Advisory Committee in its Note to the 1966 Amendment to F.R.C.P. 17(a) as follows:

[T]he modern function of the rule in its negative aspect is simply to protect the defendant against a subsequent action by the party actually entitled to recover, and to ensure generally that the judgment will have its proper effect as *res judicata*.

Wright & Miller, noted commentators on federal civil procedure, also make this point:

Rule 17(a) performs the useful function of protecting individuals from harassment and multiple suits by persons who would not be bound by the principles of claim preclusion if they were not prevented from bringing subsequent actions by a real party in interest rule. Wright & A. Miller, 6A FED. PRAC. & PROC. CIV. 2d § 1541 (1990)

The danger here is obvious – if plaintiffs prevail in the current action not only will MEI, Toshiba and the DVD CCA retain a right to bring suit on the same basis subsequently, but so would the hundreds of other licensees of CSS. Defendant Hughes may be facing a near infinite succession of harassing lawsuits. The result is the same even if plaintiffs are unsuccessful in this action. If plaintiffs fail in their prosecution of this suit, other licensees or the licensors will not be precluded by *res judicata* from bringing suit in order to achieve a more favorable outcome. This is exactly the sort of litigation exposure Rule 17 seeks to prevent.

B. MEI, Toshiba and the DVD CCA are necessary parties to the suit and the suit must be dismissed pursuant to Fed. R. Civ. P. 12(b)(7) and 19(a) if they are not joined.

Fed. R. Civ. P. 19(a) states in relevant part that:

A person who is subject to service of process and whose joinder will not deprive the court of jurisdiction over the subject matter of the action shall be joined as a party in the action if (1) *in the person's absence complete relief cannot be accorded among those already parties*, or (2) the person claims an interest relating to the subject matter of the action and is so situated that the disposition of the action in the person's absence may (i) *as a practical matter impair or impede the person's ability to protect that interest* or (ii) *leave any of the persons already parties subject to a substantial risk of incurring double, multiple, or otherwise inconsistent obligations by reason of the claimed interest*. If the person has not been so joined, the court shall order that the person be made a party. If the person should join as a plaintiff but refuses to do so, the person may be made a defendant, or, in a proper case, an involuntary plaintiff. (emphasis added)

Fed. R. Civ. P. 12(b)(7) likewise permits a motion to dismiss when there is absent a party without whom complete relief cannot be granted or whose interest in the dispute is such that to proceed in his absence might prejudice him or the parties already in court. Defendant therefore contends that Matsushita, Toshiba and the DVD CCA are necessary parties to this action pursuant to F.R.C.P. 19(a) and that they should be joined to this action or the action should be dismissed pursuant to F.R.C.P. 12(b)(7).

1. MEI, Toshiba and the DVD CCA must be joined to prevent multiple litigation.

Joinder of MEI, Toshiba and the DVD CCA will not deprive the Court of jurisdiction over the subject matter of the action as jurisdiction is predicated upon 28 U.S.C. § 1331 (federal question) and 28 U.S.C. § 1338 (Copyright Act). F.R.C.P. 19. The DVD CCA is a Delaware corporation doing business in Connecticut and is therefore subject to the jurisdiction of the Court. MEI and Toshiba

are Japanese corporations with both U.S. interests and significant Connecticut contracts, thus subject to jurisdiction as well.

As previously discussed, failure to include MEI, Toshiba and the DVD CCA as parties subjects Defendant to the substantial risk of incurring double or multiple obligations. See *Smith v. Kessner*, 183 F.R.D. 373, 375 (S.D.N.Y. 1998), *Rose v. Simms*, 1995 WL 702307, at *6 (S.D.N.Y. Nov. 29, 1995); *Avon Cosmetics (FEBO) Ltd. v. New Hampton, Inc.*, 1991 WL 90808 at *4 (S.D.N.Y. 1991). Furthermore, as the California action illustrates, the DVD CCA might also be able to bring an action based upon misappropriation of trade secret.¹⁹ Allowing the instant suit to proceed with the present parties invites Mr. Hughes to face exposure to multiple damages and obligations on similar as well as collateral claims. The danger is not merely speculative, and the strategic use of multiple suits has been employed in other jurisdictions. *Keweenaw Bay Indian Community v. State*, 11 F. 3d 1341, 1346-1347 (6th Cir. 1993). See also, *Vari-Build, Inc. v. City of Reno*, 108 F.R.D. 68, 70 (D. Nev. 1985) (Joinder of party under Rule 19(a)(2)(ii) proper when one party brings federal question suit and second party files a state action claiming an interest relating to the subject matter of the federal action and both parties were claiming damages from the same alleged wrong.).

2. Failure to join MEI, Toshiba and the DVD CCA would otherwise impair their interests.

Adjudication of the present claims by plaintiffs alone will also impair MEI, Toshiba and the DVD CCA's interests in the CSS technology. Compulsory joinder under our rules of practice protects the absentee's (MEI, et. al.) ability to protect its interest. F.R.C.P. 19(a)(i). It cannot be disputed that MEI, Toshiba and the DVD CCA are the owners and/or licensors for CSS. [Exhibit A at ¶¶ 1, 33,

¹⁹ Defendant denies that the California suit has merit.

40-44]. Any decision as to the legitimacy of distributing DeCSS will therefore have a profound, direct and immediate consequences upon the proprietary interests of MEI, Toshiba and the DVD CCA's in the CSS technology. Certainly, MEI, Toshiba and the DVD CCA could intervene as of right under F.R.C.P. 24(a), but the same standard applies to compulsory joinder under F.R.C.P. 19(a). *Cascade Natural Gas Corp. v. El Paso Natural Gas Corp.*, 386 U.S. 129, 134, 87 S.Ct. 932, 17 L.Ed.2d 814,(1967)(“[Rule 24(a)] is a kind of counterpart to Rule 19(a)(2)(i)”).

Plaintiffs simply do not adequately represent the interests of MEI, Toshiba and the DVD CCA because plaintiffs only represent the motion picture industry and do not represent the competing interests of other industry members of the DVD CCA including the computer and consumer electronics industries. The DVD CCA was specifically created in order to represent and balance the competing interests of all the industries which are members. [Exhibit A at ¶¶ 40-41, Exhibit C (Hoy affidavit) at ¶ 20, 21]. Plaintiffs are only eight of several hundred mere licensees, and they are acting without authority of the CSS licensor to sue Defendant on behalf of MEI, Toshiba and/or the DVD CCA.

C. This action should be dismissed for failure to state a claim under Fed. R. Civ. P. 12(b)(6) because CSS is not an access control device within the meaning of § 1201(a)(2).

A district court may grant a motion to dismiss for failure to state a claim under F.R.C.P. 12(b)(6) only if “it appears beyond doubt that the plaintiff can prove no set of facts in support of his claim which would entitle him to relief.” *Harris v. City of New York*, 186 F.3d 243, 250 (2nd Cir. 1999) quoting *Conley v. Gibson*, 355 U.S. 41, 45-46, 78 S.Ct. 99, 2 L.Ed.2d 80 (1957). The instant action

should be dismissed because it is beyond doubt that plaintiffs can prove no set of facts that CSS is an access control device with the meaning of § 1201(a)(2).

It is undisputed that CSS incorporates an encryption scheme. However, this fact alone does not place CSS in the category of devices which § 1201(a)(2) protects. Indeed, many different sorts of technological protection measures (including those incorporating encryption) may not be protected by the DMCA at all. Thus, the fact that CSS incorporates an encryption scheme is not enough for plaintiffs to demonstrate a *prima facie* case that CSS is an “access control device” as defined by the DMCA. The fact that CSS incorporates an encryption scheme is merely a prerequisite, but not dispositive condition for a claim under § 1201(a). Under the DMCA’s statutory scheme, not only must plaintiffs allege that CSS incorporates an encryption scheme, but that such an encryption scheme “effectively controls *access* to a work”. 17 U.S.C. § 1201(a)(3)(B)(emphasis added). This plaintiffs cannot do.

1. Plaintiff has no cause of action under 1201(a)(2) because CSS is not a technological protection measure that “effectively controls access to a work”.

Section 1201(a)(3)(B) of the DMCA provides in relevant part:

a technological measure “effectively controls access to a work” if the measure, in the ordinary course of its operation, requires the application of information, or a process or a treatment, with the authority of the copyright owner, to gain access to the work.

Section 1201(a) therefore does not refer simply to “access” but refers specifically to “access to a work”. Congress therefore distinguished between the entity that is the “work” and a subsequent

“copy”.²⁰ A copy is the object (in this case, a DVD) within which the work is “fixed.”²¹ When Congress drafted § 1201(a), it used the term “work” to deliberately describe and target the acts which Congress was seeking to prevent. Congress intended § 1201(a) to address unlawful access to the “work” and not to govern the subsequent use of lawfully acquired “copies” where that work was fixed. H.R. REP. pt. 2, (1998) (“[Section 1201(a)] covers protections against unauthorized initial access to a copyrighted work.”). Lawful access to the entity that is the “work”, the prerequisite to fair use, is granted to the consumer upon lawful receipt of a DVD, for example by purchase from a retailer, and always has been.

“[Copyright] has never accorded the copyright owner complete control over all possible *uses* of his work.” *Sony Corp. of America v. Universal City Studios Inc.*, 464 U.S. 417, 432, 104 S.Ct. 774, 78 L.Ed.2d 574 (1984) (emphasis added). The Supreme Court has also held that a copyright owner may not place a “restriction upon the subsequent alienation of the subject-matter of copyright after the owner had parted with the title to one who had acquired full dominion over it and had given a satisfactory price for it”. *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350, 28 S.Ct. 722, 52 L.Ed 1086 (1908).

If a copyright owner cannot prevent subsequent sale of a lawfully acquired work, the copyright owner cannot deny the right to use or perceive the work to a consumer who has lawfully purchased the work. *Universal Film Mfg. Co. v. Copperman*, 218 F. 577, 579 (2nd Cir. 1914)(“The attempt

²⁰ “Copies” are material objects, other than phono records, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. The term “copies” includes the material object, other than a phono record, in which the work is first fixed. 17 U.S.C § 101.

²¹ A work is “fixed” in a tangible medium of expression when its embodiment in a copy or phono record, by or under the authority of the author, is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration. A work consisting of sounds, images, or both, that are being transmitted, is “fixed” for purposes of this title if a fixation of the work is being made simultaneously with its transmission. *Id.*

... to annex a condition as to the use of the film after it was absolutely sold was vain.”), *cert. denied*, *Universal Film Mfg. Co. v. Copperman*, 235 U.S. 704, 35 S.Ct. 209, 59 L.Ed. 433 (1914). Neither the Copyright Act itself or the DMCA grants copyright owners the power to prevent non-infringing *uses* of lawfully acquired works.

In the present action, plaintiffs take the position that the purchase of a DVD is a meaningless transaction if that lawfully acquired DVD is played by any non-licensed player. To once again follow plaintiff’s interpretation *ab absurdam* is to find that a consumer who does not have a licensed player is receiving little or no consideration for the purchase price of the DVD. Plaintiffs would therefore be engaging in fraudulent misrepresentation in the marketing and promotion of DVDs, as they have misled the consumer with regard to the bargain he is receiving with the purchase of the DVD (the free and unfettered right to watch the DVD they purchased). Plaintiffs are now stating that the consumer without a licensed player has no right to make use of the DVD he or she purchased. This is absurd.

Plaintiff’s proposed application of the DMCA is an overly broad interpretation of the DMCA. Congress intended to recognize the right of consumers to “access”, that is “to make use of”, a work released on DVD media. Congress specifically addressed the potential of the DMCA to be invoked to interfere with reasonable access to a work. 144 Cong. Rec. H. 7074 (August 4, 1998, Coble). In fact, Congress was very much concerned, when creating the new paracopyright scheme with not interfering “with fair use and other rights now enjoyed by information users under current law.” *Id.* Plaintiffs’ suit, advocates an impermissibly overbroad and inaccurate interpretation of the application of the DMCA.

2. Congressional Intent.

As discussed previously, Congress analogized the purpose of § 1201(a) as “the electronic equivalent of breaking into a locked room in order to obtain a copy of a book.” H.R. Rep. 105-551, pt. 1, at 17 (1998). Nimmer characterizes § 1201(a) similarly. 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT §12A.03[D][1] (1999). Yet here the software can only be used in connection with lawfully acquired DVDs. If you own the book (DVD), then you have not broken into or stolen anything by merely circumventing the encryption on that DVD.

The DMCA contains no prohibitions on acts of circumvention for purposes other than gaining unauthorized access to protected works. As defendant previously discussed herein, one who is authorized to access (make use of) a work is free to do so by means of circumvention, since any possible illegal acts once access is authorized are covered by the Copyright Act proper. The Senate discussed this distinction:

Thus, for example, where a copy control technology is employed to prevent the unauthorized reproduction of a work, the circumvention of that technology would not itself be actionable under Section 1201, but any reproduction of the work that is thereby facilitated would remain subject to the protections embodied in title 17. S. REP. 105-190, at 27 (1998).

Other elements of legislative history make clear that this is the appropriate interpretation. For example, § 1201(a)(1):

[D]oes not apply to the subsequent actions of a person once he or she has obtained authorized access to a copy of a work . . . , even if such actions involve circumvention of additional forms of technological protection measures. In a fact situation where the access is authorized, the traditional defenses to copyright infringement, including fair use, would be fully applicable. *So an individual would not be able to circumvent in order to gain access to a work, but would be able to do so in order to make fair use of a work which he or she has acquired lawfully.*

H.R. REP. 105-551, pt. 1, at 18(1998) (emphasis added); *accord* S. REP. 105-190, at 26 (1998) (“This paragraph does not apply to the subsequent actions of a person once he or she has obtained authorized access . . . even if such actions involve circumvention . . .”).

Plaintiffs’ interpretation of the DMCA embodied in its complaint, obliterates this distinction. Because plaintiffs allege CSS is an access control device, the *act* of circumventing CSS will soon be illegal under § 1201(a)(1), which is effective October 28, 2000. This the proper interpretation of the statute. The ban on the *act* of circumventing and the ban on trafficking in access control circumvention devices appear together in the same paragraph of the statute. This strongly suggests that the two provisions should be treated as different elements of the same basic wrong. This is also the interpretation of Congress. “For example, if unauthorized access to a copyrighted work is effectively prevented through use of a password, it would be a violation of this section [1201(a)] to defeat or bypass the password *and to make the means to do so . . .* This is roughly analogous to making it illegal to break into a house using a tool, the primary purpose of which is to break into houses.” S. REP. 105-190, at 11 (1998)(emphasis added); *see also* H.R. REP. 105-551, pt. 1, at 18 (1998)(“[Section 1201(a)(2)] *supplements* the prohibition against the act of circumvention in paragraph [1201](a)(1).”)(emphasis added). If it is illegal to circumvent an access control measure, than the tool that gives one the means to circumvent is also illegal. Conversely, if it is illegal to make the tool, then using the tool should be illegal.

If this Court were to find DeCSS violates § 1201(a)(2), the *use* of DeCSS will also be illegal under § 1201(a)(1). Congress certainly did not intend for individuals who lawfully acquired DVDs to be guilty of a crime for simply using DeCSS for the lawful and authorized display of the material on the DVDs. To again analyze plaintiffs’ position *ad absurdum*, would be to find that even if a

consumer has lawfully purchased a DVD and merely copies the files onto his or her hard drive using DeCSS, such an act would be theft and fair use defenses would not apply. Clearly, Congress did not intend to abrogate fair use by passing the DMCA. *See* 17 U.S.C. § 1201(c)(1) (“Nothing in this section shall affect rights, remedies, limitations, or defenses to copyright infringement, including fair use”). *see also*, H.R. REP. 105-551, pt. 1 (1998) (“In a fact situation where access is authorized, the traditional defenses to copyright, infringement, including fair use, would be fully applicable.”)

3. Plaintiffs have failed to state a cause of action.

This Court should find that CSS is not an access control device within § 1201(a)(2), and that as a result, plaintiffs have failed to state a cause of action. Such a finding by this Court is wholly consistent with the legislative intent. Section 1201(a)(2) was enacted to prohibit devices that would enable access to a copyrighted work without first paying for the right for such access, in contrast with the purpose of § 1201(b) which protects unauthorized copying of the work.²² Analogies to cable stealing “black boxes” are clearly distinguishable from the technological measure at issue here, whereby only those who have lawfully acquired DVDs would have access to the work.²³

To analyze whether or not CSS actually constitutes *access* protection (as opposed to copy protection), suppose for a moment that an individual purchases a DVD and then uses DeCSS to make a copy of the movie files to her hard drive.²⁴ Does the content provider have any need or cause to

²² H.R. REP. 105-551, pt. 1, (1998) (“[1201(b)] applies when a person has obtained authorized access to a copy or a phonorecord of a work, but the copyright owner has put in place technological measures that effectively protect his or her right under Title 17 to control or limit further use of the copyrighted work”).

²³ “The Committee believes it is very important to emphasize that Section [1201(a)(2)] is aimed fundamentally at outlawing so-called ‘black boxes’ that are expressly intended to facilitate circumvention of technological protection measures for purposes of gaining access to a work.” H.R. REP. 105-551, pt. 2 at 40 (1998).

²⁴ Some laptops (for example, Sony’s VAIO) have a removable DVD drive that may be replaced with a spare battery. Using DeCSS it would be possible to copy a lawfully acquired DVD movie onto the laptop’s hard drive and then replace the DVD drive (which uses a good deal of battery power) with an extra battery. Such a use would be ideal for personal viewing of movies during air travel. Plaintiffs’ interpretation of prohibited acts would make this the equivalent of theft.

object under § 1201(a)? Of course not. The content provider has received good consideration for use of the work. The work has not been stolen from the content provider. Under § 1201(a) the content provider has no reason to care who makes the DVD player (whether LiViD or Panasonic), as long as the content provider is paid for the DVD.

Our courts have long held that “format-shifting” of copyrighted content for private-in-home use by consumers is authorized.²⁵ See *Sony Corp. of America v. Universal City Studios, Inc*, 464 U.S. 417, 104 S. Ct. 774 (1984)(Time-shifting of television broadcasts is permissible). It should be noted that the Supreme Court in *Sony v. Universal*, by permitting time-shifting, was also implicitly permitting format shifting as well, since television broadcasts and video recordings are different formats. When a user has authorized access to content in one file format, it is fair use to translate that format into a different format that can be used by a different type of hardware or software application. 17 U.S.C. § 117; *Aymes v. Bonelli*, 47 F.3d 23, 26 (2d Cir. 1995)(No infringement where lawfully in possession of software copy.). It is abundantly clear that Congress did not intend to terminate this right when it enacted the DMCA.²⁶ Thus, even those copyright holders who might object to having their content copied onto a hard drive, have no right to do so, because such copying for format shifting is fair use

Congress certainly saw clearly that access control and other forms of protection were sufficiently different that it would be unusual that the two types of protection would be inseparable:

Although sections 1201(a)(2) and 1201(b) of the bill are worded similarly and employ similar tests, they are designed to protect two distinct rights and to target two distinct classes of devices. Subsection 1201(a)(2) is designed to protect access to a

²⁵ Format shifting is the non-commercial copying, by a consumer, of an acquired work from one medium onto another for purposes of playing that work for individual use.

²⁶ [A]n individual ... [is permitted to circumvent] in order to make fair use of a work which he or she has acquired lawfully.” H.R. REP. 105-551, pt. 1 at 18 (1998).

copyrighted work. Section 1201(b) is designed to protect the traditional copyright rights of the copyright owner. As a consequence, subsection 1201(a)(2) prohibits devices primarily designed to circumvent effective technological protection measures that limit access to a work. Subsection 1201(b), on the other hand, prohibits devices primarily designed to circumvent effective technological protection measures that limit the ability of the copyrighted work to be copied, or otherwise protect the copyright rights of the owner of the copyrighted work. *The two sections are not interchangeable, and many devices will be subject to challenge only under one of the subsections.*

S. REP. 105-190, at 12 (1998).

The distinction between “access” controls and “copy” controls is subtle but important. An access control device effectively controls access to a work by determining *when one has the right to make use of a work, not how one may use the work*. The operation of these measures with regard to physical media need not be a simple binary matter (access/no access). Access control technologies are used, for example, to permit access to a work for a limited period (such as a free demonstration or “test drive” period, or for the duration of a license agreement) while closing it thereafter. Similar techniques are also employed to allow access to part of a work while denying it to another part; to enable access by a specified category of users but not by another category; or to enable access by a specified number of simultaneous users in a network environment but no more.

However, access control in this sense is not applicable to DVDs. With DVDs, access *is* a simple binary matter and it is not technologically determined: either one has lawful possession of the DVD (and therefore, the right to make use of the work), or one does not.²⁷ Once a DVD is purchased, there are no time limits, no restrictions on enjoying only part of the DVD while being

²⁷ Contrast this with a hypothetical situation in which a manufacturer provides consumers with an encrypted disk (say, through a mass mailing) that does not permit the right to make use of the work until the consumer pays for the password. With DVDs the right to make use of the work attaches at purchase.

denied access to another part, nor any restriction on the number of users.²⁸ It is possible for physical media to incorporate both copy and access control. A similar and now defunct technology, DiVX, for example, incorporated a system whereby the video disks (similar to DVDs) could only be played for a limited 48-hour period after purchase. Subsequent viewings required further payments. Many software games are distributed on CDs so that demo versions are available but passwords (which are purchased) are required to “unlock” the full version of the game. Despite the numerous possibilities for implementing forms of access control on physical media, DVDs do not implement any. Lawful acquisition of a DVD gives the owner an unfettered right to access (make use of) the work embodied on the DVD. To claim that access to a lawfully acquired DVD is anything other than completely unfettered²⁹ is to wholly disembowel the consumer’s right to private home viewing once a lawful purchase is made.

In the final analysis, § 1201 must therefore be read as a whole, and interpretations that make elements of the statute nonsensical are not proper. For example, nonprofit libraries and similar institutions are granted an exemption from the act of circumventing access control devices under § 1201(a)(1):

- [1201](d) Exemption for Nonprofit Libraries, Archives, and Educational Institutions. –
- (1) A nonprofit library, archives, or educational institution which gains access to a commercially exploited copyrighted work solely in order to make a good faith determination of whether to acquire a copy of that work for the sole purpose of engaging in conduct permitted under this title shall not be in violation of subsection (a)(1)(A). A copy of a work to which access has been gained under this paragraph --
 - (A) may not be retained longer than necessary to make such good faith determination; and
 - (B) may not be used for any other purpose

²⁸ Restrictions on public performance are legal requirements, and not technically determined. CSS does not prevent one from playing a DVD on the Jumbotron in a baseball stadium.

²⁹ Except for violations of § 501(a) of the Copyright Act which are not at issue in this case.

Plaintiff's position again becomes absurd: If CSS is construed to be an access control circumvention device, to be included in the prohibitions of § 1201(a), this exemption would become illogical. Libraries would not circumvent CSS in order to make a determination whether to purchase a copy of a work on DVD. Either the library has physical possession of a copy of the work on DVD, or it does not. If the library does have a copy of a work on DVD, it is irrational that it should be permissible for the library to circumvent CSS in order to determine whether the library should purchase the DVD. Under plaintiffs' proposed application of the DMCA, circumvention of CSS by libraries would be legal prior to purchase of a DVD, but would become illegal after purchasing the DVD.

IV. Conclusion.

Mr. Hughes therefore submits that the Complaint is deficient on a number of grounds, including, but not limited to failure to bring an action by the real party in interest, failure to join a party needed for a just adjudication, and failure to state a claim upon which relief can be granted. For these reasons the Complaint should be dismissed, or in the alternative, that the appropriate parties be substituted or joined as the Court deems proper.

Respectfully submitted,

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³⁰ Counsel thanks Ernest Miller, Resident Fellow, Information Society Project, Yale University Law School for his assistance.

CERTIFICATION OF SERVICE

I hereby certify that, on the date below, a copy of the above was dispatched via U.S. Mail, First

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Dated: September 28, 2000