LAW360

Portfolio Media. Inc. | 230 Park Avenue, 7th Floor | New York, NY 10169 | www.law360.com
Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

High Court Leaves Discovery Rule Question For Another Day

By **Ivan Moreno**

Law360 (May 9, 2024, 9:27 PM EDT) -- The U.S. Supreme Court's majority opinion Thursday that plaintiffs in copyright ownership disputes can recover damages past the three-year statute of limitations could lead to an increase in claims for infringing acts that occurred decades before, while leaving uncertainty about whether the so-called discovery rule that widened the time window for claims even exists, according to attorneys.

The 6-3 majority decision authored by Justice Elena Kagan bluntly said the Copyright Act includes "no time limit on monetary recovery" as long as the plaintiff files a timely claim regardless of when the infringement occurs. That means a claim is timely under the judicially created discovery rule if a plaintiff sues within three years of discovering an infringement act.

"I think, effectively, a copyright infringement claim can be brought almost at any time, and the damages and the incentive of damages is going to increase the number of those claims," said Michael Hobbs Jr., a partner at Troutman Pepper Hamilton Sanders LLP.

Hobbs said the decision will make it harder to litigate cases with facts that are decades old and will leave the Copyright Act's statute of limitations hanging by a thread.

"I think, effectively, if it's not gone, it's on life support," Hobbs said.

The case involves Florida music producer Sherman Nealy, who sued Warner Chappell Music Inc. and Artist Publishing Group LLC in 2018 after his release from prison, claiming the music companies used songs he owns without his permission. The music companies had licenses for the songs, but Nealy maintained in his complaint that his former business partner finalized those licenses without his knowledge during his imprisonment from 1989 to 2008 and 2012 to 2015.

Nealy's complaint is still being litigated in Florida district court, where a judge partially granted the defendants' summary judgment motion because Nealy could not prove ownership for some of the songs at issue. The district court certified an interlocutory appeal to the Eleventh Circuit asking to rule on whether Nealy could recover damages for the remaining disputed songs, most of which are outside the statute of limitations.

The Eleventh Circuit said yes, creating a circuit split with the Second Circuit, which held in 2020's Sohm v. Scholastic that the discovery rule caps potential damages to a three-year lookback period from the time of a lawsuit. Warner Chapell appealed the Eleventh Circuit's finding to the Supreme Court but did

not dispute the existence of the discovery rule.

Many attorneys were watching to see whether the justices would deliver a definitive opinion on the propriety of the discovery rule — an issue the high court has not directly addressed. But Justice Kagan made clear in her opinion that the high court would not do so in the present case either, saying the Supreme Court was confining its review to the "disputed remedial issue, excluding consideration of the discovery rule."

When the justices granted Warner Chappell's cert petition last year, they reframed the question raised to incorporate the assumption that the discovery rule governed the timeliness of Nealy's claim. The reframing was better aligned with the interlocutory appeal the Eleventh Circuit decided.

Justice Kagan explained that the issue of the discovery rule "is not properly presented here, because Warner Chappell never challenged the Eleventh Circuit's use of the discovery rule below."

The high court's majority opinion was the right one, according to Nancy Mertzel, founder and managing partner of Mertzel Law PLLC.

"If you assume there is a discovery rule, and you look at the language of the statute, this is where you come out. The statute does not have any time limit on how far back you can recover damages," Mertzel said.

While the opinion provided some certainty about what lawyers can expect regarding the scope of damages in certain copyright cases, the justices left the bigger question unanswered, said Jason Bloom, partner and chair of Haynes and Boone LLP's intellectual property litigation and copyright practice group.

"It seems kind of like they're putting the cart before the horse a little bit by addressing this issue, rather than addressing the discovery rule," Bloom said.

Some attorneys said they were glad the justices issued an opinion at all, regardless of whether they tackled the discovery rule, according to Meaghan Kent, a partner at Morgan Lewis & Bockius LLP.

"I think a lot of attorneys were worried that they were going to punt it after the oral argument where they said, 'Well, wait a second, is this really before us?'" Kent said, referring to comments during oral arguments from Justices Samuel Alito and Neil Gorsuch, who wrote Thursday's dissent.

During arguments in February, Justices Alito and Gorsuch wondered why the court was considering the amount of damages recoverable under the discovery rule without first deciding whether the discovery rule was a provision supported in the Copyright Act.

Justice Gorsuch echoed those sentiments in his dissent, joined by Justices Alito and Clarence Thomas.

"Nothing requires us to play along with these particular parties and expound on the details of a rule of law that they may assume but very likely does not exist," Justice Gorsuch said. "Respectfully, rather than devote our time to this case, I would have dismissed it as improvidently granted and awaited another squarely presenting the question whether the Copyright Act authorizes the discovery rule."

Rod Berman, partner and chair of the intellectual property group at Jeffer Mangels Butler & Mitchell

LLP, wondered whether Warner Chappell erred by not directly challenging the Eleventh Circuit's application of the discovery rule.

"You could see reading through the lines that Warner Chappell seems like they may have made a mistake in agreeing to the discovery rule," Berman said. "There's at least three justices that would have ruled the accrual rule applies," he added, referring to the doctrine holding that claims begin to accrue when an alleged infringement happens.

Darius Gambino, partner and chair of the sports and entertainment practice at Saul Ewing LLP, agreed that if Warner Chappell had challenged the Eleventh Circuit's holding, the result might have been different.

"You have three of the justices in the dissent saying, 'We don't think it applies,'" Gambino said. "And then you've got Justice Kagan and the other members of the court basically saying, 'Hey, this wasn't before us, so don't blame us if it's not decided.'"

Gambino said he believes the discovery rule may end up back before the court, based on how the majority opinion and dissent were written. In the short term, he predicts "a lot of plaintiffs will try to expand their damages window using this case."

--Editing by Alanna Weissman and Dave Trumbore.

All Content © 2003-2024, Portfolio Media, Inc.