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Copyright Limitations: Waiting to Say 'Mine!'

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The question of repose in copyright law paradoxically seems to be the subject of more litigation now than ever before.

Last month, the U.S. Supreme Court heard argument in *Petrella v. Metro-Goldwyn-Mayer Inc.*, a case that concerns whether and how the equitable doctrine of laches applies to copyright infringement claims that are brought within the Copyright Act's rolling three-year statute of limitations, but long after the plaintiff was aware a possible claim existed.

In November 2013, the 9th U.S. Circuit Court of Appeals considered similar issues of delay, repose and prejudice in the context of disputes over copyright ownership, in an opinion addressing an issue of first impression within the circuit relating to the statute of limitations for infringement claims where ownership of the copyright is the crux of the dispute.

Faced with a challenge to its authorship or ownership, a copyright holder might choose to sue the challenger immediately to establish its rights. If, however, the copyright holder elects to wait and see if the challenger actually does something to infringe the copyright, and then ends up waiting more than three years, the copyright holder may be deemed to have waited too long, according to the 9th Circuit's recent decision in *Seven Arts Filmed Entertainment Limited v. Content Media Corporation*, 733 F.3d 1251 (9th Cir. 2013).

Under 9th Circuit precedent, the statute-of-limitations framework for suits under the Copyright Act is simple on its face. One must bring a civil action relating to copyright matters within three years of when the claim accrues. The general rule is that each infringing act causes a new claim for copyright infringement to accrue. Unlike infringement actions, however, ownership claims accrue only once — when there is a plain and express repudiation of the claimant's ownership.

This framework's apparent simplicity gets cloudier when one considers that every plaintiff must prove ownership of a valid copyright to succeed on a claim for copyright infringement and that ownership actions and infringement actions can have different accrual dates. So what happens if an infringement action accrued recently but the related ownership dispute arose more than three years ago?

The Seven Arts Case

With some potential qualifiers, the *Seven Arts* court answered that question by holding that the statute of limitations prohibits claims for copyright infringement when (1) "the gravamen of the dispute is ownership"

and (2) the statute of limitations would bar a free-standing ownership claim.

In 2005, the predecessors-in-interest to Seven Arts Filmed Entertainment Limited informed Paramount Pictures Corporation that they owned the copyrights in films that Paramount was distributing and demanded that Paramount pay royalties to them (instead of the entity Paramount was paying). Paramount rejected this demand and continued in its original course, thereby — in the 9th Circuit's view — plainly and expressly repudiating Seven Arts' claim of copyright ownership. Six years later, Seven Arts sued Paramount for copyright infringement. Because the gravamen of the infringement claim was the question of ownership that arose more than three years before Seven Arts filed suit, the 9th Circuit held that the district court properly dismissed the infringement action as barred by the statute of limitations.

Implications of Seven Arts

Seven Arts leaves a number of questions unanswered. Because the 9th Circuit determined that there was a "close relationship" between Paramount and Seven Arts' predecessors-in-interest, it declined to address whether its new rule would apply to "suits against unknown third parties." Given this uncertainty, the cautious approach for copyright holders may be to sue even "unknown third parties" within three years of the date when copyright ownership is first disputed — lest the copyright holders find themselves time-barred from asserting ownership in a future infringement action, and thus the victim of something akin to adverse possession. If the 9th Circuit eventually holds that its newly stated rule only applies to parties in a close relationship, caution may still be required if it is difficult to determine whether the entity challenging ownership is in a "close relationship" with the copyright holder.

Also unclear is the question of when ownership constitutes the "gravamen" of an infringement claim. In *Seven Arts*, the only issue truly in dispute was who owned the copyrights in question, so ownership was the obvious gravamen of the claim. But how will the 9th Circuit determine whether ownership is the gravamen of the claim if there is a serious argument about who owns the copyright and a serious argument about whether there is infringement even if the claimant is the copyright owner? Because ownership is a required element of all infringement claims, *Seven Arts* can be read to mean that each time ownership is disputed in an infringement action, ownership is the gravamen of the claim — since resolution of the ownership question could resolve the case. If instead courts attempt to weigh the relative strength of the ownership and infringement

arguments in each case to determine which is more significant and is therefore the "gravamen" of the claim, the result may be less certainty and predictability in the law and a resulting increase in litigation.

Furthermore, this latter "balancing" approach could have the perverse result of leaving a defendant with less statute-of-limitations protection if it has two defenses on the merits — (1) that the plaintiff does not own the copyright, and (2) that the defendant's use was not infringing *even if* the

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plaintiff owns the copyright — than it would have if its sole defense on the merits is that the plaintiff does not own the copyright. It would make little sense, for example, if Paramount *was not* protected by the statute of limitations if, in addition to raising questions about ownership, it also advanced a strong fair use or implied license argument that caused the court to classify the question of infringement — instead of ownership — as the "gravamen" of the dispute.

Some of the issues that may arise from the *Seven Arts* decision were predicted by the 9th Circuit in *Kling v. Hallmark Cards Inc.*, 225 F.3d 1030 (9th Cir. 2000), a case addressing a question similar to that posed in the *Seven Arts* case. Notably, *Kling* reached a decision in the context of laches that is the opposite of the decision the circuit reached in *Seven Arts* in the statute-of-limitations context. The 9th Circuit held in *Kling* that "the period of delay for laches for a copyright infringement claim runs only from the time that the plaintiff knew or should have known about an actual or impending infringement, not an adverse claim of ownership." The district court had determined that laches would prevent a copyright infringement claim if a plaintiff who was not the "obvious owner" of a copyright failed to sue promptly for a declaration of ownership after learning that another party claimed sole ownership of the copyright. The 9th Circuit criticized the district court's approach, stating that it "could engender much needless litigation" and "encourage would-be scavengers to assert meritless claims of ownership in the hope that non-obvious owners would fail to sue and therefore render themselves unable to challenge future infringements." These same concerns apply to the rule stated in *Seven Arts*, especially if the 9th Circuit decides that the rule applies to parties that are not in a "close relationship."

Additional litigation also may result due

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to scattershot defense tactics sometimes used in response to infringement claims. Imagine a situation in which a copyright holder writes a letter accusing a company of copyright infringement. The company responds by asserting a litany of defenses, including a claim that the copyright holder is not the rightful owner of the copyright and an assertion that the company's actions constitute fair use. The challenge to the ownership of the copyright is more bluster than substantive assertion, but the copyright holder finds the fair use arguments sufficiently worrisome that it decides not to sue. Five years later, that same company uses the copyrighted work in a manner that constitutes an obvious infringement. When the copyright holder then sues based on this new infringement, it will face a risk that the statute of limitations could be found to bar the suit because of the prior ownership challenge. To avoid such a situation, copyright holders who find themselves in the initial scenario — with a makeweight challenge to their ownership coupled with a strong argument that there is no infringement — may feel compelled to pursue litigation that they otherwise would not have pursued prior to the *Seven Arts* decision.

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