

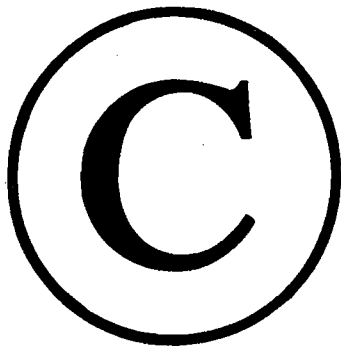
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The Copyright Statute of Limitations  
Gets a Make-Over

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**THE COPYRIGHT STATUTE OF LIMITATIONS  
GETS A MAKE-OVER**

by ERIC P. BERGNER and KATHERINE R. SCHAEFER\*

Among the most important questions lawyers must be able to answer with certainty is how long their clients have to assert legal claims or, its counterpart, how long their clients may be subject to such claims. The fundamental importance of statutes of limitation — in this instance, the three-year statute of limitations governing claims brought under the Copyright Act — makes troubling the decision of the district court for the Southern District of New York in *Carell v. Shubert Organization*,<sup>1</sup> and the subsequent decisions relying on it. *Carell* threatens the certainty and repose provided by statutes of limitation, at least with regard to copyrights, a certainty essential to the smooth functioning of the legal system.

#### INTRODUCTION

In *Carell*, plaintiff, Candace Carell, claimed to be the creator of the make-up designs for the faces of the characters in the legendary musical *Cats*. Carell had been engaged to execute the application of the make-up for the faces of the catlike characters in the show. She claimed authorship in the designs — some as her sole works and others as works jointly created with the show's designer, John Napier. Although Carell claimed to have created the designs in 1982 when the show first opened in the United States, she did not commence a lawsuit to enforce her copyright claims in the designs for seventeen years, until 1999. When she did, her complaint sought a declaration that she was the sole owner of the copyright in the makeup designs, and damages for infringements occurring during the three years preceding the commencement of the lawsuit.

The district court dismissed Carell's claim for a declaration of sole ownership in the copyrights on statute of limitations grounds.<sup>2</sup> However, the court permitted Carell to assert her copyright infringement claims. This decision, if generally adopted, would enable a plaintiff whose copy-

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\*Mr. Bergner is a partner in the Entertainment and Intellectual Property practice group at Moses & Singer LLP. Ms. Schaefer is an associate in the group. In the interest of full disclosure, our firm, Moses & Singer, represented the defendants in *Carell*. The court's decision was issued on defendants' motion to dismiss the complaint pursuant to Rule 12(b). Defendants sought an interlocutory appeal to the Second Circuit, which was denied. The case was subsequently settled out of court.

<sup>1</sup> 104 F. Supp. 2d 236 (S.D.N.Y. 2000).

<sup>2</sup> The district court dismissed Carell's claim for joint ownership on limitations grounds, as well.

right ownership has been in dispute for more than three years to avoid the bar of the Copyright Act's statute of limitations by recasting his or her claim as one for infringement of copyright, so long as an "infringement" has occurred within three years of the date of commencement of the litigation.

### I. APPLICATION OF SECTION 507(b) TO DISPUTES OF COPYRIGHT OWNERSHIP

#### A. *The Second Circuit's Decision in Stone*

Section 507(b) of the Copyright Act establishes a three-year statute of limitations for civil actions brought under the Act.<sup>3</sup> Actions for copyright infringement, therefore, must be brought within three years of the infringement. In actions involving a continuing course of infringing conduct beginning more than three years before the commencement of the action, a plaintiff will be precluded from recovering monetary damages relating to acts of infringement occurring prior to such three-year period.<sup>4</sup>

How the Act's statute of limitations is to be applied to non-infringement claims — the declaration of ownership or co-ownership of a copyright, for example — has been far less certain. The Second Circuit first addressed the issue in *Stone v. Williams*.<sup>5</sup> There, the illegitimate daughter of the late musician Hank Williams sought a declaration that, by virtue of her status as the child of the famed singer/songwriter, she was a co-owner of the renewal term of the copyrights in her father's songs. Plaintiff also sought an accounting, damages and imposition of a constructive trust. The district court held that her claims were barred by the three-year statute of limitations because they had accrued in 1979, on the date she had been told by her adoptive mother of her possible identity — thirteen years before the date on which she commenced her action.

The Second Circuit reversed, stating that the district court had applied the statute of limitations improperly to separate and distinct claims — one for a declaration of status as child of the author, and the other for relief as a result of that status. The court concluded that a declaratory judgment action would only be time-barred if plaintiff's right to assert the underlying substantive right at issue would also be barred. The Second Circuit agreed with the lower court that plaintiff's cause of action regarding copyright ownership accrued in 1979 when she learned of her possible status as Williams' child, but determined that her legal status as child of

<sup>3</sup> 17 U.S.C. § 507(b) (2000).

<sup>4</sup> See *Makedwe Publ'g Co. v. Johnson*, 37 F.3d 180 (5th Cir. 1994); *Robey v. New World Pictures, Ltd.*, 19 F.3d 479 (9th Cir. 1994); *Rosette v. Rainbo Mfg. Corp.*, 354 F. Supp. 1183 (S.D.N.Y. 1973), *aff'd*, 546 F.2d 461 (2d Cir. 1976).

<sup>5</sup> 970 F.2d 1043, 1048 (2d Cir. 1992), *cert. denied*, 508 U.S. 906 (1993).

the author (the underlying substantive right) was not lost as a result of her delay in seeking relief as a result of that status. Rather, the court determined that copyright renewals, like claims of infringement, create a property interest for the benefit of the copyright holder, and that a separate cause of action arises each time the holder of an interest in a copyright renewal is deprived of that right. Because plaintiff had been denied her share of her father's copyright renewals within three years of the date on which she commenced her action, her action for an accounting was timely under section 507.

In addition to not barring the declaratory judgment claim, the *Stone* court also found that plaintiff's claim for other equitable relief — the imposition of a constructive trust on income derived from the renewals — was also timely.<sup>6</sup> The court stated that a beneficiary is barred from enforcing a constructive trust only if the limitations period for analogous actions at law has run. In *Stone*, plaintiff's remedy at law was for an accounting based upon plaintiff's claimed entitlement to a share of copyright renewals. Because her action for an accounting was not barred, the court concluded that *Stone* was not barred from seeking imposition of a constructive trust upon income derived from such renewals within three years of the action.

#### B. *The Ninth Circuit Weighs In*

The Second Circuit appeared to have established a rule in *Stone* that a copyright co-owner's failure to seek a declaration of rights within three years of accrual would not be a bar to his or her right to sue for an accounting but would merely limit such accounting to the three years preceding the commencement of the action. The Ninth Circuit reached a different conclusion four years later in *Zuill v. Shanahan*.<sup>7</sup> *Zuill* involved the ownership of the copyright to "Hooked on Phonics," the popular educational program designed to teach children to read. Defendant developed the program and plaintiffs created the music. In 1987, defendant offered plaintiffs a written agreement promising each of them a percentage of profits from "Hooked on Phonics," but stating that defendant's publishing company was the "sole owner and copyright holder" of the program. Dissatisfied with the compensation offered, plaintiffs refused to sign the agreement.

In 1991, after "Hooked on Phonics" began to generate substantial revenues, plaintiffs sued defendant for a declaration that they were each

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<sup>6</sup> A constructive trust is a remedial device imposed in favor of one entitled to property when it is wrongfully withheld or when the retention of the property by the current holder would result in unjust enrichment.

<sup>7</sup> 80 F.3d 1366 (9th Cir.), cert. denied, 519 U.S. 1090 (1996).

one-third owners of the copyright in the program and for an accounting. The district court granted defendant's motion for summary judgment, dismissing the action as time-barred under the Act's three-year statute of limitations. On appeal, plaintiffs argued that even if the three-year limitation applied to their claims, a new claim arose every time the product was sold. Therefore, they claimed they were still entitled to a declaration of co-ownership and an accounting relating to sales made during the three-year period prior to the commencement of the action. The Ninth Circuit rejected this argument and affirmed the district court's dismissal, concluding that:

[C]laims of co-ownership, as distinct from claims of infringement, accrue when plain and express repudiation of co-ownership is communicated to the claimant, and are barred three years from the time of repudiation.<sup>8</sup>

The Ninth Circuit found that defendant had repudiated plaintiffs' co-ownership claim by expressly and repeatedly claiming sole ownership of the copyright in "Hooked on Phonics," first, when he marketed the product in 1986 and, again, in 1987, when he offered plaintiffs the royalty agreement claiming sole ownership in the copyright. These repudiations meant plaintiffs' claims accrued no later than 1987, thereby barring their 1991 lawsuit.

Not surprisingly, the plaintiffs in *Zuill* relied on *Stone* in an attempt to preserve their claims of co-ownership. However, the *Zuill* court found that because *Stone* was not controlling in the Ninth Circuit, it did not need to decide whether *Stone* was "properly distinguishable."<sup>9</sup>

### C. Merchant and Its Progeny

The question of how the Second Circuit would apply the rule in *Stone* in the wake of the Ninth's Circuit's decision in *Zuill* was answered soon thereafter in *Merchant v. Levy*.<sup>10</sup> In *Merchant*, plaintiffs, members of the 1950s musical group "The Teenagers," claimed to have co-authored the musical composition *Why Do Fools Fall In Love?*. Defendants registered the song for copyright, but accorded no authorship credit to plaintiffs. More important, plaintiffs never received any royalties from the song. In 1987, they commenced an action for a declaration that they were co-owners of the copyright in the song and for an accounting of royalties. Although the song was written in 1955, plaintiffs asserted that their delay in commencing the action was justified because defendant Morris Levy had threatened to kill them if they pursued an action for royalties. A jury found that plaintiffs' fears were justified and that they had reasonably refrained from commencing the lawsuit. Based upon the jury's findings, the

<sup>8</sup> *Id.* at 1369.

<sup>9</sup> *Id.* at 1370.

<sup>10</sup> 92 F.3d 51 (2d Cir. 1996), *cert. denied*, 519 U.S. 108 (1997).

district court granted plaintiffs' request for a declaration of copyright co-ownership, holding that the three-year statute of limitations did not bar plaintiffs' claim but rather only limited plaintiffs' damages to those that had accrued within three years of the commencement of the lawsuit. The district court also held that the action was not barred by the doctrine of laches, refusing to allow defendants to profit from their "untoward actions."<sup>11</sup>

The Second Circuit reversed, dismissing the action as time-barred. According to the Second Circuit, plaintiffs' action accrued in 1961, the year they attained the age of majority. "A cause of action accrues when a plaintiff knows or has reason to know of the injury upon which the claim is premised."<sup>12</sup> Plaintiffs did not, however, commence their action until twenty-six years later. Plaintiffs' argument that the statute was tolled due to duress was rejected on appeal. The Second Circuit stated:

Though Plaintiffs contend on appeal that the statute was tolled, the basis for such tolling, duress, did not arise until 1969, ending in 1984. By 1969, however, the three-year statute of limitations had long since expired.<sup>13</sup>

Notably, in *Merchant*, the Second Circuit limited its holding in *Stone* almost exclusively to its facts, stating:

[*Stone*] stands for the narrow proposition that, in certain situations, the statute of limitations will not be applied to defeat the copyright co-ownership claim of an author's relative accruing more than three years before the lawsuit where uncertainty surrounded the relative's status as a member of the author's family.<sup>14</sup>

Following *Merchant*, the district court for the Southern District of New York decided several cases that seemed to confirm that *Stone* would be limited to its facts and that, as a general rule, any claim based on sole or co-ownership of a copyright would be governed by the three-year statute of limitations.

*Netzer v. Continuity Graphics Associates, Inc.*<sup>15</sup> was the first case in which the district court applied the rule in *Merchant*. There, plaintiff was a comic book artist who claimed to have created drawings and a story outline for a comic book to be based on a female super hero named Ms. Mystic. The character had been created by defendant Neal Adams, an artist

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<sup>11</sup> *Merchant v. Lymon*, 828 F. Supp. 1048, 1064 (S.D.N.Y. 1993).

<sup>12</sup> *Merchant*, 92 F.3d at 56.

<sup>13</sup> *Id.*

<sup>14</sup> *Id.*

<sup>15</sup> 963 F. Supp. 1308 (S.D.N.Y. 1997).

who worked with plaintiff at DC Comics. According to Netzer, he and Adams had orally agreed to be "Partners, 50/50 in Ms. Mystic." When Adams left DC, he began publishing a series of comic books based on Ms. Mystic, first through Pacific Comics, and when that company ceased publishing, through defendant Continuity Graphics. All but the first of these comic books contained the following copyright notice: "MS. MYSTIC (including all prominent characters featured in this magazine and the distinctive likenesses thereof) is copyrighted 1982 by Neal Adams."<sup>16</sup> Plaintiff was unaware of these publications until 1984, when he obtained a copy of a Ms. Mystic comic book identifying Adams as the sole author of the work. Plaintiff claimed to have then contacted Adams who assured him that the ownership attributed in the notice was a mistake and that no money had been made from the comic books. In 1990, plaintiff discovered that other issues in the Ms. Mystic comic book series had been published, and that the copyright notices on all issues identified Adams as the sole author. Three years later, in 1993, plaintiff commenced an action in the Southern District claiming, among other things, co-authorship of the copyright in Ms. Mystic.

On defendants' motion for summary judgment, the district court found plaintiff's co-authorship claims to be time-barred, reiterating the rule in *Merchant* that "plaintiffs claiming to be co-authors are time-barred three years after accrual of their claim from seeking a declaration of copyright co-ownership rights."<sup>17</sup> In cases involving claims based on co-ownership of copyright, the cause of action will accrue when an "express assertion of sole authorship or ownership" is made by the defendant.<sup>18</sup> In *Netzer*, the court found that plaintiff's cause of action accrued no later than 1984 when he purchased the Ms. Mystic comic book and saw the copyright notice identifying Adams as the sole author. The court therefore held that the statute of limitations for plaintiff's claim ran in 1987.<sup>19</sup>

<sup>16</sup> *Id.* at 1315-16.

<sup>17</sup> *Merchant*, 92 F.3d at 56.

<sup>18</sup> *Netzer*, 963 F. Supp. at 1315

<sup>19</sup> The cases decided since *Netzer* have adopted the same approach. *See, e.g.*, *Margo v. Weiss*, 213 F.3d 55 (2d Cir. 2000) (plaintiffs' claim for a declaration of co-authorship of the song *The Lion Sleeps Tonight* was barred because they should have known of the claim more than three years before they commenced the action); *Duane v. Blue Man Group Ltd. P'ship*, 73 F. Supp. 2d 382 (S.D.N.Y. 1999) (plaintiff was barred from asserting a co-authorship claim regarding compositions for the performance piece *Blue Man Group: Tubes* because he delayed more than three years in asserting it); *Weber v. Geffen Records, Inc.*, 63 F. Supp. 2d 458 (S.D.N.Y. 1999) (plaintiff could not assert a co-ownership claim in the copyright to two Guns N' Roses songs because he waited more than three years to assert it); *cf. Aday v. Sony Music Entm't, Inc.*, 44 U.S.P.Q.2d (BNA) 1688 (S.D.N.Y. 1997) (three-year statute of limitations barred performer "Meatloaf" from seek-

In 1999, the Southern District decided a case that appeared to address a crucial issue not raised in *Merchant*; that is, whether the three-year limitation period applies to a claim of sole authorship as well as joint ownership and/or authorship. In *Fort Knox Music, Inc. v. Baptiste*,<sup>20</sup> the plaintiff music publishing companies brought a declaratory judgment action against defendant Philippe Baptiste seeking a declaration that he was time-barred from commencing an action against plaintiffs to challenge plaintiffs' rights and copyright in the popular song, *Sea of Love*. In 1959, Baptiste and George Khoury transferred rights in the song to Kamar Publishing Company, predecessor-in-interest to plaintiff publisher Fort Knox, and represented that they were co-authors of the song. However, in that same year, Baptiste protested to the music publisher that Khoury had been improperly identified as a co-author and claimed that he alone was the author of the song. Baptiste continued to assert his sole authorship of the song over the next four decades and when, in 1997, he threatened to sue plaintiff for copyright infringement, the music publisher commenced the declaratory judgment action. Relying on *Merchant*, the court held that Baptiste was barred from asserting "any right arising from his claim of sole authorship" of the song *Sea of Love* because he had failed to assert any such claim within three years of the time when he knew or had reason to know that plaintiff was crediting Khoury as a co-author of the composition.<sup>21</sup>

*Merchant*, *Netzer* and *Fort Knox* dealt with claims of copyright ownership, and not infringement. But it seemed to follow logically from those decisions that a putative copyright owner, whose claims of ownership had been in dispute for more than three years and who would be time-barred from obtaining a declaration that he or she was the copyright owner, would similarly be time-barred from asserting infringement claims based upon that ownership. This logic was applied by the Southern District in *Minder Music, Ltd. v. Mellow Smoke Music Co.*<sup>22</sup>

In *Minder*, the plaintiff music publisher claimed both sole ownership of the copyrights in certain musical compositions in which defendants claimed a 50% interest and infringement based on its exclusive ownership. Relying on *Merchant*, the court held that a plaintiff asserting ownership claims must commence an action within three years after accrual of the claims. Significantly, the court repudiated plaintiff's attempt to portray its claim as one of ongoing copyright infringement (and therefore not barred by the three-year statute of limitation), stating that "the statute of limita-

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ing a declaration that he was not defendants' employee for hire under agreements pursuant to which he recorded three albums and that he was therefore the sole owner of the copyright to the master recordings).

<sup>20</sup> 47 F. Supp. 2d 481 (S.D.N.Y. 1999).

<sup>21</sup> *Id.* at 485.

<sup>22</sup> 52 U.S.P.Q.2d 1700 (S.D.N.Y. 1999).

tions cannot be defeated by portraying an action as one for infringement when copyright ownership rights are the true matter at issue."<sup>23</sup> The *Minder Music* court held that, in essence, plaintiff was asserting a claim not for infringement, but for sole copyright ownership. Therefore, the action was barred because it had not been brought within three years of when the ownership claim had accrued.

## II. THE ANOMALOUS DECISION IN CARELL

In light of *Merchant* and its progeny, it should have been a forgone conclusion that Carell's claims for a declaration of copyright ownership and for infringement based on that ownership would be found to be time-barred. There was no dispute as to when Carell's ownership claim arose. The New York production of *Cats* opened in 1982. Thus, there was no possible way for Carell to argue that her ownership interest was repudiated by The Cats Company, the producer of the musical, less than three years prior to the commencement of her suit. In fact, in 1990, nine years before Carell commenced her suit, she filed an application to register the copyright in the make-up designs. When this was brought to the attention of The Cats Company, it challenged the registration. Carell subsequently demanded that The Cats Company pay for past use of the designs and take a license to continue using them, but the demand was refused. Another seven years passed before Carell finally commenced an action against The Cats Company (and many others involved in the production of the musical) in the Southern District of New York for a declaration of her ownership rights — sole ownership in certain of the designs and joint ownership with John Napier in others. As to the designs in which she asserted sole ownership, she sued for infringement. As to the designs in which she asserted joint ownership, she sought an accounting.

The Cats Company and the other defendants moved to dismiss the complaint on the grounds that all of Carell's copyright claims were barred by the three-year statute of limitations governing claims arising under section 507 of the Copyright Act. Adopting the reasoning in *Merchant* and the cases that followed, the court did hold that plaintiff's claims involving declarations of ownership in the copyrights — her sole and joint ownership claims and her related accounting claim — were barred by the three-year statute of limitations because Carell had known since at least 1992 that The Cats Company repudiated her claims of ownership.

But, the court reversed course as to Carell's claims for copyright infringement, which it held were *not* time-barred. The court determined that plaintiff's infringement claim was "separate and distinct from the adjudication of her ownership claims" and that her infringement claim was

<sup>23</sup> *Id.* at 1701.

“not dependent” upon her claim of either sole ownership or an accounting. The court held that the “gravamen” of plaintiff’s claim was infringement and not ownership.<sup>24</sup>

This effective separation of Carell’s ownership claim from her infringement claim creates an inconsistency which cannot be reconciled. This is because the two concepts are necessarily intertwined. One of the basic elements of a cause of action for copyright infringement is ownership of a valid copyright.<sup>25</sup> Without ownership, a plaintiff will have no standing to sue for infringement of that copyright.<sup>26</sup> It is therefore self-contradictory to forbid plaintiff from proving ownership, while at the same time permitting an infringement claim to proceed.<sup>27</sup> Indeed, it is not clear how Carell would have overcome this hurdle if the case had proceeded to trial, as we do not see how she could have proven the ownership element required to make out an infringement case having been barred from proving ownership of her copyright claims.<sup>28</sup>

The ramifications of this anomalous decision for copyright owners, at least in New York, are readily apparent. *Carell* creates a situation where a party with a barred ownership claim may be able to evade the bar simply by seeking infringement remedies in addition to or instead of a declaratory judgment. This would largely nullify the *Merchant* statute of limitations rule. Although the *Carell* court acknowledged that “*Merchant* should not be construed as allowing plaintiffs to make an ‘end-run’ around the statute [of limitations],”<sup>29</sup> the decision does precisely that.

The same policies that support the time bar of the ownership declaratory judgment claim support a time bar of the ownership claim as part of

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<sup>24</sup> *Carell v. Schubert Org.*, 104 F. Supp. 2d 236, 254 (S.D.N.Y. 2000).

<sup>25</sup> To make out a prima facie case of copyright infringement, a plaintiff must prove two elements: (1) ownership of a valid copyright or an exclusive right under copyright, and (2) copying of constituent elements of the work that are original. *Feist Pub’ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 361 (1991).

<sup>26</sup> *See, e.g., Itar-Tass Russian News Agency v. Russian Kurier, Inc.*, 153 F.3d 82, 90-91 (2d Cir. 1998); *see also* 3 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 12.05[C] (2002) (noting that *Carell* “does not hold” that a plaintiff can potentially assert a copyright infringement claim without ever establishing one of the prima facie elements of a copyright infringement claim, namely, ownership of the copyright in the first instance).

<sup>27</sup> The judge who presided over the *Carell* case, Judge Schwartz (now deceased), recognized the anomaly and certified the question to the Second Circuit so that The Cats Company could take an intermediate appeal, but the Second Circuit refused. Oddly enough, Judge Schwartz had also decided *Minder Music*, which had appeared to resolve the issue.

<sup>28</sup> *See Feist*, 499 U.S. at 361.

<sup>29</sup> *Carell*, 104 F. Supp. 2d at 255.