

EXHIBIT 7

REDACTED VERSION
-COMPLETE VERSION FILED UNDER SEAL

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

ARISTA RECORDS LLC; ATLANTIC
RECORDING CORPORATION; ARISTA
MUSIC, fka BMG MUSIC; CAPITOL
RECORDS LLC fka CAPITOL RECORDS,
INC.; ELEKTRA ENTERTAINMENT
GROUP INC.; INTERSCOPE RECORDS;
LAFACE RECORDS LLC; MOTOWN
RECORD COMPANY, L.P.; PRIORITY
RECORDS LLC; SONY MUSIC
ENTERTAINMENT, fka SONY BMG
MUSIC ENTERTAINMENT; UMG
RECORDINGS, INC.; VIRGIN RECORDS
AMERICA, INC.; and WARNER BROS.
RECORDS INC.,

Plaintiffs,

v.

LIME WIRE LLC; LIME GROUP LLC;
MARK GORTON; and M.J.G. LIME WIRE
FAMILY LIMITED PARTNERSHIP,

Defendants.

06 Civ. 05936 (KMW)(DCF)
ECF CASE

**PLAINTIFFS' OBJECTIONS TO MAGISTRATE JUDGE FREEMAN'S
ORDER COMPELLING THE PRODUCTION OF PLAINTIFFS' INTERNAL
COMMUNICATIONS "REFERRING TO LIMEWIRE"**

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I. INTRODUCTION AND SUMMARY OF ARGUMENT

On the eve of the close of fact depositions—when the parties’ attention should be turning to the April trial—Magistrate Judge Freeman compelled Plaintiffs “to produce internal communications referring to ‘LimeWire’ from the files (including email) of 10 custodians.”¹ Order at 4. This Order should be overruled. If it stands, it will impose a significant burden on Plaintiffs, will threaten to delay the trial yet again, and likely will yield no or virtually no evidence of any relevance. Defendants claim that Plaintiffs can only satisfy the Order by searching for references to “Lime Wire” in the files of lawyers and senior executives who have had critical roles in this very lawsuit. The demanded custodians likely have in the tens of thousands of such internal communications – many if not most of which are certain to be privileged communications regarding this case. After Plaintiffs are forced to undergo an arduous privilege review, the most likely result will be the burdensome task of preparing a voluminous privilege log – not the production of documents relevant to the trial. Indeed, the grounds Defendants urge for relevance have already been rejected – *twice* – as grounds for additional discovery by both this Court and Judge Lynch. Magistrate Judge Freeman’s Order must be reversed to avoid the massive burden, expense, and waste of resources expended toward such a pointless end.

Defendants themselves recently proved that the purportedly sought-after discovery is unnecessary. Over the course of the last two weeks, Defendants deposed Plaintiffs’ most senior executives—many of whom are the same people Defendants demand Plaintiffs search for documents “referring to LimeWire.” But Defendants asked these witnesses very few questions

¹ The Order is attached as Exhibit 1 to the Declaration of Melinda E. LeMoine (“LeMoine Decl.”). It was dated January 18, 2011, and was served on Plaintiffs through the ECF system on January 19. *See* Dkt. 413.

about LimeWire over the course of 80 hours of depositions—and routinely moved to strike when the witnesses brought up LimeWire of their own accord.

This Court has addressed once before the compelled production of Plaintiffs' internal communications "referring to LimeWire." This Court noted the "burdensome nature and broad scope" of this discovery and its "potentially tenuous connection . . . to the damages inquiry at issue." LeMoine Decl., Ex. 2 (Opinion and Order, Dkt. 363, November 19, 2010) at 6. The Court therefore established a demanding two-part test that Defendants had to satisfy in order to obtain this discovery. Specifically, the Court held that Defendants were required to show: (1) that certain compelled communications between Plaintiffs and fifteen digital music distributors and licensees "yielded relevant evidence," and (2) that further discovery is "*necessary*." *Id.* at 7 (emphasis added).

Defendants failed to satisfy either prong of this test. To establish relevance, Defendants simply rehashed the same hypothetical arguments they presented to the Court months ago – arguments this Court has already rejected. Defendants contend that a few out of the hundreds of thousands of documents Plaintiffs produced demonstrate that Plaintiffs "blacklisted" Lime Wire – that is, that individual Plaintiffs made it a condition of their respective content agreements with legitimate third-party distribution partners that those partners could not turn around and provide the Plaintiff's copyrighted content to Lime Wire, which was intentionally inducing the mass infringement of that content. The Court has *repeatedly* held this theory cannot justify further discovery. In August of 2010, this Court deemed the same conduct Defendants call "blacklisting" to be "reasonable and appropriate" in light of Lime Wire's massive inducement of infringement of Plaintiffs' works. LeMoine Decl, Ex. 3 (Order, Dkt. 302, August 9, 2010) at 7. Two years before that, Judge Lynch denied Lime Wire's request for the same discovery that

Judge Freeman now has granted Lime Wire on the ground that, if Lime Wire was found to be “the equivalent of Napster” (as has come to pass), then what Lime Wire calls “blacklisting” would be entirely appropriate conduct by a copyright owner. LeMoine Decl, Ex. 4 (March 12, 2008 Hr’g Tr.) at 2:17-24. Defendants fail to articulate how this alleged “blacklisting” – which this Court and Judge Lynch both concluded was reasonable, appropriate and justified – relates in any way to an argument for reducing a potential award of statutory damages. And, although Defendants repeatedly invoke the *Bryant* factor, “conduct and attitude of the parties,” that did not persuade the Court that this discovery was relevant and necessary last November. Defendants’ repetition of that phrase cannot be sufficient now to justify yet another fishing expedition.

Defendants also failed to show – and Magistrate Judge Freeman did not find – that the compelled discovery is “necessary.” The compelled review of the thousands of communications Plaintiffs’ most senior executives and lawyers have had about this litigation cannot be what this Court meant when it held that further discovery must be “necessary.” A privilege log of hundreds (or more) pages will not be “necessary” to defending this case. Nor can there be anything “necessary” about—if they were to somehow exist—a few odd non-privileged communications reflecting what Defendants call “blacklisting.” What Defendants call evidence of “blacklisting” is really only evidence of Plaintiffs’ belief that Lime Wire was (as it has now been adjudicated to be) an illegal service designed and operated to induce the massive infringement of Plaintiffs’ copyrights. That belief is manifested in *this very lawsuit*. Defendants’ recitation of the “conduct and attitude of the parties” factor cannot, as a matter of law, allow Defendants to seek burdensome and duplicative discovery aimed at revisiting this Court’s binding legal determination that, *because Lime Wire induced mass infringement of*

Plaintiffs' works, Plaintiffs were entitled to refuse to deal with Lime Wire and to ensure that their legitimate distribution partners did not deal with Lime Wire either.

Despite Defendants' failure to satisfy this Court's two-part test of relevance and necessity, Magistrate Judge Freeman imposed a "compromise" that compels the additional discovery this Court previously held in abeyance. This "compromise" erroneously disregards this Court's standard of necessity, not mere relevance. But it is also error because Judge Freeman's "compromise" is no such thing. It will result only in tremendous resources devoted to an intensive privilege review of Plaintiffs' internal communications referring to Defendants' illegal service—all of which communications occurred *during the pendency of this lawsuit*. This is no "compromise," especially in view of the fact that Plaintiffs have already produced—in just the post-summary judgment phase of this litigation alone—literally hundreds of thousands of documents amounting to close to a million pages, as well as multiple gigabytes of natively produced material.

If Defendants actually believed that Plaintiffs' "conduct and attitude" toward Lime Wire had anything to do with the damages in this case, one would have expected Lime Wire to be a central topic of Defendants' examination of Plaintiffs' senior executives over the last two weeks of depositions. It was not. Defendants asked barely any questions at all about Lime Wire at the depositions. Indeed, most often when the subject of Lime Wire came up at all, it was when Plaintiffs' executives explained how pernicious the service is. And when that happened, on a number of occasions, *Defendants moved to strike the testimony about Lime Wire itself*. Even Defendants had to acknowledge in the deposition room what they refuse to acknowledge here—Plaintiffs' "conduct and attitude" toward Lime Wire is patently obvious through the prosecution of this lawsuit. The further discovery that Judge Freeman has ordered regarding that "conduct

and attitude” is wholly unnecessary. Judge Freeman’s Order, we respectfully submit, must be overruled.

II. PROCEDURAL BACKGROUND

In its earlier consideration of the issue presented by this Objection, this Court explicitly recognized the “potentially burdensome nature and broad scope” of the discovery sought by Defendants, “as well as the potentially tenuous connection of the evidence sought to the damages inquiry at issue.” The Court also has already considered and repeatedly rejected Defendants’ assertion that Plaintiffs’ alleged “blacklisting” of their adjudicated illegal service is somehow relevant here. These prior Orders lead to the indisputable conclusion that the additional discovery ordered here is clearly unnecessary, and thus in error.

A. Judge Freeman’s November 2, 2010, Order Compels Four Categories of Excessive Discovery

In an order dated November 2, 2010 (Dkt. 339) (“November 2 Order”), Judge Freeman compelled the production of four categories of additional documents. The November 2 Order required:

1. That Plaintiffs produce all communications, related to licensing, between Plaintiffs and the 15 third-party licensees recently subpoenaed by Defendants, except for draft license agreements, from the last point in time discovery was collected (“Order 1”);
2. That Plaintiffs produce all communications with other licensees referring or relating to Lime Wire (“Order 2”);
3. That the parties must meet and confer regarding the parameters of an appropriate search for Plaintiffs’ communications with their potential (as opposed to actual) licensees (“Order 3”); and
4. That Plaintiffs search for and produce internal emails regarding Lime Wire contained in the email accounts of those employees of Plaintiffs who have been primarily responsible for negotiating licensing agreements with the 15 third-party licensees recently subpoenaed by Defendants (“Order 4”).

November 2 Order (Dkt. 339, November 2, 2010) at 1-2.

B. This Court's November 19 Order Recognizes The "Potentially Burdensome Nature and Broad Scope of the Discovery, As Well As the Potentially Tenuous Connection of the Evidence Sought to the Damages Inquiry At Issue"

Plaintiffs filed an objection to the November 2 Order. In an Opinion and Order filed on November 19, 2010, this Court recognized the "potentially burdensome nature and broad scope of the discovery, as well as the potentially tenuous connection of the evidence sought to the damages inquiry at issue" – and affirmed only Order 1. LeMoine Decl., Ex. 2 (Opinion and Order, Dkt. 363, November 19, 2010) at 6.

With respect to Orders 2-4, the Court stated:

With respect to Orders 2-4, this Court holds in abeyance its decision, to give Defendants the opportunity to make a presentation of evidence to Judge Freeman to demonstrate that the discovery pursuant to Order 1 has yielded relevant evidence, and that further discovery pursuant to Order 2-4 is necessary.

Id. at 7.

C. Defendants' Showing to Judge Freeman Fails To Meet Either Prong of the Standard Set By This Court

In response to the Court's order affirming Judge Freeman's Order 1, directing Plaintiffs to produce communications related to licensing between Plaintiffs and 15 third-party licensees, Plaintiffs collected multiple terabytes of emails from 43 custodians, reviewed hundreds of thousands of documents – and produced over a quarter of a million pages of email communications on the subject of licensing or distributing content.² LeMoine Decl. ¶ 5.

² Since the June 7, 2010, status conference, Plaintiffs have searched for and produced a vast quantity of documents, including artist contracts, chain of title document, copyright registrations (totaling over 180,000 pages); revenue statements; royalty statements (amounting to hundreds of CDs and thousands of pages); reversion reports; hundreds of third-party digital distribution agreements from June 2007 to the present (over 30,000 pages); documents related to digital rights management (DRM) (over 22,000 pages); third-party reports on the impact of peer-to-peer

Out of the quarter million pages of documents produced by Plaintiffs in response to Order 1, Defendants showcased a small selection of documents that they contend satisfy this Court's first prong – that the discovery permitted thus far has yielded relevant evidence. Defendants asserted a familiar argument. They urged that the documents produced show that each Plaintiff “blacklisted” Lime Wire – that is, that each Plaintiff refused to authorize Lime Wire to distribute its copyrighted works, and that each Plaintiff insisted that their distribution partners not engage in distribution arrangements with Lime Wire. *See* LeMoine Decl., Ex. 5 (January 5, 2011 Letter from Mary Eaton to Magistrate Judge Freeman) at 8-9; LeMoine Decl., Ex. 6 (January 13, 2011 Reply Letter from Tariq Mundiya to Magistrate Judge Freeman) at 7-8. Defendants claimed that they “need these documents for their damages trial to show the efforts undertaken by Plaintiffs to undermine LimeWire’s business and to extract additional leverage during discussions.” *Id.*

Defendants made no further showing of the relevance of the discovery produced in response to Order 1 – instead rehashing the same argument presented to this Court months earlier, claiming that this issue was relevant to damages because one of the *Bryant* factors includes the “conduct and attitude of the parties.” *See id.* at 10.

Defendants also raised two additional grounds in asking Judge Freeman to reinstate Orders 2 and 4 (Defendants did not raise any arguments with respect to Order 3). First, Defendants claimed that discovery was necessary because Defendants have emails in their own files (*not* produced in response to Order 1) suggesting that some of Plaintiffs’ employees liked Lime Wire. Second, Defendants claimed that the additional discovery was needed to show the impact of Lime Wire’s shutdown on Plaintiffs’ revenue – based on the pure speculation that each Plaintiff’s internal communications might show something about that.

file sharing and digital music, agreements and related communications (over 22,000 pages); and communications with third-parties regarding licensing (nearly 300,000 pages).

D. Magistrate Judge Freeman Ordered A “Compromise” That Requires Plaintiffs to Search and Produce Files From Ten Custodians “Referring to LimeWire”

Judge Freeman entered an Order granting Defendants additional discovery. The Order did not determine that Defendants had satisfied the two-pronged test that this Court set forth in its November 19 Order. Nevertheless, the Order determined “that a compromise would be appropriate,” to balance “the relevance of the requested documents with the burden to Plaintiffs.” LeMoine Decl., Ex. 1 (Order (Dkt. 413, January 18, 2011)) at 4. The Order did not specify the basis for its finding of relevance, or which documents produce pursuant to Order 1 necessitated further discovery. In fact, the Order wholly disregards this Court’s requirement that Defendants prove the sought-after discovery is “necessary.” Instead, the Order holds only that the prescribed compromise is “appropriate.” Imposing this “compromise,” the Court directed Plaintiffs “to produce internal communications referring to ‘LimeWire’ from the files (including email) of 10 custodians, to be agreed by the parties after good faith conference.” *Id.* The time period covered by this compelled production, covers communications made entirely within the course of this litigation. LeMoine Decl., Ex. 5 at 14 (demanding Plaintiffs “update” productions previously made referencing LimeWire); Ex. 6 at 11 (same).

Plaintiffs immediately held a conference with Defendants to see if some compromise could be reached that would ameliorate the obvious privilege concerns and eliminate the need for this Objection. LeMoine Decl. ¶ 2. That was not to be. Defendants insisted on ten custodians that included several lawyers – one of whom is the EMI lawyer with principal responsibility for managing this litigation, Alasdair McMullan. LeMoine Decl. ¶ 3. The other lawyers and business people are some of Plaintiffs’ most senior executives. The lawyers not only give legal advice, but also no doubt communicate routinely with litigation counsel about the events of this

lawsuit. Many of the lawyers and business people on the list had a pivotal role in efforts to resolve this litigation. Specifically, Defendants demanded Plaintiffs search and produce the internal communications “referring to LimeWire” of:

1. Edgar Bronfman (CEO, Warner Music Group);
2. Zach Horowitz (President & Chief Operating Officer, Universal Music Group);
3. Lyor Cohen (Vice Chairman and Chairman and CEO, Recorded Music - Americas and the U.K., Warner Music Group);
4. Alasdair McMullan (Executive Vice President of Legal Affairs, EMI North America);
5. Mark Piibe (Executive Vice President, Global Business Development, EMI);
6. Thomas Hesse (President, Global Digital Business, U.S. Sales and Corporate Strategy, Sony Music Entertainment);
7. Neil Smith (Senior Vice President of U.S. Business Development, Global Digital Business Group, Sony Music Entertainment);
8. David Ring (Executive Vice President of Business Development and Business Affairs for Universal Music Group’s eLabs);
9. Rob Wells (President of Global Digital Business, Universal Music Group); and
10. Paul Rehrig (Vice President of Business Development; Warner Music Group).

LeMoine Decl. ¶ 3.

Plaintiffs’ good faith effort to minimize the enormous burden this production would impose did not stop at attempting to negotiate more appropriate custodians. Plaintiffs asked Defendants to agree to some measure to alleviate the massive burdens, including to agree to exclude communications regarding this litigation; to agree not to require a privilege log; or to

otherwise somehow decrease the burden posed by a what would otherwise be a futile exercise requiring Plaintiffs to divert their resources to creating a massive log of what are likely to be mostly privileged documents. LeMoine Decl. ¶ 2. Defendants refused on all counts, demanding that Plaintiffs' search for and log all documents "referring to Lime Wire." *Id.* Defendants also insisted on several search terms to identify those documents. For just Mr. McMullan alone, the hit counts for Defendants' terms totaled in the tens of thousands. LeMoine Decl. ¶ 4.

E. In Over 80 Hours of Depositions, Defendants Never Asked the Same Custodians About The Topics They Claim to Be Interested in Regarding Lime Wire

Defendants recently took the depositions of 6 of the 10 custodians they demanded Plaintiffs search, as well as the depositions of 6 other executives – and asked virtually no questions about the topics they claimed to Judge Freeman were "necessary" to their defense. To obtain the burdensome discovery Judge Freeman ordered, Defendants contended that Plaintiffs' "conduct and attitude" toward Lime Wire was one of the most highly relevant issues remaining in this lawsuit. But, during depositions, Defendants did not ask questions about how Plaintiffs have conducted themselves toward Lime Wire in recent years.

For example, Defendants deposed David Ring, an executive of the Universal Music Group whose internal communications "referring to LimeWire" Defendants claim to require. Yet Defendants did not ask Mr. Ring any questions about whether the Universal Music Group had refused to deal with Lime Wire, had encouraged others not to deal with Lime Wire, or had sought to reach a commercial deal with Lime Wire. Indeed, when Mr. Ring mentioned Lime Wire in his responses, Defendants' counsel moved to strike those references. LeMoine Decl., Ex. 7 (Ring Tr. 122:4-25; 129:1-11; 159:5-23). Defendants' counsel similarly chastised Warner

Music Group CEO Edgar Bronfman, another one of Defendants' selected custodians, when Mr. Bronfman referenced Lime Wire. LeMoine Decl., Ex. 8 (Bronfman Tr. 178:25-180:13).

III. STANDARD OF REVIEW

Pursuant to Rule 72 of the Federal Rules of Civil Procedure and its enabling statute, the Federal Magistrates Act, 28 U.S.C. § 636(b)(1), a district court shall reverse a magistrate's discovery order where it has been shown that the order is "clearly erroneous or contrary to law." 28 U.S.C. § 636(b)(1)(A); see also Fed. R. Civ. P. 72(a); *Thomas E. Hoar, Inc. v. Sara Lee Corp.*, 900 F.2d 522, 525 (2d Cir. 1990). "An order is 'contrary to law' when it fails to apply or misapplies relevant statutes, case law or rules of procedure." *In re Rivastigimine Patent Litig.*, 239 F.R.D. 351, 356 (S.D.N.Y. 2006) (citation omitted). Although, as this Court previously has recognized, a magistrate has broad discretion to resolve discovery disputes, it is necessarily an abuse of discretion to rely on an erroneous view of the law. LeMoine Decl., Ex. 2 at 3; *Mullins v. City of New York*, 626 F.3d 47, 51 (2d Cir. 2010).

IV. ARGUMENT

Magistrate Judge Freeman's Order disregards this Court's prescribed standard for compelling the further discovery. This Court did not defer the issue of whether the additional discovery is reasonable or appropriate to Judge Freeman so that she could craft some "compromise." This Court, recognizing that the burden and expense of the proposed discovery likely outweighed its "potentially tenuous" connection to the remaining issues, required Defendants to make a particularized showing before the discovery could be compelled, demonstrating that the discovery was not only relevant, but "necessary." Defendants failed to make this showing. Judge Freeman's Order must be reversed, because it does not hold

Defendants to the strict standard this Court set forth for the highly burdensome and irrelevant discovery at this phase of the case.

A. This Court's November 19 Order Correctly Set the Standard for Compelling the Extraordinarily Burdensome and Highly Irrelevant Discovery Here

This Court's November 19 Order recognized the inherent balancing that must accompany any discovery decision. Discovery is not necessary if the "burden or expense of the proposed discovery outweighs its likely benefit." *World Wrestling Federation Entertainment, Inc. v. William Morris Agency, Inc.*, 204 F.R.D. 263, 265 (S.D.N.Y. 2001) (quoting Fed. R. Civ. P. 26(b)(2)) (internal quotation marks and citation omitted) (concluding that discovery was properly disallowed, where the "probative value is so small" that it was outweighed by the burden on the producing party). "While the standard of relevancy [in discovery] is a liberal one, it is not so liberal as to allow a party 'to roam in shadow zones of relevancy and to explore matter which does not presently appear germane on the theory that it might conceivably become so.'" *Food Lion, Inc. v. United Food and Commercial Workers Int'l Union*, 103 F.3d 1007, 1012-1013 (D.C. Cir. 1997) (quoting *Broadway & Ninety-Sixth St. Realty Co. v. Loew's Inc.*, 21 F. R. D. 347, 352 (S.D.N.Y. 1958)). See *Sacramona v. Bridgestone/Firestone, Inc.*, 152 F.R.D. 428, 431 (D. Mass. 1993) (refusing to permit discovery where "Defendants essentially seek to engage in 'wholly exploratory operations in the vague hope that something helpful will turn up'").

That equation here weighs heavily in favor of rejecting the additional discovery. The burden and expense imposed by Judge Freeman's order to produce internal communications "referring to Lime Wire" are enormous and completely disproportionate to any "likely benefit" the production may have. Preliminary hit counts on the search terms Defendants proposed forecast thousands and thousands of hits on communications "referring to LimeWire." Many – if not most – of Plaintiffs' internal communications "referring to Lime Wire" will be privileged, as

the time period covered is entirely within the course of this litigation. The net result of this compelled production will be an extensive and lengthy privilege log. Defendants cannot possibly demonstrate (and have not demonstrated) such a lengthy log is “necessary” to the defense of their case. Moreover, the relevance grounds that Defendants have asserted have been repeatedly rejected by this Court. Having failed to establish relevance, Defendants certainly have not made the showing of *necessity* required by this Court. Compelling Plaintiffs to engage in a massive effort to search for and review an almost entirely privileged batch of communications “in shadow zones of relevancy” is a pointless exercise the law does not require. *See Food Lion*, 103 F.3d at 1012-1013.

B. Defendants’ “Blacklisting” Theory of Relevance Has Been Repeatedly Rejected, Has No Bearing On Damages, and Cannot Justify Further “Necessary” Discovery at this Stage of the Case

After conducting months of voluminous and burdensome discovery into Plaintiffs’ communications with their legitimate distributors of music, Defendants point to the same, repeatedly-rejected “blacklisting” claim in their attempt to show relevance and necessity. But this Court has already decided the issue of whether “blacklisting” evidence is “necessary” or “relevant.” This Court has concluded on numerous occasions that what Defendants call “blacklisting” is actually entirely reasonable and appropriate conduct in light of the now-proven fact that Lime Wire is a massive tool for infringement of Plaintiffs’ copyrighted works. What Defendants call “blacklisting” has already been determined to be legitimate copyright enforcement—*twice*. Plaintiffs’ legitimate and appropriate conduct cannot, as a matter of law, mitigate in favor of a lower statutory award. Not surprisingly, Defendant can point to no case law that supports their argument that discovery into Plaintiffs’ legitimate enforcement of their copyrights against an adjudicated liable infringer is “necessary” to their defense.

1. This Court Has Already Concluded That Alleged “Blacklisting” Evidence Is Irrelevant

Defendants made the same relevancy arguments about “blacklisting” in support of its now-dismissed antitrust counterclaim. In dismissing the counterclaim, Judge Lynch ordered extensive briefing on whether the same evidence would have any relevance to an affirmative defense – and denied the additional discovery of precisely the same kind Defendants seek here. Judge Lynch reasoned that, if the Court were to find that Lime Wire was “the equivalent of Napster,” and that Lime Wire’s “entire product is essentially illegal, *then why aren’t the labels entitled to do things like insist that their licensees not deal with somebody who’s existing solely to infringe their products?*” LeMoine Decl., Ex. 4 (March 12, 2008, Hr’g Tr.) at 2:17-24 (emphasis added). Judge Lynch emphasized: “If you [Lime Wire] did do something illegal, then what [Plaintiffs] are doing [in their third-party agreements] is *not a problem.*” *Id.* at 3:4-6. Even Lime Wire’s counsel agreed with the proposition that, if Lime Wire were found liable, then Lime Wire’s entire misuse defense would be “shoved aside”:

THE COURT: What you are saying, though, is that assuming that you are found to be engaging in massive illegality, you will be retroactively legalized and they will be deprived of their copyrights because they took actions on the assumption that you were doing something illegal which turns out to be exactly right?

LIME WIRE COUNSEL: I agree that if the Court rules that we are illegal, the misuse defense, however you want to call it, whether it’s the license agreements or the I[mesh] issue or anything else, those all get shoved aside.

Id. at 4:16-25.

There can be no dispute that this Court’s condition for finding “blacklisting” totally irrelevant has been satisfied. The Court has found, in two published orders, that Lime Wire’s entire business consisted of the design, mass distribution and sale of a tool that Lime Wire

purposefully intended to encourage and induce the massive infringement of Plaintiffs' copyrighted works. See Summary Judgment Order (Dkt. 223) at 29 (concluding that LimeWire "intentionally encouraged direct infringement" by Lime Wire users), 37 (observing that Lime Wire's business model relied on a "massive user population generated by [the Lime Wire software's] infringement-enabling features"). Thus, as Judge Lynch noted, Plaintiffs were "entitled to do things like insist that their licensees not deal with somebody who's existing solely to infringe their products." LeMoine Decl, Ex. 4 (March 12, 2008 Hr'g Tr.) at 2:17-24 (emphasis added).

Indeed, after discovery recommenced in June 2010, this Court reaffirmed that discovery regarding alleged "blacklisting" was unwarranted and not reasonably calculated to lead to the discovery of admissible evidence. This Court rejected the very same argument that Defendants have now raised yet again to Judge Freeman: commenting on Plaintiffs' alleged insistence that third parties not deal with Lime Wire, the Court reasoned that "Plaintiffs' actions in this regard are reasonable and appropriate" in light of LimeWire's status as a massive tool for infringement. LeMoine Decl., Ex. 3 (August 9, 2010 Order) at 7.

2. If the Alleged "Blacklisting" is Actually a Reasonable and Appropriate Response To Lime Wire's Illegal Conduct, it Cannot Be "Necessary" to Develop Such Evidence in Lime Wire's Damages Case

Defendants again attempt to connect Plaintiffs' reasonable and appropriate conduct and Lime Wire's defense to damages by arguing that one of the factors considered in determining statutory damages is the "conduct and attitude of the parties." See *Bryant v. Media Right Prods., Inc.*, 603 F.3d 135, 144 (2d Cir. 2010). This argument fails.

Defendants fail to explain how *Plaintiffs' reasonable and appropriate* conduct is relevant to Defendants' efforts to reduce the amount of damages for which they are liable. Defendants

cite to case law discussing a plaintiff's *inappropriate* conduct in determining statutory damages, although Defendants point to no case that holds that *reasonable and appropriate* actions by a plaintiff have any bearing whatsoever on whether statutory damages should be reduced. In *Warner Brothers, Inc. v. Dae Rim Trading, Inc.*, 877 F.2d 1120 (2d Cir. 1989), the principal case Defendants cited to Judge Freeman, the court noted that the plaintiff copyright owner's attorney had conducted its copyright enforcement action, both before and during litigation, in a "vexatious," "oppressive" and "unreasonable" manner, and took this factor into account in limiting the damages awarded to plaintiff. *Id.* at 1126. Similarly, in *Entral Group Int'l, LLC v. YHLC Vision Corp.*, No. 05-CV-1912 (FB)(RLM), 2007 WL 4373257 (E.D.N.Y. Dec. 10, 2007), the court limited damages in part because the plaintiff acted unreasonably. *Id.* at *3.³ The third case cited by Defendants, *Arclightz & Films Pvt. Ltd. v. Video Palace Inc.*, 303 F. Supp. 2d 356 (S.D.N.Y. 2003), did not consider *any* conduct on the part of plaintiffs.

Defendants' repeated incantation of the "conduct and attitude of the parties" factor does not withstand scrutiny. Defendants cannot articulate why alleged "blacklisting" evidence is "necessary" to their defense because there simply is no connection between Plaintiffs' reasonable and appropriate conduct and a *defense* to damages. Moreover, if discovery regarding the "blacklisting" of Lime Wire were in fact "necessary," Defendants' recent depositions of 12 of Plaintiffs' executives – including 6 of the custodians whose internal communications "referring to Lime Wire" Defendants claim are "necessary" to their defense – unquestionably would have included extensive questioning about the topic. Yet, over the more than 80 hours of deposition,

³ Defendants repeatedly point to an out-of-context sound bite from an oral argument in which Plaintiffs asserted that *Bryant* refers to the conduct and attitude of the parties towards each other – not towards third parties. But this is hardly the concession Defendants claim. The only cases in which a plaintiff's conduct has mattered at all are cases holding that the plaintiff's conduct was somehow inappropriate. Defendants cannot make such allegations here, since this Court and Judge Lynch have already held otherwise as to the allegations Defendants continue to make.

Defendants asked almost no questions about blacklisting of Lime Wire. Indeed, Defendants asked hardly any questions at all about Lime Wire or Plaintiffs' "conduct and attitude" toward Lime Wire. As noted, when Plaintiffs' witnesses mentioned Lime Wire and its responsibility for mass infringement, *Defendants frequently moved to strike the testimony from the record.* LeMoine Decl., Ex. 7 (Ring Tr. 122:4-25; 129:1-11; 159:5-23). Defendants' claim of necessity based on "blacklisting" must again be rejected. To the extent Judge Freeman's Order relied on this claim as a basis for relevance and the imposed compromise, it was an abuse of discretion and should be reversed.

C. Defendants Fail To Show Any Other Legitimate Basis for Compelling Plaintiffs' Internal Discussions About This Lawsuit, and the Privilege Review and Logging Burdens Imposed By This Production Far Outweigh Any Marginal Utility Defendants Claim

The internal communications "referring to Lime Wire" compelled by Judge Freeman's Order will consist largely of privileged communications about this lawsuit, including Plaintiffs' internal discussions about whether to resolve it short of trial. Defendants contend (without pointing to any documents) that Plaintiffs' internal discussions about whether to resolve this lawsuit are relevant to their defense.

The Second Circuit has explicitly rejected the production of documents related to settlement discussions. In *Thornton v. Syracuse Savings Bank*, 961 F.2d 1042, 1046 (2d Cir. 1992), the Court affirmed the denial of discovery into the settlement of an ongoing litigation in the absence of any evidence indicating that a particular settlement may be collusive. The Second Circuit solidly reasoned: "This is necessary to prevent parties from learning their opponents' strategies." *Id.* Other courts have similarly noted that any "marginal relevance is outweighed by the privileged nature of settlement discussion." *Allen County, Ohio v. Reilly Indus.*, 197 F.R.D. 352, 354 (N.D. Ohio 2000). Defendants have offered no reason to reach a different result here.

[REDACTED]

[REDACTED]

[REDACTED]

This argument illustrates the very reason why well-established law does not allow a fact-finder to consider the substance of failed settlement negotiations in determining the validity or amount of a claim and why courts refuse to compel discovery of settlement communications. *See* Fed. R. Evid. 408; *Banker v. Nighswander, Martin & Mitchell*, 37 F.3d 866, 872 (2d Cir. 1994) (settlement negotiations inadmissible for purpose of proving amount of damages). Rule 408 of the Federal Rules of Evidence provides for exclusion of such evidence when exchanged between parties to avoid discouraging the free negotiation of settlements and to preclude consideration of potentially misleading communications. *See, e.g., Trebor Sportswear Co. v. The Limited Stores, Inc.*, 865 F.2d 506, 510-511 (2d Cir. 1989) (noting that Rule 408 seeks to avoid the “potentiality of discouraging future settlement negotiations”); *Allen County*, 197 F.R.D. at 353-354 (observing that settlement negotiations are “typically punctuated with numerous instances of puffing and posturing since they are ‘motivated by a desire for peace rather than from a concession of the merits of the claim’” and therefore could be “highly misleading if allowed to be used for purposes other than settlement”).

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] Defendants' efforts to obtain Plaintiffs' internal reflections on the matter are essentially an attempt to effect an end-run around that rule that is riddled with privilege concerns. Defendants failed to demonstrate to Judge Freeman why such a further, burdensome exercise in reviewing privileged internal communications is necessary for their defense. It could not be, and this is another basis for reversing the Order.

D. Defendants' Additional Grounds For Demanding Production Are Likewise Baseless

Defendants' additional grounds for "necessity" likewise fail.

Relying on their own documents (and not any produced by Plaintiffs), Defendants speculate that the documents they seek could show that some employees of Plaintiffs might actually *like* Lime Wire. Here, again, Defendants fail to articulate how this is even remotely related to a potential defense to damages. Confronted with the fact that lower-level employees cannot be said to be speaking on behalf of Plaintiffs or making decisions on behalf of Plaintiffs,

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] Defendants do not explain how this discussion is probative of anything—except to repeat their tired refrain, “conduct and attitude of the parties.” As with “blacklisting,” Defendants’ repeated invocation of the “conduct and attitude of the parties” factor – without more – fails to show relevance, to say nothing of necessity.

Defendants also speculate that additional discovery might show the impact of the LimeWire shutdown on Plaintiffs’ revenues. Here again, any internal communications about the aftermath of the LimeWire shutdown cannot be divorced from this litigation. Any such discussion would undoubtedly be privileged. Moreover, Plaintiffs produced over 22,000 pages of third-party research reports on the impact of peer-to-peer file-sharing. The mere speculation that Plaintiffs may have had internal communications about the impact of the LimeWire shutdown does not outweigh the burden of producing additional, duplicative and wholly unnecessary discovery riddled with privilege issues.

V. CONCLUSION

Defendants did not satisfy the two-step process this Court required in order to establish that Plaintiffs’ internal communications regarding Lime Wire must be produced. Indeed, Judge Freeman did not hold that Defendants had met the standard. Instead, Judge Freeman characterized her ruling as a “compromise.” But Judge Freeman’s imposed “compromise” will result in precisely the disruptive burden and highly irrelevant distraction from the damages issues that this Court expressed concern about in its November 19 Order. The law does not permit the imposition of outrageous discovery burdens simply because a party wants to explore matters that have only speculative or marginal relevance. *See Food Lion*, 103 F.3d at 1012-1013 (“While the standard of relevancy [in discovery] is a liberal one, it is not so liberal as to allow a party to roam

in shadow zones of relevancy and to explore matter which does not presently appear germane on the theory that it might conceivably become so.”) (internal quotation marks and citation omitted). By disregarding this Court’s standard, Judge Freeman’s Order is clearly erroneous, an abuse of discretion, and must be overruled.

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Respectfully submitted

s/Melinda E. LeMoine

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