The Defense of Laches in Copyright Infringement Claims

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INTRODUCTION

US copyright law provides incentives for creators to distribute their works through provisions for exclusive rights for reproduction and licensing. Part of the compensation scheme allotted to creators is the exclusive right to file an infringement suit to obtain recovery for damages suffered as a result of abrogation of such exclusive rights by the defendant. This private cause of action is critical in assuring that a creator has sufficient incentives to produce. Congress, however, tempered this private right in 1957 by amending the Copyright Act[1] to include a three-year statute of limitations in all civil copyright infringement actions.[2] The purpose, as with any statute of limitation, was to provide for certainty, accuracy, and repose.

The committee reports to the 1957 amendments to the Copyright Act that first established a statute of limitations for civil actions note the importance of uniformity and certainty, and the contribution of a statute of limitations in furthering such goals.[3] The Senate Report regarding the amendments specifically highlighted that

> [i]n civil copyright actions at present the courts apply the law of the [s]tate in which the action is brought with respect to the limitation on commencement of action. This leads to quite a diversity of statutes of limitations with regard to copyrights. . . . This in turn

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1 17 USC § 101 et seq (2000).

2 An Act to Amend Title 17 of the United States Code Entitled "Copyrights" to Provide for a Statute of Limitations with Respect to Civil Actions, Pub L No 85-313, 71 Stat 633 (1957), codified as amended at 17 USC § 507(b).

3 Such a goal of uniformity accords with the general purpose of copyright law. See, for example, Copyright Act of 1976, HR Rep No 94-1476, 94th Cong, 2d Sess 129, reprinted in 1976 USCCAN 5659, 5745 ("One of the fundamental purposes behind the copyright clause of the Constitution, as shown in Madison's comments in The Federalist, was to promote national uniformity and to avoid the practical difficulties of determining and enforcing an author's rights under the differing [state] laws.").

> also permits "forum shopping" by claimants. . . . The committee [ ] agreed that a uniform statute is desirable.[4]

Therefore, in order to establish certainty and uniformity, and accrue all the benefits noted above that flow from those outcomes, § 507(b) of the Copyright Act provides, "No civil action shall be maintained under the provisions of this title unless it is commenced within three years after the claim accrued."[5] Some courts, however, have complicated matters by sometimes allowing a defendant to defeat an infringement claim brought within the statute of limitations period by pleading laches, an equitable defense that can defeat a statutorily timely suit due to the plaintiff's unreasonable delay.

The circuits are split on the availability of the defense of laches against a claim of copyright infringement. The Fourth Circuit has definitively barred the use of laches as a defense to copyright infringement claims in deference to Congress's explicit codification of a statute of limitations in the Copyright Act.[6] The Ninth Circuit has taken an expansive view of the defense by simply assuming the defense is available without discussing any of the separation of powers concerns. The court instead has noted the importance of preventing prejudice toward a defendant that can occur even in light of a three-year statute of limitations.[7] The Sixth and Tenth Circuits have noted the concerns of both the Fourth and Ninth Circuits and have instead decided to show some deference to Congress but also to allow the defense in unusual circumstances.[8]

After outlining the basic issues present in the circuit splits, this Comment argues that laches does not necessarily abrogate congressional intent and the codified statute of limitations. The three-year limitations period can be seen as Congress's best attempt at a rule-based compensation scheme under copyright law—one that best balances rewarding the plaintiff versus the defendant. Laches, by tailoring the specific limitations period, increases accuracy by narrowing the frequency of over- or under-rewarding the copyright holder. This accu-

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4 1957 Statute of Limitations Amendment to the Copyright Act, S Rep No 85-1014, 85th Cong, 1st Sess 12, reprinted in 1957 USCCAN 1961, 1961–62. See also *Auscape International v National Geographic Society*, 409 F Supp 2d 235, 245 (SDNY 2004) ("[T]he goal of a uniform three year limitations period was to remove the uncertainty concerning timeliness that had plagued the copyright bar.").

5 17 USC § 507(b). Note that § 507(b) is specifically for civil proceedings. Section 507(a) provides a statute of limitations for criminal proceedings.

6 See *Lyons Partnership, LP v Morris Costumes, Inc*, 243 F3d 789, 798 (4th Cir 2001).

7 See *Danjaq LLC v Sony Corp*, 263 F3d 942, 955–56, 963 (9th Cir 2001).

8 See *Chirco v Crosswinds Communities, Inc*, 474 F3d 227, 232–34 (6th Cir 2007) (explaining that the circuit has sought to limit the applicability of laches "to the most compelling of cases"), cert denied 127 S Ct 2975 (2007); *Jacobsen v Deseret Book Co*, 287 F3d 936, 950–51 (10th Cir 2002).

racy should again tend to maximize the combined incentives of creator and second user such that promotion of creative works in total is maximized, thus facilitating the fundamental purpose of copyright law.

This Comment then attempts to resolve this split by looking to whether the availability of the defense of laches would promote the primary purpose of copyright law—to create incentives for the production and exploitation of copyrightable creative work. An analysis of the effects on incentives tends to the conclusion that laches should create positive incentives for second use of a copyright, which overall promotes the progress of the sciences and the arts. In cases where the second user knows that a particular work he wishes to exploit is copyrighted, laches does not change his incentives to seek negotiations for a license, a process that ultimately places the title in the hands of the user who values it most. Because the application of laches provides for a willful infringement exception, the second user in such cases cannot depend on the doctrine and must seek out licensing for his second use. In those cases where there is no likelihood of willful infringement, laches reduces the liability overhang[9] a defendant faces, thus creating incentives for him to exploit and for a plaintiff either to file suit early and minimize his losses or to seek early negotiations with the second user such that both parties' profits as a whole are maximized.

Part I lays out the general doctrine of laches and examines application of the doctrine within the copyright infringement context. Part II discusses the case law resulting in the circuit split regarding the availability of laches specifically in copyright infringement suits. Part III explains that the availability of laches, given a statute of limitations, does not necessarily abrogate congressional intent, thus minimizing the separation of powers concerns expressed by the Fourth Circuit. Finally, Part IV offers a resolution of the split by suggesting an incentives-based justification supporting the Ninth Circuit's application of the defense.

I. DOCTRINE OF LACHES

The roots of the laches doctrine can be found in an ancient maxim: "[E]quity aids the vigilant, not those who sleep on their rights."[10]

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9 The term "liability overhang" here refers to the ability of the copyright holder to delay filing suit until the second user has invested significant sums. Thanks to Professor Randal Picker for suggesting this term. It has been used sparingly elsewhere, mostly in the tort liability context. See, for example, Francis E. McGovern, *Toward a Cooperative Strategy for Federal and State Judges in Mass Tort Litigation*, 148 U Pa L Rev 1867, 1891 (2000) (using the term to describe the uncertainty investors face in regards to conclusiveness of a global settlement resolution).

10 *Lyons Partnership, LP v Morris Costumes, Inc*, 243 F3d 789, 797–98 (4th Cir 2001), citing *Ivani Contracting Corp v City of New York*, 103 F3d 257, 259 (2d Cir 1997) (discussing the basic contours of the doctrine of laches in the context of a § 1983 action).

Laches may be applied by a court to bar a suit that has been brought so long after the cause of action accrued that bringing the action would be unjust.[11] To assert a defense of laches successfully, the defendant must show that the plaintiff remained silent and slept on his legal rights, and that such delay by the plaintiff caused prejudice to the defendant.[12]

A. Delay

Courts divide the delay prong into two separate inquiries: (1) whether the plaintiff's acts constitute delay; and (2) whether the delay was unreasonable.[13]

1. Whether there was delay.

The calculation of length of delay begins for the purposes of laches when the plaintiff knew or should have known about the claim and ends when the plaintiff initiated suit.[14] Therefore, if the plaintiff could not have known about a claim until after the statutory period, the claim may be barred by the statute of limitations under an injury rule[15] but permitted by laches.[16] On the other hand, the plaintiff's claim "may be barred by laches but not by the statute of limitations if he was aware of, or should have been aware of, an impending infringement."[17] The latter point should be further explained: "But while the statute of limitations is triggered only by violations—*i.e.*, actual infringements—the laches period may be triggered when a plaintiff knows or has reason to know about an *impending* infringement."[18] Essentially, if the plaintiff has reason to know that a defendant will infringe in the future, then the laches clock begins to run.

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11 See *Ivani*, 103 F3d at 259.

12 See *Danjaq LLC v Sony Corp*, 263 F3d 942, 951 (9th Cir 2001), quoting *Couveau v American Airlines, Inc*, 218 F3d 1078, 1083 (9th Cir 2000).

13 See *Danjaq*, 263 F3d at 952, 954. See also Melville B. Nimmer and David Nimmer, 3 *Nimmer on Copyright* § 12.06[B] (Matthew Bender 2005); Dylan Ruga, *The Role of Laches in Closing the Door on Copyright Infringement Claims*, 29 Nova L Rev 663, 665 (2005).

14 See *Danjaq*, 263 F3d at 952.

15 An injury rule starts the clock for the statute of limitations at the time of the initial infringement as opposed to the time when the plaintiff learned of the infringement. See Part II.D.1.

16 See Ruga, 29 Nova L Rev at 665 (cited in note 13).

17 Id at 665–66 (explaining that the equitable defense of laches must be more flexible than a statute of limitations in order to prevent inequity), citing *Kling v Hallmark Cards, Inc*, 225 F3d 1030, 1038–39 (9th Cir 2000).

18 *Kling*, 225 F3d at 1038.

2. Whether the delay was unreasonable.

Courts look to the cause of a particular delay to assess whether it was reasonable.[19] For example, courts have held delay to be reasonable "where it was necessary: to exhaust administrative remedies; evaluate and prepare a complicated claim; and determine whether the cost of litigation was justified by the infringement."[20] But in other cases, courts have held delay to be unreasonable if its "purpose is to capitalize on the value of the alleged infringer's labor, by determining whether the infringing conduct will be profitable."[21] On the virtues of applying the doctrine of laches in copyright cases, Judge Learned Hand famously explained in one of the most cited copyright passages:

> It must be obvious to every one familiar with equitable principles that it is inequitable for the owner of a copyright, with full notice of an intended infringement, to stand inactive while the proposed infringer spends large sums of money in its exploitation, and to intervene only when his speculation has proved a success.[22]

B. Prejudice to Defendant

Courts require that a defendant show not only delay by the plaintiff but also that such delay caused unjust prejudice to the defendant. "[L]aches is premised on prejudice, not only delay. Statutes of limitations are premised on delay, not prejudice. Moreover, a party may be unduly prejudiced by delay even though a statute of limitations does not bar a claim."[23]

Two chief forms of prejudice—evidentiary and expectations-based—have been recognized by courts in the laches context. A defendant may suffer evidentiary prejudice if evidence has become lost, stale, or degraded, or if the memories of witnesses have faded. A defendant may demonstrate expectations-based prejudice by "showing that [he] took actions [such as monetary investments] or suffered consequences that he would not have, had the plaintiff brought suit promptly."[24] This prejudice comes from "reasonable reliance" by the defendant on the plaintiff's delay.[25]

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19 See *Danjaq*, 263 F3d at 954 (holding that a lack of sufficient funding for litigation is not a valid reason for delay).

20 Ruga, 29 Nova L Rev at 666 (cited in note 13), citing *Danjaq*, 263 F3d at 954.

21 *Danjaq*, 263 F3d at 954 (detailing cases that discuss the reasonableness of the delay). See also Ruga, 29 Nova L Rev at 666 (cited in note 13).

22 *Haas v Leo Feist, Inc*, 234 F 105, 108 (SDNY 1916).

23 *Jackson v Axton*, 25 F3d 884, 887 n 2 (9th Cir 1994).

24 *Danjaq*, 263 F3d at 955, citing *Jackson*, 25 F3d at 889. See also *Lotus Development Corp v Borland International, Inc*, 831 F Supp 202, 220 (D Mass 1993) (explaining that "continuing

C. Willful Infringement Exception

Even if the defendant successfully pleads all aspects of the laches defense, the plaintiff can still avoid a dismissal of the claim by arguing that the defendant willfully infringed on the copyright. According to various courts, laches does not bar a suit against a deliberate infringer based on the equitable maxim that "he who comes into equity must come with clean hands."[26]

Thus, for purposes of the willfulness exception to laches, the court in *Lyons Partnership, LP v Morris Costumes, Inc*[27] explained that "infringement is willful if the defendant 'has knowledge,' either actual or constructive, 'that its actions constitute an infringement,' or recklessly disregards a copyright holder's rights."[28]

In *Danjaq LLC v Sony Corp*,[29] the Ninth Circuit held as a matter of law that the jury could not find the defendant willfully infringed on the plaintiff's copyright.[30] The court noted that the parties were embroiled in a dispute over the rights to the copyrighted works and that the facts suggested an absence of bad faith on the defendant's part.[31] Finally, the court noted that the complexity in the chain of title precluded a finding of willful infringement because "[i]t would seem to follow that one who has been notified that his conduct constitutes copyright infringement, but who reasonably and in good faith believes the contrary, is not 'willful' for these purposes."[32]

D. Effects of Applying Laches

Statutory remedies[33] under the Copyright Act include injunctions,[34] actual monetary damage (calculated by actual loss suffered by the

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investments and outlays by the alleged infringer in connection with the operation of its business" could constitute prejudice).

25 See *Harmony Gold U.S.A., Inc v FASA Corp*, 40 USPQ 2d 1057, 1060 (ND Ill 1996). But see *Martin v Consultants & Administrators, Inc*, 966 F2d 1078, 1090–91 (7th Cir 1992) (noting that defendants, in light of an express statute of limitations, have little reason to rely on the plaintiff's delay).

26 *Hermès International v Lederer de Paris Fifth Avenue, Inc*, 219 F3d 104, 107 (2d Cir 2000), quoting *Precision Instrument Manufacturing Co v Automotive Maintenance Machinery Co*, 324 US 806, 814 (1945).

27 243 F3d 789 (4th Cir 2001).

28 Id at 799, quoting *Fitzgerald Publishing Co v Baylor Publishing Co*, 807 F2d 1110, 1115 (2d Cir 1986).

29 263 F3d 942 (9th Cir 2001).

30 See id at 958.

31 See id.

32 Id at 959, quoting Melville B. Nimmer and David Nimmer, 4 *Nimmer on Copyright* § 14.04[B][3] (Matthew Bender 2005).

33 For a general discussion of these remedies, see Nimmer and Nimmer, 4 *Nimmer on Copyright* at § 14.01–.10 (cited in note 32); Ruga, 29 Nova L Rev at 680–83 (cited in note 13).

34 See 17 USC § 502(a).

plaintiff or profits illegally gained by the defendant),[35] and statutory damages in lieu of actual damages.[36] The way courts decide to calculate these remedies may affect the way laches plays out in an infringement suit. First, courts may use a discovery rule or an injury rule in defining when a claim may accrue under § 507(b). Second, in counting the three years that limit the remedies available to plaintiffs—specifically the remedy of actual monetary damages under § 504(b)—courts may use a "continuing wrong" theory or a "rolling statute of limitations" theory.

1. Discovery rule versus injury rule.

Because the statute of limitations does not define when a claim accrues, courts are split on when the three-year clock on the statute begins to run. Under the discovery rule, a claim accrues when "one has knowledge of a violation or is chargeable with such knowledge."[37] Effectively, the Copyright Act statute of limitations is "tolled until the plaintiff learned or by reasonable diligence could have learned that he had a cause of action."[38]

The district court in *Auscape International v National Geographic Society*,[39] however, adopted the injury rule for § 507(b), which holds that a claim accrues and the three-year clock begins to run when the act of infringement (the injury) first occurs.[40] The court acknowledged that the discovery rule seems to be the dominant rule in copyright infringement claims.[41] Even so, the court noted that the Supreme Court in *TRW Inc v Andrews*[42] changed the landscape when it

> rejected the previously dominant view that federal courts should apply an injury rule only when Congress explicitly has adopted that rule, requiring instead that federal courts look beyond the

35 See 17 USC § 504(b).

36 See 17 USC § 504(c)(1).

37 *Hotaling v Church of Jesus Christ of Latter-Day Saints*, 118 F3d 199, 202 (4th Cir 1997), quoting *Roley v New World Pictures, Ltd*, 19 F3d 479, 481 (9th Cir 1994). See also *Polar Bear Productions, Inc v Timex Corp*, 384 F3d 700, 706 (9th Cir 2004); *Merchant v Levy*, 92 F3d 51, 56 (2d Cir 1996); *Stone v Williams*, 970 F2d 1043, 1048 (2d Cir 1992); *Cada v Baxter Healthcare Corp*, 920 F2d 446, 450 (7th Cir 1990) ("[Accrual] is not the date on which the wrong that injures the plaintiff occurs, but the date—often the same, but sometimes later—on which the plaintiff discovers that he has been injured."); Melville B. Nimmer and David Nimmer, 1 *Nimmer on Copyright* § 12.05[B][2] (Matthew Bender 2005).

38 *Taylor v Meirick*, 712 F2d 1112, 1117 (7th Cir 1983).

39 409 F Supp 2d 235 (SDNY 2004).

40 See id at 247.

41 See id at 242–43 (reviewing district court cases in the Second Circuit and other circuits' decisions on this matter). Two major Second Circuit cases adopted the discovery rule in the context of co-ownership copyright claims. See *Merchant*, 92 F3d at 56; *Stone*, 970 F2d at 1048.

42 534 US 19 (2001).

> specific language of a statute to its text and structure in determining what rule should apply when the statute is silent.[43]

Therefore, the district court looked to the legislative history of § 507(b) and various other public policy considerations in order to decide that an injury rule should apply in determining when a claim of copyright infringement accrues. The *Auscape* court concluded, "Given that [Congress's] goal was a *fixed* statute of limitations, it seems unlikely that Congress intended that accrual of an infringement claim . . . would depend on something as indefinite as when the copyright owner learned of the infringement."[44]

In terms of public policy, the court noted that in the copyright infringement context, the infringement often occurs in public, giving the plaintiff, who generally knows of his ownership of the copyright, ample opportunity to seek relief within the three years following injury.[45] Additionally, copyright law provides for equitable doctrines of tolling that can mitigate some of the harsh effects of an injury rule—such as in instances of fraudulent concealment.[46]

The determination of whether to use the discovery rule or the injury rule has important implications for the application of laches in the copyright infringement context.

Courts often look to the statute of limitations as a guiding factor for what constitutes delay under laches. As the Seventh Circuit in *Martin v Consultants & Administrators, Inc*[47] noted, "Courts are often hesitant to apply laches where a plaintiff has sued within the time period expressly provided by the applicable statute."[48] Therefore, the application of laches may depend on exactly when the three-year clock started running, which in turn of course may depend upon whether the court is applying an injury or discovery rule. It may be that in most instances the discovery and injury rules will lead to the same outcome, because copyright violations often are so public in nature, but there are several instances in which there will be divergence. Furthermore, courts sometimes establish presumptions of laches depending on when the suit is filed. The district court in *Gloster v Relios, Inc*[49] noted,

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43 409 F Supp 2d at 244, citing *TRW*, 534 US at 27–28 (holding that the text and structure of the statute of limitations governing the Fair Credit Reporting Act "evince Congress' intent to preclude judicial implication of a discovery rule").

44 *Auscape*, 409 F Supp 2d at 245. See also S Rep No 85-1014 at 1–2 (cited in note 4).

45 See *Auscape*, 409 F Supp 2d at 247 (noting that copyright infringement is distinguishable from latent disease and medical malpractice cases, which are the only two areas the Supreme Court has applied the discovery rule).

46 See Nimmer and Nimmer, 1 *Nimmer on Copyright* at § 12.05[B][3] (cited in note 37).

47 966 F2d 1078 (7th Cir 1992).

48 Id at 1090.

49 2006 WL 1737800 (ED Pa).

"If a plaintiff files suit within the applicable statute of limitations, the burden is on the defendant to establish laches as an affirmative defense. However, once the statute of limitations has run, the defendant is entitled to a presumption of laches, which the plaintiff must rebut."[50]

2. A continuing wrong versus a rolling statute of limitations.

There is a split among courts on how to count the three years after a claim accrues in terms of calculating monetary damages. Under the continuing wrong theory, if a series of infringing acts constitutes a "continuing wrong," then only the last such act need occur within the three-year statutory period in order for liability to attach to them all.[51] On the other hand, under the rolling statute of limitations theory, the plaintiff is only entitled to damages for acts occurring up to three years prior to the filing of the complaint, as the claims for acts older than three years would be barred by the statute of limitations.[52]

It may be easiest to illustrate the differences between these theories with a simple hypothetical. Suppose infringing conduct on a copyright occurred from 1990 until 1998, and the plaintiff filed a copyright infringement claim in 1999. The question is, for what years can he obtain monetary relief? Under the continuing wrong theory, because the plaintiff filed suit within three years following the last infringing act and because all the infringing acts from 1990 until 1998 constituted one continuing wrong, the plaintiff can recover for all damages within that eight-year timeframe. However, under the rolling statute of limitations rule, the plaintiff could only recover for damages occurring up to three years prior to filing suit. Hence, the plaintiff could recover for

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50 Id at *1. See also *Hot Wax, Inc v Turtle Wax, Inc*, 191 F3d 813, 821 (7th Cir 1999) (concluding that the defendant overcame the presumption against laches and then applying the defense to dismiss a suit filed within the limitations period); *Ashley v Boyle's Famous Corned Beef Co*, 66 F3d 164, 169 n 3 (8th Cir 1995) (en banc); *Tandy Corp v Malone & Hyde, Inc*, 769 F2d 362, 365 (6th Cir 1985). The last sentence about filing a suit outside of the limitations period is not as absurd as it may seem initially. Under the continuing wrong theory, described in Part I.D.2, each act of infringement in a continuing wrong creates new actionable conduct. The court here was merely stating that once the original, first wrongful act occurs, then a presumption of laches is established after three years. A plaintiff could still sue a decade later if the infringing acts continued to occur, but there would be a presumption of delay.

51 See *Taylor*, 712 F3d at 1118–19 (explaining that the continuing wrong theory best balances the goals of a statute of limitations with the interest in sparing the plaintiff from having to bring multiple suits). Similar to the continuing wrong theory is the "continuing tort" theory, in which every infringing act constitutes a continuing tort, thus prohibiting the statute of limitations from running. This theory does not seem to have had any luck. See *Daboub v Gibbons*, 42 F3d 285, 290–91 (5th Cir 1995) (rejecting the continuing tort theory and noting several other cases reaching the same conclusion).

52 See *Roley*, 19 F3d at 481. See also *Hotaling*, 118 F3d at 202 ("[A] party cannot reach back, based on acts of infringement that accrued within the limitations period, and recover for claims that accrued outside the limitations period.").

all damages suffered between 1996 and 1998, as 1996 is three years prior to 1999, and 1998 is the last date of the infringing conduct.

How the defense of laches may play out in a copyright infringement claim depends to some extent on which of the above theories the court adopts.[53] For example, it has been said that "[a] two year delay in filing an action following knowledge of the infringement has rarely been held sufficient to constitute laches."[54] Therefore, laches seemingly is more likely to be at play under the continuing wrong theory, which can allow indefinite delays, rather than under the rolling statute of limitations theory. In fact, the Seventh Circuit, in a trademark infringement action under the Lanham Act, noted that "[w]ithout the availability of the application of laches to a claim arising from a continuing wrong, a party could, theoretically, delay filing suit indefinitely."[55] Because the rolling statute of limitations theory only allows up to a three-year delay, laches, which is based on delay, is less likely to be applicable.

II. CIRCUIT SPLITS IN APPLYING LACHES IN COPYRIGHT INFRINGEMENT CLAIMS

This Part outlines three circuit splits in the context of applying laches to copyright infringement claims. The first split, regarding prospective injunctions, is peripheral to the main issue of whether the defense should be available at all and is provided here only in the interest of thoroughness. The second split, regarding the law/equity distinction, seems to have had little sway in courts other than the Fourth Circuit and even there is only mentioned in passing. Therefore, it will only be briefly discussed here. The final split, regarding separation of powers, is the central one noted by the circuits hesitating to apply laches in copyright infringement claims. Thus, this particular split is outlined more thoroughly, and Part III attempts to resolve it.

A. Applicability of Laches for Prospective Injunctions

Section 502(a) of the Copyright Act allows a plaintiff to seek an injunction against the defendant for copyright infringement.[56] In determining whether laches should be allowed to bar such relief, a special issue arises: it would seem odd that the doctrine of laches, which is implicated by delay in seeking relief for past infringing conduct, could prevent a prospective injunction, which by definition is for future con-

53 See also Part IV.A.3.

54 *Roulo v Russ Berrie & Co*, 886 F2d 931, 942 (7th Cir 1989).

55 *Hot Wax*, 191 F3d at 821 (concluding that laches is an available defense to a suit brought within the applicable statute of limitations time period).

56 17 USC § 502(a).

duct. The availability of laches for barring prospective injunctions depends to some extent on whether courts choose to apply a continuing wrong theory in copyright infringement claims.[57]

The Fourth Circuit has commented, "A prospective injunction is entered only on the basis of current, ongoing conduct that threatens future harm. Inherently, such conduct cannot be so remote in time as to justify the application of the doctrine of laches."[58]

On the other hand, several courts have noted special circumstances that may allow laches to bar a claim for injunctive relief. The Ninth Circuit, for example, has observed, "If relief is sought . . . because the plaintiff is threatened with an *impending* violation, then laches should normally run from the time when the plaintiff was first confronted with an enjoinable threat."[59] As noted above, the Ninth Circuit has held that laches can start the clock running on impending—as opposed to actual—violations.[60] Under those circumstances, the plaintiff's only recourse generally will be to seek a prospective injunction because no claim for monetary damages has actually accrued. Therefore, by definition, laches must be available to bar prospective injunctions if it can run the clock on an impending violation.

In *Danjaq*, a copyright infringement case, the Ninth Circuit allowed laches to bar the plaintiff from seeking a prospective injunction.[61] The court barred a counterclaim relating to the re-release in 1997 of James Bond movies on DVD, even though the defendant's counterclaim was filed only a year after the release.[62] The court held that because the infringing aspect of the DVD is identical to the infringements contained in the underlying movie, "[i]t would be incongruous indeed to hold the opposite—to say, that is, that [the defendant's counterclaim] for infringement on a re-release survives, despite the dismissal for laches of the same claim regarding the original work."[63] The court seemed to be adopting the continuing wrong theory such that if laches bars claims regarding the original wrong, it also bars all claims that are part of the continuing wrong—even if some of those

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57 For a more thorough discussion of the continuing wrong theory and its counterpart, the rolling statute of limitations theory, see Part I.D.

58 *Lyons*, 243 F3d at 799.

59 *International Telephone and Telegraph Corp v General Telephone & Electronics Corp*, 518 F2d 913, 928 (9th Cir 1975) (discussing the applicability of laches in the context of an antitrust suit seeking injunctive relief). See also *Hot Wax, Inc v Turtle Wax, Inc*, 191 F3d 813, 824–25 n 3 (7th Cir 1999) (noting in dicta that the "extreme circumstances and egregious delay" by plaintiff might justify a denial of injunctive relief).

60 See text accompanying note 18.

61 See 263 F3d at 953.

62 See id.

63 See id. See also *Hot Wax*, 191 F3d at 821–22 (rejecting the argument that each new instance of trademark infringement must start the clock anew on laches).

wrongs only occurred months prior to the filing of the suit.[64] Under this same principle, the court held that laches may bar a prospective injunction against future infringement if "the feared future infringements are subject to the same prejudice that bars retrospective relief."[65]

B. Applicability of Laches at Law or in Equity

In *Lyons*, the Fourth Circuit noted that the doctrine of laches "applies only in equity to bar equitable actions, not at law to bar legal actions" such as those under the Copyright Act.[66] This point was reiterated by the Ninth Circuit, which noted, "Laches, an equitable defense, is distinct from the statute of limitations, a creature of law. Statutes of limitation generally are limited to actions at law and therefore inapplicable to equitable causes of action. Laches serves as the counterpart to the statute of limitations, barring untimely equitable causes of action."[67] Even so, according to several circuits, significant precedent exists for applying laches to bar legal claims, even within the copyright context and notwithstanding the contrary assertions of the Fourth Circuit.

It should be noted that both the Fourth and Ninth Circuits are referring to *actions* and not simply *remedies*. The Fourth Circuit made this important distinction very clear:

> When Congress creates a cause of action and provides both legal and equitable remedies, its statute of limitations for that cause of action should govern, regardless of the remedy sought. . . . In view of such a provision, a court is not free to shorten the limitations period, even when a plaintiff seeks equitable relief.[68]

Therefore, it would be difficult to make the argument that laches should only apply against equitable relief sought by the plaintiff in a copyright infringement action and not against any legal relief.[69]

Even given the statements of the Fourth and Ninth Circuits regarding the unavailability of laches in legal actions, many courts have said or done otherwise. The Seventh Circuit has observed that "although laches is an equitable doctrine, courts increasingly apply it in

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64 See *Danjaq*, 263 F3d at 953–54.

65 Id at 959.

66 243 F3d at 797.

67 *Jarrow Formulas, Inc v Nutrition Now, Inc*, 304 F3d 829, 835 (9th Cir 2002) (applying laches in a Lanham Act action) (citations omitted).

68 *Lyons*, 243 F3d at 798 (noting the important separation of powers principles supporting this approach).

69 See Ruga, 29 Nova L Rev at 664–65 (cited in note 13) (arguing that a solution to the circuit split at issue here is to classify infringement remedies as legal or equitable and only allow laches as a defense to the latter).

cases at law in which plaintiffs seek damages."[70] The Sixth Circuit has held that laches can be argued "regardless of whether the suit is at law or in equity, because, as with many equitable defenses, the defense of laches is equally available in suits at law."[71] Finally, even the Ninth Circuit, notwithstanding the statements above, has applied laches in legal actions such as copyright infringement claims.[72]

C. Applicability of Laches Given a Congressionally Codified Statute of Limitations

The major concerns among courts—and the source of the split here—have been separation of powers and judicial deference to Congress seemingly raised by the application of laches within the copyright infringement context. Courts are concerned that applying laches to shorten the time period that Congress has specifically enumerated for bringing suit would abrogate the principle of separation of powers.

1. Barring the use of laches due to separation of powers concerns.

The Eighth Circuit, in *Ashley v Boyle's Famous Corned Beef Co*,[73] has specifically noted that "statutes [of limitations] reflect a legislative 'value judgment concerning the point at which the interests in favor of protecting valid claims are outweighed by the interests in prohibiting the prosecution of stale ones.'"[74] Therefore, the Eighth Circuit explicitly stated: "[S]eparation of power[s] principles dictate that federal courts not apply laches to bar a federal statutory claim that is timely filed under an express federal statute of limitations."[75]

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70 *Hot Wax*, 191 F3d at 822 (noting cases that have also recognized this growing trend).

71 *Chirco v Crosswinds Communities, Inc*, 474 F3d 227, 234 (6th Cir 2007), quoting *Teamsters & Employers Welfare Trust of Illinois v Gorman Brothers Ready Mix*, 283 F3d 877, 881 (7th Cir 2002).

72 See *Danjaq*, 263 F3d at 951, 963.

73 66 F3d 164 (8th Cir 1995) (en banc).

74 Id at 169, quoting *Johnson v Railway Express Agency, Inc*, 421 US 454, 463–64 (1975).

75 *Ashley*, 66 F3d at 170. See also *Lyons*, 243 F3d at 797 (rejecting the application of the laches doctrine in part due to serious separation of powers concerns); *Ivani Contracting Corp v City of New York*, 103 F3d 257, 260 (2d Cir 1997) (adopting and endorsing the analysis expressed in *Ashley*); *Miller v Maxwell's International Inc*, 991 F2d 583, 586 (9th Cir 1993) (noting in an ADEA case that the use of laches "was error because the doctrine of laches is inapplicable when Congress has provided a statute of limitations to govern the action"); *United States v Mack*, 295 US 480, 489 (1935) ("Laches within the term of the statute of limitations is no defense at law."). The Supreme Court in *Holmberg v Armbrecht* stated, "If Congress explicitly puts a limit upon the time for enforcing a right which it created, there is an end of the matter. The Congressional statute of limitation is definitive." 327 US 392, 395 (1946). This statement was dictum and cannot be interpreted as broadly as the text may suggest, for in the same opinion the Court noted that equitable tolling doctrines are read into every federal statute of limitation. See id at 397.

In *Lyons*, the Fourth Circuit held that laches never can bar a statutorily timely copyright infringement claim.[76] The plaintiff in *Lyons* owned the copyright to Barney (the purple dinosaur) and sought, through its claim for injunctive relief and damages, to prevent the defendant from marketing look-alike costumes of the "well-stuffed Tyrannosaurus."[77] For the distinct claims that fell within the three-year statute of limitations period, the court held that, where there is an express statute of limitations, the separation of powers would be offended if laches, a judicially created timeliness rule, barred claims brought within the statutory period.[78]

Because laches is a judicially created doctrine, whereas statutes of limitations are legislative enactments, the *Lyons* court observed that "[i]n deference to the doctrine of separation of powers, the [Supreme] Court has been circumspect in adopting principles of equity in the context of enforcing federal statutes."[79] Therefore, it rejected wholesale the idea that laches can bar a timely copyright infringement claim. The court stated that "when Congress creates a cause of action and provides both legal and equitable remedies, its statute of limitations for that cause of action should govern, regardless of the remedy sought."[80] Under *Lyons*, laches is never available as a defense to preclude timely infringement claims—equitable or legal—because Congress has created an express statute of limitations.

2. Allowing the use of laches notwithstanding separation of powers concerns.

The Seventh Circuit, on the other hand, has observed that laches may be available despite the presence of a statute of limitations. In *Martin*, Judge Cudahy noted that "there is authority for applying laches in cases governed by a statute of limitations. . . . [W]e hesitate to declare that laches can never be applied . . . simply because Congress has codified a statute of limitations."[81] In a concurrence, Judge Posner agreed: "[T]here is plenty of authority for applying laches in cases governed by a statute of limitations."[82] Judge Posner further explained that laches in fact makes more sense given a statute of limitations be-

76 See *Lyons*, 243 F3d at 798.

77 See id at 794–95.

78 See id at 798.

79 Id, citing *County of Oneida v Oneida Indian Nation*, 470 US 226, 262 n 12 (1985) (Stevens dissenting in part).

80 *Lyons*, 243 F3d at 798.

81 966 F2d at 1091 (assessing the applicability of laches in the context of an ERISA action).

82 Id at 1100 (Posner concurring) (arguing that the majority should be clearer in stating that the doctrine of laches is applicable to ERISA actions).

cause "a legislature that places no deadline on suits is presumably not worried about the consequences for defendants of having to defend against suits brought long after the alleged wrongdoing."[83]

The Seventh Circuit in *Hot Wax, Inc v Turtle Wax, Inc*[84] distinguished the Eighth Circuit's deference to a statute of limitations by noting that the court was considering a congressionally stipulated statute of limitations, not one borrowed from state law.[85] In fact, the Eighth Circuit had even stated that "separation of powers principles are less affected by a judicial decision to superimpose the doctrine of laches on the borrowed state statute of limitations."[86] Of course, the Seventh Circuit's view probably should not be so narrowly confined given the statements in *Martin*.

Specifically in the copyright infringement context, the Ninth Circuit in *Danjaq* barred the defendant's counterclaims of copyright infringement by upholding the plaintiff's assertion of the defense of laches.[87] The case concerned the rights to the cinematic James Bond character. For most of the movies in contention, the court noted that from the time the films were released (between 1962 and 1977) until the defendant filed his counterclaim in this suit (1998), the defendant took no legal action against the alleged infringements.[88] The court did not explain why the infringement claims were not barred by the three-year statute of limitations. Presumably, it adopted a continuing wrong theory of damages or was only concerned about the damages within the three years prior to the filing of the suit, which would be significant considering the breadth of the James Bond franchise. Furthermore, the court did not consider whether laches is available as a defense in copyright infringement claims and did not note any separation of powers concerns but simply assumed the defense was available and went on to apply the delay and prejudice prongs. Therefore, noting the delay of nineteen to thirty-six years, it held, "By any metric, this delay is more than enough."[89]

Because the defendant in *Danjaq* had presented no sufficient justification for his delay, the court also held that the delay was unreasonable.[90] Finally, on the element of prejudice, the court held that "the district court properly concluded that [the plaintiff] established both

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83 Id.

84 191 F3d 813 (7th Cir 1999).

85 See id at 821 n 2.

86 *Ashley*, 66 F3d at 170 n 4.

87 See 263 F3d at 963.

88 See id at 952.

89 Id.

90 See id at 954–55. For examples of justifications sometimes accepted by courts, see Part I.A.2.

[the evidentiary and expectations-based] forms of prejudice."[91] As to evidentiary prejudice, the court noted that many relevant records had gone missing and relevant witnesses had passed away during the delay period.[92] There was also expectations-based, or economic, prejudice. The defendant did not contest that the plaintiff had invested approximately one billion dollars in the development of the James Bond movie franchise.[93] The court held that "it would be inequitable to permit [the defendant] to wait forty years, then to profit from the risk inherent in [the plaintiff's] investment in the franchise."[94] Finally, the court recognized the willful infringement exception to the defense of laches but held that as a matter of law the defendant could not demonstrate deliberate infringement.[95]

3. Allowing the use of laches in rare circumstances to give due consideration to separation of powers concerns.

The Tenth Circuit, in *Jacobsen v Deseret Book Co*,[96] refused to reject wholesale the use of laches as a defense to copyright infringement actions but did state that "[r]ather than deciding copyright cases on the issue of laches, courts should generally defer to the three-year statute of limitations."[97] In *Jacobsen*, the plaintiff had written a memoir about his experiences as a prisoner of war shortly after returning from military service during World War II.[98] In 1997, the defendant had published a five-volume series in which one of the stories closely resembled the plaintiff's experiences as related in his memoir.[99] The district court had found that the plaintiff had knowledge of the material used by the defendant author as early as 1994 and could have brought suit as early as 1996 but instead delayed until 1999.[100] The court went on to note the arguments made in *Lyons* but held that "it is possible, in rare cases, that a statute of limitations can be cut short by the doctrine of laches."[101] This case did not present one of those rare circumstances.[102]

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91 Id at 955.

92 See id at 955–56.

93 See id at 956.

94 Id.

95 See id at 958. See also text accompanying notes 31–32.

96 287 F3d 936 (10th Cir 2002).

97 Id at 950.

98 See id at 940.

99 See id.

100 See id at 949.

101 See id at 951, quoting *United States v Rodriguez-Aguirre*, 264 F3d 1195, 1208 (10th Cir 2001).

102 See *Jacobsen*, 287 F3d at 951. The court cited the Ninth Circuit case of *Jackson v Axton*, 25 F3d 884, 888 (9th Cir 1994), in which there was a delay of twenty-six years, as possibly constituting a rare circumstance. See id.

In *Chirco v Crosswinds Communities, Inc*,[103] the Sixth Circuit similarly held that "[w]e have carved out a middle ground between the Fourth Circuit's strict prohibition . . . in cases involving a statute with an explicit limitations provision and the somewhat more expansive application of the doctrine by the Ninth Circuit."[104] In *Chirco*, the plaintiffs had alleged that the defendants had copied their architectural design, which had been protected by copyright since 1997, for a condominium building. The defendants began building the condominiums according to the alleged copyrighted plans in December 2000, and plaintiffs filed suit in April 2001. During discovery, plaintiffs learned of defendants' intentions to build another home development allegedly based on plaintiff's copyrights, but plaintiffs did nothing until November 2003, when they filed suit. By then, most units had already been constructed, and many were already occupied.[105]

In determining whether laches could be available as a defense, especially in light of the fact that here the suits were filed well within the three-year statute of limitations, the appellate court noted that "use of the statutory period . . . enhances the stability and clarity of the law by applying neutral rules and principles in an evenhanded fashion . . . . It enhances the rationality and objectivity of the process."[106] Furthermore, the court cited concerns similar to those expressed in *Jacobsen* regarding separation of powers and deference to Congress. Even so, the court went on to adopt the holding of a Seventh Circuit case and concluded that "a flat proscription such as that invoked by the Fourth Circuit against the defense of laches in cases involving a federal statutory claim is both unnecessary and unwise."[107] Finally, the court held that "the equitable doctrine of laches can, therefore, be applied in copyright cases in this circuit in what can best be described as unusual circumstances."[108] The court then bifurcated its analysis based on the relief that the plaintiffs were seeking. To the extent that the plaintiffs were seeking monetary damages and injunctive relief, the defendants could not have been unduly prejudiced by the plaintiffs' delay,[109] especially because "if the 'statute of limitation has not elapsed, there is a strong presumption that plaintiff's delay in bringing the suit for monetary relief is reasonable.'"[110] However, to the extent that the

103 474 F3d 227 (6th Cir 2007).

104 Id at 232–33.

105 See id at 229–30.

106 Id at 233, quoting *Tandy Corp v Malone & Hyde, Inc*, 769 F2d 362, 365 (6th Cir 1985).

107 *Chirco*, 474 F3d at 233–34, citing *Gorman Brothers*, 283 F3d at 881.

108 *Chirco*, 474 F3d at 234.

109 See id at 235.

110 Id at 233, quoting *Tandy*, 769 F2d at 366.

relief sought is destruction of the development, such relief sought would work an unjust hardship upon the defendants and the innocent third-party occupants and would be the extraordinary circumstance in which equitable principles could trump a statutory limitation period.[111]

III. REJECTION OF SEPARATION OF POWERS CONCERNS

The justifications that have been offered by the circuits for allowing or rejecting the defense of laches in copyright infringement claims leave the issue in the realm of equipoise. The concerns over separation of powers and showing deference to Congress are balanced against a concern to provide for equity and prevent prejudice to a defendant. This Part argues that the separation of powers concern is unproblematic in light of two counterarguments: (1) the statute of limitations serves functionally only as a maximum time to file suit rather than also as a minimum; and (2) the statute of limitations in the absence of laches over- or under-rewards investors. Part IV offers an incentives-based analysis in light of the fundamental purposes of copyright law to create a framework for a justification concluding that laches, as it has been applied by the Ninth Circuit, should be available as a defense.

As noted in Part II.C, courts such as the Fourth Circuit have observed, "In deference to the doctrine of separation of powers, the [Supreme] Court has been circumspect in adopting principles of equity in the context of enforcing federal statutes."[112] Laches, of course, is an equitable doctrine. The 1957 amendments to the Copyright Act, however, specifically contemplated the availability of equitable tolling doctrines for § 507(b).[113] While the amendments made no explicit notes about equitable doctrines such as laches, which have the opposite effect of tolling doctrines, Judge Posner has noted, "It turns out that just as various tolling doctrines can be used to lengthen the period for suit specified in a statute of limitations, so laches can be used to contract it."[114]

More generally, the separation of powers argument offered by a few of the courts in this context depends upon the assumption that if a statute of limitations sets a three-year maximum time period for allowing a plaintiff to bring suit, then it must also set a three-year mini-

111 See *Chirco*, 474 F3d at 229, 235–36.

112 *Lyons*, 243 F3d at 798, quoting *County of Oneida v Oneida Indian Nation*, 470 US 226, 262 n 12 (1985) (Stevens dissenting in part).

113 See S Rep No 85-1014 at 2–3 (cited in note 3) (stating that it is unnecessary to enumerate specific equitable defenses to the statute of limitations because federal courts recognize them anyway).

114 *Teamsters & Employers Welfare Trust of Illinois v Gorman Brothers Ready Mix*, 283 F3d 877, 881 (7th Cir 2002).

mum period.[115] It is unclear why just because a statute of limitations grants a plaintiff *up to* three years means it must also always grant a plaintiff *at least* three years. The definition of "statute of limitations" is "[a] law that bars claims after a specified period; [specifically], a statute establishing a time limit for suing in a civil case, based on the date when the claim accrued."[116] This definition suggests a function only as a maximum. Similarly, the Supreme Court has noted, "Statutes of limitations, like the equitable doctrine of laches . . . are designed to promote justice by preventing surprises through the revival of claims that have been allowed to slumber."[117] Therefore, not only do such limitations mainly function as maximum periods, but the purposes of statutes of limitations seem in congruence with those of laches—namely, to prevent delay and prejudice to defendants. Furthermore, Judge Posner has astutely observed that laches in fact makes more sense given a statute of limitations because "a legislature that places no deadline on suits is presumably not worried about the consequences for defendants of having to defend against suits brought long after the alleged wrongdoing."[118]

Statutes of limitations also serve to balance the "point at which the interests in favor of protecting valid claims are outweighed by the interests in prohibiting the prosecution of stale ones."[119] These interests in protecting valid claims can be translated into protecting a creator's incentives to create. Essentially, the ability to bring valid infringement claims can be seen as part of the compensation scheme of copyright law—a scheme that creates incentives for a creator to produce creative works.[120] The various rights granted to a creator under copyright law, including the length of the copyright protection, represent a compromise between wanting to reward the creator in order to incentivize creation and wanting these works to be freely and widely available to all, especially to those who may further build upon such works.[121] A

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115 Thanks to Adam Preiss for suggesting this argument.

116 *Black's Law Dictionary* 1450–51 (West 8th ed 2004).

117 *Order of Railroad Telegraphers v Railway Express Agency*, 321 US 342, 348–49 (1944).

118 *Martin*, 966 F2d at 1100 (Posner concurring).

119 *Ashley*, 66 F3d at 169–70, quoting *Johnson v Railway Express Agency, Inc*, 421 US 454, 463–64 (1975).

120 See text accompanying notes 127–30.

121 See *Sony Corp of America v Universal City Studios, Inc*, 464 US 417, 429 (1984) ("[T]he task of defining the scope of the limited monopoly . . . involves a difficult balance between the interests of authors and inventors in the control and exploitation of their writings and discoveries on the one hand, and society's competing interest in the free flow of ideas, information, and commerce on the other hand."). See also *Pfaff v Wells Electronics, Inc*, 525 US 55, 63 (1998) ("As we have often explained . . . the patent system represents a carefully crafted bargain that encourages both the creation and the public disclosure of new and useful advances in technology, in return for an exclusive monopoly for a limited period of time.").

defined statute of limitations, in this case three years, is representative of such balance. It is a congressional assessment of the "average" point that would best balance the interests noted above.

Similarly, in an essay on the economics of trade secret law, David Friedman, William Landes, and Posner detail how patent law's protection of twenty years represents an average and by itself can over- or under-reward an inventor depending on how socially valuable the invention is.[122] Social value is measured by how long it would take another party to independently invent the patentable product.[123] Take, for example, a new discovery by a firm of a cost-saving process that the firm predicts will be discovered by a rival in three years. In such a case, the firm will choose to patent the discovery in order to be "over-rewarded" by protection lasting twenty years. On the other hand, take that same discovery, but now assume the firm predicts it will be discovered by a rival in sixty years. In such a case, the firm would prefer to use trade secret protection because the patent regime would under-reward it.

The three years provided by the statute of limitations can be seen in a similar light as overshooting protection sometimes and undershooting protection at other times. Sometimes a three-year wait will provide too much economic benefit to a copyright holder—at too much cost to the second user—while at other times it may provide too little. While in patent law the US intellectual property scheme improves accuracy of reward by allowing the creator to seek trade secret protection, copyright law offers no similar options for improving accuracy. Therefore, laches, by providing discretion, can specifically tailor the average compensation of three years offered to a creator in order to hone in on the accuracy of the reward, thus furthering the "accuracy" purpose of the statute of limitations and the congressional intent of properly rewarding creators.

IV. INCENTIVES-BASED ANALYSIS SUPPORTING AVAILABILITY OF LACHES

This Part offers an incentives-based analysis in light of the fundamental purposes of copyright law to create a framework for a justification concluding that laches, as it has been applied by the Ninth Circuit, should be available as a defense.

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122 See David D. Friedman, William M. Landes, and Richard A. Posner, *Some Economics of Trade Secret Law*, 5 J Econ Perspectives 61, 64 (1991). See also Alan O. Sykes, *TRIPs, Pharmaceuticals, Developing Countries, and the Doha "Solution,"* 3 Chi J Intl L 47, 57 (2002) (noting that patent systems "will tend to over-reward some inventions (relative to what is necessary to induce them) and to under-reward others" because they "provide a fixed term of patent, regardless of the type of invention").

123 Friedman, Landes, and Posner, 5 J Econ Perspectives at 63 (cited in note 122).

Even though the effects of laches and a statute of limitations may be in congruence, few justifications have been offered for the availability of the defense specifically in the copyright infringement context other than simply an exposition of the doctrine itself and the famous quote by Judge Hand noted above.[124] While both of these justifications attempt to prevent prejudice to defendants, two points should be noted.

First, the Seventh Circuit, in a case dealing with the interplay between laches and the statute of limitations codified in § 1113 of ERISA, has noted that given an express statute of limitations, a defendant may have difficulty showing prejudice resulting from reliance on the plaintiff's failure to file suit.[125] In essence, a defendant should expect that a plaintiff could file suit within three years of his exploitation of some work; therefore, given this expectation, he can structure his conduct to prevent or minimize prejudice. Second, the Seventh Circuit noted that "[a] plaintiff might reasonably rely on section 1113's specific limitations periods" in determining when to file suit.[126] A similar argument could be made in the copyright context. Therefore, the current justifications offered by courts of preventing prejudice to defendants seem unsatisfactory in light of the counterarguments noted by the Seventh Circuit.

A possible route to resolving this debate is to analyze whether the doctrine's availability furthers the primary purpose of copyright law, which is to incentivize the production and exploitation of creative works that lead to increases in economic value and social welfare. The Constitution states that copyright law is to "promote the Progress of Science and useful Arts."[127] The availability of the doctrine of laches in copyright infringement claims should accordingly depend upon the effect such a doctrine would have on incentives to create new works and to exploit old ones, whether through new distribution or through derivative works.

As a doctrine, laches only applies to situations concerning the second use of intellectual property. Essentially, some creator has produced a creative work that falls under the purview of the Copyright Act. Another creator, the "second user," would like to exploit such a copyrighted work for his own uses and profit. There are two distinct types of such second use: use with knowledge that the material is copyrighted (willful) and use without such knowledge (nonwillful). This

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124 See text accompanying note 22.

125 See *Martin*, 966 F2d at 1091.

126 Id at 1090–91.

127 US Const Art I, § 8. See also HR Rep No 94-1476 at 129 (cited in note 3) (noting that a unitary copyright system would be "much more effective in carrying out the basic constitutional aims of uniformity and the promotion of writing and scholarship").

Comment argues that the availability of laches creates the optimal outcome in incentivizing the production of creative works. The availability of laches in both knowing and unknowing situations, however, would be overly broad by creating disincentives to negotiate in the knowing situation. Therefore, this Comment also suggests retaining the willful infringement exception to laches in the knowing situations to tailor accurately the positive effects of laches.

First, options available to a second user within the knowing context are outlined. Then, the negative effects of applying the laches doctrine within this context are delineated, and a solution through the application of the willful infringement exception is offered. Finally, this Comment argues that laches provides the proper incentives and shifting of burdens according to information costs within the unknowing context to support its availability. Effectively, the lack of availability of laches in the willful context places the burden efficiently on the defendant, who knows of the infringement, to share such information. With laches available in the nonwillful context, the burden is placed on the plaintiff, who knows best about his copyright claims, to come forth with such information. Even if the plaintiff does not know of the infringing activity, he likely faces the lowest costs to discovering this information given his knowledge about his claims and because most infringement is of a public nature.[128]

A. Knowing Use

Generally, as demonstrated by the cases outlined in Part II, the second user will exploit a copyrighted work because he believes he can extract some economic value from it. Because laches is about such productive secondary exploits of an already-existing copyrighted work, it will be most effective when formulated to maximize both a second user's incentives to exploit and his access to copyrighted work. The former—the availability of copyrighted works for exploitation—depends upon incentives of a creator to produce some creative work ex ante to the secondary exploitation.

In general, the creator has incentives to create because copyright law affords him exclusive rights to exploit his creative work,[129] including the right to license the copyright[130] and "an exclusive right under a copyright . . . to institute an action for any infringement of that particular right [of exclusive expression of creative work] committed while he

128 See text accompanying notes 43–44, 139.

129 See 17 USC § 106 ("Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following [uses].").

130 See id.

or she is the owner of it."[131] This right to seek recovery for infringement, of course, is essential in providing an incentive to create. The availability of laches reduces the ability of a creator to seek recovery, thus to some extent lessening his incentive to create in the first place—thus reducing access to original work for a second user.[132] Therefore, to the extent that it does so, laches must overcome such reductions by providing more of an incentive for the second user to exploit a copyright for positive economic value. Within the knowing context, a second user can exploit a copyright in three possible ways.

1. Knowing infringement.

The first possibility, simply to infringe, probably is not a viable option. The second user could balance the costs of losing an infringement suit, weighted by the probabilities of getting caught and losing the suit, with the benefits of his infringing activity, but such a course is likely to be untenable. First, the Senate Report to the 1957 amendments notes that "due to the nature of publication of works of art that generally the person injured receives reasonably prompt notice or can easily ascertain any infringement of his rights,"[133] suggesting that the probability of getting caught is high. Second, given that the second user would lose his entire investment after losing an infringement suit, it probably would be too risky a venture for any second user to invest large amounts of capital and labor into exploiting a copyright. Third, statutory damages under copyright law allow a court to increase such damages if it finds that the infringement was committed willfully by the defendant.[134] Given such increases in damages—unless the probability of getting caught is very low, which seems unlikely for copyright violations—the expected value of a willful infringement is likely to be low or even negative.

2. Fair use.

The second possibility of fair use also cannot suffice as the complete solution to the needs of a second user. While a complete analysis of fair use is outside the scope of this Comment, a few characteristics of the defense should be noted. Fair use of a copyrighted work is generally limited to purposes such as criticism, teaching, scholarship, or research.[135] Commercial exploitation of a copyright generally is not ac-

131 17 USC § 501(b).

132 The reductions due to laches on the incentives to create in the first place are tempered to the extent that a creator does not anticipate sleeping on his rights or a second use of his work.

133 S Rep No 85-1014 at 2 (cited in note 4). See also text accompanying notes 44–45.

134 See 17 USC § 504(c)(2).

135 See 17 USC § 107.

corded the defense of fair use.[136] Therefore, given the general situation at issue here of a second user seeking to knowingly exploit a copyright for superior economic value, fair use usually would not apply. More importantly, as noted previously, a second user is unlikely to invest large amounts of capital and labor into exploiting a copyright if the investor faces large risks of losing his entire investment. If the investor guesses incorrectly and his use does not qualify under fair use, he could face infringement liability. The likelihood that an investor could guess incorrectly is not insignificant considering that "this obscure doctrine of fair use [is] 'the most troublesome in the whole law of copyright.'"[137] Therefore, a second user ex ante will have difficulty in predicting whether his use would fall under the purview of fair use and thus be immunized from liability. Given such uncertainty, the second user is likely to seek negotiations with the copyright holder for a license.

3. Negotiations.

Therefore, the third and most likely possibility for a second user to pursue knowing use of a copyrighted work is through negotiations with the owner of the copyright—generally the creator. The negotiation process provides more certainty of immunity and of expected profits from exploitation to a defendant than the other two possible methods.[138] Presumably, investors like the second user seek more certainty, which allows them to better gauge the riskiness and expected profits of a project. It should be noted here that such an outcome of preferring negotiations accords with the general policy within our legal system of favoring negotiations and settlements and avoiding litigation in the courts.[139]

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136 See *Sony Corp v Universal City Studios, Inc*, 464 US 417, 451 (1984) (noting that "every commercial use of copyrighted material is presumptively an unfair exploitation" of the plaintiff's rights); Nimmer and Nimmer, 4 *Nimmer on Copyright* at § 13.05[1][c] (cited in note 32). The language in *Sony* about the presumption was tempered in *Campbell v Acuff-Rose Music, Inc*, 510 US 569 (1994), in which the Court held that the commercial character of a song parody did not create a presumption against fair use. See id at 572. Instead, the extent of commercialism must be weighed against other factors, such as the extent to which the new work is transformative. See id at 577–79.

137 Nimmer and Nimmer, 4 *Nimmer on Copyright* at § 13.05 (cited in note 32), quoting *Dellar v Samuel Goldwyn, Inc*, 104 F2d 661, 662 (2d Cir 1939) (per curiam). See also *Mathews Conveyer Co v Palmer-Bee Co*, 135 F2d 73, 85 (6th Cir 1943) (noting the many considerations going into a determination of fair use).

138 By providing more certainty, laches is furthering the fundamental congressional intent behind the addition of a statute of limitations to the Copyright Act. See text accompanying notes 3–5. See also *United Carbon Co v Binney & Smith Co*, 317 US 228, 236 (1942) (noting that one of the goals of the patent system is to reduce uncertainty in order to encourage invention).

139 See, for example, *Piper Aircraft Corp v Wag-Aero, Inc*, 741 F2d 925, 932 (7th Cir 1984) ("It would disserve the strong policy in favor of nonjudicial dispute resolution if defendant suc-

Additionally, it may be expected that negotiations are the best path to maximizing the progress of the arts through maximization of the economic value of various creative works. As noted above, infringement is a zero-sum game in which the winner of the lawsuit takes all. Such a risky proposition has many costs and can deter an investor from undertaking a project. A negotiation, on the other hand, allows the two parties to come to a mutually beneficial agreement in which both parties profit. The title is transferred to the user who values it the most—the second user in the cases under discussion. If a creator can extract $100 of profit from a work and a second user can extract $200, then there is a large bargaining range that is mutually profitable (assuming away transaction and enforcement costs). Such profit maximization should incentivize both the creator and the second user to create and exploit creative works. Because laches will lower incentives of the creator to create as a result of reduced abilities to recover, the effect it will have on negotiations will determine to a significant degree whether the doctrine has positive effects on the progress of the sciences and the arts. If laches increases incentives for a second user to pursue negotiations, then it will more often allow a second user to maximize profit and will likely lead to greater exploitation of creative works, and vice-versa.

At first blush, laches would seem to reduce incentives to negotiate and to settle on licensing agreements. Laches generally reduces the liability of a second user, thus reducing his incentives to negotiate with the copyright holder rather than simply to pursue exploitation. The manner in which laches reduces liability depends upon whether the court has adopted the continuing wrong or rolling statute of limitations theories.

Under the continuing wrong theory, laches as a result of unjust delay would in two ways bar a plaintiff's ability to recover from acts occurring within the prescribed statute of limitations period. One, it would bar recovery from all infringement acts occurring at any time in the past up to three years prior to filing suit. Two, it would bar recovery from any infringing acts occurring within the past three years even though they fall within the prescribed statute of limitations because of unjust delay. The reduction in anticipated liability for a second user occurs because "[w]ithout the availability of the application of laches to a claim arising from a continuing wrong, a party could, theoretically, delay filing suit indefinitely."[140] A plaintiff continuing to delay would allow damages to the plaintiff to accrue as the defendant continued to

cessfully could assert that the three-and-one-half year period of settlement attempts contributes to the establishment of laches.").

140 *Hot Wax*, 191 F3d at 821.

exploit the copyright. Technically, such liability would create more of an incentive for the defendant to negotiate with the plaintiff for a license. Otherwise, he could face liability for decades of exploitation. Of course, the other possibility is that the defendant, the second user, simply would not exploit the copyright with liability accruing under continuing wrongs. With the availability of laches, the defendant knows he has some defense against the plaintiff's delay, thus his expected liability is reduced. The second user can then exploit without seeking negotiations because he faces immunity for his possible infringement. Additionally, any negotiation would have less value to him since the costs of the negotiations would be the same, but the benefits lowered as his gains—immunity from suit—would have a lower value.[141]

Under the rolling statute of limitations theory, laches would have the effect only of barring recovery for the past three years since recovery for any acts prior is already barred. The application of laches within the three-year period, however, could be justified for two different reasons. The first is simply that the plaintiff should not have delayed for up to three years in filing suit after the injury or discovery of the injury occurred (depending upon which rule the court uses). Barring of a statutorily timely claim in such a manner is rare given that courts have a presumption that a suit filed within the statute of limitations period does not constitute delay.[142]

The second is that filing suit over infringing acts that occurred more than three years prior creates unjust delay such that even recovery for acts within the past three years should be barred due to unjust prejudice on the defendant. Essentially, if the *Danjaq* court had adopted a rolling statute of limitations, this justification would have prevailed for barring recovery from the infringing DVDs.[143] While this latter justification gives some cognizance to the continuing wrong theory itself,

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141 There is a possibility that the costs of negotiating could decrease. The original creator could reduce licensing fees, which effectively immunize the second user from a suit, as a response to the lower value of a license. The extent to which the creator would lower licensing fees may maintain or increase the likelihood of a second user seeking negotiations even with the availability of laches. This possibility, however, does not challenge this Comment's ultimate conclusion that laches should not be available in the knowing use context through the willful infringement exception. If a creator is compelled to lower licensing fees substantially, he is less likely to produce in the first place, which will also lower the ability of a second user to exploit creative works. Therefore, the willful infringement exception is still necessary to maximize creation of copyrightable works. Finally, thanks to Robert Tannenbaum for suggesting this possibility.

142 See, for example, *Danjaq*, 263 F3d at 954, citing *Telink, Inc v United States*, 24 F3d 42, 45 n 3 (9th Cir 1994); *Roulo v Russ Berrie & Co*, 886 F2d 931, 942 (7th Cir 1989). See also text accompanying notes 48–50.

143 It remains unclear whether the *Danjaq* court, and the Ninth Circuit in general, has adopted the continuing wrong theory or the rolling statute of limitations theory. See Nimmer and Nimmer, 1 *Nimmer on Copyright* at § 12.05[B][2][a] (cited in note 37).

because the first justification is rare, the general laches case for courts adopting the rolling statute of limitations theory is likely to use this second justification. Notably, these two reasons also apply in continuing wrong cases in which the court may bar recovery for suits filed within three years of the infringing act.

The effects on liability and incentives to negotiate under this theory would be similar to, but less pronounced than, the effects noted above under the continuing wrong theory. Because the only reduction in liability would occur within the previous three years, instead of all liability in the past, the defendant would have less of an incentive to negotiate but not significantly less so.

While it is clear that the availability of laches to limit liability may reduce a second user's incentives to negotiate and thus to exploit a work,[144] there is a strong countervailing effect at play that almost certainly cancels out the former effect. Namely, the reduction in liability in and of itself should provide for more of an incentive for the second user to exploit the copyright, since the expected value of the second use now rises. No longer is the defendant facing a risk that some or all of the expected profits from the second use could be appropriated by the plaintiff–copyright holder. Because of these countervailing notions, the total effect of the availability of laches on a second user's incentives and ability to exploit are uncertain and probably nominal.

One other effect of the application of laches should reduce a second user's incentives to settle. Effectively, a second user can use laches and negotiations together as a tactic to reduce his expected liability. Laches is based around a plaintiff's delay in bringing suit.[145] Therefore, time spent by the plaintiff informing and negotiating with the defendant regarding some alleged infringing activity will keep the clock running for the purposes of laches. For example, in *Danjaq*, the court noted that the creator's "various telegrams and advertisements do not stop the clock on laches: 'Laches is based on the plaintiff's delay in beginning litigation, not on the information a defendant has regarding a claim.'"[146] The court in *Piper Aircraft Corp v Wag-Aero, Inc*[147] expressed concern for a defendant's reduced incentive to negotiate and settle under laches: "It would disserve the strong policy in favor of nonjudicial dispute resolution if defendant successfully could assert that the three-and-one-half year period of settlement attempts contributes to the establishment of laches."[148] The defendant–second user

144 But see note 149.

145 See text accompanying notes 10–12.

146 *Danjaq*, 263 F3d at 953, quoting *Jackson v Axton*, 25 F3d 884, 889 (9th Cir 1994).

147 741 F2d 925 (7th Cir 1984).

148 Id at 932 (concluding that laches did not bar the plaintiff's suit).

could drag out the negotiations process for as long as possible in an attempt to garner immunity from infringement liability through laches. Admittedly, the plaintiff as a result will be less likely to seek negotiations and will simply file an infringement suit in order to avoid losing his right to seek recovery.[149] Such an outcome, aside from going against the general policy of our judicial system of favoring negotiations over lawsuits[150] will result in increased riskiness for second users in exploiting copyrights. The effects of such riskiness, and its probable resultant effect of lowering exploitation of copyrighted works, are explained in Parts IV.A.1 and 2.

Further, such effects are compounded by the notion that the clock for delay under laches begins to run once the plaintiff knows or should have known of an *impending* infringement.[151] Therefore, once a defendant infringes, the clock may already have been running for some time, and pursuing negotiations is likely to have an even more pernicious effect on the plaintiff's ability to seek recovery without having caused prejudicial delay. Overall, the availability of laches seems to create disincentives for both plaintiff and defendant in seeking a settlement through negotiations and creates incentives to file suits, which is likely to reduce second-use exploitation of copyrighted works thus hampering progress of the arts. Laches, however, has its saving grace in the willful infringement exception that provides for the correct balance in managing these incentives.

As noted in Part I.C, even if the defendant successfully pleads all aspects of the laches defense, the plaintiff can still avoid a dismissal of the claim by arguing that the defendant willfully infringed on the copyright. The exception is based on the notion that a party must come to a court of equity with clean hands.[152] It also, however, has the effect of limiting a second user's ability to use laches and negotiations together as a tactic to limit liability. With the willful infringement exception, if a copyright holder and second user are in negotiations over licensing of

149 The other possibility is that the second user will find a creator's threat to sue as highly credible because the second user knows that the creator is worried about losing his ability to sue in the future due to delay. Therefore, the second user may be more willing to settle initially. Aside from the fact that examples exist of negotiations leading to delay under laches, as in *Danjaq*, there are other reasons to doubt this line of analysis. First, the creator would need to assume that the second user would find his threat credible in order to avoid filing suit early. Second, the creator would worry that the second user may agree to negotiate in good faith and avoid suit but then simply drag on the negotiations. Third, even if the parties do negotiate in good faith, the creator will likely need to lower licensing fees to immunize the second user, as explained in note 147. A lower licensing fee would lead to reduced incentives to create for the creator and reduced ability to exploit for the second user.

150 See note 139 and accompanying text.

151 See Part I.A.1.

152 See note 26 and accompanying text.

the copyright for further exploitation, the second user cannot depend on keeping the laches clock running by extending negotiations. The second user, under these circumstances, likely will have knowledge of the copyright and of any infringing acts performed by him thereafter will not be eligible for the defense of laches. Therefore, given that a second user knows of a copyright and that his exploitation of such copyrighted work would constitute infringement, he will seek a license through negotiations for such second use, which as noted above should create optimal use in the knowing context.

B. Unknowing Use

With the availability of the willful infringement exception, the core laches case becomes one in which the defendant does not know either that a particular creative work is copyrighted or that his use of such work would constitute an infringing act. In such cases, negotiations may be impossible or unlikely. For example, if there is uncertainty about ownership of a copyright, negotiation costs may become high for finding the correct owner and reaching a licensing agreement. The doctrine of laches provides enough of a defense against prejudice towards the second user to create the right sort of incentives for optimal secondary use of a copyright. Ex ante, a second user considering investing in the exploitation of some creative work of uncertain copyright status will be deterred from such an investment because of a liability overhang.[153] The copyright holder can delay filing suit until the defendant has invested significant sums and then appropriate the profits resulting from such exploitation. Under the continuing wrong theory, a plaintiff can delay filing suit indefinitely. Therefore, a second user faces significant risks of losing out on his investment; thus, the second user's incentive to exploit is significantly reduced below some optimal level. Laches reduces liability overhang by limiting the expected amount a plaintiff can recover. The plaintiff–copyright holder will be incentivized to reduce his future losses by either filing suit early or seeking negotiations with the defendant.[154] Such negotiations, of

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153 See note 9.

154 This notion of the plaintiff acting to reduce further losses can be analogized to the duty to mitigate in contract law. The Second Restatement of Contracts notes, "[D]amages are not recoverable for loss that the injured party could have avoided without undue risk, burden or humiliation." Restatement (Second) of Contracts § 350(1) (1979). See also Joseph M. Perillo and Helen H. Bender, 11 *Corbin on Contracts* § 57.11 (2d rev ed West 1995) (explaining that "it is the 'duty' of the injured party to mitigate his damages"); Charles J. Goetz and Robert E. Scott, *The Mitigation Principle: Toward a General Theory of Contractual Obligation*, 69 Va L Rev 967, 973 (1983) (noting that the mitigation principle "requir[es] a mitigator to bear the risk of his failure to minimize losses. It denies a mitigator recovery for losses he unreasonably failed to avoid").

course, will bring the issue back to the knowing use context, which should optimize copyright exploitation.[155]

Essentially, laches functions as a mechanism for shifting burdens depending on information costs. In the knowing use context, the defendant–second user bears the burden of finding the copyright holder and initiating negotiations in order to avoid liability. Presumably, he has the best information regarding his type of use and whether it will infringe or fall under the protection of fair use. Given this information, one should expect that it would be cheapest for the second user to act rather than for the copyright holder to anticipate or discover the infringing use. Furthermore, the second user can seek negotiations before committing any possible infringing acts. Within the unknowing context, however, by definition the second user does not have information regarding the copyrighted status of the creative work—or at least that his exploitation of such a work would result in infringement. Under laches, the burden falls back on the copyright holder to pursue possible infringing acts expeditiously by either filing suit or pursuing negotiations with the second user. Presumably, the copyright holder has the best information regarding whether the second use infringes on his copyright. Therefore, it would be cheapest for him to pursue a remedy. Even if the plaintiff does not know of the infringing activity, he is likely the party facing the lowest costs to discovering this information given his knowledge about his claims and that most infringement is of a public nature.[156]

For example, in the Sixth Circuit case of *Chirco*, discussed in more detail in Part II.C.3, the defendants unknowingly had embarked on a construction project that infringed on the plaintiff's architectural plans.[157] The plaintiffs were easily able to obtain defendants' construction plans to ascertain whether they infringed the copyrighted architectural plans.[158] The court noted that the defendants "had no notice that Plaintiffs were going to sue them regarding this project."[159] In fact, given the ease with which the plaintiffs obtained such information, the court showed some displeasure with the plaintiffs waiting two years to file suit.[160] Laches, of course, would have compelled the plaintiffs to file suit or pursue negotiations earlier in order to defend his copyright. Negotiations would have led to some optimal secondary use of the

155 See Part IV.A.3.

156 See text accompanying notes 44–45, 133.

157 See *Chirco*, 474 F3d at 230.

158 See id.

159 See id at 231.

160 Id at 230 (noting that by the time plaintiff filed suit, the defendant had already completed construction on most of buildings and many were already occupied).

architectural plans, one that would have avoided any prejudice to the defendants. Ex ante, with the availability of laches, defendants such as the one in *Chirco*, knowing that they are less likely to face any liability overhang or prejudice, are more likely to invest in secondary use and thus further the fundamental goal of copyright law.

CONCLUSION

The debate among the circuits about allowing the defense of laches in copyright infringement claims is a difficult one. Concerns about showing deference to a congressionally stipulated statute of limitations are countered by equitable concerns about preventing prejudice to defendants. The former, according to the Fourth Circuit, should compel courts to forbid the use of laches, while the latter, according to the Ninth Circuit, should compel courts to allow liberal use of the defense. This Comment notes several reasons why concerns about separation of powers are only marginal at best in this context. The 1957 amendments codifying a statute of limitations specifically contemplated the availability of analogous equitable tolling doctrines. Furthermore, there is little reason to assume that in stipulating a three-year statutory period, Congress intended such period to serve as a maximum and minimum time for filing suit. Finally, characterizing the statute of limitations as a congressional balancing act shows that the availability of laches can actually further the goal of accurately balancing incentives.

After minimizing the separation of powers concern, this Comment provides a positive justification for the availability of the defense as articulated by the Ninth Circuit. It undertakes further incentives analysis in order to argue that the availability of laches as a defense—along with the willful infringement exception—would actually further the fundamental goal of copyright law to encourage the production of creative works. Such a goal, as embodied in the Constitution, should not be taken lightly.