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Should We Worry About a 20-Year-Old Potential Copyright Infringement? Eleventh Circuit Joins Ninth Circuit in Creating Uncertainty

By Adam R. Bialek and Alexandra Deplas

The U.S. Court of Appeals for the Eleventh Circuit has joined the U.S. Court of Appeals for the Ninth Circuit in creating uncertainty for potential copyright infringers who may have committed such acts decades ago. Potential infringers can no longer take comfort in the passage of years, as they may now be held responsible for damages for an unlimited time period so long as a complaint was filed within three years of the discovery of the infringement. This development may significantly impact the amount of damages available to a plaintiff and is likely to cause concern to potential infringers and their insurers.

The Copyright Act clearly states, “[no] civil action shall be maintained under the provisions of this title unless it is commenced within three years after the claim accrued.”¹ Even so, there is an ever-developing circuit split over whether damages for

copyright claims also are limited to the three-year lookback period, as calculated from the date the complaint was filed. The circuit split continues to gain momentum from the Eleventh Circuit’s most recent decision in *Nealy and Music Specialist, Inc. v. Warner Chappell Music, Inc. and Artist Publishing Group*.²

BACKGROUND

In *Nealy*, plaintiffs Music Specialist Inc. (MSI) and its owner, Sherman Nealy, allege Warner Chappell Music, Inc., Artist Publishing Group LLC, and Atlantic Recording Corporation infringed on plaintiffs’ copyrights to certain musical works because they were using the works based on invalid licenses to copyrights they obtained from third parties. MSI was incorporated in 1983, naming as its president Tony Butler, a DJ and creator or co-creator of certain MSI music. Nealy was later named president of MSI. MSI created and released one album and a number of singles from 1983 to 1986, and registered each with the U.S. Copyright Office. In 1986, MSI was dissolved as a corporation, but continued to carry out business until 1989, when Nealy was sentenced to prison on a drug charge. The corporation was reactivated

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in 2017 with Nealy as its owner, president and shareholder.

While Nealy was in prison, Butler formed a new entity, 321 Music, LLC, and began licensing the rights to MSI's copyrighted works – which, Nealy asserts, Butler was not authorized to do. Upon his release from prison, Nealy learned that another third party, Robert Crane, also was distributing MSI's copyrighted works. Nealy did not take any substantive legal action against either party at that time, and ultimately returned to prison in 2012 to serve another sentence until fall 2015.

Nealy alleges he did not know and could not have reasonably known about the defendants' violations of his/MSI's copyrights until sometime in 2016 – after he was released from his second prison sentence. It was not until almost three years later, on or about December 28, 2018, that Nealy and MSI finally filed suit for infringement under the Copyright Act.

LITIGATION HISTORY

Defendants moved for summary judgment on the statute of limitations issue. The district court denied summary judgment, finding a genuine dispute as to the material fact of the date of accrual, and certified a question as to whether the Copyright Act's statute of limitations barred recovery of damages for harms that occurred more than three years prior to the commencement of suit, even if the suit was timely filed. The Eleventh Circuit held that the plaintiff's Copyright Act claims accrued when the plaintiffs knew or should have known that the defendants were challenging their ownership of the works. As such, on appeal, the Eleventh Circuit was to determine whether Nealy and MSI were entitled to relief for infringement they allege occurred nearly ten years before the plaintiffs filed suit.

As a preliminary matter, the Eleventh Circuit affirmed the lower court's ruling as to the timeliness of the plaintiffs' claims. It acknowledged that there are two standard rules for determining when a claim "accrues" (and thus, determining when a claim is timely): the "discovery rule" and the "injury rule." The discovery rule was followed by the district court – i.e., that a claim accrues when the plaintiff learns, or should have reasonably learned, that defendants were violating the plaintiff's rights. The Court rejected the "injury rule," i.e., that a copyright claim accrues when the

infringement occurs – no matter when the plaintiff learns of it.

As to damages, the defendants argued that the U.S. Supreme Court's decision in *Petrella v. Metro-Goldwyn-Mayer*³ barred recovery of damages for infringements that occurred more than three years prior to the commencement of suit. While the Supreme Court in *Petrella* held that copyright claims that are timely filed within the statute of limitations are not subject to the equitable defense of laches, it did bar relief of any kind for conduct prior to the three-year limitations period. It also seemed to indicate that damages in a copyright action could be obtained for only three years before the commencement of the litigation.

ANALYSIS

Since *Petrella*, however, circuit courts have been split on the interpretation of this language. While the U.S. Court of Appeals for the Second Circuit in *Sohm v. Scholastic, Inc.*,⁴ held that "the Copyright Act limits damages to the three years prior to when a copyright infringement action is filed," the Ninth Circuit in *Starz Ent., LLC v. MGM Domestic Television Distrib., LLC*,⁵ took the opposite position. The Ninth Circuit declined to adopt the approach taken by the Second Circuit, holding that the discovery rule allows copyright holders to recover damages for all infringing acts that occurred before they knew or reasonably should have known of the infringing incidents, and the three-year limitations period runs from the date the claim accrued. The Ninth Circuit found that because the plaintiff brought its claims within three years after they accrued, it was not barred from seeking damages for all acts of infringement.

In Nealy, the Eleventh Circuit gave deference to the Ninth Circuit *Starz* case.

In *Nealy*, the Eleventh Circuit gave deference to the Ninth Circuit *Starz* case, holding that plaintiffs "may recover retrospective relief for infringement that occurred more than three years before the lawsuit's filing, so long as the plaintiff's claim is timely under the discovery rule."⁶ The Eleventh Circuit recognized that the *Starz* court arrived at its holding (and the Eleventh Circuit agreed) by reasoning

that a three-year limit on damages would “eviscerate the discovery rule.”⁷

Indeed, if a three-year limit were imposed, a plaintiff very well could have a timely claim under the “discovery rule,” but no entitlement to damages, rendering the suit virtually pointless. The Eleventh Circuit further noted that the plain text of the Copyright Act supports this proposition, as it “does not place a time limit on remedies for an otherwise timely claim.”⁸ Contrary to the defendants’ assertion, the Court held that any such bar on damages would be entirely inconsistent with the Supreme Court’s ruling in *Petrella*.

The position taken by the Ninth and Eleventh Circuits likely will have a significant impact on cases involving the use of unauthorized images and music on the internet. Many website operators are digital hoarders, and rather than remove stale content, they allow such content to remain on websites indefinitely. With image and sound recognition technology progressing significantly, it is not difficult for copyright owners to locate such old content, even if it is not publicly prominent on a website. An old blog or outdated video could carry an infringing image or a video with unauthorized music. As such, images or videos carrying unauthorized content that were posted on websites 20 years ago could expose a website operator to damages dating back 20 years, provided the plaintiff can show that it did not know of or could not have known of the infringement. Such a potential exposure is likely to be unsettling to website operators and insurers who might afford insurance coverage for such infringements.

CONCLUSION: THE UNCERTAINTY

This circuit split now sets up a conflict that will ultimately need to be resolved by the Supreme

Court. The Second Circuit in *Sohm* recognized that there were conflicting district court decisions in the Second Circuit following *Sohm*, but clearly determined “that *Petrella*’s plain language explicitly dissociated the Copyright Act’s statute of limitations from its time limit on damages.”

The Ninth and Eleventh Circuits now take the opposite approach. The Supreme Court will need to further explain its ruling in *Petrella* to resolve this issue. Until such time as the issue is resolved, the availability of unlimited-in-time damages to a plaintiff may result in venue-shopping and more suits being brought in the Ninth and Eleventh Circuits. In the interim, website operators may wish to consider reviewing outdated content and removing unnecessary and outdated material if they cannot document proper rights before such potential infringements surface.

On May 3, 2023, a petition for a writ of certiorari was filed, requesting the Supreme Court to decide “Whether the Copyright statute of limitation for civil actions, 17 U.S.C. 507 (b), precludes retrospective relief for acts that occurred more than three years before the filing of a lawsuit.” The Supreme Court has yet to rule on this petition.

Notes

1. 17 U.S.C. § 507(b).
2. *Nealy and Music Specialist, Inc. v. Warner Chappell Music, Inc. and Artist Publishing Group*, No. 21-13232 (11th Cir. Feb. 27, 2023).
3. *Petrella v. Metro-Goldwyn-Mayer*, 572 U.S. 663 (2014).
4. *Sohm v. Scholastic, Inc.*, 959 F.3d 39 (2d Cir. 2020).
5. *Starz Ent., LLC v. MGM Domestic Television Distrib., LLC*, 39 F.4th 1236 (9th Cir. 2022).
6. *Nealy* at 12.
7. *Id.*
8. *Id.*

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