

CLIENT ALERT

Supreme Court Rules that Copyright Fee-Shifting Analysis Should Place “Substantial Weight” on Objective Reasonableness of Losing Party’s Position

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Yesterday, in a unanimous opinion authored by Justice Kagan, the U.S. Supreme Court outlined how lower courts should apply the fee-shifting provisions in Section 505 of the Copyright Act. In *Supap Kirtsaeng, DBA Bluechristine99 v. John Wiley & Sons, Inc.*, No. 15-375, the Court affirmed that courts should give “substantial weight” to the objective reasonableness of the losing party’s position under the copyright law. The Court also directed, however, that courts give “due consideration” to “all other relevant circumstances”—and explained that they have discretion to award attorney’s fees “even when the losing party advanced a reasonable claim or defense.”

Kirtsaeng, a Thai citizen, was a student at Cornell University. Upon learning that publisher John Wiley & Sons was selling English-language textbooks in Thailand for significantly less than the prices at which it sold the same books in the United States, Kirtsaeng recruited family and friends to ship Thai textbooks to him in New York. Kirtsaeng then resold the textbooks at a “tidy profit.”

Wiley then sued for violation of the Copyright Act, alleging that Kirtsaeng’s arbitrage violated Wiley’s exclusive right to distribute the textbooks. In defending himself, Kirtsaeng invoked the so-called “first sale doctrine,” which allows the lawful owner of a copyrighted work to resell his or her copy without liability.

Kirtsaeng’s defense failed at the district court and on appeal to the Second Circuit. Both courts held that the first-sale doctrine did not apply to foreign-made books. In 2013, however, the Supreme Court sided with Kirtsaeng. In a divided opinion, the Court reversed the Second Circuit and held that the first-sale doctrine applied to both foreign-made and domestic books.

The case then returned to the district court, where Kirtsaeng invoked § 505, seeking millions in attorney’s fees. The district court denied Kirtsaeng’s petition, relying heavily on the objective reasonableness of Wiley’s litigation position. In particular, the court emphasized that the law had been unclear before the Supreme Court’s 2013 decision—which itself was divided—and that Wiley’s position was therefore reasonable even if ultimately unsuccessful. The Second Circuit affirmed, and the Supreme Court granted certiorari to resolve what it described as “disagreement in the lower courts” regarding the proper framework for analysis under § 505.

The Court began by noting that, while the language of § 505 provides courts with discretion to award prevailing parties attorney’s fees, it does not specify any standards or factors to guide whether fee-shifting is appropriate in individual cases. Then, citing its 1994 decision in *Fogerty v. Fantasy, Inc.*, the Court emphasized both that courts may

not award attorney’s fees “as a matter of course” and that they may not treat plaintiffs and defendants differently for purposes of fee-shifting. But the Court recognized the need for “additional guidance,” noting that affording courts unguided discretion can upset parties’ ability to predict outcomes and make informed decisions about whether to litigate.

Kirtsaeng urged the Court to restrict the lower courts’ discretion by prescribing that “special consideration” be given to “whether a lawsuit resolved important and close legal issues” and “meaningfully clarified the law.” Wiley, by contrast, argued that courts should focus primarily on the objective reasonableness of the losing party’s position. The Court described its task as considering whether either of these suggestions advanced the goal of encouraging “useful copyright litigation.”

Ultimately, the Court concluded that only Wiley’s approach—focusing on the reasonableness of the losing party’s position—advanced this goal. Focusing on objective reasonableness encourages those with strong legal positions to stand on their rights and proceed with litigation, while discouraging those with weak positions from litigating. The same could not be said of Kirtsaeng’s suggested focus on whether litigation clarified difficult issues of law. Indeed, that approach could just as easily *discourage* litigation of close positions by risk-averse parties, as parties would risk not just a loss on the merits, but also an order to pay their opponent’s fees, even in very close cases. Moreover, whether a lawsuit will resolve “important” issues is often unclear to parties and the Court, even at the close of litigation, and may not become clear until “many years later.” The Court therefore concluded that courts should give “substantial weight” to objective reasonableness.

Nonetheless, the Court emphasized that objective reasonableness is “only an important factor in assessing fee applications—not the controlling one.” In a given case, fees might be awarded even though the losing party’s position was reasonable, or denied even though its position was unreasonable. The Court did not purport to list all of the relevant factors. Instead, courts must consider “all the circumstances.” As examples, the Court cited the possibility of considering a party’s litigation misconduct, or a party’s history of pressing overaggressive copyright claims.

Going forward, it is clear that objective reasonableness will be a critical issue when litigating fee applications. Apart from this guidepost, however, the Court’s directive to consider “all the circumstances” leaves substantial room for arguments both for and against fee-shifting in individual cases.

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