

UNITED STATES DISTRICT COURT
For the Northern District of California

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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

IN RE NAPSTER, INC. COPYRIGHT
LITIGATION

No. C MDL-00-1369 MHP

This Document Relates To:

UMG RECORDINGS, INC. et al.,

Plaintiffs,

No. C 04-1166 MHP

v.

HUMMER WINBLAD VENTURE PARTNERS et al.,

Defendants.

UMG RECORDINGS, INC. et al.,

Plaintiffs,

No. C 04-1351 MHP

v.

BERTELSMANN AG et al.,

Defendants.

JERRY LEIBER et al.,

Plaintiffs,

No. C 04-1671 MHP

v.

BERTELSMANN AG et al.,

Defendants.

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CAPITOL RECORDS, INC. et al.,
Plaintiffs,
v.
BERTELSMANN AG et. al.,
Defendants.

No. C 04-2121 MHP

MEMORANDUM & ORDER
Re: Motion to Compel Production of Privileged Documents

The above-captioned actions arise from litigation involving alleged copyright infringement by Napster, Inc. and its customers. Defendant Hummer Winblad Venture Partners (“Hummer”) now moves to compel plaintiffs UMG Recordings, Inc., et al. (“UMG”) and Capitol Records, Inc., et al. (“EMI”) to produce documents previously withheld as privileged, or in the alternative to obtain *in camera* review of those documents. Having considered the parties’ arguments and submissions, and for the reasons set forth below, the court enters the following memorandum and order.

BACKGROUND

The instant motion relates to four actions now pending before this court as part of the In re Napster Copyright Litigation multidistrict litigation (“MDL”) proceedings, Case No. C MDL-00-1369 MHP. Plaintiffs in this suit allege that by investing in Napster and assuming control of the operation of the Napster file-sharing network, defendants contributorily and vicariously infringed plaintiffs’ exclusive rights under the Copyright Act, 17 U.S.C. section 101 et seq. See 17 U.S.C. § 106. Hummer has asserted various counterclaims and affirmative defenses, including antitrust violations, copyright misuse, and unclean hands.

Central to the instant motion are Hummer’s antitrust counterclaim and copyright misuse defense, which are predicated upon the collective failure of the record labels to license their catalogs of sound recordings to Napster. Hummer contends that the record labels refused to license Napster

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1 and other music distribution services in order to retain their dominant position as the distributor of
2 sound recordings, which have historically been sold on physical media such as compact discs.

3 According to Hummer, the labels coordinated their efforts to suppress competition through
4 the formation of two joint ventures, MusicNet and pressplay (formerly called Duet). MusicNet was a
5 joint venture between three record labels—EMI, BMG, and Warner—and RealNetworks, a
6 manufacturer of media software. Pressplay was a venture between two record labels—Sony and
7 UMG. The stated aim of these joint ventures was to provide platforms for the digital distribution of
8 music, in competition with Napster.

9 Hummer argues that the joint ventures facilitated copyright misuse by the labels in two ways.
10 First, Hummer contends that the labels used the joint ventures to obtain information about their
11 competitors' content licensing practices and to coordinate the terms of their licenses. Second,
12 Hummer argues that labels deliberately limited the joint ventures to offering unpopular forms of
13 digital music distribution, such as streaming and "tethered" downloads, which did not threaten the
14 market for distribution of compact discs. Thus, according to Hummer, the joint ventures were a
15 smokescreen designed to obscure the fact that the labels were uniformly refusing to support
16 meaningful distribution of digital music on the internet.

17 The Antitrust Division of the Department of Justice (the "DOJ") launched an investigation of
18 the joint ventures in 2001 based on precisely those two concerns. Anderson Dec., Exh. 4 at 2.
19 During the investigation, both joint ventures and their respective record label parents submitted
20 "White Papers" to the DOJ summarizing their arguments as to why the DOJ's concerns were
21 unfounded. The labels and joint ventures also provided the DOJ with documents related to the joint
22 ventures, some of which were redacted in order to remove privileged material. As part of this
23 production, UMG provided the DOJ with a set of communication guidelines (the "guidelines"),
24 drafted by UMG's lawyers, which were ostensibly intended to avoid antitrust violations by
25 preventing pressplay employees from disclosing competitively sensitive information to pressplay's
26 record label parents.

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1 On December 23, 2003 the DOJ abandoned its investigation, claiming to have found no
2 evidence of wrongdoing. With respect to the sharing of license terms, the DOJ found as follows:

3 The Division's investigation of the licensing by the major record labels revealed no
4 evidence that the major labels impermissibly established the terms on which they
5 licensed their music to third parties. Not only did the terms of the licenses that the
6 major labels granted to third parties vary significantly, but it is also apparent that each
7 label adopted its own approach toward the distribution of its music by third parties
8 over the Internet. Safeguards adopted by both pressplay and MusicNet to prevent the
9 sharing of confidential information among their participants also appear to have
10 succeeded in preventing the inappropriate exchange of information among the major
11 record labels through the medium of the joint ventures.

12 Id. at 4. With respect to the alleged attempt to suppress the growth of internet-based music
13 distribution, the DOJ found that the labels had in fact granted licenses to other online music
14 distribution services, and that the market for online music had continued to develop despite the
15 labels' participation in the joint ventures.

16 The DOJ's findings are a near-verbatim recitation of the arguments advanced in the two
17 White Papers. With respect to variation in licensing terms, the UMG / pressplay White Paper argues
18 that

19 [t]he absence of spillovers [of licensing information] is demonstrated conclusively by
20 the wide dispersion between the terms of [Sony's] licenses with third party services,
21 the terms of UMG's licenses with third party services, and the terms of pressplay's
22 agreements with [Sony], UMG, and third-party licensors.

23 Anderson Dec., Exh. 5 ("pressplay White Paper") at 8. With respect to firewalls, the pressplay
24 White Paper claims that "both of the parent labels, as well as pressplay, have established and adhered
25 to durable and effective firewall arrangements to prevent such spillover." Id. at 1. Similarly, the
26 EMI / MusicNet White Paper states that "MusicNet purposefully put safeguards in place to prevent
27 exchanges of information, or other conduct, that could negatively affect competition. MusicNet is
28 not aware of any breaches of these safeguards." Anderson Dec., Exh. 7 ("MusicNet White Paper") at
29 20.

30 Hummer contends that the arguments offered in the White Papers were known to be false or
31 misleading at the time they were submitted to the DOJ, in violation of 18 U.S.C. section 1001.¹ As a
32 result, according to Hummer, the crime-fraud exception to the attorney-client privilege applies to

1 vitiates plaintiffs' claims of privilege as to communications related to the DOJ investigation. In
2 addition, Hummer argues that UMG's submission to the DOJ of its guidelines constitutes a waiver of
3 privilege as to all communications related to the preparation or enforcement of those guidelines.
4

5 LEGAL STANDARD

6 Federal common law recognizes an attorney-client privilege protecting "communications
7 between client and attorney for the purpose of obtaining legal advice, provided such communications
8 were intended to be confidential." Gomez v. Vernon, 255 F.3d 1118, 1131 (9th Cir.), cert. denied
9 sub nom Beauclair v. Puente Gomez, 534 U.S. 1066 (2001). The privilege is not absolute, however.
10 Under the so-called "crime-fraud" exception to the privilege, communications in furtherance of an
11 ongoing or future crime or fraud are not protected. Id. at 1131 n.7.

12 A party seeking to vitiate the attorney-client privilege under the crime-fraud exception may
13 pursue one of two paths. In order to vitiate the privilege directly, the moving party must establish
14 "reasonable cause to believe that the attorney's services were utilized in furtherance of the ongoing
15 unlawful scheme." In re Grand Jury Proceedings, 87 F.3d 377, 381 (9th Cir.), cert. denied sub nom
16 Corporation v. United States, 519 U.S. 945 (1996) (internal quotations and ellipses omitted).

17 In the alternative, a party may seek *in camera* review of privileged documents in order to
18 permit the court to determine whether the crime-fraud exception should apply. The required
19 showing for *in camera* review is less than that for vitiation of the privilege. United States v. Zolin,
20 491 U.S. 554, 572 (1989). Determining whether *in camera* review is appropriate is a two-step
21 process. First, the moving party must provide "a factual basis adequate to support a good faith belief
22 by a reasonable person . . . that *in camera* review of the materials may reveal evidence to establish
23 the claim that the crime-fraud exception applies." Id. (internal citation omitted). Second, once the
24 initial showing has been made

25 the decision whether to engage in *in camera* review rests in the sound discretion of
26 the district court. The court should make that decision in light of the facts and
27 circumstances of the particular case, including, among other things, the volume of
28 materials the district court has been asked to review, the relative importance to the

1 case of the alleged privileged information, and the likelihood that the evidence
2 produced through *in camera* review, together with other available evidence then
before the court, will establish that the crime-fraud exception does apply.

3 Id.

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5 DISCUSSION

6 Hummer claims that UMG and EMI, through their attorneys, made three types of deliberate
7 misrepresentations in their White Paper submissions and document productions to the DOJ, in
8 violation of 18 U.S.C. section 1001. First, Hummer argues that UMG incorrectly stated that it
9 continued to license its recordings on terms that were widely disparate from those offered by its
10 competitors—a fact offered to demonstrate that the labels were not impermissibly obtaining pricing
11 information from their competitors. Second, Hummer argues that the guidelines described by UMG
12 and EMI, which ostensibly restricted the flow of information from the joint ventures to the labels,
13 were a sham, as label executives remained closely involved in the day-to-day activities of the joint
14 ventures, including content licensing. Third, Hummer argues that UMG selectively redacted
15 nonprivileged documents in an attempt to hide the first two alleged misrepresentations. The court
16 will consider each contention in turn.

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18 I. Disparate Licensing Terms

19 Hummer argues that UMG’s claim regarding disparate licensing terms is demonstrably false
20 because any differences in licensing terms were illusory. This is so, Hummer argues, because each
21 of the labels insisted on the inclusion of so-called “Most Favored Nation” (“MFN”) clauses in its
22 licenses. MFN clauses guarantee that the licensor will receive terms that are no less favorable than
23 the terms offered to other licensors. As a result, the written terms of a license will only be enforced
24 to the extent that they are at least as favorable as the terms in other licenses.

25 UMG does not disagree with Hummer’s characterization of the effect of MFN clauses, or
26 dispute that each of the agreements cited in the White Paper contains an MFN clause. Instead, UMG
27 claims that it sufficiently alerted the DOJ to the presence of the MFN clauses, belying any claim of
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1 intent to mislead. UMG bases this assertion on two disclosures. First, UMG mentions certain MFN
2 clauses at two points in its submission to the European Commission, which pursued an antitrust
3 inquiry similar to that conducted by the DOJ. Pomerantz Dec., Exh. 2 at 35–36, 60. A copy of the
4 European submission was provided to the DOJ. The MFN clauses mentioned in the European
5 submission are in the labels’ agreements with pressplay. See id.

6 UMG’s argument is unavailing for two reasons. First, the agreements for which UMG
7 disclosed MFNs in the European filing are different from the agreements relied upon in the White
8 Paper. The White Paper cites agreements between UMG or Sony and third party music distribution
9 services such as listen.com. See pressplay White Paper at 8. The only agreements discussed in the
10 European filing are between the labels and pressplay. Second, it is not the presence of MFNs in
11 particular agreements which undermines the truth of the disparate licensing representation, but rather
12 the consistent practice of including MFNs in *all* license agreements. This practice—which UMG
13 does not deny—is fundamentally incompatible with UMG’s assertion that the licenses granted by the
14 labels show a “wide dispersion” of terms. See id.

15 UMG’s second argument is that the words “MFN” or “Most Favored Nation” appeared in
16 numerous documents produced to the DOJ. UMG does not explain, however, why the DOJ would or
17 could have searched for those words without some motivation to do so. The White Paper, which
18 omits any mention of MFNs, did not alert the DOJ that such a search may have been necessary.

19 UMG does not dispute that its attorneys were involved in the drafting of the portion of the
20 White Paper containing the disparate licensing argument. The disparate licensing argument is
21 arguably entirely false, and is certainly highly misleading. The court therefore finds “reasonable
22 cause to believe that the attorney’s services were utilized in furtherance of the ongoing unlawful
23 scheme.” See In re Grand Jury Proceedings, 87 F.3d at 381.

24
25 II. Efficacy of the Joint Ventures’ Firewalls

26 Hummer also argues that both UMG and EMI improperly exchanged competitively sensitive
27 information with pressplay and MusicNet, including the terms of the joint ventures’ content license
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1 agreements with third parties. If so, according to Hummer, the labels' representations to the DOJ
2 about the protection of sensitive information are false. The court will consider Hummer's argument
3 with respect to each label in turn.

4
5 A. UMG

6 The parties disagree as to what UMG represented to the DOJ with respect to pressplay's
7 independence from UMG. UMG argues that it made only a limited representation—that the firewall
8 between pressplay and UMG restricted access to information about the specific terms of content
9 licenses between pressplay and third party content providers. Content providers are entities, such as
10 other record labels, holding rights to sound recordings. Hummer argues that the pressplay White
11 Paper makes broader claims about pressplay's independence from UMG.

12 Certain representations in the pressplay White Paper are indeed qualified, as UMG notes.
13 The firewall guidelines are limited to detailed information about content licenses: “[Sony] and UMG
14 understood that they would not have access to the terms of [pressplay's] content agreements with
15 third parties.” Pomerantz Dec., Exh. 1 at 8; see also id. at 9 (setting forth the guidelines, each of
16 which is limited to agreements with “third party content providers.”). The description of pressplay's
17 management structure also indicates that record label executives had access to the terms of some of
18 pressplay's deals. The labels oversaw pressplay's operations through an “Operating Committee”
19 consisting of UMG and Sony employees. The Operating Committee was permitted to review most
20 aspects of pressplay's operations:

21 At Operating Committee meetings, pressplay management reports on a variety of
22 matters, including consumer reaction to the service, negotiations with potential
23 affiliates, possible changes to the business model and service offering, technical
24 issues, and budget matters. Management also, where necessary, reports generally on
the overall status of negotiations with third party content providers. However, as set
forth in the presentation decks, the terms of third party content agreements under
negotiation or agreed to by pressplay are not shared with the parents.

25 Id. at 12. This paragraph, like the firewall guidelines, also places special emphasis on third-party
26 content agreements.

1 A different section of the White Paper makes broader claims about pressplay's independence.

2 In the section titled "The Duet Management Team," the White Paper represents that

3 [t]he efficacy of the firewalls is also demonstrated by the conduct of Duet's
4 management team. Between April and July 2001, several former UMG employees
5 became Duet employees. The independence of these employees was understood and
6 adhered to by the parent companies, pressplay, and the particular employees involved.

7 Id. at 10. Later in the "The Duet Management Team" section, the White Paper cites a negotiation
8 with Microsoft as an example of how the two companies operated independently. However,
9 Microsoft is not a third party content provider; it is an "affiliate"—a potential user of pressplay's
10 services. The guidelines do not forbid UMG from involving itself in pressplay's dealings with
11 affiliates. See id. at 12. It is therefore reasonable to read the White Paper as representing that
12 pressplay employees enjoyed more independence from UMG than expressly provided in the
13 guidelines.

14 The documents provided by Hummer undermine the White Paper's claims of independence.
15 For example, UMG employees were directly involved in pressplay's negotiations with AOL and
16 Yahoo!, other affiliates. Anderson Dec., Exhs. 8, 20–23. The employees from pressplay and UMG
17 who were involved in the negotiations expressed confusion as to their roles and the scope of their
18 authority. Id. Exhs. 21–23. UMG also does not dispute that for the first several months of
19 pressplay's existence pressplay had no employees of its own. Finally, at least one document
20 submitted by Hummer indicates that UMG received information from pressplay about content
21 licenses. In an email dated April 12, 2001, two UMG executives discussed the negotiation position
22 taken by an independent consultant working for pressplay, Ted Green, and stated an intent to
23 "debrief" Mr. Green. Id. Exh. 9. As UMG acknowledges, Mr. Green was hired by pressplay "to
24 conduct negotiations for third-party content licenses"—the very subject of communication forbidden
25 by the guidelines. Brief in Opposition at 12. UMG's knowledge of Mr. Green's negotiating
26 position, as well as UMG's stated intent to "debrief" Mr. Green, are both suggestive of action which
27 violates the guidelines.
28

1 Viewed in combination with UMG's false "disparate licensing" argument, discussed supra,
2 the documents offered by Hummer provide reasonable cause to believe that the statements in the
3 White Paper were deliberately misleading, if not completely false.

4 As the court finds that UMG's privilege should be vitiated based on the misrepresentations in
5 the White Paper, the court need not reach Hummer's additional argument that UMG and its attorneys
6 deliberately redacted nonprivileged material in an attempt to mislead the DOJ.

7
8 B. EMI

9 Hummer alleges that several statements in the EMI / MusicNet White Paper are similarly
10 misleading. Like pressplay, MusicNet claimed that it had safeguards in place to prevent "exchanges
11 of information, or other conduct, that could negatively affect competition." Anderson Dec., Exh. 7 at
12 20. MusicNet further claimed that it was "not aware of any breaches of these safeguards." Id.

13 At oral argument, EMI claimed that MusicNet's firewall, like pressplay's, was limited to
14 information about the price terms in licenses from content providers. The language in the MusicNet
15 White Paper is quite broad, however, and belies EMI's narrow reading. For example, in discussing
16 the confidentiality rules governing MusicNet's distribution agreements to downstream parties, the
17 White Paper states that "each Distribution Agreement is bilateral between MusicNet and the
18 individual distributor. Similarly, the Distribution Agreements themselves and Section 5.4(c) of the
19 Amended and Restated Stockholders Agreement [with the parent record labels] prohibit disclosure of
20 the terms of the Distribution Agreements." Id. at 22. The White Paper also claims that MusicNet's
21 pricing structure was kept secret from the parent labels:

22 At present, MusicNet is still contemplating the manner in which it will price
23 subscription services and the terms on which it will offer permanent downloads to its
24 distributors The individuals involved in this process at MusicNet include Alan
25 McGlade (President and CEO), Cindy Charles (Senior Vice President - Law &
26 Business Affairs and General Counsel), Ellinor Hirschhorn (Executive Vice President
27 and General Manager), and Mark Mooradian (Senior Director of Strategic Planning).
28 All of these individuals are independent, full-time MusicNet employees and are not
employed by any outside stockholders.

1 Id. at 26. The White Paper thus represents that the parent labels were prevented from learning the
2 price terms of both upstream content licenses with record labels and downstream distribution
3 agreements with online music retailers.

4 Hummer identifies several documents in support of its argument that MusicNet knew of
5 substantial breaches of the safeguards. First, MusicNet's CEO, Rob Glaser, entered into a "side-
6 letter" agreement with EMI, separate from EMI's content license to MusicNet, which "commits that
7 EMI's core economic terms (price per song, advance, % of revenue pool that goes to rightsholders,
8 etc) will be no less favorable than BMG and WMG's." Anderson Dec., Exh. 64. Glaser decided to
9 confine the MFN to a side letter because "there are legal / antitrust reasons why it would be a bad
10 idea to have MFN clauses in any, or certainly all, of these agreements." Id. Further confirming the
11 existence of these side letter agreements—and the fact that all of the parent companies were aware of
12 them—is an email between two lawyers representing the labels. Anderson Dec., Exh. 66 ("Everyone
13 saw and presumably still has the near final draft of the BAG-MN side agreement."). As discussed
14 supra, MFN clauses result in uniform pricing regardless of the written terms of the content licenses.
15 This side letter therefore resulted in EMI knowing the terms of MusicNet's licenses with the other
16 record label parents.

17 Second, MusicNet provided to EMI and the other labels a complete copy of MusicNet's
18 content license to Napster.² Anderson Dec., Exhs. 67–68. EMI argues that the Napster license was
19 produced only in response to EMI's concern that MusicNet's license to Napster violated the terms of
20 EMI's agreement with MusicNet. Even if true, EMI's argument does not change the fact that it
21 received significant information about the terms of one of MusicNet's distribution agreements.

22 In sum, the documents produced by Hummer reflect the disclosure to EMI of the terms of
23 content licenses between MusicNet and third parties. These disclosures directly contradict the
24 claims in the MusicNet White Paper that no competitively sensitive information was exchanged
25 through the joint venture. As a result, the court finds reasonable cause to believe that the statements
26 related to safeguards in the White Paper were deliberately misleading.

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1 III. Scope

2 The Ninth Circuit has not expressly considered the scope of communications that must be
3 produced upon a *prima facie* showing of crime or fraud. The court has suggested, however, that
4 there must be “some relationship between the communications and the illegality.” United States v.
5 Laurins, 857 F.2d 529, 540 (9th Cir. 1988), cert. denied, 492 U.S. 906 (1989); see also Loustalet v.
6 Refco, Inc., 154 F.R.D. 243, 245 (C.D. Cal. 1993) (“it must be shown that there is some relationship
7 between the particular communications sought and the illegality.”).

8 Here, the alleged fraud is the preparation and submission of the two White Papers to the DOJ.
9 The White Papers reflect the culmination of the labels’ efforts to bring closure to the DOJ antitrust
10 investigation, and are presumably based on extensive investigation into the dealings between the
11 joint ventures and their label parents. UMG and EMI are therefore ordered to produce all previously
12 withheld communications related to the DOJ’s antitrust investigation, including but not limited to the
13 following:

- 14 (1) internal investigations of the relationship between the labels and the joint
- 15 ventures, including the disclosure of competitively sensitive information;
- 16 (2) communications made in the course of preparing the White Papers;
- 17 (3) other communications concerning what information and documents should be
- 18 produced to the DOJ.

19 UMG and EMI shall make these communications available within 30 days of this order.

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CONCLUSION

For the foregoing reasons, the court hereby GRANTS defendant's motion to compel. UMG and EMI shall produce communications related to the DOJ's antitrust investigation, as set forth above, within 30 days of this order.

IT IS SO ORDERED.

Date:

April 20, 2006



MARILYN HALL PATEL
District Judge
United States District Court
Northern District of California

UNITED STATES DISTRICT COURT
For the Northern District of California

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ENDNOTES

1. 18 U.S.C. section 1001 provides criminal penalties for “whoever, in any matter within the jurisdiction of the executive, legislative, or judicial branch of the Government of the United States, knowingly and willfully . . . makes or uses any false writing or document knowing the same to contain any materially false, fictitious, or fraudulent statement or entry.”
2. MusicNet, unlike pressplay, was both a licensee of content (from the record labels) and a licensor (to music distribution services such as Napster).