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2nd Circ. Copyright Ruling Offers Relief From Late-Filed Suits

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The potential for prevailing party attorney fees afforded by the U.S. Copyright Act[1] often provides leverage to plaintiffs in settlement discussions. Given the high costs of litigation, a party accused of copyright infringement may agree to pay a monetary settlement rather than incur the costs necessary to defend a lawsuit.

On May 12, the U.S. Court of Appeals for the Second Circuit issued a decision that should provide some solace to would-be defendants in late-filed copyright infringement claims.

In Sohm v. Scholastic Inc.,[2] the circuit court found, among other things, that monetary damages in a copyright infringement suit are limited to those incurred in the three years preceding the commencement of suit. The Sohm decision resolves a disagreement that had emerged within the Second Circuit since the U.S. Supreme Court's decision in Petrella v. Metro-Goldwyn-Mayer Studios Inc.[3]

Petrella v. Metro-Goldwyn-Mayer

In Petrella, the Supreme Court considered whether the equitable defense of laches was applicable to claims for copyright infringement under the U.S. Copyright Act given its three-year statute of limitations. Petrella involved a screenplay about the life of boxing champion Jake LaMotta that was created by the boxer and his friend, Frank Petrella. Metro-Goldwyn-Mayer purchased the rights in the screenplay and later released the film "Raging Bull" in 1980. Thereafter, MGM continuously marketed the film and converted it into multiple formats, including DVD and Blu-ray.

Frank Petrella died during the initial term of copyright in the screenplay, after which his copyright renewal rights reverted to his heirs unburdened by the assignment he had previously made.[4] In 1991, his daughter, Paula Petrella, renewed the copyright in the 1963 screenplay. In 1998, Petrella informed MGM that she owned the copyright to the screenplay and that exploitation of any derivative work, including the film "Raging Bull," constituted infringement.

More than 10 years later, in January 2009, Petrella sued MGM for copyright infringement. Petrella sought damages only for acts of infringement occurring on or after Jan. 6, 2006 — within three years prior to commencement of the lawsuit.

The district court granted MGM's motion for summary judgment based on the equitable defense of laches, finding that Petrella's 18-year delay in filing suit was unreasonable and prejudiced MGM, due in part to its significant investments in exploiting the film. The U.S. Court of Appeals for the Ninth Circuit affirmed the district court's dismissal, applying the laches doctrine based on evidence that Petrella delayed her suit because the film had not yet made money.

The Supreme Court reversed, holding that the equitable defense of laches cannot bar copyright infringement claims brought within the three-year statutory limitations period. The court held that the language of the Copyright Act "itself takes account of delay," noting 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 liability for earlier infringements of the same work."[5]

Thus, "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."[6] The court noted that MGM's returns on its investment in years outside the three-year window remained MGM's to keep.[7]

The court rejected MGM's argument that laches is necessary to prevent a copyright owner from waiting to see the outcome of an alleged infringer's investment before filing suit. It reasoned that the statute of limitations, coupled with the separate-accrual rule — whereby the three-year limitations period starts anew each time an infringing work is reproduced or distributed — permits copyright owners to wait to see whether an infringer's exploitation causes harm that is worth the cost of litigation, without the need to challenge each and every actionable infringement.[8]

In the aftermath of the Petrella decision, a disagreement emerged among district courts regarding whether damages in a federal copyright infringement action were limited to those that accrued within three years prior to suit.[9]

Sohm v. Scholastic

The Second Circuit's recent decision in Sohm resolved the split among district courts. In Sohm, professional photographer Joseph Sohm and one of his agencies sued Scholastic for, among other things, alleged copyright infringement of 89 photographs. The district court granted in part and denied in part the parties' cross-motions for partial summary judgment.

On appeal, Sohm and Scholastic each raised various challenges to the district court's order.[10] Most significantly, Scholastic argued that the district court erred in: (1) applying the discovery rule and not the injury rule[11] to determine when the plaintiffs' claims accrued under the statute of limitations; and (2) allowing damages that accrued more than three years prior to the date on which the plaintiffs filed suit.

The district court applied the discovery rule and found that the action was timely filed because Scholastic had failed to show any reason that Sohm should have discovered the infringing acts more than three years prior to the date it filed the complaint.[12]

On appeal, Scholastic argued that two recent Supreme Court decisions, SCA Hygiene Products Aktiebolag v. First Quality Baby Products,[13] and Petrella v. Metro-Goldwyn-Mayer,[14] cast doubt on the applicability of the discovery rule. The Second Circuit rejected this argument and affirmed the district court ruling on this point, noting that in both cases the Supreme Court specifically declined to rule on the applicability of the rule.

The Second Circuit reversed the district court's decision regarding recovery of damages for infringement. It held that, regardless of whether the discovery rule or injury rule is used to determine when a claim accrues, the Supreme Court's decision in Petrella clearly held that the Copyright Act limits a plaintiff's recovery to damages incurred in the three years prior to filing suit.

The Second Circuit noted that "Petrella's plain language explicitly dissociated the Copyright Act's statute of limitations from its time limit on damages" by holding that "a successful plaintiff can gain retrospective relief only three years back from the time of suit" and that "[n]o recovery may be had for infringement in earlier years."[15] It rejected the argument that the discussion of the limitation of damages in Petrella was mere dicta because it was foundational to the Supreme Court's ultimate holding that laches is inapplicable to actions under the Copyright Act.

Why Is the Sohm Decision Notable?

First, the decision should deter a plaintiff from filing a copyright infringement suit more than three years after the allegedly infringing behavior has ceased. While the Copyright Act has a three-year statute of limitations, most courts follow the discovery rule, pursuant to which "an infringement claim does not 'accrue' until the copyright holder discovers, or with due diligence should have discovered, the infringement."[16]

It is the defendant's burden to prove whether the plaintiff knew or should have known about the alleged infringement more than three years before it filed suit. Therefore, it is often difficult to dismiss a copyright infringement claim on statute of limitations grounds prior to costly discovery. This has presented a significant advantage to a plaintiff who raises a claim for infringement more than three years after the allegedly infringing behavior has ceased.

After Sohm, a defendant, such as a fashion company faced with an infringement claim regarding a product it has not sold for many years, may have grounds for early dismissal of monetary damages claims.[17] While this would not prevent a plaintiff from seeking injunctive relief, dismissing monetary damages claims will usually eliminate a plaintiff's incentive to proceed with a costly and time consuming lawsuit.

Second, a defendant faced with tardy claims of copyright infringement should be aware that since the Supreme Court's ruling in Petrella, the Second Circuit is the only circuit court that has squarely addressed whether copyright infringement damages should be limited to those incurred in the three years preceding suit.

The U.S. Court of Appeals for the Fifth Circuit and and the U.S. Court of Appeals for the Seventh Circuit have acknowledged the question, but have not reached the issue.[18] At least one district court decision in the Ninth Circuit is currently at odds with the Sohm decision, but the Ninth Circuit itself has not yet considered the issue.

Ten years before the Supreme Court issued its decision in Petrella, the Ninth Circuit's decision in Polar Bear Productions Inc. v. Timex Corp. held that the Copyright Act "permits damages occurring outside of the three-year window, so long as the copyright owner did not discover — and reasonably could not have discovered — the infringement before the commencement of the three-year limitation period."[19]

After Petrella, district courts in the Ninth Circuit continue to cite the Polar Bear decision in holding that the Copyright Act's statute of limitations does not bar recovery beyond a three-year lookback so long as the plaintiff had no reason to know about the infringement prior to the three-year limitations period.[20] In Menzel v. Scholastic Inc., the U.S. District Court for the Central District of California concluded that Petrella did not overrule the Ninth Circuit's Polar Bear decision because its discussion of damages was dicta. The parties in the Menzel case ultimately settled, preventing a definitive decision by the Ninth Circuit.

When finally faced with the issue, other circuit courts may agree that, after Petrella, copyright infringement damages must be limited to three-year period prior to suit. Until more circuits rule on the issue, when faced with an allegation of copyright infringement more than three years after the allegedly infringing conduct has ceased, a defendant would be wise to consider whether there is a basis to file a declaratory judgment action in the Second Circuit to ensure that it may take advantage of the Sohm ruling.

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[1] Such relief is only available where the alleged infringement occurred either after the plaintiff's work was registered, or within three months of plaintiff's first publication of the allegedly infringed work. 17 U.S.C. § 412.

[2] Sohm v. Scholastic Inc., No. 18-2110, 2020 WL 2375056 (2d. Cir. May 12, 2020).

[3] 572 U.S. 663 (2014).

[4] See Stewart v. Abend, 495 U.S. 207 (1990).

[5] Petrella, 572 U.S. at 667, 671.

[6] Id. at 677.

[7] The Court also noted that should the plaintiff demonstrate infringement within the three-year look-back period, the defendant is entitled "to prove and offset against profits made in that period 'deductible expenses' [and] 'elements of profit attributable to factors other than the copyrighted work.'" Id. at 677 (citation omitted). The defendant therefore retains its return on investment attributable to its own efforts. Id. at 678.

[8] Id. at 682-83.

[9] Compare PK Music Performance, Inc. v. Timberlake, No. 16-CV-1215, 2018 WL 4759737, at *10 (S.D.N.Y. Sept. 30, 2018) (opining that limiting timeframe of damages was "inconsistent" with the "discovery rule"); Energy Intelligence Grp. Inc. v. Scotia Capital (USA) Inc., No. 16-cv-617, 2017 U.S. Dist. LEXIS 13102, at *2, 6 (S.D.N.Y. Jan. 30, 2017) (holding that language in Petrella decision regarding damages period was mere dicta) with Jose Luis Pelaez, Inc. v. McGraw-Hill Global Education Holdings

LLC, 399 F. Supp. 3d 120, 135-36 (S.D.N.Y. 2019) (holding that Petrella required limiting damages to a three-year look-back period); Papazian v. Sony Music Ent., No. 16-cv-07911, 2017 WL 4339662, at *5-6 (S.D.N.Y. Sept. 28, 2017) (same).

[10] Sohm v. Scholastic Inc., No. 18-2110, 2020 WL 2375056, at *4 (2d. Cir. May 12, 2020).

[11] Under the "discovery rule" an infringement claim does not 'accrue' until the copyright holder discovers, or with due diligence should have discovered, the infringement. Under the "injury rule," the claim accrues on the date the alleged infringement first occurred, without regard to when the plaintiff first learned of the alleged infringement.

[12] Sohm v. Scholastic Inc., No. 16-cv-7098, 2018 WL 1605214, at *10-11 (S.D.N.Y. Mar. 29, 2018).

[13] LLC, 137 S. Ct. 954 (2017).

[14] 572 U.S. 663 (2014).

[15] 2020 WL 2375056, at *10 (citing Petrella, 572 U.S. at 677).

[16] See, e.g., Psihoyos v. John Wiley & Sons, Inc., 748 F.3d 120, 124 (2d Cir. 2014) (quoting 17 U.S.C. § 507(b)).

[17] It is important to note that under the Copyright Act's separate-accrual rule, each time a work is reproduced or distributed, a new infringement arises that triggers the statute of limitations period anew. In addition, under the continuing harm doctrine, there may be liability for content that is posted by a defendant more than three years ago but remains online, such as an image posted to a social media account that is not taken down.

[18] See Chi. Bldg. Design, P.C. v. Mongolian House, Inc., 770 F.3d 610, 618 (7th Cir. 2014) (plaintiff alleged infringing acts that all occurred within three years prior to the suit); Energy Intelligence Grp., Inc. v. Kanye Anderson Capital Advisors, L.P., 948 F.3d 261, 271 (5th Cir. 2020) (considering whether mitigation is an absolute defense to statutory damages under the Copyright Act).

[19] 384 F.3d 700 (9th Cir. 2004).

[20] See, e.g., Menzel v. Scholastic, Inc., No. 17-cv-05499, 2019 U.S. Dist. LEXIS 217593 (N.D. Cal. Dec. 18, 2019); Johnson v. UMG Recordings, Inc., No. 2:19-cv-02364, 2019 U.S. Dist. LEXIS 184455 (C.D. Cal. Oct. 23, 2019); Oracle USA, Inc. v. Rimini St., Inc., No. 2:10-cv-00106, 2015 U.S. Dist. LEXIS 113772 (D. Nev. Aug. 27, 2015).