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BY PETER L. SIMMONS AND MITCHELL EPNER

Did Second Circuit Eviscerate Copyright Class Actions?

Six years after the U.S. Supreme Court held in *New York Times v. Tasini*, 533 U.S. 483 (2001), that freelance writers do not implicitly convey rights to electronic reproduction of their works when they license their materials to newspapers and other publishers for print media, a group of copyright holders seeking to vindicate those *Tasini* rights was poised finally to recover some money in a negotiated class action settlement that was approved by the U.S. District Court for the Southern District of New York.

But the U.S. Court of Appeals for the Second Circuit threw out the entire settlement and held that the district court lacked jurisdiction even to entertain the claims of most of the class members, even though the rights being asserted were the very ones that the Supreme Court had ruled were, in fact, protectible.

The Second Circuit, in a split decision, concluded that most of the class had a right without a remedy. Even though the copyright interests were, on the face of things, valid and infringed, because the majority of the works for which damages were claimed were never registered with the Copyright Office, the class was not entitled to sue for—and the district court was powerless to approve a settlement requiring payment of—damages with respect to those unregistered works. *In re Literary Works in Electronic Databases Copyright Litig.*, Nos. 05-5943-cv (L), 06-0223-cv (CON) (2d Cir. Nov. 29, 2007).



Yet copyright infringement class actions are quite common, and ownership, validity and valid recordation of the asserted copyrights is frequently a disputed issue. If, as the Second Circuit said, the district courts cannot adjudicate claims involving copyrights not properly registered, does *Literary Works* represent a turning point in the viability of copyright class actions? Under an extreme reading of the case, defendants might now be able to cut off class claims early merely by raising a jurisdictional challenge predicated on the failure to prove registrations for each work in the class. In all likelihood, the decision probably does not represent such a break with precedent. But it does highlight some of the hazards of pleading and settlement structuring that could become land mines, as they did here, if not properly navigated.

Disconnect Between Rights and Remedies

At the core of the Copyright Act, there is a tension between when a copyright is created and when a copyright holder may bring an action to enforce that copyright. Section 102 of the Copyright Act provides that "[c]opyright protection subsists…in original works of authorship fixed in any tangible medium of expression…." However, §411(a) of the Copyright Act provides that "no action for infringement of the copyright in any United States work shall be instituted until preregistration or registration of the copyright claim has been made in accordance with this title." In other words, although §102 provides that the copyright exists, and can be infringed, from the moment an author places an original work on paper (or any other tangible medium), §411(a) disables the copyright holder from suing to enforce that copyright until it has been registered.

Following that interdiction, the Second Circuit seems to hold that district courts cannot approve class-action settlements that adjudicate claims involving unregistered copyrights. Yet in reality, writers and publishers routinely litigate in class actions the alleged infringement of their works, particularly when electronic mass distribution (including online file-sharing services) is involved. And whether those works have been properly registered is frequently an issue in dispute. For example, the defendants in the *Napster*, *Grokster* and *Streamcast* class action litigations[1] each raised as an affirmative defense the claimed lack of valid copyright registrations for the copyrighted works allegedly unlawfully disseminated over those services. Nevertheless, classes were certified in each of those cases; and, in each case, membership in the class is predicated on ownership or control of a copyrighted musical that had been made

Peter L. Simmons, *a partner at Fried, Frank, Harris, Shriver & Jacobson, and* **Mitchell Epner,** *an associate at the firm, litigate class actions and intellectual property disputes.*

available without permission through the challenged service, and not on whether the infringed work was the subject of a valid registration. Moreover, settlement agreements were reached and approved by the courts in those cases that resulted in payments being made to the plaintiffs despite the challenge to whether the works were properly registered, or registered at all.

When the Second Circuit's decision is properly understood, there is no need to assume that *Literary Works* would subject those settlements, or others like them, to collateral challenge for lack of jurisdiction, or that the decision would preclude such settlements from being reached and enforced in other cases going forward.

'Tasini' Opens the Gates

In *Tasini*, the Supreme Court affirmed the award of summary judgment determining that publishers infringed the copyrights of freelance authors when they electronically reproduced and/or distributed in electronic form, including from databases and archives, material originally published in printed form, and for which the authors' permission only covered print media. *Tasini*, 533 U.S. at 507. *Tasini* was not a class action and concerned only 21 articles, authored by six individuals. Id. at 488-89. The *Tasini* Court acknowledged that countless additional claims for copyright infringement might follow and left "the remedial issues open for initial airing and decision in the District Court." Id. at 506.

After *Tasini*, a series of putative class actions filed on behalf of freelance authors who alleged that their copyrighted works were electronically reproduced and distributed without license were consolidated under the caption *In re Literary Works in Electronic Databases Copyright Litigation*, MDL No. 1379 (GBD) (S.D.N.Y.). In response, the defendants contended, among other things, that §411(a) of the Copyright Act foreclosed jurisdiction over claims arising from works whose copyright had not been registered.

'Literary Works' Settlement

Following years of litigation, the parties reached a settlement that provided for the payment of between $10 million and $18 million by the defendants. See *In re Literary Works in Electronic Databases*, Settlement Agreement (March 18, 2005) ¶3. The parties sought and obtained certification of a settlement class which, like so many others, was predicated on copyright ownership, and which did not explicitly state whether class members had registered their copyrights.

Where the parties appear to have outsmarted themselves was in dividing the so-called "subject works," the works for which claims were being settled, into three groups based upon whether and when each work had been registered with the Copyright Office. "Category A" works were defined as subject works "properly registered as an individual work with the U.S. Copyright Office in time to be eligible for statutory damages under 17 U.S.C. §412(2)."[2] "Category B" works were defined as subject works "properly registered before Dec. 31, 2002, but not in time to be eligible for statutory damages under 17 U.S.C. §412(2)." "Category C" works were defined as "all other Subject Works." Id. at ¶4(a), (b) & (c).

While 'Literary Works' speaks in terms of standing, what it really seems to say is that the district court cannot entertain a claim, and approve a settlement, that by its terms negates the viability of the very claim being asserted.

The settlement agreement provided varying amounts of damages to the three categories of subject works, with Category A (timely registered) works obtaining the greatest recovery, Category B works (those not registered in time to claim statutory damages but still entitled to pursue claims for actual damages) receiving a reduced amount, and Category C works (those not registered at all) receiving a sliding scale payment of a much more modest amount. Moreover, in the event that total allowed claims would lead to damages of more than the $18 million maximum payment by the settling defendants, the settlement agreement provided that the damages available to Category C works would be ratably reduced or eliminated before any reduction would be made in the damages available to Category A or Category B works. Id. ¶5.

The settlement thus highlighted quite starkly, in a way the class definition did not, the substantial merit of the defense predicated on a failure to register the works. Compounding the problem, some of the Category C plaintiffs, those with the weakest claims, objected to the settlement on the theory that they should actually have gotten more out of the deal. Slip op. at 7. And the settling parties (both plaintiffs and defendants) responded by shooting themselves in the foot and contending that the settlement was fair and should be approved precisely because those Category C claims concerned unregistered copyrights that were outside of the district court's subject matter jurisdiction and thus entitled to very little compensation. Id. The district court approved the settlement without addressing the jurisdictional question. Id. at 8.

The objectors continued their attack on the fairness of the settlement on appeal, and the Second Circuit sua sponte required the parties to submit additional briefs "addressing the issue of whether the District Court had subject matter jurisdiction over claims concerning the infringement of unregistered copyrights."

Second Circuit Decision

The Second Circuit's majority opinion in *Literary Works* held that "the District Court lacked jurisdiction to certify the instant class or approve the settlement," reasoning that although Congress granted (in 28 U.S.C. §1338) the district courts jurisdiction over "any civil action arising under any Act of Congress relating to… copyrights," that jurisdiction was limited

by §411(a) of the Copyright Act. Slip op. at 8-9. Relying upon *Well-Made Toy Mfg. Corp. v. Goffa Int'l Corp.*, 354 F.3d 112 (2d Cir. 2003), and *Morris v. Business Concepts, Inc.*, 259 F.3d 65, 72 (2d Cir. 2001), the majority held that "Section 411(a)'s registration requirement limits a district court's subject matter jurisdiction to claims arising from registered copyrights only." Slip op. at 10. "[S]ection 411(a) creates a statutory condition precedent to the suit itself. In so doing, it 'delineates the classes of cases…falling within a court's adjudicatory authority.'" Id. at 14 (quoting *Eberhart v. United States*, 546 U.S. 12, 19 (2005)). "In other words, a copyright claim does not exist absent registration or preregistration—and the law is clear that courts lack subject matter jurisdiction over claims that Congress has specified do not yet exist." Id. at 14 n.5.

The majority further held that the fact that each of the named plaintiffs' works were registered did not grant the district court "jurisdiction to certify a class containing thousands of claims arising from unregistered copyrights." Id. at 7. The majority held that every member of the class (not merely the representative plaintiffs) must have standing both under Article III of the Constitution and the Copyright Act. "Since statutory and constitutional jurisdictional requirements are equally binding…the same approach should hold here." Id. at 17. Finally, the majority held that the supplemental jurisdiction statute (28 U.S.C. §1367) did not provide an alternative basis for the district court to assert jurisdiction over the claims relating to unregistered Category C works. Id. at 20-21.

Judge John M. Walker Jr. dissented from the finding that §411(a) presented a jurisdictional bar, writing that "in the class action context, there is a distinction between constitutional standing, which is always required, and statutory standing, which is not required of all members of a settlement-only class." Dissent at 14. The dissent contended that holders of infringed unregistered copyrights satisfied the three requirements for Article III standing: (a) injury-in-fact, (b) traceable to the challenged action and (c) redressable by a favorable decision. Dissent at 16-17.

Statutory Standing

The distinction between constitutional and statutory standing is a valid one, well-established in the case law. In the antitrust context, for example, many potential plaintiffs could have constitutional standing by alleging an injury flowing directly from the challenged conduct, but only the more limited class of plaintiffs able to plead and prove "antitrust standing," injury of the type the antitrust laws were designed to protect,[3] have statutory standing to bring suit.[4]

In the context of other federal statutory schemes, courts have likewise held that where determining whether there is statutory standing and the merits of an action are closely related, a finding of lack of statutory standing does not bar the court from exercising jurisdiction over the case. In *Steel Co. v. Citizens for a Better Env't*, 523 U.S. 83, 97 (1998), the Supreme Court found the statutory standing issue of whether "the plaintiff came within the 'zone of interests' for which [a statutory] cause of action was available" had "nothing to do with whether there is a case or controversy under Article III."[5]

Similarly, in *Lerner v. Fleet Bank, N.A.*, 318 F.3d 113, 129-30 (2d Cir. 2003), the Second Circuit held that in the RICO context, the issue of whether a plaintiff had statutory standing was not jurisdictional.[6] The *Lerner* court held that the determination of RICO standing depended upon a finding that the alleged RICO violation was the proximate cause of the plaintiff's injury-in-fact, but that RICO standing was "not jurisdictional in nature." Id. at 129-30. See *Denney v. Deutsche Bank AG*, 443 F.3d 253, 266-67 (2d Cir. 2006) (same conclusion in RICO class action). The Second Circuit therefore may have created an inconsistency in its standing jurisprudence, suggesting a tougher standard for copyright cases than for certain other federal claims. But perhaps it is not necessary to read the case so broadly.

Meaning of 'Literary Works'

While *Literary Works* speaks in terms of standing, what it really seems to say is that the district court cannot entertain a claim, and approve a settlement, that by its terms negates the viability of the very claim being asserted. The *Literary Works* settlement awarded damages to Category C claimants who, by definition, could not have brought suit because they failed to comply with the statutory prerequisites. Unlike in most class actions, where the legal viability of the claim is (and remains) a disputed issue and thus is fairly compromised by settlement, here it was conceded by both sides that the Category C claimants failed to meet the statutory requirements for suit. That was their undoing.

The simplest lesson of *Literary Works*, which is equally applicable under a variety of federal statutory schemes, is that proposed settlements should not resolve disputed factual issues in a way that threatens jurisdiction. Merits discounts are fine, provided that the court is not asked to bless a category of claims that, as with the unregistered works here, would plainly be ineligible to bring suit in the first place.

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1. *In re NapsterInc. Copyright Litig.*, 77 U.S.P.Q.2d 1833 (N.D. Cal. June 1, 2005); *Leiber v. Consumer Empowerment BV a/k/a Fastrack*, No. 01-09923-SVW (RNBx) (C.D.Cal. May 14, 2002) (*Grokster* and *Streamcast*).

2. 17 U.S.C. §412(2) provides that statutory damages, determined in a prescribed range and without need to plead or prove actual damages, are available as long as the infringement did not begin prior to registration of the copyright (subject to a short grace period for works registered within three month of first publication). But for owners who were tardy in filing for registration, such that infringement began before the registration was obtained, statutory damages are not available, and the plaintiff must prove actual damages.

3. "[A]ntitrust standing for a private plaintiff requires a showing of a special kind of 'antitrust injury,' as well as a showing that the plaintiff is an 'efficient enforcer' to assert a private antitrust claim" *Port Dock & Stone Corp. v. Oldcastle Northeast, Inc.*, 507 F.3d 117, 121 (2d Cir. 2007).

4. *Associated General Contractors of California, Inc. v. California State Council of Carpenters*, 459 U.S. 519, 535 n.31 (1983).

5. The District of Columbia Circuit has held that lack of antitrust standing does not divest the court of jurisdiction. "Unlike constitutional standing, this court's jurisdiction does not turn on antitrust standing." *In re Lorazepam & Clorazepate Antitrust Litig.*, 289 F.3d 98, 107-08 (D.C. Cir. 2002).

6. "A RICO plaintiff 'only has standing if, and can only recover to the extent that, he has been injured in his business or property by the conduct constituting the [RICO] violation," and only when his "actual loss becomes clear and definite." *First Nationwide Bank v. Gelt Funding Corp.*, 27 F.3d 763, 767-69 (2d Cir. 1994).

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