Intellectual Property & Technology Law Journal

Edited by the Technology and Proprietary Rights Group of Weil, Gotshal & Manges LLP

VOLUME 36 • NUMBER 8 • SEPTEMBER 2024

U.S. Supreme Court Approves Unlimited Retroactive Period for Copyright Damages Without Addressing Underlying Knowledge Based Limitations Standard

By Barry Werbin

Copyright practitioners waiting with bated breath for clarification on the reach-back period for copyright damages will welcome the Supreme Court's May 9, 2024, decision in *Warner Chappell Music, Inc. v. Nealy*,[1] which held that damages for copyright infringement can extend back beyond three years from the date an action is filed if the action is otherwise timely brought. But that breath will still be on hold because the Court did not address the validity of the underlying "discovery rule" for statute of limitations purposes and chose to delay that assessment until a future case arises, because both parties had assumed the discovery rule applied and had not raised it as an issue in the certiorari petition. Indeed, the three justices who joined in the dissenting opinion either would have addressed the discovery rule and found it has no basis to exist based on statutory construction, or refused to have accepted certiorari until a better case arose that directly placed in issue the discovery rule.[2]

The author is counsel at Herrick, Feinstein LLP in its New York office and may be contacted at bwerbin@herrick.com.

THE COPYRIGHT ACT

The Copyright Act provides that a copyright owner must bring an infringement claim within three years after it has accrued.[3] What "accrual" means in practice is not illuminated by the Act, but all circuit courts of appeals that have addressed the issue have applied the "discovery rule" to assess when a cause of action for infringement accrues. Under the discovery rule, an infringement claim accrues from when a plaintiff first knew or using reasonable diligence should have known of an infringing act, as opposed to the "incident of injury rule," which measures the three years from when an act of infringement occurs. "The overwhelming majority of courts use discovery accrual in copyright cases."[4]

Among available statutory remedies for infringement, the Copyright Act provides for a recovery of a plaintiff's actual damages or a defendant's profits, if any. In lieu of actual damages and profits, a plaintiff may seek statutory damages provided a certificate of registration has been issued to the plaintiff before the act of infringement begins or within three months of first publication of the underlying copyright-protected work.[5] But the Act is silent on how far back those damages and profits can extend if an infringement action is otherwise timely brought.

This has led to a split among the circuit courts as to whether damages and profits should be limited to the three-year period immediately preceding the filing of an infringement action, or have no temporal limitation and reach back indefinitely to when an act of infringement first occurred.

Among available statutory remedies for infringement, the Copyright Act provides for a recovery of a plaintiff's actual damages or a defendant's profits, if any.

In *Sohm v. Scholastic Inc.*, the U.S. Court of Appeals for the Second Circuit took the position – now rejected by the Supreme Court in *Warner Chappell Music* – that while the discovery rule is the proper accrual test for statute of limitations purposes, plaintiffs suing for infringement are limited to seeking damages only within the three-year period immediately preceding the filing of suit.[6]

On the other hand, the U.S. Court of Appeals for the Ninth Circuit in *Starz Entertainment v. MGM Domestic Television Distribution*, while also adopting the discovery rule, flatly rejected the Second Circuit's limitation of damages to the three-year lookback period from when suit is filed, finding that "[a]pplying a separate damages bar based on a three-year 'lookback period' that is 'explicitly dissociated' from the Copyright Act's statute of limitations in § 507(b) would eviscerate the discovery rule. There is no reason for a discovery rule if damages for infringing acts of which the copyright owner reasonably becomes aware years later are unavailable."[7]

CIRCUIT SPLIT

This growing split on the "lookback" period for damages was prompted by an earlier 2014 Supreme Court decision in *Petrella v. Metro-Goldwyn-Mayer, Inc.*[8] *Petrella* addressed the question whether laches could be asserted as a defense to claims of copyright infringement that otherwise accrued within the three-year window of Section 507(b) of the Act, holding that in such circumstances laches was not a defense because "the copyright statute of limitations, § 507(b), itself takes account of delay."[9] As explained in the decision by the U.S. Court of Appeals for the Eleventh Circuit in *Warner Chappell Music*, which was affirmed by the Supreme Court, *Petrella* stated that "Section 507(b) . . . bars relief of any kind for conduct occurring prior to the three-year limitations period. . . . And the Court said that the import of the statute of limitations is that a copyright plaintiff can get damages 'running only three years back from the date the complaint was filed.' . . . Because the statute of limitations already protects defendants from stale claims, the Court held that it was unnecessary to apply the equitable doctrine of laches."[10]

This growing split on the "lookback" period for damages was prompted by an earlier 2014 Supreme Court decision in *Petrella v. Metro-Goldwyn-Mayer, Inc.*

In *Sohm*, the Second Circuit had interpreted this language in *Petrella* as directly limiting the Copyright Act's recovery of damages to the three years prior to filing suit, even under the discovery rule. In its *Starz Entertainment* decision, however, the Ninth Circuit rejected this application of *Petrella,* emphasizing that "[t]he Supreme Court did not create a damages bar separate from the statute of limitations in *Petrella*. The language that MGM relies on in *Petrella* is relevant only to incident of injury rule cases, not to cases where we apply the discovery rule."[11]

These competing interpretations of *Petrella* came to a head in the Supreme Court's *Warner Chappell Music* decision, with the majority opinion written by Justice Kagan comprising a succinct seven pages. The record facts presented a somewhat sympathetic scenario for the plaintiff. In 1983, the plaintiff, Sherman Nealy, and Tony Butler formed Music Specialist, Inc., which subsequently recorded and released one album and several singles, including the copyright-protected works at issue. Unfortunately, their business collapsed and Nealy ended up serving two non-consecutive prison sentences for drug-related offenses between 1989 to 2008, and again between 2012 to 2015.

These competing interpretations of *Petrella* came to a head in the Supreme Court's *Warner Chappell Music* decision, with the majority opinion written by Justice Kagan comprising a succinct seven pages.

While Nealy was in prison, Butler formed another company, 321 Music, LLC, and began licensing rights to musical works in the Music Specialist catalog, including a licensing agreement with Warner Chappell Music. Some of those licensed works proved very successful, including one electro style song, "Jam the Box," that was interpolated into rapper Flo Rida's hit song, "In the Ayer," which reached No. 9 on the Billboard Hot 100 chart and sold millions of records. That hit song, in turn, was licensed for use in several popular television shows. Other Music Specialist songs were licensed and used in successful recordings by Black Eyed Peas and Kid Sister.

After his first prison term ended, Nealy learned that one Robert Crane was distributing works from the Music Specialist catalog. Nealy's legal advisor met briefly with Crane and his lawyers in June 2008 to discuss Crane's use of those works, but nothing happened. Nealy alleged he knew Crane had the music but he "didn't know what to do" and took no further action before returning to prison in 2012.[12] Before Nealy returned to prison, litigation over the rights to the Music Specialist works commenced between Crane's companies, 321 Music, Warner Chappell, Butler and others. Nealy, who was not a party to that litigation, alleged he did not learn of it until after completing his second prison term sometime in January 2016.

After his release from prison, on December 28, 2018, Nealy filed his infringement suit against Warner Chappell in the U.S. District Court for the Southern District of Florida, just within the three-year statute of limitations under the discovery rule. Nealy alleged that he owned the copyrights to Music Specialist's songs and that Warner's licensing activities dating from 2008 infringed his copyrights. Nealy claimed that due to his prison isolation, he only first learned of the infringing activity after he was released. He sought damages and profits going back ten years from the date he filed suit.

The 11th Circuit agreed with Nealy, holding that "a copyright plaintiff may recover retrospective relief for infringement occurring more than three years before the lawsuit's filing so long as the plaintiff's claim is timely under the discovery rule."

Warner Chappell asserted that Nealy was limited by the Supreme Court's holding in *Petrella* to seeking damages and profits reaching back only three years from the date he filed suit, even if his action had been timely filed under the discovery rule. Based on existing 11th Circuit precedent, the district court refused to grant summary judgment to defendants, finding that a trial was needed on the material factual issue of when Nealy knew or should have known that his copyright ownership interest was being challenged. But the district court also certified the following question to the Eleventh Circuit for interlocutory appellate review: "Whether damages in this copyright action are limited to a three-year lookback period as calculated from the date of the filing of the Complaint pursuant to the Copyright Act and *Petrella*."[13]

The 11th Circuit agreed with Nealy, holding that "a copyright plaintiff may recover retrospective relief for infringement occurring more than three years before the lawsuit's filing so long as the plaintiff's claim is timely under the discovery rule."[14] Like the Ninth Circuit, it too rejected the Second Circuit's reasoning that "snippets from *Petrella* [created] a three-year lookback period or a damages cap,"[15] emphasizing that *Petrella* was only concerned with a laches defense in the context of an infringement action filed within three years from the actual incident of injury and that *Petrella* "expressly addressed the discovery rule and preserved the question whether the discovery rule governs the accrual of copyright claims."[16]

THE SUPREME COURT'S DECISION

Initially, the Supreme Court noted that the issue before it incorporated the assumption that the discovery rule governs the timeliness of copyright claims, while cautioning that the Court has "never decided whether that assumption is valid – i.e., whether a copyright claim accrues when a plaintiff discovers or should have discovered an infringement, rather than when the infringement happened."[17] But that critical underlying issue was not before the Court because Warner Chappell had not challenged the Eleventh Circuit's application of the discovery rule. Because of a division among some eleven Courts of Appeals that have applied

the discovery rule "about whether to superimpose a three-year limit on damages," the Court had accepted certiorari solely on the question of "whether a plaintiff with a timely claim under the rule can get damages going back more than three years."[18]

Looking at the text of the Copyright Act's statute of limitations in Section 507(b), the Court readily concluded that the statute "establishes a three-year period for filing suit, beginning to run when a claim accrues – here, we assume, upon its discovery. And that clock is a singular one." As the Court explained, this "time-to-sue prescription" did not establish any separate three-year period for recovering damages. Nor did the Act's remedial provisions respecting recovery of damages and profits place any limit on the amount or retroactive reach for such economic remedies. Thus, "a copyright owner possessing a timely claim for infringement is entitled to damages, no matter when the infringement occurred."[19]

The Court rejected the Second Circuit's contrary view as "essentially self-defeating" because it takes away the value of what is conferred under the discovery rule by limiting the damages period. And while *Petrella* had noted that "the Copyright Act's statute of limitations allows plaintiffs 'to gain retrospective relief running only three years back from' the filing of a suit," the Court clarified that within the factual context of *Petrella*, that decision "merely described how the limitations provision works when a plaintiff has no timely claims for infringing acts more than three years old."[20] The plaintiff in *Petrella* would never have been able to overcome the knowledge test because the infringing acts had started 18 years prior to suit, so she sued only for infringements occurring within the three years prior to filing her action. The only issue in *Petrella* was whether laches could apply as a defense, which the Court rejected as long as a claim was filed within the Act's statutory three-year limitations period. As the Court in *Warner Chappell* emphasized, its decision in *Petrella* "did not go beyond the case's facts to say that even if the limitations provision allows a claim for an earlier infringement, the plaintiff may not obtain monetary relief."[21] The *Warner Chappell* Court therefore held, on the assumption that Nealy's claims were timely brought under the Act's limitations provisions, that he can obtain monetary relief for those claims without a time restriction because the "Copyright Act contains no separate time-based limit on monetary recovery."[22]

We now have certainty as to the reach-back period for money damages and profits in infringement actions that otherwise are timely filed, thus putting to rest a thorny circuit court split.

But we are not done in the long view. The three dissenting justices made it clear that they would, at most, limit a discovery rule only to more traditional equitable scenarios where there exists "fraud or concealment."[23] As those justices put it: "The discovery rule thus has no role to play here – or, indeed, in the mine run of copyright cases."[24] Justice Gorsuch, the author of the dissenting opinion, made it clear that he would have "dismissed [the certiorari petition] as improvidently granted and awaited another squarely presenting the question whether the Copyright Act authorizes the discovery rule."[25]

Such a case that would have squarely presented to the Court the issue of the discovery rule's viability was on the horizon in *Hearst Newspapers, L.L.C. v. Martinelli*.[26] Unfortunately, on the heels of deciding *Warner Chappell*, and without explanation, the Court denied *certiorari* to the surprise of many copyright practitioners and rights holders.[27]

CONCLUSION

Without a case on the horizon to test the viability of the discovery rule, but with nearly all circuit courts aligned in their acceptance of that test, the likelihood that the Court will at some time in the future eviscerate it is starting to seem unlikely. While the three dissenting justices spoke loudly in *Warner Chappell* as to why they would gut that rule in copyright cases apart from fraud or concealment, the majority gave no indication that they questioned the application of that rule and its justification under the Copyright Act. At least we now have certainty as to the reach-back period for money damages and profits in infringement actions that otherwise are timely filed, thus putting to rest a thorny circuit court split. And there will be fallout, as plaintiffs and their counsel will likely become more incentivized to seek larger economic settlements and damage remedies, with the already high rate of copyright "trolling" cases only to increase, to the chagrin of those on the receiving end.

Notes

1. 2024 WL 2061137 (U.S. May 9, 2024).
2. 2024 WL 2061137 at *1140. The dissenting opinion was written by Justice Gorsuch and joined by Justices Thomas and Alito.
3. 17 U. S. C. §507(b).
4. 6 William F. Patry, Patry on Copyright § 20:19 (March 2024) (collecting extensive list of cases within the Circuits).
5. 17 U.S.C. §504.
6. 959 F. 3d 39, 51-52 (2d Cir. 2020).
7. 39 F. 4th 1236, 1244 (9th Cir. 2022).
8. 572 U.S. 663 (2014).
9. Id. at 677.
10. Nealy v. Warner Chappell Music, Inc., 60 F. 4th 1325, 1332 (11th Cir. 2023).
11. Starz Ent., 39 F. 4th at 1245.
12. Id. at 1329.
13. Id.
14. Id. at 1331.
15. 60 F. 4th at 1332.
16. Id. at 1333.
17. 2024 WL 2061137 at *1139.
18. Id.
19. Id.
20. Id. at *1140.
21. Id.
22. Id.
23. Id. at *1141.
24. Id.
25. Id.
26. Hearst Newspapers, L.L.C. v. Martinelli, 65 F.4th 231 (5th Cir. 2023). The Fifth Circuit upheld applicability of the discovery rule, and cautioned that if it were to hold "that the discovery rule does not apply to § 507(b), 'we would be the only court of appeals to do so'. . . . 'We are always chary to create a circuit split, including when applying the rule of orderliness,' and we decline to do so in this case." [Citations omitted.] 65 F.4th at 245.
27. On May 20, 2024, the Supreme Court denied the certiorari petition in Hearst. Order List: 601 U.S., Case No. 23-474 (May 20, 2024).