



The Supreme Court Clarifies Standard For Attorney Fee Awards In Copyright Cases

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Copyright infringement litigation has been on the rise in recent years, particularly in the Central District of California, with the apparel industry feeling the brunt of this uptick. In a typical case, a plaintiff alleges the infringement of a textile design used to create garments and files suit against everybody in the distribution chain—from fabric suppliers to retailers. Under the Copyright Act of 1976, among the possible damages plaintiffs can seek is an award of its attorney's fees and costs.

Generally speaking, courts in the United States adhere to the "American Rule," which dictates that absent statutory authority or an agreement between the parties, each litigant is responsible for its own attorney's fees, regardless of who prevails in the litigation. The Copyright Act is one of the statutorily recognized exceptions to the "American Rule" which permits the shifting of attorney's fees to the losing party in litigation. See 17 U.S.C. §505.

Section 505 of the Copyright Act provides that a court, "in its discretion may allow the recovery of full costs by or against any party [...]" and that reasonable attorney's fees can be awarded as part of those costs. But this provides little guidance to district courts tasked with deciding when to exercise its discretion and award fees, and when not to. In *Fogerty v. Fantasy, Inc.*, 510 U.S. 517 (1994), the Supreme Court took a step toward establishing a nationwide standard. In *Fogerty*, the Court identified "frivolousness, motivation, objective unreasonableness[,] and the need in particular circumstances to advance considerations of compensation and deterrence" as nonexclusive factors that should inform a district court's analysis of fee applications under 17 U.S.C. § 505. *Id.* at 534, n. 19. Notwithstanding this precedence, there still existed a disparity among Federal Circuits in the application of 17 U.S.C. § 505. The Second Circuit places significant emphasis on the objective reasonableness factor (and perhaps in some cases to the exclusion of all other factors). In the Fifth Circuit, it is the "rule rather than the exception [that attorney's fees] should be awarded routinely" to the prevailing party in copyright cases. *McGaughey v. Twentieth Century Fox Film Corp.*, 12 F.3d 62, 65 (5th Cir. 1994). In the Ninth Circuit, where Courts routinely consider a variety of factors, their application has at times been inconsistent.

Enter Supap Kirtsaeng, a former Cornell University student from Thailand. The enterprising Kirtsaeng turned global publishing giant John Wiley & Sons' practice of selling the same English language textbooks at different prices internationally and domestically into a business. Kirtsaeng would purchase John Wiley textbooks overseas (where John Wiley sold them at lower prices) and have them shipped to the United States, where he would resell them for a profit. Due to the price discrepancy between the John Wiley's international and domestic pricing structure, Kirtsaeng could sell the textbooks at a profit while still undercutting John Wiley's U.S. prices.

John Wiley sued Kirtsaeng for copyright infringement. In *Kirtsaeng v. John Wiley & Sons, Inc.*, 568 U.S. ___ (2013), a divided 6-3 Supreme Court held that Kirtsaeng's purchase and reselling of lawfully obtained editions of John Wiley textbooks was protected by the first sale doctrine. Armed with this win, Kirtsaeng returned to the district court and sought two million in attorney's fees pursuant to 17 U.S.C. § 505. The district court denied Kirtsaeng's motion, holding that Kirtsaeng was not entitled to recover his fees because John Wiley's litigation position, while ultimately not successful, was nevertheless objectively reasonable. The Second Circuit Court of Appeal affirmed the district court's denial of Kirtsaeng's fee application. Kirtsaeng appealed to the Supreme Court, providing the Court with the opportunity to clarify the standard under which attorney's fees can be awarded under 17 U.S.C. § 505.

Now, in the case's second trip to the Supreme Court, Kirtsaeng argued that the Second Circuit's standard put too great an emphasis on the objective reasonableness factor, essentially disregarding all other factors and creating a presumption whereby if the losing party's litigation position was reasonable, a denial of a fees motion was all but assured. Kirtsaeng argued that the central focus of a district court's inquiry on a fee application under 17 U.S.C. § 505 should not be the reasonableness, but whether the case advanced the law. If it does (according to Kirtsaeng) the prevailing party should be entitled to recover its attorney's fees, thereby incentivizing and encouraging other litigants to continue litigating important cases so as to clarify and advance copyright jurisprudence.

Conversely, John Wiley argued that the objective reasonableness is the appropriate standard to use on a Section 505 fee application. John Wiley argued that such a standard provides not only a measure of predictability but also provides a straightforward standard for district courts to employ when ruling on fee applications.

On June 16, 2016, in a unanimous 8-0 ruling, the Court held that the objective reasonableness of the losing party's position in litigation should remain a significant portion of the inquiry, but that, "objective reasonableness can be only an important factor in assessing fee applications—not the controlling one." *Kirtsaeng v. John Wiley & Sons, Inc.*, 579 U.S. ___ (2016) (slip op., at 10). There is no doubt that while the objectiveness reasonable factor carries "significant weight," district courts presented with fee applications must consider all factors, including those enumerated in *Fogerty*, and "view all the circumstances of a case on their own terms in light of the Copyright Act's essential goals." *Id.*, (slip op. at 11).

Notwithstanding this apparent win for John Wiley insofar as the Court appeared to have adopted Wiley's objective reasonableness standard, the Court nevertheless reversed and vacated the Second Circuit's



decision. The Court held that the language of the Second Circuit's opinion suggests that a finding of objective reasonableness raises a presumption against granting a fee application—without due consideration of the other relevant factors. As a result, the Court vacated the Second Circuit's ruling and remanded the case for further consideration of Kirtsaeng's fee application in light of the totality of the *Fogerty* factors.

The Court's recent ruling in *Kirtsaeng* provides important guidance to district courts and litigants alike. With the standard for attorney's fees clarified, litigants can conduct their own analysis as to the risks and benefits of a potential Section 505 fee award and tailor their litigation and settlement strategy accordingly.



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