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SECOND CIRCUIT REVIEW

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Copyright Act's Registration Is Bar to Class-Action Settling

In this month's column, we report on a noteworthy decision by the U.S. Court of Appeals for the Second Circuit, holding that a district court does not have jurisdiction to certify a class action of copyright infringement claims arising from unregistered copyrights, and therefore cannot approve a settlement with respect to those claims.

In *In re Literary Works in Electronic Databases Copyright Litigation*,¹ the Second Circuit, in a 2-1 decision written by Judge Chester J. Straub and joined by Judge Ralph K. Winter, over a dissent by Judge John M. Walker Jr., ruled that the Copyright Act's registration requirement was jurisdictional and applied in the class action settlement context. The court further held that the jurisdictional requirement applied with respect to each member of the settlement class, not just the named plaintiffs, and that the supplemental jurisdiction statute did not apply.

Background and Procedural History

Following the Supreme Court's 2001 decision in *New York Times v. Tasini*,² holding that Copyright Act does not permit publishers to reproduce freelance works electronically when they lack specific authorization to do so, several class action infringement suits were consolidated or coordinated into the *In re Literary Works* action by the U.S. District Court for the Southern District of New York. The plaintiffs in the suits included individual authors and trade groups representing authors. Defendants were comprised of companies that publish original electronic content, such as the New York Times Co., and companies that operated databases that license content from publishers, such as Thomson Corp., the owner of Westlaw.

The plaintiff class produced written works for defendants on a freelance basis. Based on their copyrights in those freelanced works, plaintiffs claimed that the publishers infringed plaintiffs'



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copyrights by reproducing articles in their electronic databases despite only obtaining licenses for print publication. Plaintiffs also claimed that the electronic database services infringed their copyrights by reproducing the articles in their own electronic databases, since the publishers from whom they acquired licenses did not actually possess (and thus could not grant) any license for electronic reproduction.

The parties eventually reached a settlement, defining the class of plaintiffs as "[a]ll persons who... own a copyright under the United States copyright laws in an English language literary work that has been reproduced, displayed, adapted, licensed, sold and/or distributed in any electronic or digital format, without the person's express authorization by a member of the Defense Group."³ The settlement trifurcated plaintiffs' claims, based on whether and when their copyrights were registered with the U.S. Copyright Office. Category A concerned copyrights that were registered prior to any infringement; these claims were eligible for statutory damages and attorney's fees under the Copyright Act.⁴ Category B concerned copyrights that were registered after the infringing reproduction but before Dec. 31, 2002; these claims qualified for actual damages only under the act. Category C claims, by far the most numerous, concerned copyrights either registered after Dec. 31, 2002, or not registered at all.

The settlement also assigned a damages formula to each type of claim. Under the formula called "C-reduction," if the cost of all claims exceeded \$18 million, then the amount paid to Category C claimants was reduced, potentially to zero, before the claims of Category A and B claimants were affected.

Having reached an agreement, the parties moved before the district court for class certification and settlement approval. Certain class members opposed the motion on the ground that the settlement was inadequate and unfair to Category C claimants, and that the named plaintiffs (who each possessed at least some registered copyrights) did not adequately represent those absent class members who possessed only unregistered copyrights.

Defendants responded that Category C claimants were adequately represented and treated fairly because their claims were essentially worthless. In justifying the C-reduction, defendants asserted that the district court could never certify the vast majority of the claims for inclusion in any proposed class for litigation because §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."⁵ Plaintiffs advanced a similar argument regarding the objectors' lack of standing to bring an infringement action.

The district court granted final class certification and settlement approval. In doing so, it never considered whether it had jurisdiction to certify a class consisting predominantly of claims arising from unregistered copyrights, or to approve a settlement resolving those claims. Objectors appealed, challenging the settlement's fairness and the adequacy of the named plaintiffs' representation. Prior to oral argument, the Second Circuit ordered the parties to submit letter briefs "addressing the issue of whether the District Court had subject matter jurisdiction over claims concerning the infringement of unregistered copyrights."⁶

Second Circuit Decision

The Second Circuit ruled that the district court lacked jurisdiction to certify the class and approve the settlement. The court initially stated that it had already held that §411(a)'s registration requirement was jurisdictional in *Well-Made Toy Manufacturing Corp. v. Goffa International Corp.*⁷ and *Morris v. Business Concepts, Inc.*,⁸ and added that most of the other federal circuits had reached the same conclusion. Nevertheless, the court addressed the merits of the issue.

First, the court rejected defendants' argument that §411(a) was jurisdictional only "in a very minimal sense," namely, if a plaintiff brings a

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single claim based on a registered copyright, the district court acquires jurisdiction over any and all related copyright claims, even those arising from unregistered copyrights. The court noted that *Well-Made Toy* specifically upheld the dismissal, for lack of jurisdiction, of a plaintiff's claim based on an unregistered copyright even though the plaintiff had paired that claim with a related claim stemming from a registered copyright.

Second, defendants pointed to decisions in other circuits that have enjoined the infringement of unregistered copyrights when at least one of plaintiff's copyrights-in-suit was registered.⁹ The court distinguished those cases as involving defendants that engaged in a pattern of infringement of a plaintiff's registered copyrights and that could be expected to continue infringing plaintiffs' newly copyrighted material in the future. In any event, the court noted that defendants' position called for an exception vastly broader than that reached in prior cases by asking the court to rule that registration of one party's copyright somehow would provide jurisdiction over claims stemming from the unregistered copyrights of many other parties.

Finally, the Second Circuit considered whether the Supreme Court's 2005 ruling in *Eberhart v. United States*¹⁰ cast doubt on *Well-Made Toy* and *Morris*. In *Eberhart*, the Court held that the seven-day time limit for moving under Federal Rule of Criminal Procedure 33 was not jurisdictional. The Court underscored the "critical difference between a rule governing subject-matter jurisdiction and an inflexible claim-processing rule" and deemed Rule 33's time limit within the latter category.¹¹ The Second Circuit ruled, however, that the key difference between Rule 33 and §411(a) was that Rule 33 "merely sets forth a time limit for moving in a case that undoubtedly already falls within the district court's subject matter jurisdiction," while §411(a) "creates a statutory condition precedent to the suit itself."¹² Thus, "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."¹³

Application to Every Claim

Having established that §411(a) imposed a jurisdictional requirement, the Court then decided whether each claim within the certified class needed to satisfy the requirement. Because Fed.R.Civ.P. 23 does not offer any alternative source of jurisdiction in the class action context, and because the statutory language of §411(a) did not dictate the outcome, the Court reviewed the applicable case law.

In *Zahn v. International Paper Co.*,¹⁴ the Supreme Court required that each member of a plaintiff class satisfy the amount-in-controversy requirement for diversity jurisdiction. In so holding, the Court reasoned that Rule 23 does not authorize one plaintiff to "ride on another's coattails." To alter this result, Congress passed 28 U.S.C. §1367, the supplemental jurisdiction statute. Similarly, in *Weinberger v. Salfi*,¹⁵ the Court ruled that the Social Security Act's "finality" requirement applied to all claims within a class, and that the district court lacked jurisdiction over those class members who did not obtain a final decision on their applications for Social Security. The Court reiterated its *Weinberger* holding in *Califano v. Yamaski*, stating that "[w]here the district court has jurisdiction over the claim

of each individual member of the class, Rule 23 provides a procedure by which the court may exercise that jurisdiction over the various individual claims in a single proceeding."¹⁶ In light of these precedents, the Second Circuit held that §411(a)'s registration requirement applied to each claim within a proposed class.

The Second Circuit also held that the supplemental jurisdiction statute, 28 U.S.C. §1367(a), which confers jurisdiction over related (but jurisdictionally deficient) claims, did not apply to save the claims arising from unregistered copyrights. In *Exxon Mobil Corp. v. Allapattah Services, Inc.*, the Supreme Court held that §1367(a) conferred supplemental jurisdiction in a diversity class action over state law claims that fail to satisfy the amount-in-controversy requirement so long as at least one claim satisfies the requirement, and all other claims are part of the same case or controversy.¹⁷ The Second Circuit, however, ruled that *Exxon Mobil* did not apply to jurisdictionally deficient federal claims asserted together with another, jurisdictionally proper claim, because the text of §1367(a) exempts from its reach those cases "expressly provided otherwise by Federal statute." The Court read §411(a)'s prohibition of claims based on unregistered copyrights as expressly providing otherwise. For these reasons, the Second Circuit concluded that the district court lacked jurisdiction to certify the class and approve the settlement agreement.

The Dissent

Judge Walker's dissent focused on the distinction between true jurisdictional bars and so-called "claim-processing rules," which may be waived. Because compliance with §411(a) is a prerequisite to the accrual of a claim for damages, but not a prerequisite to the possession of constitutional standing, Judge Walker argued, the proposed class fell within the settled rule that not all members of a settlement-only class must possess a valid cause of action under the applicable law at the time of settlement.

Examining §411(a) itself, Judge Walker observed that the statute did not speak expressly in jurisdictional terms. Nor did it create any additional rights for the claimant, instead speaking only about the vindication of those rights. This distinction was an important one for Judge Walker: "[W]e typically consider [an enforcement mechanism] a claim-processing rule" as opposed to a jurisdictional requirement.¹⁸ Judge Walker also stated that §411(a)'s legislative history, and the numerous judicially created exceptions to it, demonstrate that its requirements are more akin to a claim-processing rule than a jurisdictional prerequisite.

The dissent also noted that the class members all had constitutional standing regardless of whether §411(a) was jurisdictional. Judge Walker drew a distinction in the class action context between constitutional standing, which is always required, and statutory standing, which is not required of all members of a settlement-only class.¹⁹ In an infringement action, a plaintiff has suffered an injury-in-fact regardless of whether its copyright is registered. That plaintiffs have established an Article III case or controversy regardless of whether they registered, Judge Walker argued, supports the conclusion that §411(a)'s registration requirement is a claim-processing rule rather than a jurisdictional prerequisite.

Conclusion

The Second Circuit's decision in *In re Literary Works* substantially limits the use of class actions as a vehicle to settle copyright infringement cases. Survey evidence cited by the parties in the case showed that freelancers register less than one percent of their works, rendering more than 99 percent of potential claims incapable of resolution in a class action settlement.²⁰ This likely will pose obstacles for both plaintiffs, who will be forced to sue individually if they failed to register their copyright, and alleged infringers, who will be unable to effect a global settlement of potential infringement claims.

Interestingly, the majority conceded that copyright protection "generally begins at the time of a work's 'creation,'" regardless of whether the material is registered.²¹ It argued, however, that the issue of whether a work is entitled to copyright protection is quite different from whether a copyright holder is permitted to institute an action in federal court. Nevertheless, the Second Circuit's holding could make the protections offered by copyright law a virtual dead letter for those plaintiffs who did not register and cannot go to court on their own.



1. —F.3d—, 2007 WL 4197413 (2d Cir. 2007).
2. 533 U.S. 483 (2001).
3. 2007 WL 4197413, at *2.
4. See 17 U.S.C. §412.
5. 17 U.S.C. §411(a).
6. 2007 WL 4197413, at *3.
7. 354 F.3d 112, 115 (2d Cir. 2003).
8. 259 F.3d 65, 72 (2d Cir. 2001).
9. 2007 WL 4197413, at *5 (citing *Olan Mills, Inc. v. Linn Photo Co.*, 23 F.3d 1345, 1389 (8th Cir. 1994); *Pac. & S. Co. v. Duncan*, 744 F.2d 1490, 1499 n.17 (11th Cir. 1984)).
10. 546 U.S. 12 (2005) (per curiam).
11. *Id.* at 13 (quoting *Kontrick v. Ryan*, 540 U.S. 443, 456 (2004)).
12. *Id.* at *6.
13. *Id.* n.5.
14. 414 U.S. 291, 299-301 (1973).
15. 422 U.S. 749 (1975).
16. 442 U.S. 682, 701 (1979).
17. 545 U.S. 546, 556-60 (2005).
18. 2007 WL 4197413, at *12.
19. *Id.* at *14 (citing *In re Lorazepam & Clorazepate Antitrust Litig.*, 289 F.3d 98, 107-08 (D.C. Cir. 2002)).
20. *Id.* at *2.
21. *Id.* at *6 n.6.