

# Cooperation and Communication Among Industry Participants Dealing with Piracy

A Presentation for the Legal Seminar of the  
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## I. INTRODUCTION

Multiple listing services face new challengers attempting to package and offer property-for-sale information to the public over the internet. A new and more sinister class of “competitors” uses information illegally “scraped” from MLS sites or illegally obtained from members to populate the data on their websites. Instead of competing with new ideas or new ways of doing business, these predators simply engage in theft of intellectual property and free ride on the work done by MLS and their members.

This session will explore ways MLS can cooperate to prosecute legal actions against the wrongdoers. We will review other industries that have used group enforcement historically, consider the antitrust implications of such actions, discuss how to protect confidential material in such an environment, and analyze the practical methods that might be used in such an effort.

I graduated from the University of Virginia School of Law in 1988 and began working with Nexsen Pruet, LLC in its Columbia, SC office the next day. Over the past 24 years my practice has included copyright litigation related to maps, novels, plays, computer programs, and databases including those relating to MLS. In addition, Nexsen Pruet acted as local counsel in the Carolinas for the Recording Industry Association of America (RIAA) in its wave of cases intended to impede unlicensed music downloads. I also worked for clients on the other side including the Software Publishers Association (now the Software and Information Industry Association-SIIA) and Business Software Alliance (BSA) relating to investigations and lawsuits in the Carolinas. Defending against such claims gave me a perspective from both sides—the rights holder and the alleged infringer—that may be helpful in rounding out the discussion.

I have also represented several NAR-affiliated MLS in navigating the waters of being third-party witnesses and document sources during antitrust cases brought by the United States. Thus, I have gained first-hand knowledge of what not to do when acting collectively.

A properly designed collective-litigation program is not conceptually different than having an industry association that lobbies or takes positions in regulatory rule-making and enforcement on behalf of its members. The member or a sub-group of the members are acting together to influence the law. In the case of a litigation group, the members pursue together litigation each has the right to pursue individually. By sharing costs and resources, the group reduces individual expense and risk. The purpose of the group must be to assert legal rights and prevent illegal harmful conduct, without impeding legitimate competition.

I hope you find these materials and the presentation useful and please contact me if you have questions!

## II. COLLECTIVE ENFORCEMENT OF COPYRIGHT—THE HISTORICAL PERSPECTIVE

### a. The Original Model—Music Licensing and Enforcement.

Early in the 20th century, music composers and publishers found that technology outstripped their ability to individually license their works. Brain storming resulted in the formation of voluntary associations. These associations received non-exclusive licenses from the composers, performing artists, and publishers and developed “blanket” licenses that would offer a large number of works to a licensee for a single annual fee. This model enabled modern mass communication of music by phonograph, radio, and television. The groups became known as “performing rights organizations.”

The best known of these organizations is the American Society of Composers, Artists and Publishers (ASCAP), founded on February 13, 1914. The actual artists, composers, and publishers own ASCAP. Today it has 435,000 members. ASCAP provides lobbying and regulatory comment services for its members as well as the blanket license function. It also pursues enforcement litigation, but always in the name of members whose rights have been violated. Other similar organizations active today include Broadcast Music Inc. (BMI) and SESAC, Inc. (once an acronym but no more).

In the early 1940s, the United States challenged ASCAP’s licensing program under antitrust laws for price fixing. The case lasted for over a decade and ultimately resulted in a consent decree. The consent decree is enforced to this day in the United States District Court for the Southern District of New York, which sets prices when licensees and ASCAP cannot agree.

Institutional consumers of music challenged the performing rights organizations’ licensing practices as illegal price fixing. Price fixing carries an automatic, *per se* illegality under the Sherman Act. *Arizona v. Maricopa County Medical Soc.*, 457 U.S. 332, 346-47 (1982). The Supreme Court took up the performing rights organizations blanket license activities in *Broadcast Music, Inc. v. Columbia Broadcasting Sys., Inc.*, 441 U.S. 1 (1979) (**Attachment 1**).

The Court found that ASCAP's license created a totally different product from that of the underlying copyright holders. The underlying authors could sell nothing similar to the blanket license. The agreement with ASCAP allowed every author to continue to sell/license their own works as they saw fit. But ASCAP did have to set a price for the blanket license. *Id.* at 21-22. The Court found that this "literal price fixing" did not deserve the *per se* rule of illegality and was not illegal absent proof of some other anti-competitive activity that violates the Sherman Act. *Id.* at 8.

The favorable outcome for ASCAP followed its essential defeat of a Department of Justice antitrust case in the 1940s. ASCAP entered into a consent decree with the United States. Whenever ASCAP and a licensee reach an impasse over license fees, either may petition the United States District Court for the Southern District of New York to set a reasonable fee. *Broadcast Music, Inc. v. DMX, Inc.*, 683 F.3d 32, 36-37 (2d Cir. 2012) (**Attachment 2**). BMI entered into a similar consent decree in 1964. *Id.* These decrees are modified from time to time and lead to frequent litigation.

In looking at the ASCAP model, MLS do not have the same antitrust concerns. Unlike ASCAP, BMI, and SESAC, MLS generally do not re-license and set prices for their members' intellectual property to third parties. As seen above, this is the area that has raised extensive antitrust litigation for ASCAP. MLS have no price-setting function on the primary intellectual property in most cases.

ASCAP, BMI, and SESAC use separate arms of their organizations to pursue enforcement actions. They actively investigate where and when their members' works are performed. They employ full-time investigators and contract with other investigative professionals to observe and tape possible violations.

If you have ever represented a client contacted by one of these licensing organizations because of an alleged infringement, you know they can be very persistent. I fought a four-year running battle on behalf of a county park system that ultimately resulted in my client agreeing to take the new (at the time) and much cheaper governmental-organizations license.

On rare occasions, defendants raise antitrust-based defenses to copyright enforcement actions. These have generally been summarily dismissed, although there is one area of concern—copyright misuse—that cannot be ignored. See, *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970, 978-79 (4<sup>th</sup> Cir. 1990) (extending patent misuse defense to copyright and finding copyright unenforceable where copyright holder attempted to use licensing agreement to prevent licensee from independent development of the same idea—an area not protected by copyright). Copyright misuse or unclean hands on the part of the licensing agent (ASCAP etc.) can be imputed to the copyright owner. *Tempo Music, Inc. v. Myers*, 407 F.2d 503, 507-508 (4<sup>th</sup> Cir. 1969) (finding it inequitable to allow plaintiff copyright holders to receive judgment for infringement when ASCAP repeatedly ignored defendant’s request to enter into license agreement).

b. Preventing Software Piracy.

Technology brought new forms of copyright infringement. As innovation developed in the United States, copyright became the leading way to protect software as opposed to patent protection or trade secret protection. Software authors and publishers faced technology that allowed easy copying and reuse of their products. These facts led to the founding of the Software and Information Industry Association (SIIA) (formerly Software Publishers Association) and the Business Software Alliance (BSA) (Primarily led by Microsoft).

These organizations performed investigation and enforcement functions only in the beginning. The SIIA grew into more of an industry trade association and today does lobbying, legislative monitoring and intervention, and regulatory comments as well. These organizations used the music-industry model of both employee and private investigators but found an even more effective way of finding infringers.

If you look at their websites, rewards are offered to insiders (usually former employees) who provide information that leads to successful judgment or settlement with an infringer. SIIA offers up to a million dollars. (See Web Page- **Attachment 3**). Vengeful former employees have been the source of six of the seven cases I have defended against these organizations. The other one came



from a customer of the defendant who questioned the licensing of software embedded in the hardware provided under a contract.

While the SIIA and BSA investigate and negotiate licenses, copyright infringement lawsuits are brought in the name of individual members. One of SIIA's more memorable lawsuits came on behalf of member Kaplan Test Prep. Kaplan sued medical student Kenneth Chou, who pirated Kaplan's software for courses and offered it online. SIIA touted a \$400,000 judgment and injunction, but the case disappeared from the radar after the press release. (See Press Release-**Attachment 4**).

Antitrust challenges to this enforcement activity have been rare. The software business organizations offer licenses in settlement talks, but only at the prices approved by members. There are not blanket licenses involved.

Both in the music industry situations discussed above and in the software piracy enforcement cases here, the industry associations manage litigation through their in-house resources as enforcement represented a core portion of each organization's purpose. The in-house departments selected local counsel in each jurisdiction to pursue cases that could not be settled by investigators without litigation. MLS are not organized in this way and investigation/enforcement is not a core purpose. While the discussion above helps shape the legal environment for the issues facing MLS, the RIAA model discussed below comes closer to the MLS situation.

c. The Recording Industry Push to End Mass Consumer Copying.

Ever evolving technology led to the ability to download music, movies, and TV shows from file-sharing services over the internet. File sharing services or individuals offered their digital music to the public to download. This new challenge did not fit in the ASCAP model, as courts have held that downloads are not public performances. *U.S. v. American Soc. of Composers, Authors, Publishers*, 627 F.3d 64, 67 (2d Cir. 2010) (affirming a digital download of a song is not a public performance); *In re Cellco Partnership*, 663 F. Supp.2d 363 (S.D.N.Y. 2009) (download of ringtone to cell phone by company not a public performance). Thus,

the performing rights organization passed on these issues. The RIAA developed a national program for its members to help pursue this novel type of infringement.

This type of infringement is widespread, happens in homes, colleges, and work places, and is hard to detect. RIAA studied these challenges and came up with a system. RIAA functions more as a typical trade association than an enforcement organization. To assist in this new role, RIAA hired national law firms to manage its new investigation and enforcement effort.

RIAA brought thousands of lawsuits across the United States in the name of its members whose works had been downloaded without permission or compensation. RIAA, like ASCAP, managed the litigation on behalf of its members but was not a party and because it did not own the copyrights involved, could not be added as a party. *Bourne Co. v. Hunter Country Club, Inc.*, 990 F.2d 934, 937 (7<sup>th</sup> Cir.), cert. denied, 114 S. Ct. 308 (1993) (ASCAP as licensing agent not a proper party). In RIAA cases, the defendants often remained unidentified until a subpoena could be served on an internet service provider or network operator. A typical order resulting from early motions filed by a “John Doe” file sharing operator is attached. *Sony BMG Music Entertainment v. Doe*, Not Reported in F. Supp.2d, 2009 WL 5252606 (E.D.N.C. Oct. 21, 2009) (**Attachment 5**).

The RIAA has not hesitated to alert and cooperate with law enforcement for criminal charges where appropriate. See, e.g., *U.S. v. Gitarts*, 341 Fed. Appx. 945 (4<sup>th</sup> Cir. 2009).

While RIAA dealt easily with most antitrust challenges to its enforcement program, it has been named as an instrument by which publishers shared information and conspired to set prices on digital music, but not in a party capacity. *Starr v. Sony BMG Music Entertainment*, 592 F.3d 314, 318 (2d Cir. 2010). MLS do not have such a role among real estate brokers and agents and such claims would seem unlikely.

III. WHY COLLECTIVE ACTION IS NOT ILLEGALLY ANTI-COMPETITIVE  
a. No Different Than Lobbying, Regulatory Intervention by Trade Groups—Shaping the Law.

Trade industry groups historically act for their members to shape law. They propose legislation, lobby legislators, comment on proposed regulations, and lobby regulators on their view of proper enforcement. While these activities sometimes receive negative comment and attention, they are generally legal and recognized as a part of the full-contact politics allowed in our republic.

The same policy applies to litigation. By historic decisions, the United States favors limited direct government regulation of activities in favor of establishing/enforcing limitations and rights by private litigation in the various court systems. K. Abraham, *The Forms and Functions of Tort Law* (2d Ed., Foundation Press 2002). As seen in the discussion above, it is common for trade association groups to sponsor, organize, pay for, and pursue litigation in the name of its members.

There are, of course, limitations on the extent of cooperation by such groups. Price fixing, abuse of statutory monopolies, and other illegal activities remain illegal even if conducted in relation to a litigation program. I believe, however, these limits are easy to define and avoid.

b. Not Aimed at Pricing or Entry Rules.

The antitrust laws do not prohibit all restraints of trade, only unreasonable ones. See *Board of Trade of City of Chicago v. United States*, 246 U.S. 231, 244 (1918). Certain restraints of trade such as naked price-fixing, market allocation, and bid rigging are “per se” illegal, but the majority of restraints are judged under the more lenient “rule of reason” standard. *ABA Section of Antitrust Law, Antitrust Developments*, pp. 60-61 (7th ed. 2012). Under the rule-of-reason, a restraint may be condemned if suppresses or even destroys competition, rather than if it merely regulates it. See *National Soc. Of Prof. Engineers v. United States*, 435 U.S. 679, 691 (1978). A rule of reason analysis is limited to whether a challenged restraint “is one that promotes competition or one that suppresses

competition.” *ABA Section of Antitrust Law, Antitrust Law Developments*, p. 62. A collective litigation program is procompetitive in that its purpose and intent is to protect the intellectual property of the program’s participants. Likewise, there is nothing anticompetitive in using civil litigation to deter copyright violations and other illegal behavior.

c. Does Not Create a Market Barrier to Legitimate Entry.

Barriers to entry are conditions in a market that make it difficult or impossible for a potential competitor to enter a market and compete. Barriers to entry can include a high cost to enter a market (e.g., it would be difficult for a new automotive manufacturer to start from scratch in response to supracompetitive pricing), regulatory restrictions, or zoning laws. A single actor may violate Section 2 of the Sherman Act if it creates barriers to entry to prevent others from competing against it. See *Loraine Journal Co. v. United States*, 342 U.S. 143, 152 (1951) (condemning a newspaper that had forbidden its advertisers to advertise with local radio stations). The antitrust laws do not, however, create a “safe harbor” for potential competitors who are attempting to enter a market through illegal means—e.g., theft of trade secrets or copyright infringement. There is no legitimate barrier to entry in this case because no legitimate competition is being thwarted.

IV. ISSUES FACING MULTIPLE LISTING SERVICES THAT SUGGEST COLLECTIVE ACTION

a. Data Scraping and Re-use.

MLS compile information provided by members into automated databases of real estate listing information. Some of this information is protected by copyright. Photographs and original descriptions of the property are among the most likely to be protectable. With the permission of their members, many MLS display some of the information gathered on public websites operated by the MLS.

New internet aggregators of real estate information appear daily. These companies often attempt to replicate MLS listings on a national or regional scale, perhaps add other services, and make the listings available to the public. Often, the listings seen are identical to those posted by MLS on their websites. These aggregators copy the protected material such as photographs and non-fact text. This can be done by having a “robot” program “data scrape” a site or by having a member of the MLS provide a feed to the aggregator. These businesses operate in various ways to make a profit from the public display and copying of the MLS database.

b. Recent Cases.

*Metropolitan Regional Information Systems, Inc. v. American Home Realty Network, Inc.* (See Opinion-**Attachment 6**).

Multiple Listing Services and others have long pushed Congress to encourage the protection of databases over and above protection found in traditional copyright law. See, Ginsburg, “*Copyright, Common Law and Sui Generis Protection of Databases in the United States and Abroad*,” 66 U. Cinc. L. Rev. 151 (1997). Despite these efforts, copyright remains the only effective protection for the compiled MLS database.

c. National and Regional Targets—Business, Won’t Face the Issues RIAA Did.

Because the defendants in any actions brought by an MLS enforcement group will be businesses seeking to use the MLS database without permission, the MLS will not face the publicity and public relations challenges RIAA faced. While many RIAA defendants were actually paid file-sharing services, others merely shared with friends and family. While the same reasons exist to prevent such practices to protect copyright owners’ economic investment, the press and public exhibited some sympathy for some of those defendants. It seems unlikely that such emotions would be triggered in litigation over intellectual property rights in listings.

V. FORMING THE GROUP AND PROTECTING CONFIDENCES

a. Forming an Association for the Purpose of Litigation vs. Using Current Organizations.

The current Council of MLS could easily form a sub-group responsible for monitoring, investigating, and, when appropriate, enforcing copyright rights against data pirates. If all the members of the Council are not interested in such an organization, a new one could be formed. The group should have an organizational document stating its mission and certain purposes it will avoid. The group should select a cost-sharing method early on. Whether all members share equally or some other allocation will be used should be known up front.

In several models I have worked with or observed, the group worked with national counsel to prepare an annual budget based on estimated costs for a certain number of investigations and lawsuit. National counsel hired investigators and local counsel. The members then funded the budget with equal quarterly payments over the year and a “true-up” at the end of the year. This provides budgeting certainty.

Keeping counsel involved in the organization and its meetings will be very important on two fronts. First, legal advice on the proper exercise of copyright rights as opposed to any appearance of illegal anti-competitive market power will be vital to success. Second, it will be in the groups’ best interest to maximize the confidentiality available through an extension of the attorney-client privilege and work-product privilege through the common-interest doctrine.

b. Protecting the Attorney-Client and Attorney Work Product Privileges—Layers.

The common-interest doctrine, also known as the joint-defense privilege, is an extension of the attorney-client privilege and/or work-product doctrine and is used when two or more parties retain counsel concerning legal matters in which they share a common interest. *Sheet Metal Workers Int’l Ass’n v. Sweeney*, 29 F.3d 120, 124 (4th Cir. 1994). The doctrine allows for a broader

disclosure of information while maintaining confidentiality. The rule applies when parties share a common interest in litigation.

The doctrine is not an independent privilege but instead “presupposes the existence of an otherwise valid privilege.” *United States v. Schwimmer*, 892 F.2d 237, 243-244 (2d Cir. 1989). It is a limited exception to the general rules that (1) no attorney-client privilege attaches to attorney-client communications in the presence of a third party; and (2) parties waive the attorney-client privilege and protection under the work product doctrine if a communication is disclosed to co-parties and/ or their attorneys. The courts created this doctrine because of the nature of modern, multi-party litigation.

As an exception to the normal rule, the common-interest doctrine tends to be applied narrowly. Parties must be careful to avoid waiver or other issues. The common-interest doctrine does not apply if either party has waived the underlying privilege in another context. Similarly, the underlying privilege may be waived if communications are conducted without the presence of an attorney on either side. *In re: Outside Tire Litigation*, No. 1:09cv1217, 2010 WL 2696643, at \*2 (E.D. Va. 2010). Thus, it is important that the coordinating group always meet with its attorneys to maintain the maximum in confidentiality.

i. *The Initial Participants and Their Counsel Must Have an Enforceable Common-Interest Agreement.*

The initial participants and their counsel must have an enforceable common-interest agreement. To qualify for protection under the doctrine, a threat of litigation must exist at a minimum. The doctrine only applies to parties in pending or anticipated litigation. Though protected statements need not be made in anticipation of litigation, where no threat of litigation exists, no common legal interest exists among the parties. No formal written agreement is necessary to establish a common-interest agreement; the parties may simply agree to share information. However, entering into a written agreement is the best policy, because the writing objectively establishes the existence of an agreement and can support a finding of the required elements.

The agreement should state that a common interest exists among the parties and refer to the pending litigation or assert that litigation is strongly anticipated. The doctrine only extends its protection to documents that would otherwise be protected from disclosure under the attorney-client privilege or the work-product doctrine. To claim protection under the doctrine, a party must not only establish the elements of the doctrine, but also establish that the underlying communication warrants protection under the attorney-client privilege or work-product doctrine. (Sample Agreement-**Attachment 7**).

ii. *The Group Must Hire Counsel and all National and Local Counsel Must Sign on to the Common-Interest Agreement.*

Because the doctrine arises from the attorney-client privilege and attorney work-product doctrine, there can be no common-interest agreement without counsel. The group should hire counsel so that counsel's loyalty is to the group as a whole, not just one member. The counsel for individual members can and should be added to the common-interest agreement if a member would like their involvement.

iii. *Enforceability Must be Viewed from a National Perspective.*

The Federal Rules of Evidence will govern how the common-interest privilege, attorney-client privilege, and attorney work-product doctrine are interpreted. So long as the claims being investigated or brought are solely for copyright infringement, the governing law will be fairly similar across the country with a few nuances between federal appellate circuits. Fed. R. Evid. Rule 501.<sup>1</sup> Thus, for federal claims there is a federal common law of privilege. A copyright claim arises solely under federal law, and any state law which attempts to address copyright rights will be preempted by federal copyright law. *Tire Engineering and Distribution, LLC v. Shandong Linglong Rubber Co., Ltd.*, 682 F.3d 292, 310 (4<sup>th</sup> Cir.

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<sup>1</sup> "Except as otherwise required by the Constitution of the United States or provided by Act of Congress or in rules prescribed by the Supreme Court pursuant to statutory authority, the privilege of a witness, person, government, State, or political subdivision thereof shall be governed by the principles of the common law as they may be interpreted by the courts of the United States in the light of reason and experience." Fed. R. Evid. Rule 501.



2012). A plaintiff may only bring a copyright case in federal district court. *Arthur Young & Co. v. City of Richmond*, 895 F.2d 967, 969-70 (4<sup>th</sup> Cir. 1990).

“However, in civil actions and proceedings, with respect to an element of a claim or defense as to which State law supplies the rule of decision, the privilege of a witness, person, government, State, or political subdivision thereof shall be determined in accordance with State law.” Fed. R. Evid. Rule 501. Thus if any claims are brought based on unfair competition, trade secrets, or other state based laws, the host state’s law of privilege will be applied. *F.H. Chase v. Clark/Gilford*, 341 F. Supp.2d 562, 563 (D. Md. 2004). This can sometimes produce very different results. The group should keep this in mind if it considers adding state-based causes of action to the copyright claims.

## VI. INTELLECTUAL PROPERTY ISSUES FOR THE GROUP

### a. Ownership Rights in the Protectable Material in the Database.

The member MLS must have ownership rights in the copyrighted material being used by the infringing party. Thus, the MLS must be: (1) the author/photographer; (2) a proper owner of a work made for hire; or (3) a proper assignee of the copyright rights. The details of the three avenues are beyond the scope of this presentation. The copyright white paper may be helpful here. The method selected by every MLS this author has worked with is number three, use of assignments.

The more consistency there is in the group, the easier the litigation planning will be. Each member must satisfy itself that it has done the best job of securing ownership of the copyright rights it can under its arrangements with its members. The defendants will always attack this subject.

### b. Notice and Registration Practices.

The copyright statute requires registration as pre-requisite to infringement actions in most cases. 17 U.S.C. § 411(a). Compilations, such as those done by MLS, may be registered as “automated databases.” 37 C.F.R. § 202.3(b)(5). Once a certificate of registration is received from the Copyright Office, the burden is

shifted to a defendant to prove that the copyright is invalid. 17 U.S.C. § 410(c); *Universal Furniture International, Inc. v. Collezione Europa USA, Inc.*, 618 F.3d 417, 428 (4<sup>th</sup> Cir. 2010).

Thus, it is very important that each MLS belonging to the group pursue quarterly registration of its database. Each quarter, the database administrator can send the appropriate deposit and application for registration to the Copyright Office. In most MLS, this process is done with an attorney the first time or two but usually can be taken over by the staff after that point. It does make sense to have an attorney review the registration practices being used once every year or two as the law and regulations change from time to time.

The Copyright Act also allows for certain statutory remedies that are only available if registration occurred prior to infringement beginning. Thus, a plaintiff may not seek statutory damages as an alternative to proving actual damages and profits unless registration was completed before the defendant's infringement began. 17 U.S.C. §§ 412, 504(c)(1); *Bouchat v. Bon-Ton Dept. Stores, Inc.*, 506 F.3d 315, 327 (4<sup>th</sup> Cir. 2007). Similarly, registration before the beginning of infringing activity is a requirement in order for a plaintiff to recover its attorneys' fees under the Copyright Act. 17 U.S.C. § 412.

As these remedies will be important to the group, securing and maintaining proper registration must be a priority for each group member.

c. Assignments of Rights.

In any action, the defendant is likely to attack an assignment of rights from the original author/photographer. Each MLS should carefully craft both its rules, regulations, and membership contracts to support the assignment of copyright rights. In addition, assignment documents should be executed where possible. The group should work on using consistent practices and procedures if possible to make litigation more cost efficient and repetitive. The assignment practices of each member should be fully revealed and carefully vetted by the attorneys prior to the beginning of litigation.

d. Compilation Rights.

Defendants consistently challenge the registration of databases and other compilations. The law among the circuits varies as to the strength of such registrations. Defendants always argue that the law requires every individual work within the compilation to be registered and its author revealed. This approach has generally been rejected as impractical, but the law is still not settled. The group must consistently fight these issues and hope to establish good law for the future.

The recent *American Home Realty Network* ruling found that each underlying copyrightable work in the compilation need not be separately registered consistent with Fourth Circuit precedent. This is consistent with the leading case from the Eleventh Circuit, where a multiple listing service of yachts for sale successfully defended its compilation copyright against a claim that each underlying copyrightable work should have been individually registered. *BUC International Corp. v. International Yacht Council Ltd.*, 489 F.3d 1129, 1140 (11<sup>th</sup> Cir. 2007). (The district court found that such registration was not necessary, but the defendant's failed to preserve the issue for appeal, so there is no direct ruling from the Eleventh Circuit).

VII. LITIGATION ISSUES FOR THE GROUP

a. Form Pleadings, Motions and Affidavits.

One of the advantages to working in a common-interest group is the ability to have national counsel (with input from counsel from each MLS) draft form pleadings, motions, and affidavits in advance of litigation. These can then be customized on a case-per-case basis for an overall much lower per-case cost. The group must draw a balance between the consistency and cost savings on the one hand and adapting as necessary to local practice in a particular district on the other. As long as the group focuses on Copyright Act claims, this balance should be fairly easy to maintain. If the group decides strategy favors the addition of state law tort or unfair competition claims, then the balance would be more difficult to maintain.

b. Role of National Coordinating Counsel.

ii. *Reporting to Group or Group's Designees*

If the group proceeds like others we have discussed above, it will select one or more law firms and lawyers to act as national counsel. Their role will be to create the forms for the litigation, oversee the investigation and decision to litigate, and report to the group or its designees. An important part of this role will be recognizing the necessary involvement of each MLS decision makers and counsel as well as the local attorneys selected to assist in the effort.

iii. *Control and Consistency While Working in Partnership*

The group will maintain control of its litigation as clients. Settlement and strategy decisions will be made by the clients. National counsel will take the role traditionally taken by litigation counsel to control the tactical decisions in litigation. While this control is necessary to maintain cost savings and consistency, national counsel will always have to remember the need to consider input from MLS counsel and local counsel.

c. Selection of Local Counsel and Adaptation to Local Issues.

The selection of competent local counsel is key. National counsel should use all contacts for the various MLS to help select competent local counsel. Local counsel should have subject-matter experience in the copyright area and, if possible, in the real-estate industry particularly from the listing databases standpoint. Counsel should also be of high reputation and have a complete understanding of the local court rules.

d. Investment on the Front End to Control Likelihood of Success and Cost in the Ongoing Litigation.

The model pursued by RIAA and others invest a substantial amount in legal fees up front to research, draft pleadings, investigate, and trace the flow of litigation. These investments pay off in the ability to manage cases on a much lower per case basis.

e. Typical Case Flow.

ii. *Early Motions—Preliminary Injunction Can Win the Case*

The Copyright Act like other intellectual property laws allows for injunctions. The preliminary injunction is one of the most powerful tools in the plaintiff's litigation tool box. Once a preliminary injunction is in place shutting down the defendant's use of the copyrighted material, settlement often follows. The group should also be prepared for early motions to dismiss to be filed by the defendant in almost every case. Jurisdiction, venue, and the sufficiency of the pleadings will be challenged.

iii. *Discovery*

The group and national counsel should work on a form discovery plan outlining the search for documents, electronic information, and likely witnesses. The plan should take into account how documents will be organized and annotated in databases so that each case is consistent and searching can be done easily. The plan should also stress where expert witnesses will be needed and the types of qualifications needed. National counsel should work with local counsel to find the appropriate experts who will do the best job in that jurisdiction. Discovery should be designed to help support a strong summary judgment motion in each case.

iv. *Summary Judgment*

Summary judgment is a procedure by which a party suggests to the court that there are no factual issues and the case can be decided as a matter of law. With strong evidence from an investigation, summary judgment should be a possibility in most cases. Summary judgment removes the uncertainty of a jury trial.

v. *Trial*

The group should early on make a decision whether or not it will ask for a jury trial in each case. Non-jury cases tend to move faster, and federal judges have a much better understanding of copyright law and its technicalities than the

typical jury. Even if the group chooses to proceed non-jury, it is likely that the defendant will ask for a jury trial. Typically in a jury trial, it is important to be sure local counsel is involved in the jury selection and helping with the strategy and themes to be presented.

f. Relief—What is the Goal of the Litigation?

The group must decide what its goals are in litigation. The Copyright Act provides a variety of remedies, some of which may not be appropriate for MLS litigation.

ii. *Injunctive Relief*

Injunctive relief, both preliminary and permanent, is available for copyright infringement. Injunctive relief stops the illegal use of the copyrighted material. In times past, a prevailing plaintiff received an injunction against future infringement almost as a matter of course.

The courts are now extending recent Supreme Court decisions in the patent area to provide that a permanent injunction must be supported by equitable elements even when permitted specifically by statute. See, *Christopher Phelps & Assocs., LLC v. Galloway*, 492 F.3d 532, 544 (4<sup>th</sup> Cir. 2007) (denying a permanent injunction against the sale of a house built with copyright infringing architectural plans because of inequitable “draconian burden.”

iii. *Damages*

The Copyright Act provides for two types of damages. The copyright owner may seek its actual damages and any additional profits owned by the infringer as a result of the infringement. 17 U.S.C. § 504(b). These types of damages can be difficult to prove. The MLS would have to show lost membership or other revenues to establish its actual damages. The MLS would then have to establish what profits the infringer earned from displaying the copyrighted material. While this may be practical in some cases, it will almost always involve extensive factual discovery, forensic accounting, and use of experts.

The second option is statutory damages for each act of infringement. 17 U.S.C. § 504(c). In the case of non-willful infringement, the statutory damages for all infringements with respect to any one work range from \$750 to \$30,000 to be set by the court. All parts of the compilation or derivative work constitute one work for this purpose. Thus, damages will be limited unless the MLS can demonstrate the use of successive versions quarter after quarter. This may create an issue where the circuits are split as to how statutory damages should be awarded.

In the case of willful infringement, the statutory damages may go up to \$150,000 per work infringed.

#### iv. *Seizure and Other Special Remedies*

In addition to an injunction (17 U.S.C. § 502) and damages (17 U.S.C. § 504), a copyright owner may be able to seize infringing goods, have them destroyed, and place an import block on them. These types of special remedies do not seem to apply well to the MLS situation. Although other minds may come up with a creative use of 17 U.S.C. § 503 and relief before the International Trade Commission.

#### v. *Fees*

The Copyright Act allows for the prevailing party to receive its costs and a reasonable attorneys' fee "as part of the costs." 17 U.S.C. § 505. The court may award the attorneys' fees using its discretion. In exercising its discretion, the district court should consider four factors in deciding whether or not to award attorneys' fees. First, the motivation of the parties—a motivation to protect copyright interest tends against an award of attorneys' fees, whereas collateral interests or objectives tend to favor awarding attorneys' fees. Next, the objective reasonableness of the legal and factual positions advanced by the losing party should be considered. In certain circumstances, the need to advance considerations of compensation for the prevailing party and deterrence against the losing party should be considered. And finally, any other relevant factor presented by the parties. *Diamond Star Bldg. Corp. v. Sussex Co. Builders, Inc.*, 30

F.3d 503, 505-506 (4<sup>th</sup> Cir. 1994). In each case, counsel should keep these factors in mind as building evidence towards a judgment. The recovery of attorneys' fees will likely be very important to the group as damages are difficult to ascertain and statutory damages may not provide sufficient compensation.

## VIII. CONCLUSION

Whenever industry participants work together to enforce their legal rights, certain legal challenges appear. Accusations of antitrust or other anti-competitive motivations will certainly be leveled. In evaluating whether or not a collective approach makes sense from a cost and risk sharing perspective, a series of legal issues must be considered. The first portion of these materials dealt with the anti-competitiveness barrier to MLS collective action to investigate copyright infringement and enforce copyright rights. It appears that these barriers can be overcome by a properly structured group.

The second portion of these materials reviewed some of the practical difficulties informing a collective legal action group. Hopefully, this will provide an outline of the issues for attorneys advising MLS and decision making framework on the benefits and potential risks of taking collective enforcement action.