Cooperation

Among Industry Participants

To Protect IP

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I. BACKGROUND

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. Collective copyright enforcement presents a legal alternative to expensive individual lawsuits brought by one MLS, broker or agent copyright holder at a time.

Other industries have engaged in similar concerted activities for years without facing successful anti-trust counterclaims. Music authors groups like ASCAP, formed the original collective action groups. The software industry followed with the SIIA (old Software Piracy Association). When digital downloads were found not to be public performances within ASCAP's license, the RIIA stepped in.

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 (4th 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 (4th 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).

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 (7th

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 (4th 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.

II. 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.

III. IDEAS FOR BEST PRACTICES

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.

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.

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.

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.

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.[1] 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 (4th Cir. 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 (4th 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.

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.

[1] "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.

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.

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. 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.

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.

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.

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 (4th Cir. 2007) (denying a permanent injunction against the sale of a house built with copyright infringing architectural plans because of inequitable "draconian burden."

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.

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.

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 (4th 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.

IV. 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. Entities holding similar legal rights violated by similar wrong doing generally can act together so long as they don't cross the lines discussed above.[2]

[2] The materials herein are not intended as legal advice for any particular situation or client. Further they are the result of the research and viewpoint of the author, not Nexsen Pruet. You are not authorized to rely on these materials as legal advice because they are not tailored to any specific fact situation.