

The Supreme Court Clarifies Standard For Attorneys' Fee Awards in Copyright Infringement Cases

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On June 16, 2016, the Supreme Court resolved a disagreement among lower courts regarding the standard for determining when to award attorneys' fees to the prevailing parties in copyright infringement suits. In *Kirtsaeng v. John Wiley & Sons, Inc.*, 2016 WL 3317564 (U.S. June 16, 2016), the Court instructs lower courts to give "substantial weight" to the "objective reasonableness" of the unsuccessful party's position while still considering other factors, such as litigation misconduct, deterrence of repeated instances of copyright infringement or overly aggressive assertions of copyright claims.¹

Background and Procedural History

The Supreme Court's decision last week reflected the second time the parties had been before the Court. Their long-running dispute arises out of Kirtsaeng's importation of Wiley-published textbooks from Thailand into the United States for resale without Wiley's permission. After Wiley had succeeded on its infringement claims against Kirtsaeng at the district court and the Second Circuit Court of Appeals, the Supreme Court sided with Kirtsaeng and held that an authorized foreign sale of a copyrighted work exhausts the copyright holder's U.S. rights, preventing the holder from filing suit if the foreign-sold works are later resold in the U.S.² After winning that victory in the Supreme Court, Kirtsaeng sought attorneys' fees from Wiley on remand to the district court.

Kirtsaeng's demand for fees brought into play the factors to be considered in assessing such requests. In *Fogerty v. Fantasy, Inc.*, 510 U.S. 517 (1994), the Supreme Court set forth a non-exhaustive list of factors for courts to consider in exercising their discretionary authority to award attorneys' fees to prevailing parties in copyright suits.³ In the intervening years, circuit courts approached the *Fogerty* factors differently: some employed a rebuttable presumption in favor of awards,⁴ and others, including the Second Circuit, focused

If you have any questions concerning this memorandum, please reach out to your regular firm contact or the following authors:

NEW YORK

Lawrence B. Friedman
+1 212 225 2840
lfriedman@cgsh.com

David H. Herrington
+1 212 225 2266
dherrington@cgsh.com

Arminda B. Bepko
+1 212 225 2517
abepko@cgsh.com

NEW YORK
One Liberty Plaza
New York, NY 10006-1470
T: +1 212 225 2000
F: +1 212 225 3999



on the “objective reasonableness” of the unsuccessful party’s claims. Applying this “reasonableness” standard, the Second Circuit affirmed the district court’s denial of Kirtsaeng’s request for attorneys’ fees.⁵ Kirtsaeng subsequently persuaded the Supreme Court to review that decision.

The Supreme Court’s Ruling

On June 16, 2016, Justice Kagan announced the unanimous opinion of the Court, endorsing the Second Circuit’s practice of placing substantial weight on the objective reasonableness of the losing party’s position, but emphasizing that this cannot be the only or the “controlling” consideration.⁶

A. The Court Endorses Placing Substantial Weight On The Losing Party’s “Objective Reasonableness”

The opinion begins by noting that the Copyright Act allows courts to “award a reasonable attorney’s fee to the prevailing party” in infringement suits, and that the Supreme Court has placed only two substantive restrictions on that ability: first, that awards may not be granted “as a matter of course,” but instead on a case-by-case basis after particularized analysis; and second, that prevailing plaintiffs and defendants must be treated equally.⁷ As to the first point, *Fogerty* offered a series of non-exhaustive factors for consideration, including “frivolousness, motivation, objective unreasonableness[,] and the need in particular circumstances to advance considerations of compensation and deterrence.”⁸ Recognizing the disparate approaches taken by circuit courts following *Fogerty*, Kirtsaeng and Wiley both urged the Supreme Court to clarify the standards in a manner that they argued would further the Copyright Act’s objectives. Wiley proposed placing substantial weight on whether the losing party’s position was objectively reasonable, while Kirtsaeng urged special consideration for whether the suit resolved an “important and close legal issue” in copyright law.⁹

In analyzing these positions, the Court considered which framework would advance the Copyright Act’s “well-settled” goals: “enriching the general public through access to creative works” by

encouraging authors’ creativity while allowing others to build on their works.¹⁰ The Court concluded that Wiley’s approach—focusing on objective reasonableness—would encourage parties with strong legal positions to “stand on their rights” and deter parties on less solid footing from pursuing litigation.¹¹ By contrast, the Court could identify no benefit from Kirtsaeng’s proposal, rejecting his argument that fee-shifting encourages parties to litigate cases to judgment and observing that such an approach may just as easily discourage risk-averse litigants from pursuing complex, unsettled questions of copyright law.¹² Moreover, the Court expressed the view that the objective reasonableness emphasis is easily administrable, as judges can readily evaluate a party’s position for its reasonableness, while it may take years, and several rounds of additional litigation, to determine whether a case has resolved an important question of copyright law.¹³

B. The Court Cautions Against A Singular Focus When Determining Fee Awards

Although the Court adopted Wiley’s proposal, it also stressed that “objective reasonableness can be only an important factor in assessing fee applications—not the controlling one.”¹⁴ Citing examples of prior awards, the Court suggested that, even faced with an objectively reasonable losing party, courts may impose a fee award for a variety of reasons, including to punish a litigant’s misconduct, discourage repeated instances of overly broad or overly aggressive assertions of infringement, or deter repeated acts of infringement.¹⁵ Further to that guidance, the Court agreed with Kirtsaeng that the Second Circuit’s opinion, while not inconsistent with the Supreme Court’s conception of fee-shifting analysis, “at times suggests that a finding of reasonableness raises a presumption against granting fees.”¹⁶ Cautioning lower courts not to turn “substantial” weight into “dispositive” weight, while making clear that it expresses no opinion as to the conclusion of the district court in *Kirtsaeng*, the Court vacated the lower court rulings and remanded for reconsideration in light of the Court’s ruling.

Takeaways

The Supreme Court’s willingness to endorse placing substantial weight on the “objective reasonableness” of a losing party’s position is, to some extent, in tension with its decisions addressing similar issues in patent cases (including its decision just last week in *Halo*), in which the Court has sharply criticized reliance on the objective reasonableness of a party’s position in determining whether to award attorney’s fees or enhanced damages. A key difference, however, is that the tests the Supreme Court rejected in patent cases provided a complete safe haven for any party that can establish an “objectively reasonable” position at trial, while the Court’s decision in *Kirtsaeng* emphasizes that “objective reasonableness can be only an important factor in assessing fee applications—not the controlling one.”¹⁷

The Court’s insistence that objective reasonableness cannot be the only factor in assessing whether to award attorney’s fees means that a party that correctly believes its position is reasonable cannot be certain of avoiding a fee award if it ultimately loses at trial. But that concern is offset by the Court’s admonition that “in a system of laws discretion is rarely without limits” and that a motion addressed to a court’s discretion is “not to its inclination, but to its judgment; and its judgment is to be guided by sound legal principles.”¹⁸ While the Court identified considerations that might justify a fee award, even if the losing party’s position was not unreasonable, the overarching message of *Kirtsaeng* is that an award of attorney’s fees must have a sound basis. Thus, if a losing party can persuade the court that its position was objectively reasonable, it should be able to avoid a fee award unless there was some other special circumstance – such as repeated instances of infringement, repeated attempts at overly aggressive infringement claims, or litigation misconduct – that would justify such an award.

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CLEARY GOTTlieb

¹ *Kirtsaeng v. John Wiley & Sons, Inc.*, 2016 WL 3317564, at *7 (June 16, 2016).

² *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1371 (2013).

³ *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 535 n.19, (1994)

⁴ See, e.g., *HyperQuest, Inc. v. N’Site Sols., Inc.*, 632 F.3d 377, 387 (7th Cir. 2011) (“Defendants who defeat a copyright infringement action are entitled to a strong presumption in favor of a grant of fees.”) cf. *Compaq Computer Corp. v. Ergonome Inc.*, 387 F.3d 403, 411 (5th Cir. 2004) (“award of attorneys’ fees in copyright cases is the rule rather than the exception, and should be awarded routinely”).

⁵ *John Wiley & Sons, Inc. v. Kirtsaeng*, No. 08-CV-07834 DCP, 2013 WL 6722887, at *6 (S.D.N.Y. Dec. 20, 2013) *aff’d*, 605 F. App’x 48 (2d Cir. 2015).

⁶ *Kirtsaeng*, 2016 WL 3317564, at *8.

⁷ *Id.*, at *4 (citing *Fogerty*, 510 U.S. at 527, 533).

⁸ *Id.*

⁹ *Id.*

¹⁰ *Id.*, at *5.

¹¹ *Id.*, at *6.

¹² *Id.*

¹³ *Id.*, at *7.

¹⁴ *Id.*

¹⁵ *Id.*

¹⁶ *Id.*, at *8.

¹⁷ *Id.*

¹⁸ *Id.*, at *5.