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The Supreme Court Affirms the Availability of Damages Beyond Three Years for Copyright Infringement *If* the Discovery Rule Applies

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On May 9, 2024, the Supreme Court issued its decision in *Warner Chappell Music Inc. et al. v. Nealy et al.*, holding that a plaintiff can seek damages for past infringement that had occurred earlier than the three-year statute of limitations period, as long as the claim is filed timely from accrual within the limitations period or under the "discovery rule." The decision resolved a split among the circuit courts of appeals on this question. However, the Court declined to decide an equally or potentially more important question— whether the discovery rule applies to claims brought under the Copyright Act in the first place. The majority assumed, without deciding, that the discovery rule applies, and in a dissenting opinion, three Justices, Gorsuch, Alito and Thomas, questioned whether the Copyright Act even authorizes the application of the discovery rule at all.

Background

In 1983, Sherman Nealy and Tony Butler had formed Music Specialist, Inc., which released several songs and an album. The collaboration dissolved, and Nealy was imprisoned for drug-related offenses. In the meantime, Butler entered into an agreement with Warner Chappell Music, Inc. ("Warner Chappell") licensing Music Specialist's music. Warner Chappell went on to sell millions of copies of the licensed music in popular songs and in television shows. In 2016, just after he was released from prison, Nealy learned about Warner Chappell's licensing of Music Specialist's music dating back to 2008, and in 2018, he sued Warner Chappell and sought monetary damages for infringement of his copyrights.

Under the Copyright Act, an action for copyright infringement must be commenced "within three years after the claim accrued." 17 U.S.C. §507(b). A claim accrues when "an infringing act occurs"; alternatively, if the discovery rule applies, it accrues when "the plaintiff discovers, or with due diligence should have discovered" the infringing act. *Petrella v. Metro-Goldwyn-Mayer, Inc.*, 572 U. S. 663, 670 (2014); *id.*, n. 4. A claim to a copyright ownership dispute, as here, accrues only once, and is extinguished entirely if not brought within three years of when plaintiffs knew or should have known that their ownership rights were being violated. *Webster v. Dean Guitars*, 955 F.3d 1270, 1276-77 (11th Cir. 2020). If the ownership claim is time-barred, any infringement claim also fails. *Id*.

In proceedings at the district court of the Southern District of Florida, Warner Chappell accepted that the discovery rule applied to the timeliness of Nealy's claims, but contended that he could not recover damages from earlier than the past three years. The district court agreed, relying on a decision from

the Second Circuit, *Sohm v. Scholastic Inc.*, 959 F.3d 39 (2d Cir. 2020), limiting damages to "the three years prior to the filing" of the lawsuit notwithstanding timely claims to past infringement. The district court certified the ruling for interlocutory appeal.

The Eleventh Circuit reversed. The Eleventh Circuit assumed that Nealy's claims were timely for purposes of addressing the certified question, and concluded that Nealy could recover full damages for the past infringement. The Eleventh Circuit also noted that the Copyright Act "does not support the existence of a separate damages bar for an otherwise timely copyright claim," and that imposing such a bar "would gut the discovery rule by eliminating any meaningful relief" for the very claims it is designed to preserve. Slip Op. at 4 (citing 11th Cir. opinion).

Warner Chappell appealed, seeking review of whether the Copyright Act "precludes retrospective relief for acts that occurred more than three years before the filing of a lawsuit." Pet. for a Writ of Certiorari, *Warner Chappell v. Nealy*, No. 22-1078 (U.S. May 3, 2023). The Supreme Court granted certiorari but substituted Warner Chappell's question with its own: "[w]hether, under the discovery accrual rule applied by the circuit courts," a copyright plaintiff "can recover damages for acts that allegedly occurred more than three years before the filing of a lawsuit." Slip Op. at 4. The Court acknowledged that this question assumes that the discovery rule governs the timeliness of copyright claims, and that it had never decided on the validity of that assumption. The Court noted that eleven Courts of Appeals apply the discovery rule to the Copyright Act, but that there is division as to whether a plaintiff with a timely claim can seek damages going back more than three years. The Court held that the text of the Copyright Act only establishes a three-year limitation period for commencing an action, but provides no separate three-year period—or any other time limit—to recover damages. Thus, the Supreme Court affirmed the holding that a copyright owner with a timely claim (including under the discovery rule) is entitled to damages, no matter when the infringement occurred.

As an aside, the Court also noted that Warner Chappell had disregarded the reformulated question on which certiorari was granted and focused most of its arguments on the applicability of the discovery rule, despite its own relegation of the question to a footnote in its petition for certiorari. The Supreme Court cited precedent emphasizing that the Court, not counsel, decides which questions to consider. Slip Op. at 5, n 1.

Finally, Justices Gorsuch, Thomas, and Alito joined in a dissent criticizing the majority's avoidance of the "antecedent question" of whether the Copyright Act even tolerates the discovery rule; the dissent declared that it "almost certainly does not." Slip Op., Dissent at 1. The dissent believed that this "fact promises soon enough to make anything we might say today about the rule's operational details a dead letter." *Id*. The dissent stated instead that the discovery rule should apply only in cases of fraud or concealment "consistent with traditional equitable practice." *Id*. at 2.

Analysis and Take-Aways

First, the outcome of this case should not be surprising under the assumption that the discovery rule applies to copyright infringement claims. As the Court notes, there is no language in the Copyright Act that turns its timeliness dictate into a damages bar. Once the discovery rule is applied, barring the recovery of damages for timely claims to infringing acts prior to the past three years would indeed nullify those claims by rendering them devoid of any value. The Supreme Court specifically addressed the Second Circuit's outlier decision in *Sohm v. Scholastic Inc.*, 959 F. 3d 39 (2d Cir. 2020) by explaining that it applied its precedent incorrectly. Further, only copyright ownership claims are totally barred by the statute of limitations. The Copyright Act's three-year statute of limitations is otherwise a rolling

one; for continuing acts of infringement, damages are typically available within three years prior to suit. Thus, in practice, the purpose of the discovery rule (if it applies) for claims under the Act, other than on ownership, is to extend damages beyond the three years.

Second, contrary to the dissent's prediction of the "dead letter" effect, this decision could be significant, even assuming that the Copyright Act does not authorize the application of the discovery rule. This is so because, even as the dissent acknowledges, fraud or concealment may toll the running of the statute of limitations. Thus, the majority's holding that there is no separate time bar to the recovery of damages should also be applicable in those narrow circumstances, such as when the plaintiff could not have discovered infringing acts due to the infringer's fraud or concealment.

Third, the dissent states that the Court, if it decided against resolving the antecedent question, should have waited for another opportunity to directly address the question of whether the Copyright Act authorizes the discovery rule. The rejection of the discovery rule by the three dissenting justices enhances the prospect that some court of appeals will now reconsider the discovery rule en banc and that the Supreme Court will eventually grant review. (Under the Court's unwritten "rule of four," only four votes are necessary for the Court to grant a petition for certiorari.) Should this question be taken up in the future, a decision adopting the position exhorted by the dissent could significantly impact the rights of copyright owners who would be limited, in most instances, to enforcing their copyrights within three years of the infringing act. More broadly, such a decision could also influence the application of the discovery rule to other statutes with time bars for filing lawsuits that, like the Copyright Act, do not expressly incorporate the rule.

Fourth, the dissent raises questions about the scope of circumstances that warrant equitable tolling of the limitations period. Fraud and concealment may be black-letter examples, but state and federal courts have applied the discovery rule to other circumstances. See *Merck & Co., Inc. v. Reynolds*, 559 U.S. 633, 646 (2010) (citations omitted). Other common law examples of reasons that have been raised for excusing delays in bringing suit include acts of God (force majeure), acts of the government, latent disease or defect, and various other causes beyond the plaintiff's reasonable control. The question of whether the discovery rule is available will ultimately depend not solely on statutory analysis, but a determination of whether "traditional equitable practice" accommodates application of the rule.

Finally, this case illustrates the difficulty of positioning a case for Supreme Court review. The Supreme Court typically grants certiorari to resolve circuit conflicts. There was a clear circuit conflict on whether there was a three-year limit on damages recovery for timely accrued claims. The dilemma for Warner Chappell was that its position on that question was unlikely to command a majority on the merits if certiorari were granted. Arguably, its stronger position was that the Copyright Act does not authorize the discovery rule but there was no circuit conflict on that issue. Had Warner Chappell led with that issue, Nealy, in opposition, could have argued that there is no conflict on the antecedent issue; that the Court may not end up reaching the issue on which the courts of appeals were in conflict; and that it should await the emergence of a conflict or at least a case that squarely addressed the discovery rule. Warner Chappell appears to have opted to brief only the circuit conflict to maximize the chances that the Supreme Court would grant review, while pointing out in a footnote that the Court could take the opportunity to resolve the antecedent question of the viability of the discovery rule if it so wished. The Court foiled that strategy when it reformulated the question presented to assume the correctness of the discovery rule. While hindsight is 20/20, perhaps the outcome would have been different if Warner Chappell had more fully briefed the discovery issue to the Court in its petition, and pointed out that a separate conflict on the discovery rule was unlikely to emerge given that eleven courts of appeals had adopted it.

What does this mean for you now? In short, the discovery rule applies to claims under the Copyright Act in eleven out of thirteen circuit courts. If plaintiffs meet the requirements for the discovery rule, they are entitled to damages for all infringements without a time bar. However, sometime in the relatively near future, the Supreme Court is very likely to take up the issue of whether the discovery rule applies to the Copyright Act and may very well decide that it does not.

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If you have any questions concerning these developing issues, please do not hesitate to contact any of the following Paul Hastings lawyers:

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