Portfolio Media. Inc. | 860 Broadway, 6th Floor | New York, NY 10003 | www.law360.com
Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

2nd Circ. Counsel Ruling Could Upend Google Books Deal

By **Ryan Davis**

Law360, New York (September 8, 2011) -- A ruling rejecting a copyright settlement between freelance writers and electronic database operators, in which the Second Circuit held that the plaintiffs' subclasses must have separate counsel, could upend settlement negotiations in a similar, closely watched case involving Google Books, attorneys say.

The idea that subclasses with competing interests each require their own counsel appears to be a novel one that no circuit court has endorsed in the past, according to Andrew J. Trask of McGuireWoods LLP.

"This took everybody by surprise," he said. "When I saw this bit of language about independent attorneys, my eyes opened up and I said, 'Wow, that's new.'"

In a 2-1 decision, the Second Circuit on Aug. 17 rejected a proposed $18 million settlement that would have resolved claims brought by freelancers against the operators of databases that contained their work, including Thomson Reuters Corp.'s Westlaw and Reed Elsevier PLC's LexisNexis.

The appeals court held that the deal failed to adequately represent the interests of writers whose work is not registered with the U.S. Copyright Office. The settlement divided the class of authors into subclasses, with the authors of unregistered works receiving far less under the deal.

The structure of the settlement marginalized the interests of those whose work was not registered and who account for 99 percent of the total claims at issue, the Second Circuit said. That subclass was at a disadvantage because the same law firm also represented writers whose work was registered, according to the appeals court.

"Only the creation of subclasses, and the advocacy of an attorney representing each subclass, can ensure that the interests of that particular subgroup are in fact adequately represented," the opinion said.

The ruling in this case has particular resonance for the settlement negotiations in the closely-watched Google Books case, which involves similar claims by authors seeking compensation for copyrighted works that Google Books republished online. It is now pending in the Southern District of New York, where the freelancers case originated.

A potential settlement in Google Books would involve the same kind of subclasses — authors of both registered and unregistered works — and would presumably have to abide by the Second Circuit's guidelines that each subclass have separate counsel, attorneys say.

Currently, all class members in the Google Books case are represented by Boni & Zack, the same firm that represents the class in the freelancers case.

If, in Google Books, each subclass were to have its own counsel representing its interests, the already-protracted settlement negotiations could become even more challenging, said David Leichtman of Robins Kaplan Miller & Ciresi LLP, who advised some international collective societies on their objection to the settlement.

U.S. District Judge Denny Chin rejected a proposed $125 million settlement in the Google Books case earlier this year, and set a Sept. 15 hearing for the parties to report how they plan to modify the deal.

Since Judge Chin has objected to the opt-out structure of the proposed settlement and not the treatment of subclasses, the parties now face the task of addressing both his concerns and the Second Circuit's directive that subclasses be represented by separate counsel, attorneys say.

In reaching its decision, the Second Circuit cited two U.S. Supreme Court rulings rejecting asbestos settlements because the attorneys hadn't adequately represented the interests of different subclasses.

In those cases, Amchem Products Inc. v. Windsor from 1997 and Ortiz v. Fibreboard Corp. from 1999, the high court found that the subclasses, including those who were already injured and those who might develop an asbestos-related disease in the future, had divergent interests. The settlements therefore didn't adequately represent both subclasses, the Supreme Court held.

Renegotiating the freelancer settlement with each subclass represented by its own counsel will increase the complexity of the deal and could derail it completely, causing the case to go to trial, according to Michael J. Kasdan of Amster Rothstein & Ebenstein LLP.

Since separate counsel will undoubtedly seek to maximize their clients' recovery, it will be daunting to devise a new deal that everyone can agree on, he says.

"I'm not sure that parties will be motivated to go back to the drawing board and again attempt to resolve the case through a settlement, when it's this complicated and costly," Kasdan said.

When the proposed settlements in the freelancers case and the Google Books case were reached, attorneys began to think that class actions could be an effective way to secure copyrights for a wide swath of works for electronic publications, according to Kasdan. That was especially true after the Supreme Court ruled in the freelancers' case last year that settlements could include unregistered works, he said.

After the Second Circuit's ruling, however, class actions may no longer be a viable way to resolve such copyright suits, Kasdan says.

"The Supreme Court's ruling seemed to open the door to resolving large-scale copyright cases, even those involving unregistered copyrights, through class action settlements," he said. "However, the practical upshot of the Second Circuit's ruling on remand is that it will be far more difficult to use class action settlements as a mechanism to resolve and clear large-scale copyright claims."

Reaching a settlement in such cases will now require negotiations among several plaintiffs' firms to ensure that the interests of all the subclasses are represented, according to Trask.

"Subclasses had been an easy answer to any problem that came up," he said. "This ruling

now introduces an aspect of competition."

Circuit Judge Chester J. Straub, who dissented from the majority in the freelancers case, said the ruling would needlessly complicate most class action settlement negotiations in the future.

While the ruling could certainly complicate the freelancers case and the Google Books case where the subclasses were found to be in fundamental conflict with each other, Leichtman said it would not necessarily apply to every class action involving subclasses.

In the freelancers case, the Second Circuit specifically objected to a provision that would reduce payments to authors of unregistered works, possibly to nothing at all, if the total claims submitted exceeded the $18 million cap on the settlement.

As a result, the interests of authors of registered and unregistered works were in conflict with each other, and the authors of registered works should have had separate counsel to ensure that they were well-represented, the appeals court ruled.

"The Second Circuit is applying the Supreme Court precedent on the 'adequacy of representation' requirement for class certifications in a very strict manner that could impact other types of class action suits," Kasdan said. "But the standard is that there has to be a 'fundamental conflict' between the subclasses, which is a very fact-specific issue."

Nevertheless, the Second Circuit's ruling was a highly unusual one for an appellate court, according to Leichtman. District court judges will often suggest that subclasses have separate counsel during settlement negotiations behind closed doors, but until now, no appeals court has mandated it.

"The district court already ruled that all the subclasses were adequately represented," Leichtman said. "I can't recall an appellate court substituting its judgment for a district court in quite this way."

In the freelancers case, the Supreme Court reversed the Second Circuit's sua sponte holding, rejecting the settlement on the ground that the courts did not have jurisdiction to consider a settlement involving unregistered works.

However, attorneys said they did not expect the high court to weigh in on the most recent rejection. The justices will likely view the matter as a difference of opinion between the lower court, which found all the classes adequately represented and approved the settlement, and the appeals court, which disagreed.

The best bet for the parties may be to seek an en banc review, Leichtman says. He noted the apparent disconnect between the majority's holding that unregistered claims are in fact weaker and entitled to a lower recovery and its objection to the reduction provision, which also lowers their recovery.

"I don't see any basis in the law to make a distinction between one type of lower recovery and another," he said.

If other circuit courts expressly reject the Second Circuit's finding that subclasses require separate counsel, creating a circuit split, that could prompt the Supreme Court to weigh in, but that is not likely to happen for several years, Trask said.

--Editing by Pamela Wilkinson and Andrew Park.