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Can copyright infringement damages be recovered beyond three years?

By Greg Derin

On May 5, 2023, the defendants in *Nealy v. Warner Chappell Music, Inc.*, 60 F.4th 1325 (11th Cir. 2023) filed a petition for certiorari with the United States Supreme Court. The issue presented for review is whether the Copyright Act's statute of limitations for civil actions, 17 U.S.C. 507(b), precludes relief for acts that occurred more than three years before the filing of a lawsuit. On its face, the petition in *Nealy* seeks to resolve a split on this narrow issue among three circuit courts of appeal. However, if the Court grants *certiorari* in *Nealy*, it could portend a major shift in copyright damage calculations in nearly all of the federal circuits: the Court's first, and perhaps unfavorable, determination regarding the application of the "discovery rule" to copyright claims, or a narrow ruling which could leave the circuits in conflict and the situation ripe for forum shopping.

17 U.S.C. §507(b) provides that "[n]o civil action shall be maintained under the [Act] unless it is commenced within three years after the claim accrued." The Supreme Court previously considered whether prejudicial delay can bar a copyright claim othewise timely commenced within the three-year limitation period. In *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 572 U.S. 663 (2014), the Court held that laches cannot entirely preclude a claim brought within the statutory window. The Court recognized the Ninth Circuit's "separate accrual rule" pursuant to which the statute of limitations runs separately for successive violations of the Copyright Act. Under this rule, an infringer is generally insulated from liability for infringements which occurred more than three years before filing. *Petrella* filed her action more than nine years after an initial infringing act, but only sought damages occurring within three years of filing.

The Court in *Petrella* expressly noted that it was not passing on the Ninth Circuit's "discovery rule" and had no reason to deal with the separate accrual rule. The question presented and resolved was limited to an equitable one: whether laches prevented recovery of damages in an action filed within the statutory three-year limitations window. After *Petrella*, several courts questioned whether the opinion included binding pronouncements concerning recoverable damages.

In *Sohm v. Scholastic, Inc.*, 959 F.3d 39 (2d Cir. 2020), the Second Circuit evaluated the three-year copyright statute of limitations post-*Petrella* and rejected arguments that *Petrella* and *SCA Hygiene Prods. Akiebolag v. First Quality Baby Prods, LLC*, 580 U.S. 328 (2017), cast doubt on the viability of the "discovery rule" and urged adoption only of the "injury rule." *Sohm* noted that the Supreme Court had expressly passed on considering the validity of the discovery rule in *Petrella*. Although affirming the circuit's adherence to the discovery rule, the *Sohm* Court concluded that *Petrella* had specifically limited the recovery of damages to the three-year period prior to commencement of a copyright action.

Both the discovery rule and the separate accrual rule had their origins in the Ninth Circuit opinion in *Roley v. New World Pictures, Ltd.*, 19 F.3d 479 (9th Cir. 1994). Ten years later, in *Polar Bear Productions, Inc. v. Timex Corporation*, 384 F.3d 700 (9th Cir. 2004), the Court explained and expanded its reasoning in *Roley* by affirming the principle that 17 U.S.C. §507(b) permits the recovery of damages that occurred outside the three-year window as long as the claimant could not have reasonably discovered the infringement before the commencement of the three-year period.

In *Starz Entertainment, LLC v. MGM Domestic Television Distribution, LLC*, 39 F.4th 1236 (9th Cir. 2022), the Ninth Circuit affirmed the discovery and separate accrual rules established in *Roley* and *Polar Bear*. The Court parsed the language of *Petrella* and *Sohm* and concluded that nothing in *Petrella* or the Copyright Act bars recovery of damages for all infringing acts, including those which occurred prior to the three-year window before filing, as long as the claimant, with reasonable diligence, did not know or could not discovery, the infringing acts. The Court held that to conclude otherwise would "eviscerate the discovery rule."

The *Starz* Court reasoned that its decision was not inconsistent with *Petrella*. The language from *Petrella* upon which the defendant relied in *Starz* was deemed to be relevant only to an "incident of injury rule" case, not to a case in which the discovery rule was applicable.

With the Second and Ninth Circuits split, *Nealy* decided Feb. 27, 2023, addressed the lookback question as one of first impression in the Eleventh Circuit. Adhering to the circuit's discovery and separate accrual rules, the Court reviewed *Petrella*, *Sohm* and *Starz* and agreed with *Starz* that a plaintiff may recover retrospective relief for infringements occurring more than three years before filing as long as the claim is timely under the discovery rule.

If the Supreme Court grants *certiorari* in *Nealy* on the question presented, last term's decisions by the Court suggest several possibilities. The Court's copyright and trademark cases were decided on narrow issues, which suggests that the Court could resolve the split only on the "look back" question.

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the cases discussed above and in the question presented by the certiorari petition is the application of the discovery rule to Section 507(b) actions. The Supreme Court has never addressed that issue. Indeed, in both *Petrella* and *SCA Hygiene Prods.* the Court expressly noted this fact. Eleven courts of appeal and their encompassed district courts have adopted the discovery rule as an available alternative to the injury rule in Section 507(b) cases, thereby creating economic expectations in most of the country.

A footnote in the *Nealy petition for certiorari*, expressly invites the Court to address the broader issue of whether the Copyright Act supports application of a discovery rule and states that it is "within the question presented." Supported by several amici curiae whose focus was a more direct assault on the application of the discovery rule to copyright damage actions, the petitioner emphasized this opportunity in its reply brief, commenting upon the fact that numerous district courts have relied upon the discovery rule in Section 507(b) actions as a predicate in adopting the majority view expressed by the Ninth and Eleventh Circuits.

The continued viability of the discovery rule in Section 507(b) actions was recently considered by the Fifth Circuit in *Martinelli v. Hearst Newspapers, L.L.C.*, 2023 WL 2927141 (5th Cir. April 13, 2023). *Martinelli* rejected efforts to interpret *Petrella* and other authorities as not supportive of the discovery rule, stating that were it to so hold, it would be the only court of appeal to do so. *Nealy* presents an opportunity for the Supreme Court to address the issue. In other contexts, the majority of the Court, led by Justices Thomas and Alito, have read federal statutes to exclude the application of a discovery rule if not expressly incorporated by Congress in the statutory language. *See, e.g., Rotkiske v. Klemm*, 140 S.Ct. 355 (2019).

The *Nealy* petition and related briefs have been distributed for the Court's Sept. 26, 2023 conference. In the meantime, look for plaintiffs to seek opportunities to file appropriate actions in the Ninth or Eleventh Circuits and defendants to either try to move cases to the Second Circuit or preemptively file declaratory relief actions there.

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