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Supreme Court Holds "Objective Reasonableness" Guides Courts' Discretion As To Whether To Award Attorney's Fees to Prevailing Copyright Litigants

Yesterday, the Supreme Court of the United States issued an opinion in *Kirtsaeng* v. *John Wiley & Sons Inc.*, No. 15-375 (June 16, 2016), holding that courts considering whether to award attorney's fees to successful copyright litigants should put substantial weight on whether the losing party's position is "objectively reasonable," while also considering other factors.

This ruling is the latest in an eight-year legal battle between John Wiley & Sons ("Wiley"), an academic publishing company, and Supap Kirtsaeng, a citizen of Thailand. Over a decade ago, Petitioner Kirtsaeng discovered that Wiley sold English-language textbooks in Thailand for far less than they were sold in the United States. Kirtsaeng asked family and friends in Thailand to purchase textbooks and send them to him in the United States, where he resold them at a profit.

Wiley sued Kirtsaeng for copyright infringement, claiming that Kirtsaeng's sale of the textbooks constituted interference with Wiley's exclusive right to distribute the textbooks. Kirtsaeng relied on the "first-sale doctrine" as a defense. Circuit Courts were heavily divided as to whether the doctrine was applicable to a copy of an American copyrighted work manufactured abroad. Certain courts argued that the doctrine simply didn't apply to copies manufactured outside the United States, while others argued that the doctrine applied to such copies only if their first sale was in the United States, and still others argued that there was no reason to limit application of the first-sale doctrine to copies manufactured in the United States. The Supreme Court ultimately sided with Kirtsaeng, holding that the first-sale doctrine "allows the resale of foreign-made books, just as it does domestic ones."

Following his victory, Kirtsaeng returned to the District Court, requesting over $2 million in attorney's fees from Wiley under Section 505 of the Copyright Act. Section 505 provides that a district court "may . . . award a reasonable attorney's fee to the prevailing party" in a copyright action. 17 U.S.C. § 505. The District Court denied Kirtsaeng's motion, giving "'substantial weight' to the 'objective reasonableness' of Wiley's infringement claim," and stating that "'the imposition of a fee award against a copyright holder with an objectively reasonable'—although unsuccessful—'litigation position will generally not promote the purposes of the Copyright Act,'" and that no other factors "outweighed" that objective reasonableness to warrant fee-shifting. The Second Circuit affirmed.

The Supreme Court granted certiorari in order to resolve "disagreement in the lower courts about how to address an application for attorney's fees in a copyright case." The Court had previously provided some limited guidance in *Fogerty* v. *Fantasy, Inc.*, 510 U.S. 517 (1994), in which it held that a district court "may not award attorney's fees as a matter of course" but must "make a more particularized, case-by-case assessment." In explaining how to undertake such analysis, *Fogerty* "noted with approval 'several nonexclusive factors' to inform a court's fee-shifting decisions: 'frivolousness, motivation, objective, unreasonableness[,] and the need in particular circumstances to advance considerations of compensation and deterrence.'"

Both Wiley and Kirtsaeng proposed that the Court provide guidance to district courts in order to direct their discretion in determining whether to award attorney's fees to a prevailing party "towar[d] the purposes of the Copyright Act," which the Court articulates as "enriching the general public through access to creative works" and "enhancing the probability that both creators and users . . . will enjoy the substantive rights" provided by the Copyright Act. The parties, however, disagreed about the form that guidance should take. Petitioner Kirtsaeng proposed that district courts should give "special consideration to whether a lawsuit resolved an important and close legal issue and thus 'meaningfully clarified' copyright law." Wiley endorsed the approach taken by the lower court, proposing that substantial weight be given to the reasonableness of a losing party's position.

In a unanimous decision, written by Justice Elena Kagan, the Court agreed with Wiley, holding that courts should give substantial weight to the objective reasonableness of the losing party's litigation position over other factors. The Court's opinion stated that this approach is not only more easily administrable (because it is easy to assess whether a losing party advanced an unreasonable argument), but also best serves the purposes of the Copyright Act: It "both encourages parties with strong legal positions to stand on their rights and deters those with weak ones from proceeding with litigation." Moreover, it treats both plaintiffs and defendants evenhandedly—"[n]o matter which side wins a case, the court must assess whether the other side's position was (un)reasonable." By contrast, placing special attention on litigation of "close cases" that "meaningfully clarify" copyright law could potentially discourage parties from litigating the kinds of cases that "clarify" copyright law: Fee awards in "close cases" potentially "enhance the penalty for a defeat," in cases which, by nature "no party can be confident . . . he will win or lose."

However, the Court also acknowledged that objective reasonableness is "only an important factor in assessing fee applications—not the controlling one," and noted that its decision in *Fogerty* correctly recognized that courts should examine several factors in determining whether to grant attorney's fees. It noted that Kirtsaeng "raised serious questions about how fee-shifting actually operates in the Second Circuit," recognizing that "the Court of Appeals' framing of the inquiry resembles" the inquiry framed by the Court, but that the "Court of Appeals' language at times suggests that a finding of reasonableness raises a presumption against granting fees." This presumption "goes too far in cabining how a district court must structure its analysis and what it may conclude from its review of relevant factors."

Accordingly, the Court vacated the decision of the Second Circuit and remanded Kirtsaeng's petition to the District Court for evaluation consistent with the Court's opinion—"giving substantial weight to the reasonableness of Wiley's litigating position, but also taking into account all other relevant factors."

Notably, this decision may also be significant to courts considering whether to award attorney's fees in patent cases. The Supreme Court has previously noted that the fee-shifting provision of the Patent Act, which permits district courts to award attorney's fees to prevailing parties in "exceptional cases," is "similar" to Section 505 of the Copyright Act, which merely permits a court to award reasonable attorney's fees at its discretion. The Court also has favorably cited *Fogerty*, a copyright decision, in patent cases for the proposition that "there is no precise rule or formula for making [attorney fee] determinations." *See Octane Fitness LLC* v. *Icon Health & Fitness Inc.*, No. 12-1184 (Apr. 29, 2014). This suggests that cases examining applications for attorney's fees in patent cases may also follow the Court's decision in *Kirtsaeng* and place special importance on the objective reasonableness of a losing party's litigation position. Indeed, in *Commonwealth Laboratories Inc.* v. *QuinTron Instrument Company Inc.*, No. 15-2010 (Fed. Cir. 2016), the Federal Circuit recently affirmed a district court's decision declining to grant attorney's fees because "there was nothing obviously unreasonable" about the losing litigant's position, which the district court found to be "non-frivolous."

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