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What The Justices' Copyright Damages Ruling Didn't Address

By **Ivy Estoesta and William Milliken** (May 15, 2024, 3:36 PM EDT)

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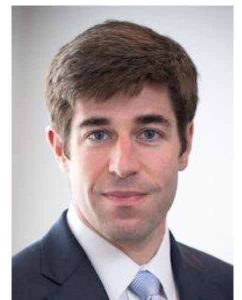
William Milliken

One could say that copyright owners just got a reason to party like rapper Flo Rida in his hit song "In the Ayer," following the U.S. Supreme Court's May 9 decision in Warner Chappell Music Inc. v. Nealy.

In a 6-3 decision, the court affirmed the U.S. Court of Appeals for the Eleventh Circuit's Feb. 27, 2023, decision.

That means the plaintiff, Sherman Nealy, may obtain damages for defendant Warner Chappell Music's infringing acts occurring more than three years before Nealy filed suit, as long as Nealy's suit was timely filed under the discovery rule — i.e., that a copyright claim accrues when a plaintiff reasonably discovers the infringement, regardless of when the infringement occurred.

The decision significantly leaves the discovery rule unscathed — at least for now — and confirms that a copyright owner may recover damages for infringing acts that occurred more than three years before filing a timely complaint when the discovery rule applies.

This article summarizes the dispute, delves into the court's ruling and concludes with some practical implications stemming from the decisions.

The Dispute

Sherman Nealy and Tony Butler formed Music Specialist Inc. in 1983, and recorded and released several musical works, including the work at issue, "Jam the Box." Shortly after, Nealy and Butler's music enterprise ended, and Nealy was incarcerated from 1989 to 2008, and again from 2012 to 2015.

Butler, in the meantime, entered into an agreement with Warner Chappell to license "Jam the Box," which resulted in its sampling in the song "In the Ayer" by Flo Rida.

In 2018, Nealy sued Warner Chappell for copyright infringement in the U.S. District Court for the Southern District of Florida, claiming that he never agreed to the license.

Nealy argued that his claims were timely under the Copyright Act's three-year statute of limitations, because it was not until 2016, after serving his second prison term, when he first discovered Warner Chappell's infringing conduct, and he sought damages arising from Warner Chappell's infringing activity

dating as far back as 2008.

Warner Chappell did not challenge the applicability of the discovery rule or contest that Nealy's suit was timely under it. It argued, however, that Nealy's request for damages or profits must be limited to those resulting from infringing conduct occurring no more than three years before Nealy filed his complaint.

The district court agreed with Warner Chappell. Acknowledging that the Eleventh Circuit had not yet addressed whether the discovery rule permits a copyright owner to recover damages or profits for infringements occurring more than three years before a complaint is filed, the district court adopted the U.S. Court of Appeals for the Second Circuit's reasoning in the 2022 Sohm v. Scholastic Inc. decision.[1]

The district court held that, "even where the discovery rule dictates the accrual of a copyright infringement claim, a three-year lookback period from the time a suit is filed must be used to determine the extent of the relief available,"[2] but certified its ruling for interlocutory appeal.

The Circuit Split

The Eleventh Circuit reversed the district court's ruling in Nealy.[3]

Addressing the district court's certified question of whether damages in Nealy's copyright action is limited to a three-year lookback period as measured from the filing date of the complaint, the Eleventh Circuit held that Nealy may recover damages for infringing acts that occurred more than three years before the suit was filed.

According to the Eleventh Circuit, "the plain text of the Copyright Act does not support the existence of a separate damages bar for an otherwise timely copyright claim."[4]

In so holding, the Eleventh Circuit aligned itself with the U.S. Court of Appeals for the Ninth Circuit. In the 2022 Starz Entertainment v. MGM Domestic Television Distribution decision, that circuit had rejected the approach taken by the Second Circuit in Sohm and held 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 that the three-year limitations period runs from the date the claim accrued, i.e., from the date when the copyright holder knew or should have known of the infringement.[5]

Noting the conflicting positions of the Eleventh, Second and Ninth Circuits, Warner Chappell asked the Supreme Court to review the Eleventh Circuit's decision.

The Supreme Court granted the request but substituted the question presented by Warner Chappell — "whether the Copyright Act's statute of limitations 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" — with a more limited question: "whether, under the discovery accrual rule applied by the circuit courts and the copyright act's statute of limitations for civil actions, 17 U.S.C. §507(b), a copyright plaintiff can recover damages for acts that allegedly occurred more than three years before the filing of a lawsuit."[6]

The Court's Decision

In an opinion written by Justice Elena Kagan, and joined by Justices John Roberts, Sonia Sotomayor, Brett Kavanaugh, Amy Coney Barrett and Ketanji Brown Jackson, the majority held that the text of Section 504(a)-(c) of the Copyright Act imposes no time limit on damages.[7]

The relevant text states that no "civil action shall be maintained under the provisions of this title unless it is commenced within three years after the claim accrued."[8]

According to the majority, the act's statute of limitations, which provides three years for filing suit from when a claim accrues, "establishes no separate three-year period for recovering damages … running from the date of infringement."[9]

Therefore, "a copyright owner possessing a timely claim for infringement is entitled to damages, no matter when the infringement occurred." The majority emphasized that its holding assumes without deciding that a timely claim is one brought within three years of when the copyright owner discovered — or reasonably should have discovered — an infringement because Warner Chappell never challenged the Eleventh Circuit's application of the discovery rule.

The majority also criticized the contrary view taken by the appeals court in Sohm, saying:

> The Second Circuit's contrary view, on top of having no textual support, is essentially self-defeating. With one hand, that court recognizes a discovery rule, thus enabling some copyright owners to sue for infringing acts occurring more than three years earlier. And with the other hand, the court takes away the value in what it has conferred, by preventing the recovery of damages for those older infringements.[10]

Three Justices dissented. Justice Neil Gorsuch, joined by Justices Clarence Thomas and Samuel Alito, argued that the court should have dismissed the case as improvidently granted and waited for a different case presenting the antecedent question: whether the Copyright Act permits applying a discovery rule in cases other than fraud or concealment.[11]

Turning to the facts in Nealy, the dissent noted that Nealy's suit, filed more than three years after Warner Chappell's alleged infringing acts, did not allege any fraud or concealment that would support applying the discovery rule under traditional rules of equity.[12]

Considerations and Practical Takeaways

The court's opinion clarifies how far back a copyright owner may recover damages or profits in jurisdictions that apply the discovery rule.

Still, it remains to be seen whether copyright owners will ultimately be left throwing their hands up in the air in defeat, given that the court's opinion did not settle the overriding question of whether the Copyright Act even permits applying the discovery rule, and that at least three justices apparently believe it does not.

Curiously, the majority opinion did not opine at all, even in dicta, on the validity of applying the discovery rule in cases beyond fraud or concealment when a statute is silent on the issue. That could suggest that the dissent's position — that the discovery rule should not apply at all — will ultimately carry the day.

On the other hand, the fact that six justices joined the majority opinion suggests that the discovery rule

might remain viable: Why would the court confirm a copyright owner's ability to recover for older infringements if it ultimately intends to abolish the discovery rule?

A copyright owner wanting to avoid challenges to the applicability of the discovery rule should, when feasible, file its copyright suit within three years of the infringement occurring.

To that end, a copyright owner may want to engage a watch service that monitors various online platforms on a monthly basis for potential copyright infringements.

Otherwise, a copyright owner hoping to rely on the discovery rule should consider whether there are facts pointing to fraud or concealment by the accused infringer — meaning the rule would apply even under traditional equitable principles.

Further, to leave open the possibility of recovering damages for earlier infringements occurring more than three years before filing suit, a copyright owner may want to consider alleging a rolling, or ongoing, infringement, if applicable.

Conversely, a party accused of allegedly infringing acts that occurred more than three years before being subjected to a copyright lawsuit should challenge the timeliness of the claim, arguing that the discovery rule may not be applied — regardless of whether it is in a circuit that has adopted the discovery rule.

Coincidentally, pending before the Supreme Court is a request by Hearst Newspapers that asks "[w]hether the 'discovery rule' applies to the Copyright Act's statute of limitations for civil claims."[13]

Unless and until the court decides to address that question and limit the applicability of the discovery rule, however, copyright owners can continue to, as Flo Rida puts it, "celebrate 'til the AM."

Correction: Due to an editing error, a previous version of this article misstated which question Warner Chappell presented and which question the Supreme Court considered. The error has been corrected.

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[1] 959 F.3d 39 (2d Cir. 2020).

[2] Nealy v. Atl. Recording Corp., No. 18-CIV-25474-RAR, 2021 WL 2280025, at *4 (S.D. Fla. June 4, 2021).

[3] Nealy v. Warner Chappell Music, Inc., 60 F.4th 1325 (11th Cir. 2023).

[4] Id. at 1334.

[5] Starz Ent., LLC v. MGM Domestic Television Distribution, LLC, 39 F.4th 1236, 1244 (9th Cir. 2022).

[6] 600 U.S. ____, 144 S.Ct. 478, 216 L.Ed.2d 1313 (2023).

[7] Warner Chappell Music, Inc. v. Nealy, No. 22-1078, 2024 WL 2061137 (U.S. May 9, 2024).

[8] 17 U.S.C. § 507(b).

[9] Warner Chappell Music, No. 22-1078, 2024 WL 2061137, at *1 (U.S. May 9, 2024).

[10] Id. at *4 (U.S. May 9, 2024).

[11] Id. at *5 (U.S. May 9, 2024).

[12] Id.

[13] HEARST NEWSPAPERS L.L.C. & Hearst Magazine Media, Inc., Petitioners, v. Antonio MARTINELLI, Respondent., 2023 WL 7343026, at *i.