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Creating a Split With the Second Circuit, the Ninth Circuit Holds That the "Discovery Rule" Allows Plaintiffs to Recover Damages for Copyright Infringements That Occurred More Than Three Years Prior to Filing of Complaint

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I. Introduction

Pursuant to the statute of limitations in Section 507(b) of the Copyright Act, a plaintiff in a civil copyright infringement action must bring suit within three years after the claims accrue.[1] In *Petrella v. Metro-Goldwyn-Mayer, Inc.*, the U.S. Supreme Court held that the equitable defense of laches does not apply to claims seeking relief solely for conduct that occurred within the limitations period. The Court reasoned that, in Section 507(b), Congress barred relief for conduct occurring prior to the limitations period, and courts are not free to substitute their own judgment for Congress's judgment on the timeliness of suit.[2] When an infringing act occurs within the limitations period, the application of *Petrella* is straightforward: laches do not apply, and there is no time-related bar to the recovery of damages. When an infringing act occurs prior to the limitations period, and the plaintiff was aware, or reasonably should have been aware, of the infringement prior to the limitations period, the application of Section 507(b) is also straightforward: the claim is barred. But what happens when infringing acts occur before the limitations period but the plaintiff does not discover those acts until later?

Most circuits—including every circuit to consider the question—apply the "discovery rule" to determine when a claim for infringement accrues, such that the Copyright Act's statute of limitations does not begin to run until the plaintiff becomes aware, or reasonably should have been aware, of the infringement.[3] In 2020, in *Sohm v. Scholastic Inc.*, the Second Circuit held that, even though the plaintiff first learned of infringing acts during the limitations period, and thus his claims were not time-barred, he could not recover damages for acts occurring more than three years prior to the commencement of suit.[4] Last week, the Ninth Circuit reached a different conclusion. In *Starz Entertainment, LLC v. MGM Domestic Television Distribution, LLC*, the Ninth Circuit held that, so long as a plaintiff brings suit within three years of discovering infringing acts, it may seek damages regardless of when those acts occurred.[5] Until the circuit split is resolved, it will have a profound effect on where parties choose to litigate cases in which claim accrual will be determined by the discovery rule, rather than when the allegedly infringing acts occurred.[6]

II. *Petrella v. Metro-Goldwyn-Mayer, Inc.*

The circuit courts' divergent interpretations of *Petrella* are the root cause of the split. In *Petrella*, the Supreme Court held that laches cannot be invoked to bar a claim for damages arising out of infringing acts that occur within the Copyright Act's three-year limitations period.[7] The dispute in *Petrella* concerned "Raging Bull," a critically-acclaimed biopic about the boxer and former middleweight world champion Jake LaMotta that was first released in 1980.[8] The film was based on two screenplays and a book created by LaMotta and his friend Frank Petrella. In 1976, during the initial copyright terms of all three works, Petrella and LaMotta assigned their rights in the works to a production company that, in turn, sold the motion

picture rights to United Artists Corporation, a subsidiary of Metro-Goldwyn- Mayer, Inc. (collectively, "MGM"). In the relevant contract, the parties described the motion picture rights acquired by MGM as being "exclusive and forever, including all periods of copyright and renewals and extensions thereof."[9]

Frank Petrella died in 1981, reverting his copyright renewal rights in the screenplays and book to his heirs. Unburdened by her father's prior "exclusive and forever" assignment,[10] Paula Petrella renewed the copyright in his 1963 screenplay in 1991.[11] In 1998, Petrella's attorney first informed MGM that she had obtained the copyright in the 1963 screenplay and asserted that exploitation of "Raging Bull" or any other derivative work would infringe her rights. MGM denied the validity of her infringement claim.[12]

Petrella repeatedly threatened legal action during the intervening years but did not file suit until January 6, 2009.[13] Mindful of the three-year limitations period in Section 507(b), Petrella sought relief only for acts of infringement occurring on or after January 6, 2006.[14] MGM moved for summary judgment on, among other grounds, the equitable doctrine of laches, contending that the 18-year delay between Petrella's renewal of the copyright at issue and the filing of suit was unreasonable and prejudicial. The district court agreed, and the Ninth Circuit affirmed the holding that laches barred Petrella's complaint.[15]

The Supreme Court reversed, holding that laches is not available as a defense to claims based on infringements that occurred within the three-year limitations period in Section 507(b). The Court concluded that the Copyright Act already accounted for delays in bringing suit by providing a three-year lookback period for the recovery of damages.[16] The Court found "nothing untoward about waiting to see whether an infringer's exploitation undercuts the value of the copyrighted work, has no effect on the original work, or even complements it."[17] The Court also noted that each separate act of infringement gives rise to a new accrual period and observed that the combination of a three-year limitations period and the separate-accrual rule enables a plaintiff to determine whether the squeeze of litigation will be worth the juice: the plaintiff will miss out on damages for periods prior to the three-year lookback, but the right to prospective injunctive relief and damages for acts during the limitations period typically will remain available.[18]

The Court further explained that "a successful plaintiff can gain retrospective relief only three years back from the time of suit," and "[n]o recovery may be had for infringement in earlier years."[19] The Court also stated that a copyright claim accrues "when an infringing act occurs,"[20] and observed that the statute "makes the starting trigger an infringing act committed three years back from the commencement of suit."[21] The Court acknowledged that most Courts of Appeals have adopted a "discovery rule" as an alternative to the "incident of injury" rule,[22] but because Petrella had sued only on acts occurring within the three-year limitations period, the Court did not need to decide whether a plaintiff can sue on earlier acts if she did not discover them until later.[23]

III. *Sohm v. Scholastic Inc.*

In *Sohm*, the Second Circuit interpreted *Petrella* as permitting continued application of the discovery rule in the Second Circuit but clarifying that damages were available only for infringing acts that took place during the three years before the suit.[24] *Sohm* involved a professional photographer's claim that a book publisher had infringed his copyrights by using his photographs in numbers exceeding its license.[25] For 13 of the 89 photographs at issue, Scholastic averred that Sohm's claims were barred by the Copyright Act's limitations provision and, if not, that his damages should be limited to those incurred within the three years before commencement of the action.[26] The district court applied the discovery rule and rejected Scholastic's contention that Sohm should have discovered the infringing acts more than three years before filing suit. It then acknowledged that other courts in the district had split on the question of whether *Petrella* limited damages to a three-year lookback period, but it concluded that *Petrella* should not be read to establish such a limitation distinct from the statute of limitations.[27]

On appeal, the Second Circuit observed that the *Petrella* court specifically had declined to pass on the

viability of the discovery rule, and given the "continuing propriety of the discovery rule" in the Second Circuit, determined that the district court had properly applied that rule in light of the evidentiary record.[28] The appellate court, however, agreed with Scholastic that the Supreme Court had "explicitly delimited damages to the three years prior to the commencement of a copyright infringement action," and insulated infringers from liability for earlier infringements.[29]

In reaching that conclusion, the Second Circuit looked to explicit language in *Petrella* explaining that "[u]nder the Act's three-year provision, an infringement is actionable within three years, and only three years, of its occurrence" and that the infringer is insulated from earlier infringements of the same work.[30] The circuit court also relied on the Supreme Court's observation that "'§ 507(b)'s limitations period … allows plaintiffs … to gain retrospective relief running only three years back from the date the complaint was filed.'"[31]

The Second Circuit rejected Sohm's contention that, because *Petrella* did not involve application of the discovery rule, the cited language from *Petrella* was merely nonprecedential dicta, taken out of context.[32] The court observed that it was bound "'not only by the result of a Supreme Court opinion, but also those portions of the opinion necessary to that result.'"[33] Applying that principle, the Second Circuit reasoned that because the *Petrella* Court "partially based its determination that laches was inapplicable to actions under the Copyright Act on the conclusion that the statute itself takes account of delay by limiting damages to the three years prior to when suit is filed … the three-year limitation on damages was necessary to the result in *Petrella* and thus binding precedent."[34]

Accordingly, the Second Circuit held that, pursuant to its own precedent, it must apply the discovery rule to determine if a claim is timely, but, pursuant to *Petrella*, it must impose a three-year lookback period from the time a suit is filed to determine the extent of relief available for timely claims.[35]

IV. *Starz Entertainment, LLC v. MGM Domestic Television Distribution, LLC*

The Ninth Circuit has now reached the opposite conclusion with respect to the availability of damages for infringements occurring more than three years prior to the filing of suit and the import of *Petrella* in cases subject to the discovery rule. In *Starz*, the Ninth Circuit held that *Petrella* neither altered any law in the Ninth Circuit pertaining to the discovery rule for accrual of claims, nor imposed a three-year damages bar to recovery for earlier acts of infringement.[36] Consequently, in the Ninth Circuit, copyright plaintiffs may seek to recover damages for all infringing acts that occurred before they became aware of the defendant's infringement, as long as they sue within three years of discovery.

Starz sued MGM in May 2020 for copyright infringement, breach of contract, and breach of the covenant of good faith and fair dealing after it discovered that MGM had licensed content already licensed exclusively to Starz to various third-party service providers in violation of Starz's licensing agreements with MGM.[37] Starz had entered into "Library Agreements" with MGM in July 2013 and May 2015 to obtain exclusive exhibition rights to certain MGM-owned content. Along with exclusive exhibition rights, Starz received contractual warranties from MGM that it would not exhibit or license to third parties any of the content licensed to Starz for the various license periods.[38] In August 2019, a Starz employee discovered that *Bill & Ted's Excellent Adventure*, one of the films licensed exclusively to Starz, was available for streaming on Amazon Prime Video. By the end of August 2019, Starz discovered that 22 additional movies covered by the parties' agreements were also available for streaming on Amazon, and by the end of 2019, Starz learned that MGM had licensed over 200 movies and over 108 television series episodes covered by the Library Agreements to other service providers.

MGM moved to dismiss, contending that *Petrella* prevented Starz from seeking damages for any alleged infringement that occurred more than three years before Starz filed its complaint.[39] The district

court denied MGM's motion, reasoning that *Petrella* did not impact the discovery rule and thus did not bar damages for infringements that plaintiff reasonably was not aware of at the time they occurred.[40] The Ninth Circuit affirmed the denial.[41]

Before confronting the core question of whether the Supreme Court in *Petrella* imposed a damages bar separate from the Copyright Act's statute of limitations, the Ninth Circuit noted that it had recognized the discovery rule in a pair of cases decided prior to *Petrella*. In *Roley v. New World Pictures, Ltd.*, the Ninth Circuit rejected the plaintiff's reliance on the Seventh Circuit's then-view of the Copyright Act's statute of limitations as allowing a plaintiff to reach back and seek damages for all allegedly infringing acts as long as any infringing conduct had occurred within the three years prior to filing suit.[42] Instead, the *Roley* court based its reach-back on when the plaintiff learned of the infringement. That is, "when the copyright holder knew of earlier infringing acts, recovery was allowable only for infringing acts occurring within the three-year window before commencing suit."[43] However, as the Ninth Circuit underscored ten years later in *Polar Bear Productions, Inc. v. Timex Corporation*, 384 F.3d 700 (9th Cir. 2004), its decision in *Roley* did not foreclose a plaintiff from recovering damages for infringing acts that occurred *outside* the three-year window, as long as the copyright holder did not know, and could not reasonably know, of any infringement.[44]

After reviewing its own discovery-rule precedents, the Ninth Circuit rejected MGM's contention that *Petrella* had imposed a three-year lookback period for damages distinct from the statute of limitations triggered by the discovery rule. The court emphasized that *Petrella* explicitly did not pass on the discovery rule and, in its view, focused solely on whether the doctrine of laches barred infringement claims that had accrued within Section 507(b)'s three-year window as applied to cases governed by the incident-of-injury rule.[45] Because Petrella had not sued on any acts of infringement occurring more than three years prior to her filing suit, the Ninth Circuit reasoned that the discovery rule "had no place in the Court's laches analysis, nor could it."[46] As such, the court concluded that the Supreme Court, in setting the bounds for Petrella's damages, "could not have intended its language to address the situation where a copyright holder does not know about the infringing act to which the discovery rule, not the incident of injury rule, applies."[47]

The Ninth Circuit acknowledged that the Second Circuit had reached the opposite conclusion in *Sohm*, but it reasoned that a damages bar "disassociated" from the statute of limitations in Section 507 "would eviscerate the discovery rule" that is a recognized exception to the incident-of-injury rule in most circuits.[48] The court suggested that if a copyright owner cannot recover damages for infringing acts he or she first learns of years after the infringement, then the discovery rule would serve no purpose.[49] In its view, a discovery rule constrained by a three-year damages bar is "inherently self-contradictory" and would provide only "pyrrhic victor[ies]" to its beneficiaries.[50]

The Ninth Circuit offered a different interpretation of the language from *Petrella* relied upon by the Second Circuit in *Sohm*, finding the Supreme Court's statement that "the statute 'itself takes account of delay' by limiting damages to the three years prior to when a suit is filed," applies only in cases subject to the incident-of-injury rule.[51] In its view, the statute accounts for delay when accrual is triggered by the act of infringement, not for a copyright holder's ignorance of those acts entirely.[52] In reaching its contrary conclusion, the Ninth Circuit also pointed to the absence in the Copyright Act of a separate three-year damages bar in either the limitations provision in Section 507 or in the damages provision in Section 504, an absence it assumed the Supreme Court would not disregard.[53]

V. Key Takeaways

- Both the Second Circuit and Ninth Circuit recognize the discovery rule when determining whether infringement claims are barred by the statute of limitations in Section 507(b) of the Copyright Act.
- The Second Circuit and the Ninth Circuit are split on whether damages are available for

infringements that occur more than three years before the commencement of suit in cases in which the plaintiff sues within three years of the discovering the infringement.

- In the Second Circuit, courts will apply a three-year lookback from the filing of suit and bar recovery of damages for infringing acts occurring prior to that window, regardless of when the plaintiff discovers the infringement.
- In the Ninth Circuit, courts will allow recovery for infringements regardless of when they occur, as long as the plaintiff files suit within three years of discovering the infringement.
- All else equal, in copyright infringement cases involving acts of infringement occurring more than three years prior to suit that are not discovered by the plaintiff until within that three-year period, defendants should prefer to litigate in the Second Circuit, and plaintiffs should prefer to litigate in the Ninth Circuit. It is not yet clear how courts in other circuits will rule on this issue.
- The Supreme Court repeatedly has emphasized the importance of uniformity in federal copyright cases, the majority of which are brought in either the Second or Ninth Circuits. Given the clear split between those circuits on an important issue of federal law, additional guidance from the Supreme Court is warranted.

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[1] 17 U.S.C. § 507(b).

[2] 572 U.S. 663, 667 (2014).

[3] *See Petrella*, 572 U.S. at 670 n.4; *Starz Entm't, LLC v. MGM Domestic Television Distrib.*, *LLC*, No. 21-55379, 2022 WL 2733507, at *5 (9th Cir. July 14, 2022).

[4] 959 F.3d 39 (2d Cir. 2020).

[5] *Starz*, 2022 WL 2733507, at *7.

[6] Lower courts in other circuits also have reached different conclusions on whether damages are available for infringing acts occurring more than three years prior to the filing of the complaint. *Compare Navarro v. Procter & Gamble Co.*, 515 F. Supp. 3d 718, 760-62 (S.D. Ohio 2021) (holding that *Petrella* expressly limited damages to those that arose in three-year window) *with Mitchell v. Capitol Records, LLC*, 287 F. Supp. 3d 673, 677-78 (W.D. Ky. 2017) (holding that plaintiff was not precluded from recovering damages for any claims that accrued within three years of the commencement of this action, regardless of the date of occurrence).

[7] *Petrella*, 572 U.S. at 673.

[8] Robert DeNiro won the Oscar for Best Actor in 1981 for his portrayal of LaMotta. The film also won the Oscar for Film Editing and received Oscar nominations for Best Picture and Best Directing. *See oscars.org/Oscars/ceremonies/1981.*

[9] *Petrella*, 572 U.S. at 673.

[10] *Stewart v. Abend*, 495 U.S. 207, 227-28 (1990).

[11] The copyright for the 1963 screenplay listed Frank Petrella as the sole author but stated that it was written "in collaboration with" LaMotta. Petrella, 572 U.S. at 673. The rights in the other screenplay and book co-authored by LaMotta and Petrella were not renewed.

[12] *Petrella*, 572 U.S. at 674.

[13] Petrella conceded that she waited to sue until the film became profitable. *Id.* at 674-75.

[14] *Id.* at 674-75.

[15] *Id.* at 664.

[16] *Id.* at 677.

[17] *Id.* at 682.

[18] *Id.* at 682-83.

[19] *Id.* at 677.

[20] *Id.* at 670.

[21] *Id.* at 682.

[22] *Id.* at 670 n.4 ("Although we have not passed on the question, nine Courts of Appeals have adopted, as an alternative to the incident of injury rule, a 'discovery rule,' which starts the limitations period when 'the plaintiff discovers, or with due diligence should have discovered, the injury that forms the basis for the claim.'") (quoting *William A. Graham Co. v. Haughey*, 568 F.3d 425, 433 (3d Cir. 2009)).

[23] *Id.*; *see also SCA Hygiene Prods. Aktiebolag v. First Quality Baby Prods., LLC*, 137 S. Ct. 954. 963 (2017) ("[I]n *Petrella*, we specifically noted that 'we have not passed on the question' whether the Copyright Act's statute of limitations is governed by [a discovery rule].") The Supreme Court, however, has been skeptical of the discovery rule in other contexts in the absence of express statutory language or an equitable, fraud-specific discovery rule. *See, e.g.*, *Rotkiskie v. Klemm*, 140 U.S. 355, 360-61 (2019) (rejecting discovery rule for violations of the FDCPA).

[24] *Sohm v. Scholastic Inc.*, 959 F.3d 39 (2d Cir. 2020). Prior to *Sohm*, district courts in the Second Circuit had reached different conclusions on whether *Petrella* bars damages for acts occurring more than three years prior to suit. *Compare Papazian v. Sony Music Ent.*, No. 16-CV-07911 (RJS), 2017 WL 4339662, at *6 (S.D.N.Y. Sept. 28, 2017) (holding plaintiff barred from recovering actual damages for any infringing acts that occurred "long before the three-year look back period for relief") *with PK Music Performance, Inc. v. Timberlake*, No. 16-CV-1215 (VSB), 2018 WL 4759737, at *9 (S.D.N.Y. Sept. 30, 2018) ("*Petrella* cannot be read to require a three-year limitation on damages when applying the discovery rule.").

[25] *Sohm*, 959 F.3d at 42.

[26] *Id.* at 44.

[27] *Id.*

[28] *Id.* at 50.

[29] *Id.* at 51.

[30] *Id.* at 52.

[31] *Id*. (quoting *Petrella*, 572 U.S. at 672).

[32] *Id.* (internal quotation marks omitted).

[33] *Id.* (quoting *Seminole Tribe of Fla. v. Florida*, 517 U.S. 44, 67 (1996) (cleaned up))

[34] *Id.* (internal quotation marks omitted).

[35] *Id*.

[36] *Starz*, 2022 WL 2733507.

[37] *Starz*, 2022 WL 2733507, at *2.

[38] *Id.*

[39] *Id.*

[40] *Starz Entm't, LLC v. MGM Domestic Television Distrib., LLC*, 510 F.Supp.3d 878, 888 (C.D. Cal. 2021).

[41] *Starz*, 2022 WL 2733507, at *1.

[42] *Roley v. New World Pictures, Ltd.*, 19 F.3d 479, 481 (9th Cir. 1994).

[43] *Starz*, 2022 WL 2733507, at *3.

[44] *Polar Bear Prods., Inc. v. Timex Corp*., 384 F.3d 700, 706 (9th Cir. 2004) (as amended).

[45] *Starz*, 2022 WL 2733507, at *5.

[46] *Id.*

[47] *Id.*

[48] *Id.* at *7.

[49] *Id.*

[50] *Id.*

[51] *Id.* at *8.

[52] *Id.*

[53] *Id.*

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