Starz v. MGM: Ninth Circuit Saves Copyright Infringement's Discovery Rule at the Cost of Rejecting Second Circuit's Interpretation of Damages

I. OVERVIEW

It is not every day one leisurely views a streaming service and uncovers a violation against his high-profile employer that leads to an uproar of hundreds of claims filed and a crucial divide between circuit courts. However, a Starz Entertainment LLC (Starz) employee found himself in this exact predicament after stumbling upon *Bill & Ted's Excellent Adventure* on Amazon Prime Video (Amazon) one day in 2019.[1] Nine months later, 340 claims of copyright infringement were asserted against one of the largest streaming services by a prominent entertainment distribution company.[2] The subscription-based streaming service, Starz, had previously entered into two separate licensing agreements in 2013 and 2015 with MGM Domestic Television Distribution LLC (MGM) to stream a total of 585 movies and 176 television shows in exchange for a lump sum payment.[3] Included in this exclusive list of titles was *Bill & Ted's Excellent Adventure*. Starz proceeded to contact MGM after its employee found the title on Amazon Prime, and MGM offered additional periods of exclusivity to remedy the situation.[4] Upon further investigation, Starz discovered twenty-two more films on Amazon that were included in its licensing agreements with

1. Starz Ent., LLC v. MGM Domestic Television Distrib., LLC, 39 F.4th 1236, 1238 (9th Cir. 2022).

2. Starz brought 340 claims of direct copyright infringement, 340 claims of contributory copyright infringement, 340 claims of vicarious copyright infringement, one claim of breach of contract, and one claim of breach of the covenant of good faith and fair dealing. *Id*. at 1239.

3. On July 26, 2013 and May 7, 2015, Starz entered into two licensing agreements, or Library Agreements, with MGM to gain exclusive rights of titles to stream on its platform within the United States. These agreements allowed Starz to be the only streaming service housing these titles for specified periods of time ranging from months to years. *Id*. at 1238.

4. *Id.*

MGM.[5] Ultimately, Starz found almost 100 other films licensed to others during the time they were exclusively contracted to Starz.

Less than a year after discovering MGM's violations, Starz sued MGM, bringing various claims of copyright infringement (one for each title found on third party services).[6] MGM countered with a motion to dismiss, claiming Starz was barred from collecting any damages for copyright infringements "that occur more than three years prior to the filing of the complaint."[7] The District Court denied MGM's motion to dismiss, finding the discovery rule under the Copyright Act as still in effect. This rule allowed for the collection of damages when Starz "reasonably was not aware of the infringements at the time they occurred."[8] MGM appealed to the United States Court of Appeals for the Ninth Circuit, which affirmed the district court's holding.[9] The United States Court of Appeals for the Ninth Circuit *held* that Starz timely filed its copyright infringement claims under the discovery rule and was not barred from damages for *all* acts of infringement claimed. *Starz Entertainment, LLC* v. *MGM Domestic Television Distribution, LLC,* 39 F.4th 1236, 1238 (9th Cir. 2022).

II. BACKGROUND

The statute of limitations for a civil action allows claims to be brought within three years after the claim accrues.[10] This time limit is in place for various reasons, including the discouragement of laches.[11] However, defining when exactly a claim "accrued" has caused great debates within the courts, specifically in copyright infringement cases.

5. *Id.*

6. *Id.* at 1239.

7. *Id.* (quoting Petrella v. Metro-Goldwyn-Mayer, Inc., 572 U.S. 663, 671-72 (2014)).

8. *Id.*; *see also* Starz Ent., LLC v. MGM Domestic Television Distrib., LLC, 510 F. Supp. 3d 878, 887 (C.D. Cal. 2021) (quoting the district court's conclusion in denying MGM's motion to dismiss Starz's action).

9. The Court of Appeals for the Ninth Circuit had jurisdiction to hear the interlocutory appeal pursuant to 28 U.S.C. § 1292(b) and reviewed the district court's denial of MGM's motion to dismiss under a de novo review. *Starz*, 39 F.4th at 1239.

10. 17 U.S.C. § 507(b).

11. The laches doctrine has been applied in copyright infringement cases to prohibit a plaintiff, who knew of infringing acts, from bringing an action outside of the statute of limitation period but still seek damages for all years she knew the acts were occurring. Applying the doctrine helps protect defendants from prejudice who reasonably believed they were not infringing for the entire period and does not allow plaintiffs to bring suits when the damage amount is most convenient for them. *See Petrella*, 572 U.S. at 675.

For the past twenty-five years, the United States Supreme Court has held the limitation period begins when the plaintiff has a complete and present cause of action, or until the plaintiff can file suit and obtain relief.[12] In the context of copyright infringement, a claim accrued when one violated any of the "exclusive rights of the copyright owner," as this infringing event *was* the accrual.[13] This single act of infringement has been deemed the "incident of injury rule" to the Supreme Court for years.[14] Under the incident to injury rule, one can file an action up to three years after the claim accrues (or the infringing act occurs).[15] However, the plaintiff could only collect damages three years back from when the suit was filed, and could not gain relief from any infringement committed in earlier years.[16] Although straightforward, the incident to injury rule leaves important questions yet to be answered: What if the injured had no reason to know of the infringing acts until after the three-year statutory period? What if there is more than one infringing act committed by the defendant?

In 1994, the Ninth Circuit aimed to answer these questions by recognizing the discovery rule to copyright infringement claims.[17] The discovery rule allows for a cause of action to be brought within the three-year limit when one *discovers* the infringement, regardless if the claim accrued before this time frame.[18] The Ninth Circuit clarified the statute of limitations for copyright infringement cases, acknowledging that each successive incident of infringement holds its own, separate limitation

12. Bay Area Laundry & Dry Cleaning Pension Tr. Fund v. Ferbar Corp., 522 U.S. 192, 201 (1997) (citing Rawlings v. Ray, 312 U.S. 96, 98 (1941)); *see also* Reiter v. Cooper, 507 U.S. 258, 267 (1993).

13. 17 U.S.C. § 501(a).

14. *Petrella*, 572 U.S. at 670.

15. *Id.* Similarly, a cause of action may accrue when one has "knowledge of a violation or is chargeable with such knowledge." Roley v. New World Pictures, Ltd., 19 F.3d 479, 481 (9th Cir. 1994).

16. *Petrella*, 572 U.S. at 677.

17. *See id*. at 481.

18. *Id*. The Ninth Circuit later specified it did not ban damages for infringing acts occurring outside of the three-year period as long as the plaintiff did not know of the infringement, and this lack of knowledge was considered reasonable. *See* Polar Bear Prods., Inc. v. Timex Corp., 384 F.3d 700, 706 (9th Cir. 2004); *see also* William A Graham Co. v. Haughey, 568 F.3d 425, 433 (3d Cir. 2009) (acknowledging the statute of limitations beginning when one discovered, or *should have* discovered, the infringing acts).

period.[19] However, a plaintiff may still bring an action by compiling all infringing acts within the three-year period if applicable.[20]

Since initially recognizing the discovery rule in 1994, the Ninth Circuit has consistently used this rule to define "accrual" in copyright infringement claims alongside the incident of injury rule.[21] In fact, most courts recognize this accrual rule today, as seen in the notable case, *Petrella v. Metro-Goldwyn-Mayer, Inc.* [22] In *Petrella*, the plaintiff brought a copyright infringement action against MGM for continuously using the screenplay titled "Raging Bull" for years after Petrella obtained the rights.[23] The court only awarded Petrella damages for the use of the screenplay that occurred within three years of her filing suit because she was aware of the infringing acts happening beforehand, following the discovery rule.[24]

However, a debate has formed on the existence of another kind of damages bar stemming from *Petrella*, which the Second Circuit has recognized.[25] In *Sohm v. Scholastic, Inc.*, the Second Circuit directly addressed the issue, holding that one could bring claims that were timely accrued under the discovery rule, but a three-year "lookback period" must be applied to determine the amount of relief that could be sought.[26] Thus, even if one was reasonably unaware of any infringing acts until after the three-year period, the damages he could recover would be limited to those acts found within the three-year period (prior to filing an action), if any at all.[27] The Second Circuit explicitly limited damages to three years prior

19. For example, if one committed an infringing act ten years ago and another act two years ago, the three- year statute of limitations applies to each act. Therefore, the exclusive holder could bring suit under the incident to injury rule for the recent infringing act even if an earlier act was present. *Roley*, 19 F.3d at 481.

20. *Id.* at 481-82.

21. *See, e.g.*, Oracle Am., Inc. v. Hewlett Packard Ent. Co., 971 F.3d 1042, 1047 (9th Cir. 2020); Media Rts. Techs., Inc. v. Microsoft Corp., 922 F.3d 1014, 1022 (9th Cir. 2019).

22. *Petrella*, 572 U.S. at 683 (citing WILLIAM F. PATRY, PATRY ON COPYRIGHT § 20:19 (2013)).

23. *Id.* at 674.

24. *Id.* at 683. The discovery rule only permits claims of infringement occurring outside of the 3-year period if the injured had no knowledge of them. Petrella was aware of the infringing acts that occurred more than 3 years ago, thus she could only recover for those falling within the statutory period, per the discovery rule. *Id.*

25. *Id.* at 686-87.

26. 959 F.3d 39, 52 (2d Cir. 2020).

27. *Id.*

to filing an action, no matter if the incident to injury or discovery rule applied to the claims brought.[28]

III. COURT'S DECISION

In the noted case, the Court of Appeals for the Ninth Circuit split with the Second Circuit's holding in *Sohm*, concluding that *Petrella* never implemented a separate damages ban in regard to copyright infringement accrual rules.[29] The Ninth Circuit affirmed the district court's holding, listing multiple reasons to split with the Second Circuit. First, the court relied on the Copyright Act as a reference for determining when an action for infringement can be brought.[30] The Court then further examined when a claim "accrues" by addressing various issues, such as infringements occurring over multiple years, and when the copyright owner was not aware of the infringing acts.[31] Next, the Court examined whether the doctrine of laches affects either the discovery or incident of injury rule, specifically when analyzing the *Petrella* decision.[32] Lastly, the Court took a moral approach in examining the various rules and what would be most reasonable in light of all circumstances shown.[33]

The Ninth Circuit relied on the Copyright Act's statutory language, which specifically permits damages occurring prior to the three-year window as long as the "copyright owner did not discover and reasonably could not have discovered infringement" before the three-year period began.[34] Here, the Court splits from the Second Circuit's application of a separate damages ban. Rather, the Court noted that the Act merely limits actions to "three years after the claim accrued" and does not state a limitation based on the "date the complaint is filed."[35] As the Ninth Circuit pointed out, the separate damages rule is contradictory to the discovery rule itself and begs the question why there would even be a need for the discovery rule if this were the case.[36] As such, recognizing the Second

28. *Id.* at 51 (deciding this opinion from the court's interpretation of the Supreme Court's holding in *Petrella*).

29. Starz Ent., LLC v. MGM Domestic Television Distrib., LLC, 39 F.4th 1236, 1244 (9th Cir. 2022) (citing *Sohm*, 959 F.3d at 52).

30. *Id.* at 1239.

31. *Id.* at 1240.

32. *Id.* at 1241.

33. *Id.* at 1246.

34. 17 U.S.C. § 507(b).

35. *Starz*, 39 F.4th at 1245 (citing 17 U.S.C. § 507(b) (internal quotation marks omitted)).

36. *Id.* at 1244.

Circuit's damages ban would essentially make the discovery rule "functionally identical to the 'incident to injury' rule."[37]

The Ninth Circuit distinguished *Petrella*, noting that, there, the focus was never on the discovery rule, and *Petrella* should not be used as evidence of this separate damages ban.[38] Thus, *Petrella* held when the incident of injury rule triggers an accrual, the Act itself will account for the delay of bringing action because it limits the plaintiff's recovery to a three-year period before she brought action.[39]

The Ninth Circuit noted that a majority of district courts falling within the *Petrella* court's nine cited appellate courts also reject the Second Circuit's damages bar created in *Sohm*.[40] The Court stated that *Sohm* disregarded the fact that *Petrella* was only concerned with plaintiffs who wait to bring a suit on infringing acts they were already aware of.[41] Thus, the Ninth Circuit failed to understand how *Sohm* could argue that *Petrella* dealt with plaintiffs who had no knowledge of infringing acts before promptly filing suit.[42]

Lastly, the Ninth Circuit reaffirmed the district court's interpretation of *Petrella*, introducing a moral rationale as a basis to uphold the discovery rule. The Court noted that without the discovery rule operating as the district court intended, an injured plaintiff would be simply out of luck from any recovery if he did not know of the infringing acts before the three-year period ran out.[43] All statutes of limitations, the Court reasoned, were put in place "to promote the timely prosecution of grievances and discourage needless delay."[44] Thus, there should be no punishment for plaintiffs who bring timely suits upon learning of an infringement, as this is what the Copyright Act intended to promote. Further, allowing such a bar would only incentivize copyright violators to continue to infringe on these exclusive rights, especially in situations where the "holder has little means of discovering those acts."[45] Ultimately, the Ninth Circuit created a split between the Second Circuit,

37. *Id.*
38. *Id.* at 1245.
39. *Id.*
40. *Id.* at 1244.
41. *Id.* at 1242.
42. *Id.*
43. *Id.* at 1240 (explaining the court's reasoning in Roley v. New World Pictures, Ltd., 19 F.3d 479, 481 (9th Cir. 1994)).
44. *Id.*
45. *Id.* at 1246.

holding instead that *Petrella* did not alter any law regarding the general incident of injury rule and its exception, the discovery rule.[46]

IV. ANALYSIS

In the noted case, the Ninth Circuit arrived at the correct outcome, as its interpretation of the discovery rule has been widely accepted across the court system today. However, the split between this predominant view and the Second Circuit's outlier opinion boils down to the courts' differing interpretations of *Petrella*. Here, the Ninth Circuit took the opposite view of *Petrella*, one backed by every other court that recognizes the discovery rule.[47] In the noted case, the Court distinguished *Petrella* by noting that Petrella only referenced the incident of injury rule when it explained the Act itself "takes account of delay" through the three-year limitation period.[48] Thus, the Ninth Circuit followed in all other courts' footsteps by declining to enforce a separate damages ban and kept the discovery rule as an exception separate from the incident of injury rule.[49]

Although a correct decision, this Circuit divide now leaves many questions to be answered, including an important procedural impact on copyright infringement actions in the future. Because the Ninth Circuit encompasses "Hollywood" and the Second Circuit holds the state of New York, these two Circuits presumably house most copyright infringement cases regarding the entertainment industry at large. Before this decision, parties in such actions would not have focused on which jurisdiction the suit was filed in, at least for purposes of the discovery rule. Now, whether an action is brought in either the Second or Ninth Circuit could very well decide the fate of recovery alone.[50]

Further, the Ninth Circuit's decision still holds implications that could be more burdensome for courts than expected. By affirming that a plaintiff can recover for any infringing act as long as he files within three years of having reasonable notice, the court could be opening the floodgates to a never-ending stream of suits. Theoretically, a plaintiff today could sue for an infringing act that occurred in 1950 if he reasonably

46. *Id.*

47. *Id.*

48. Petrella v. Metro-Goldwyn-Mayer, Inc., 572 U.S. 663, 677 (2014).

49. Eric Goldman, *The Ninth Circuit Reaffirms the Discovery Rule for the Copyright Act's Statute of Limitations – Starz v. MGM*, TECH. & MKTG. L. BLOG (July 25, 2022), https://blog.ericgoldman.org/archives/2022/07/the-ninth-circuit-reaffirms-the-discovery-rule-for-the-copyright-acts-statute-of-limitations-starz-v-mgm-guest-blog-post.htm [https://perma.cc/2BG6-XKLX] (quoting Psihoyos v. John Wiley & Sons, Inc., 748 F.3d 120, 124 n.3 (2d Cir. 2014)).

50. *Id.*

had no notice of the act until the present year, 2022.[51] Although this rule is to allow for recovery when an honest plaintiff would have otherwise been out of luck—how does one actually know when a plaintiff is being honest in discovering the act?

With technology expanding every day, copyright infringers can easily violate exclusive rights and bury their actions within the webs of the internet. Additionally, the profits made from these infringements will often, if not always, be greater than any damages to be paid, even when interpreting the discovery rule as held by the Ninth Circuit.[52] Nonetheless, copyright holders now have access to almost all sources with the click of a few buttons, making it increasingly easier to detect any violations. In trying to decide whether a plaintiff should have known of an infringing act, much investigation will have to ensue if a court is trying to successfully prove a plaintiff's candor.[53] This investigation could cost the court valuable time and monetary resources, while still holding the risk of never uncovering the correct answer.[54]

The discovery rule should also be interrogated as to whether it gives plaintiffs the benefit of the doubt, to the courts' own detriment, by allowing them to recover for acts performed a decade, or a century, earlier. Some suggest turning to elements held in tort actions for a clear solution to this issue. The Supreme Court could alter the Copyright Act to mimic defamation suits and take after the single publication rule.[55] Instead of allowing actions to be brought decades after they occur, the Act could make the statute of limitations commence after the first publication was made against the holder's exclusive rights.[56] Although this view would essentially abolish the discovery rule as we know it, it would also eliminate all frivolous cases that are only focused on accrual-rule interpretations, thereby bringing the attention back to the infringing act itself (what the Copyright Act was created to address).

In conclusion, the Ninth Circuit correctly upheld the district court's interpretation of the discovery rule. However, this does not take away from the current issue of having a circuit split in two of the most influential copyright infringement circuits in the country. It is clear the

51. *Id.* (citing Skidmore v. Zeppelin, 952 F.3d 1051, 1062 (9th Cir. 2021) (en banc)).

52. Goldman, *supra* note 49, at 26.

53. *Id.*

54. *Id.*

55. Eric Goldman, *There Is Essentially No Statute of Limitations for Online Copyright Infringement – APL v. US*, TECH. & MKTG L. BLOG (Sept. 4, 2019), https://blog.ericgoldman.org/archives/2019/09/there-is-essentially-no-statute-of-limitations-for-online-copyright-infringement-apl-v-us.htm [https://perma.cc/H94S-4N3S].

56. *Id.*

Supreme Court must step in soon to guide the Courts on how to navigate the Copyright Act's statute of limitations provision, and finally settle has become a highly litigated topic in recent years.

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