

Client Alert

June 17, 2016

Show Me the Money - *Kirtsaeng* and Supreme Court Guidance on Attorneys' Fees Awards in Copyright Cases

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WHAT'S NEW

Yesterday, the Supreme Court provided substantial guidance in an unsettled area of law by holding that, in deciding whether to award attorneys' fees under the Copyright Act's fee-shifting provision, 17 U.S.C. § 505, a court should give substantial weight to the objective reasonableness of the losing party's position, while still taking into account all other circumstances relevant to granting fees. *Kirtsaeng v. John Wiley & Sons, Inc.*, No. 15-375 (U.S. Jun. 16, 2016).

BACKGROUND

This story begins with an enterprising college student buying foreign textbooks on the cheap to sell in the United States for a profit. Petitioner Supap Kirtsaeng came to the United States from Thailand to study math at Cornell University. Respondent John Wiley & Sons ("Wiley"), an academic publishing company, sells textbooks to students in U.S. and foreign markets. Kirtsaeng noticed an arbitrage opportunity: Wiley's textbooks sold in Thailand were virtually identical to their American counterparts, but much cheaper. Kirtsaeng asked family and friends to buy the foreign editions so that he could sell them to his fellow students for a profit.

Wiley discovered what Kirtsaeng was doing and sued him for copyright infringement, claiming that his activities violated Wiley's exclusive right to distribute its copyrighted textbooks. Kirtsaeng invoked the first-sale doctrine as a defense. Under that doctrine, the lawful owner of a book or other copyrighted work is able to resell or otherwise dispose of the work as he sees fit. In short, Kirtsaeng argued that if he bought the book lawfully, he could sell it to whomever he wished.

But at the time Kirtsaeng raised the defense, lower courts were conflicted as to whether the first-sale doctrine applied to foreign-made books, and the Supreme Court ultimately divided 4 to 4 the first time it addressed the issue in *Costco Wholesale Corp. v. Omega, S.A.*, 562 U.S. 40 (2010). To settle the continuing conflict, the Court granted Kirtsaeng's petition for certiorari on the issue and established that the first-sale doctrine allows the resale of foreign-made books, just as it does domestic ones. Kirtsaeng thus prevailed in defending against Wiley's infringement claim.

TO THE VICTOR GOES THE SPOILS?

Returning victorious to the district court, Kirtsaeng invoked section 505 to seek more than \$2 million in attorneys' fees from Wiley. The district court denied his motion, and the Second Circuit affirmed. The Supreme Court granted certiorari because lower federal courts had followed a variety of different approaches when determining whether to award attorneys' fees.

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Section 505 states that a district court “may . . . award a reasonable attorney’s fee to the prevailing party.” It authorizes attorney fee-shifting but without specifying standards that courts should adopt, or guideposts they should use, in determining when such awards are appropriate. The Court explained that the statutory language “connotes discretion” and lacks any “precise rule or formula” for awarding fees. *Kirtsaeng*, No. 15-375 at 4 (quoting *Fogerty v. Fantasy, Inc.*, 510 U.S. 517 (1994)).

Yet the Court had previously recognized that there are limits on a court’s discretion. A district court may not award attorneys’ fees as a matter of course but must instead make a case-by-case determination. *Id.* A court also may not treat prevailing plaintiffs and prevailing defendants differently; litigants should be encouraged to litigate to the same extent whether they are plaintiffs or defendants. *Id.* Additionally, several nonexclusive factors should inform a court’s decision: “frivolousness, motivation, objective unreasonableness[,] and the need in particular circumstances to advance considerations of compensation and deterrence.” *Id.* But the Court recognized that there was “a need for some additional guidance” for lower courts.

The Supreme Court agreed with Wiley that, in deciding whether to award fees, a district court should give “substantial weight to the objective (un)reasonableness of a losing party’s litigating position.” *Id.* at 6. In so ruling, the Court rejected Kirtsaeng’s argument that district courts should give special consideration to whether a lawsuit resolved an important and close legal issue and thus meaningfully clarified copyright law.

The Court reasoned that the objective-reasonableness approach advances the Copyright Act’s goals because it both encourages parties with strong legal positions to stand on their rights and deters ones from weak legal positions from proceeding with litigation. According to the Court, when a litigant is clearly correct, the likelihood that he or she will recover fees gives him or her an incentive to litigate all the way, even if the damages at stake are small.

The Court also explained that the objective-reasonableness approach is more administrable than the “important and close legal issue” approach supported by Kirtsaeng because it would be difficult for a court to know at the end of a case whether a newly decided issue will have critical, broad legal significance.

The Court made clear, however, that objective reasonableness, while an important factor, is not always controlling. In any given case, even when a party’s position is objectively reasonable, a court may still award attorneys’ fees based on other relevant factors; and it may deny fees even though the losing party made unreasonable arguments. “Although objective reasonableness carries significant weight, courts must view all the circumstances of a case on their own terms, in light of the Copyright Act’s essential goals.”

WILEY SEEMS REASONABLE

Lower courts had concluded that Wiley’s position on the first sale doctrine was objectively reasonable, especially considering that several courts of appeals and four Justices of the Supreme Court had agreed that the first-sale doctrine did not apply to foreign-made works. The Court nevertheless remanded the case so the district court could again review Kirtsaeng’s fee application—giving substantial weight to the reasonableness of Wiley’s litigating position but also taking into account all relevant factors.

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