

# Alert Intellectual Property/Media

## Second Circuit Endorses Discovery Rule for Accrual of Copyright Infringement Claims, Declines to Decide Whether a Registration Application Satisfies Section 411(a)

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### Introduction

On April 4, 2014, the Second Circuit, siding with other circuit courts and against the majority view among district courts within the Second Circuit, held in *Psihoyos v. John Wiley & Sons, Inc.*<sup>1</sup> that a “discovery rule,” not an “injury rule,” governs when a copyright infringement claim accrues for purposes of applying the three-year statute of limitations in section 507(b) of the Copyright Act.<sup>2</sup> Under a discovery rule, the limitations period begins when a plaintiff discovered or reasonably should have discovered the infringement, as opposed to when the infringement occurred. Since 2001, the Circuits have, one by one, adopted the discovery rule in copyright actions in the wake of *TRW Inc. v. Andrews*,<sup>3</sup> in which the Supreme Court held that the statute of limitations provision of the Fair Credit Reporting Act (FCRA) expressly incorporates an injury rule. But in the absence of a Second Circuit ruling on the issue, the question of whether section 507(b) of the Copyright Act, which is worded differently from the relevant provision in the FCRA, contemplates a discovery rule or an injury rule for civil copyright infringement actions had been a subject of debate among the district courts in the Circuit. Most Southern District judges, persuaded by Judge Lewis B. Kaplan’s 2004 ruling in *Auscape International v. National Geographic Society*,<sup>4</sup> had adopted the injury rule.

*Psihoyos* has ended the debate. With little discussion – and no reference to the conflicting views among the district courts – the Second Circuit expressly adopted the reasoning of the other courts of appeal, which have found a discovery rule to be the correct reading of the statute. The court’s unequivocal endorsement of the discovery rule has potentially significant implications for copyright infringement litigation within the Second Circuit, as the discovery rule implicates fact issues as to when the plaintiff did or should have discovered the infringement that could make statute of limitations defenses in infringement actions less susceptible to resolution on a Rule 12 motion than they are under an injury rule.

The Second Circuit declined to reach another disputed issue of copyright law, namely, whether effective registration for purposes of section 411(a) of the Copyright Act occurs upon submission of a completed registration application or only upon the filing of a registration certificate. The court found *Psihoyos*’s failure to timely file applications as to certain works foreclosed his claims as to those works.

## Background

Louis Psihoyos is a professional photographer known for his contributions to publications such as *National Geographic* and as the director of *The Cove*, which won the 2009 Academy Award for Best Documentary Feature. From 2005 to 2009, John Wiley & Sons, Inc. (Wiley) published nine textbooks and associated ancillary publications that used Psihoyos's copyrighted photographs.<sup>5</sup> In November 2010, after discovering that it had published two Psihoyos photographs without permission, Wiley asked Psihoyos for a retroactive license for the images (depicting a Stanford University professor holding a narcoleptic dog). In response, Psihoyos asked Wiley to disclose any other unauthorized use of his work.

Based on that information, Psihoyos sued Wiley on March 1, 2011 in the Southern District of New York for infringing use of eight of his photographs.<sup>6</sup> In addition to the narcoleptic dog, the photographs depicted a Triceratops skeleton, an Oviraptor skeleton, the "Dinamation" exhibit at the Museum of Natural History in Cincinnati, a collection of gastroliths, fossilized dinosaur tracks, and 500 televisions.<sup>7</sup> At the time of filing, only four of these photographs (Oviraptor, dinosaur tracks, Triceratops, and gastroliths) were registered.<sup>8</sup> Psihoyos eventually applied to register the narcoleptic dog and Dinamation photographs, but only after discovery had closed and Wiley had moved for summary judgment.<sup>9</sup>

Wiley moved for summary judgment on three grounds. First, it argued that Psihoyos could not maintain infringement claims for the unregistered photographs under section 411(a) of the Copyright Act.<sup>10</sup> Second, it argued that Psihoyos could not establish willfulness in order to recover statutory damages.<sup>11</sup> Third (and most relevant for this Alert), Wiley argued that Psihoyos's damages were limited by the statute of limitations, section 507(b) of the Copyright Act.<sup>12</sup> Section 507(b) provides that a copyright action must be commenced "within three years after the claim accrued."<sup>13</sup> Wiley argued that because Psihoyos sued on March 1, 2011, its potential damages were limited to infringing acts that occurred on or after March 1, 2008, i.e., during the preceding three years.<sup>14</sup> If accepted, this argument would have excluded three of Wiley's

textbooks (published on December 14, 2005, January 9, 2007, and January 16, 2007, respectively) from the damages calculation.<sup>15</sup>

## The District Court Proceedings

In arguing for application of the injury rule, Wiley relied on *TRW*, in which the Supreme Court held that an injury rule governs application of the statute of limitations under the FCRA, which provided that claims accrue on "the date on which the liability arises."<sup>16</sup> The *TRW* Court reasoned that the "most natural reading of [the FCRA] is that Congress implicitly excluded a general discovery rule by explicitly including a more limited one."<sup>17</sup> However, the district court in *Psihoyos* (Judge Jed S. Rakoff) rejected the injury rule for copyright infringement claims:

[A]ccording to the Second Circuit's opinion in *Stone v. Williams*, 970 F.2d 1043 (2d Cir. 1992), the statute of limitations in copyright infringement cases runs from the time plaintiff discovers the infringing use. *TRW* did not change this. Indeed, the Supreme Court's holding in *TRW* was not as broad as defendant asserts, and applies only where Congress expressly states that the statute of limitations runs from the date on which the liability arises. No such congressional instruction appears in section 507(b). Plaintiff discovered the alleged infringement in 2010. Accordingly, plaintiff's claims are not barred by the statute of limitations.<sup>18</sup>

Notably, the court cited, but did not discuss, *Auscape*, merely citing it as a case on which Wiley relied, despite the fact that since *Auscape*, most judges in the Southern District of New York have applied the injury rule.<sup>20</sup>

The court nevertheless granted partial summary judgment for Wiley as to the unregistered works. Under section 411(a) of the Copyright Act, civil infringement actions may not be brought "until preregistration or registration of the copyright claim has been made."<sup>21</sup> Psihoyos argued that he satisfied section 411(a) with respect to the narcoleptic dog and Dinamation photographs because he had filed registration applications for those works.<sup>22</sup> The

court held, however, that Psihoyos's argument was "entirely without support in law."<sup>23</sup> Psihoyos moved unsuccessfully for reconsideration on this point.<sup>24</sup>

Following a trial, the jury found no infringement of the gastroliths photograph, non-willful infringement of the dinosaur tracks photograph (resulting in a \$750 statutory damages award), and willful infringement of the Oviraptor and Triceratops photographs (resulting in \$30,000 and \$100,000 statutory damages awards, respectively).<sup>25</sup> On December 7, 2012, Wiley appealed the statutory damages awards and the court's denial of its statute of limitations defense. Psihoyos cross-appealed the grant of summary judgment to Wiley under section 411(a) on the narcoleptic dog and Dinamation photos.

## The Second Circuit Ruling

The Second Circuit, in an opinion by Judge Raymond Lohier, affirmed. With respect to the statute of limitations issue, the court began by noting that it had previously employed a discovery rule for copyright claims, citing *Merchant v. Levy and Stone v. Williams*,<sup>26</sup> both of which involved disputes over copyright ownership. The court rejected Wiley's arguments that the statute of limitations rule used in *Merchant* and *Stone* applied only to copyright ownership claims, concluding that that the same rule applies to ownership and infringement claims, both of which are governed by 17 U.S.C. § 507(b). The court noted that it agreed with its "sister Circuits" that "the text and structure of the Copyright Act, unlike the FCRA, evince Congress's intent to employ the discovery rule, not the injury rule."<sup>27</sup> As for Wiley's reliance on *TRW*, the court emphasized that the Supreme Court's holding was confined to the FCRA, and it concluded that copyright infringement claims do not accrue until actual or constructive discovery of the relevant infringement "[f]or substantially the reasons articulated by other Circuits that have grappled with this issue after *TRW* was decided."<sup>28</sup> The court thus affirmed the district court's finding that the statute of limitations did not bar any of Psihoyos's claims because it was undisputed that Psihoyos did not discover the infringement until 2010.<sup>29</sup>

Turning to the registration issue, the court acknowledged that the courts of appeal are divided over whether a pending application satisfies the section 411(a) registration requirement, referring to the conflict between the Fifth and Ninth Circuits (application suffices) and the Eleventh, Seventh, and Tenth Circuits (granted registration required).<sup>30</sup> But the court found that it did not need to reach the issue, since Psihoyos had not even filed his applications until after he sued.<sup>31</sup>

## Discussion

As the Second Circuit noted, every other Circuit that has addressed the issue has adopted the discovery rule for copyright infringement claims.<sup>32</sup> The district courts within the Second Circuit nevertheless had differed as to whether to apply a discovery rule or an injury rule. A 2006 decision noted that although the district courts in the Circuit were divided, a majority of the earlier decisions had held that a copyright claim accrues upon its discovery by the plaintiff. However, Judge Kaplan, in his 2004 *Auscape* decision, distinguished these earlier cases on the ground that they applied to ownership and not to infringement claims and that they rested on pre-*TRW* views regarding the accrual of federal claims generally.<sup>33</sup> Judge Kaplan noted that *TRW* "altered this landscape" by requiring courts to "look beyond the specific language of a statute to its text and structure in determining what rule should apply when the statute is silent."<sup>34</sup> Finding that the text and structure of the Copyright Act provided no guidance, Judge Kaplan looked to the legislative history and drew two conclusions. First, the court found that the Copyright Act's three-year limitations period was intended to remove uncertainty concerning the timeliness of copyright actions. Second, noting that copyright infringement tends not to be a "secretive matter," the court found that the three-year limitations period was designed to give copyright owners an adequate opportunity to respond to infringement.<sup>35</sup> Judge Kaplan also noted that the Supreme Court has adopted a discovery rule in only two contexts: latent disease and medical malpractice.<sup>36</sup>

After *Auscape*, a majority of courts in the Second Circuit adopted the injury rule.<sup>37</sup> One leading commentator observed that

[a]lthough only a district court opinion, *Auscape* is the best articulation to date of how to compute the Copyright Act's statute of limitations. It is submitted that even courts in circuits which articulated the discovery rule before the Supreme Court's decision in *TRW*] should now follow *Auscape*'s construction of that authority to adopt the injury rule.<sup>38</sup>

Nevertheless, no Circuit has followed *Auscape*; instead, all have adopted the discovery rule.<sup>39</sup> Post-*Psihoyos*, the only Circuit that has not formally adopted the discovery rule for copyright infringement actions is the Eleventh, but district courts within the Eleventh Circuit have applied the discovery rule.<sup>40</sup>

The rationale for the discovery rule is best articulated by the Third Circuit in *William A. Graham Co. v. Haughey*.<sup>41</sup> *William A. Graham*, like *Auscape*, took from *TRW* the principle that courts should derive accrual rules from the text and structure of the statute where the statute does not provide explicit guidance.<sup>42</sup> However, whereas Judge Kaplan found no guidance in the text and structure of the Copyright Act, the Third Circuit found a meaningful distinction between the Act's wording of the statutes of limitations for criminal and civil copyright actions.<sup>43</sup> Specifically, the court found that section 507(a), governing criminal copyright actions, embodied an injury rule, as it provides that actions must be commenced "within 5 years after the cause of action arose," and reasoned that section 507(b), which requires that civil actions be brought "within three years after the claim accrued," must embody a discovery rule under the maxim that different meanings must have been intended by the use of different language.<sup>44</sup> The court also examined the legislative history, noting that Congress rejected codifying exceptions to the statute of limitations period on the ground that courts could rely on equitable considerations (which the discovery rule accommodates) to excuse a plaintiff's failure to sue within three years.<sup>45</sup> Finally, the court noted that technological advances, including the Internet, have made it harder for rights holders to police and protect their copyrights.<sup>46</sup>

In adopting the discovery rule, the Second Circuit did not expressly respond to Judge Kaplan's reasoning in *Auscape*, which it only acknowledged in a footnote.<sup>47</sup> Nor did it explain in detail its decision to follow the other Circuits in their interpretation of the text, structure, legislative history, and underlying policies of the Copyright Act.<sup>48</sup> Nevertheless, the court's adoption of the discovery rule could have significant implications for copyright infringement actions in this Circuit.

As stated, under the discovery rule, a claim does not accrue until the plaintiff "discovers, or *with due diligence should have discovered*, the infringement."<sup>49</sup> Determining whether the plaintiff should have known of the basis for its claims depends on "whether [it] had sufficient information of possible wrongdoing to place [it] on inquiry notice or to excite storm warnings of culpable activity."<sup>50</sup> This inquiry is governed by a reasonable person standard, which incorporates a duty of diligence; a claim will accrue if the plaintiff "failed to discover a cause of action if a reasonably diligent person, similarly situated, would have made such a discovery."<sup>51</sup> Courts typically hold that inquiry notice is triggered by some event or series of events that come to the plaintiff's attention (which is distinct from an affirmative duty to police the Internet for infringements).<sup>52</sup> The defendant bears "a heavy burden" of establishing constructive notice, which on summary judgment would mean demonstrating an absence of factual issues as to when plaintiff should have discovered the injury.<sup>53</sup> Courts often emphasize the fact-specific nature of the constructive knowledge inquiry in denying summary judgment motions based on the copyright statute of limitations.<sup>54</sup>

However, fact questions may exist both with respect to when the plaintiff *actually* discovered the alleged infringement and when the plaintiff reasonably *should have* discovered the alleged infringement, although these issues can be resolved on a Rule 12 motion where the complaint discloses the date of discovery or alleged facts sufficient to establish constructive knowledge or on summary judgment where the record is clear. Fact questions also may exist, of course, with respect to when the infringement commenced, but, in theory at least, application of the injury rule involves a more straightforward, objective determination.

In short, while settling the law in the Second Circuit concerning when copyright infringement claims accrue, *Psihoyos* has made it more challenging in some cases to defeat such claims prior to trial on statute of limitations grounds. Left for another day is the question of whether in the Second Circuit an issued registration certificate is required as a prerequisite to maintaining an infringement action under section 411(a).

1. 12-4874-CV L, 2014 WL 1327937 (2d Cir. Apr. 4, 2014) (“*Psihoyos II*”).
2. 17 U.S.C. § 507(b).
3. 534 U.S. 19 (2001).
4. 409 F. Supp. 2d 235 (S.D.N.Y. 2004).
5. *Psihoyos v. John Wiley & Sons, Inc.*, 11 CIV. 1416 JSR, 2011 WL 4916299, at \*1 (S.D.N.Y. Oct. 14, 2011) (“*Psihoyos I*”).
6. *Id.*
7. *Id.*
8. *See id.* at \*2-4.
9. *Id.* at \*2. *Psihoyos* moved for a preliminary injunction on July 25, 2011. The court denied the motion on August 11, 2011. *Psihoyos v. John Wiley & Sons, Inc.*, 11 CIV. 1416 JSR, 2011 WL 4634172 (S.D.N.Y. Oct. 4, 2011).
10. *Psihoyos I*, 2011 WL 4916299, at \*1 (S.D.N.Y. Oct. 14, 2011).
11. *Id.* at \*5.
12. *Id.*
13. 17 U.S.C. § 507(b).
14. *Psihoyos I*, 2011 WL 4916299, at \*5.
15. *Id.* at \*1; *see also* 17 U.S.C. § 504.
16. 15 U.S.C. § 1681p (1970). After *TRW*, the FCRA was amended to provide that claims accrue on “the earlier of— (1) 2 years after the date of discovery by the plaintiff of the violation that is the basis for such liability; or (2) 5 years after the date on which the violation that is the basis for such liability occurs.” 15 U.S.C. § 1681p (2003).
17. *TRW*, 534 U.S. at 28.
18. *Psihoyos I*, 2011 WL 4916299, at \*5 (internal citations omitted).
19. *See id.*
20. *Urbont v. Sony Music Entm’t*, 863 F. Supp. 2d 279, 282 (S.D.N.Y. 2012).
21. 17 U.S.C. § 411(a).
22. *See Psihoyos I*, 2011 WL 4916299, at \*2-3.
23. *Id.* at \*2.
24. *Psihoyos v. John Wiley & Sons, Inc.*, 11 CIV. 1416 JSR, 2011 WL 5980423, at \*1 (S.D.N.Y. Nov. 29, 2011).
25. *Psihoyos II*, 2014 WL 1327937, at \*2. The case was reassigned to Judge J. Paul Oetken from Judge Rakoff on September 30, 2011, after the summary judgment decision.
26. *Id.* at \*3 (*citing* 92 F.3d 51 (2d Cir. 1996) and 970 F.2d 1043 (2d Cir. 1992)).
27. *Psihoyos II*, 2014 WL 1327937, at \*3.
28. *Id.*
29. *Id.*
30. *Id.* at \*4. *Compare Apple Barrel Prods., Inc. v. Beard*, 730 F.2d 384, 386-87 (5th Cir.1984), and *Cosmetic Ideas, Inc. v. IAC/Interactivecorp.*, 606 F.3d 612, 616-22 (9th Cir. 2010), with *M.G.B. Homes, Inc. v. Ameron Homes, Inc.*, 903 F.2d 1486, 1488-89 (11th Cir.1990), *Gaiman v. McFarlane*, 360 F.3d 644, 655 (7th Cir.2004), and *La Resolana Architects, PA v. Clay Realtors Angel Fire*, 416 F.3d 1195, 1202-05 (10th Cir.2005), *abrogated on other grounds by Reed Elsevier, Inc. v. Muchnick*, 559 U.S. 154 (2010).
31. *Psihoyos II*, 2014 WL 1327937, at \*4. The court also affirmed the jury’s statutory damages award. *Id.* at \*5.
32. *See supra* note 27 and accompanying text. *See also Diversey v. Schmidly*, 738 F.3d 1196, 1200-01 (10th Cir. 2013); *William A. Graham Co. v. Haughey*, 568 F.3d 425, 433-37 (3d Cir. 2009); *Warren Freedendfeld Assocs., Inc. v. McTigue*, 531 F.3d 38, 44-46 (1st Cir. 2008); *Comcast of Illinois v. Multi-Vision Elecs., Inc.*, 491 F.3d 938, 944 (8th Cir. 2007); *Roger Miller Music, Inc. v. Sony/ATV Publ’g, LLC*, 477 F.3d 383, 390 (6th Cir. 2007); *Polar Bear Prods., Inc. v. Timex Corp.*, 384 F.3d 700, 705-07 (9th Cir. 2004); *Gaiman v. McFarlane*, 360 F.3d 644, 653 (7th Cir. 2004); *Lyons P’ship, L.P. v. Morris Costumes, Inc.*, 243 F.3d 789, 796 (4th Cir.2001).
33. *Auscape*, 409 F. Supp. 2d at 243-44.
34. *Id.* at 244.
35. *Id.* at 245.
36. *Id.* at 247.

37. *Bill Diodato Photography LLC v. Avon Prods., Inc.*, 12 CIV. 847 RWS, 2012 WL 3240428, at \*3 (S.D.N.Y. Aug. 7, 2012) (citing cases), *on reconsideration*, 12 CIV. 847 RWS, 2012 WL 4335164 (S.D.N.Y. Sept. 21, 2012).
38. 1-12 Melville B. Nimmer & David Nimmer, NIMMER ON COPYRIGHT § 12.05.
39. See *supra* notes 27 & 33 and accompanying text.
40. See, e.g., *Habersham Plantation Corp. v. Art & Frame Direct, Inc.*, 10-61532-CIV, 2011 WL 4005454, at \*8 (S.D. Fla. Sept. 8, 2011).
41. 568 F.3d 425 (3d Cir. 2009).
42. *Id.* at 434.
43. *Id.* at 434-35.
44. *Id.* at 435.
45. *Id.* at 436.
46. *Id.* at 437.
47. See *Psihoyos II*, 2014 WL 1327937, at \*3 n.4.
48. *Id.* at \*3.
49. *Id.* (emphasis added).
50. *William A. Graham*, 568 F.3d at 438.
51. *Warren Freedendfeld Assocs., Inc. v. McTigue*, 531 F.3d 38, 45 (1st Cir. 2008) (“The familiar aphorism teaches that where there is smoke there is fire; but smoke, or something tantamount to it, is necessary to put a person on inquiry notice that a fire has started.”).
52. *Mackie v. Hipple*, C09-0164RSL, 2010 WL 3211952, at \*2 (W.D. Wash. Aug. 9, 2010).
53. *Grant Heilman Photography, Inc. v. McGraw-Hill Cos., Inc.*, CIV.A. 12-2061, 2012 WL 5944761, at \*3 (E.D. Pa. Nov. 28, 2012).
54. See *Beidleman v. Random House, Inc.*, 621 F. Supp. 2d 1130, 1134 (D. Colo. 2008) (“This is a fact-intensive inquiry, not appropriate for determination on the Defendant’s motion for summary judgment.”); *Mackie*, 2010 WL 3211952, at \*2 (W.D. Wash. Aug. 9, 2010) (citing *Beidleman*).

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