IP Alert: U.S. Supreme Court Rules in Kirtsaeng v. John Wiley & Sons, Inc.



U.S. SUPREME COURT RULES IN *KIRTSAENG V. JOHN WILEY & SONS, INC.*

By Rajit Kapur

Yesterday, the U.S. Supreme Court ruled in *Kirtsaeng v. John Wiley & Sons, Inc.*, No. 15-375, that it is appropriate for a court to give substantial weight to the reasonableness of a losing party's position when deciding whether to award attorney's fees in a case brought under the Copyright Act as long as "all other relevant factors" are taken into account. In delivering this opinion for a unanimous Court, Justice Kagan essentially adopted a more flexible and expansive version of the approach advocated for by Wiley (the copyright owner), which primarily turned on whether a losing party's arguments were objectively reasonable.

This case began more than 10 years ago, when Kirtsaeng, a citizen of Thailand, developed a successful business in which he obtained foreign-edition copies of English-language textbooks

abroad below their U.S. market prices and resold them in the U.S. at a profit. Wiley sued Kirtsaeng for copyright infringement in 2008, alleging that Kirtsaeng violated Wiley's exclusive rights in distributing its copyrighted works and in preventing unauthorized importation of its copyrighted works.

After Kirtsaeng lost at trial, the case ultimately reached the Supreme Court, which ruled in a 6-3 decision that Kirtsaeng's actions did not constitute copyright infringement because Wiley's exclusive rights in the textbooks that Kirtsaeng obtained abroad were exhausted under the "first sale" doctrine.[1] In the three years that have passed since the Supreme Court's previous ruling, the case has returned to the district court, where Kirtsaeng is now seeking an award of attorney's fees from Wiley.

Under U.S. copyright laws, a "court may […] award a reasonable attorney's fee to the prevailing party as part of the costs."[2] The Supreme Court previously addressed this section of the copyright laws in *Fogerty v. Fantasy Inc.*, 510 U.S. 517, 29 USPQ2d 1881 (1994). In *Fogerty*, the Court held that "[p]revailing plaintiffs and prevailing defendants are to be treated alike, but attorney's fees are to be awarded to prevailing parties only as a matter of the court's discretion."[3] The Court also discussed in *Fogerty* several "nonexclusive" factors that "may be used to guide courts' discretion" in deciding whether to award attorney's fees, "so long as such factors are faithful to the purposes of the Copyright Act and are applied to prevailing plaintiffs and defendants in an evenhanded manner."[4]

In the proceedings below, both the district court and the Second Circuit denied Kirtsaeng's bid for attorney's fees. In doing so, they followed Second Circuit precedent that places "substantial weight" on the "objective reasonableness" factor — which asks whether the non-prevailing party's claims were "objectively reasonable" — relative to the other factors discussed in *Fogerty*.[5]

The question presented to the Supreme Court in the current *Kirtsaeng* case — and addressed by yesterday's opinion — is whether the lower courts' rulings run afoul of the statutory text of the Copyright Act and the Supreme Court's prior ruling in *Fogerty* by emphasizing the "objective reasonableness" factor over others when deciding whether to award attorney's fees in a copyright infringement action.

In yesterday's opinion, the Court held that it is appropriate for a court to give substantial weight to the reasonableness of a losing party's position when deciding whether to award attorney's fees as long as "all other relevant factors" are taken into account.[6] Because it was not clear here whether the lower courts "understood the full scope of that discretion" since their opinions primarily focused on the "objective reasonableness" factor, the Court vacated the lower courts' rulings in this case and remanded the case back to the district court to ensure that these "other" factors — in addition to reasonableness — are also considered.[7]

In setting forth this more flexible framework that gives greater discretion to district courts in deciding whether to award attorney's fees in copyright cases, the Court emphasized that its approach will further the aims of the Copyright Act insofar as it will encourage "useful copyright litigation" and will be "more administrable" than other alternatives it considered.[8] The Court also reaffirmed several aspects of its previous ruling in *Fogerty*. For example, quoting portions of*Fogerty*, the Court noted that fee awards must be decided on a case-by-case basis and cannot be awarded "as a matter of course." It further noted that prevailing plaintiffs and prevailing defendants should not be treated differently when it comes to awarding fees.[9]

Overall, the Court's decision here is consistent with its approach to awards of attorney's fees in other types of intellectual property cases, including Monday's ruling in *Halo Electronics, Inc. v. Pulse Electronics, Inc.*, No. 14-1513, which concerned fee awards in patent cases. In particular, as in *Halo*, the Court's decision in *Kirtsaeng* elevates the discretion of a trial court over hard and fast rules that would otherwise limit discretion in deciding issues related to fee awards.

Going forward, it may be more difficult for litigants to predict whether fees will be awarded in a particular case, because courts will have more discretion in taking additional considerations into account. While the opinion suggests that under this reasonableness-based approach to awarding fees, "[t]he copyright holder with no reasonable infringement claim has good reason not to bring suit in the first instance […] and the infringer with no reasonable defense has every reason to give in quickly, before each side's litigation costs mount," it might not always be clear how reasonable one's position really is or what circumstances will matter most to the court in deciding whether to award fees until after the case has been decided on the merits. As a result of this decision, parties contemplating or involved in copyright litigation may wish to closely consider the reasonableness of their positions at each stage of litigation and particularly early on before significant fees have been incurred.

In addition, although yesterday's *Kirtsaeng* decision represents perhaps only a moderate expansion of the analytical framework previously used by courts in deciding whether to award attorney's fees in copyright cases, it is possible that the Court's ruling in this case will lead to more fee awards than the Court may expect. In particular, while the Court seems satisfied that this reasonableness test is relatively easy to administer, since "[a] district court that has ruled on the merits of a copyright case can easily assess whether the losing party advanced an unreasonable claim or defense,"[10] it seems likely that a losing party's position often will look less reasonable after the court has ruled against it on the merits, which is typically the point at which the court then considers whether to award attorney's fees. Although the Court suggests that the "the issue of liability" should be separated from "that of reasonableness" in considering whether the losing party's position was reasonable,[11] it may be difficult to do this in practice, since the arguments

advanced by each party will inevitably be intertwined with the facts upon which liability is determined.

While it remains to be seen how yesterday's decision will affect copyright litigation going forward, the probable outcome of the Kirtsaeng case itself seems clearer. In particular, the case will be heading back to the district court for further consideration in view of the Court's new framework. And significantly, in concluding its opinion, the Court notes that in sending the case back to the district court to "take another look" at Kirtsaeng's fee application, "we do not at all intimate that the District Court should reach a different conclusion," instead "we merely ensure that the court will evaluate the motion consistent with the analysis we have set out — giving substantial weight to the reasonableness of Wiley's litigating position, but also taking into account all other factors."[12] While the district court may of course rule either way after considering these other factors, it seems likely — given these remarks by the Court — that the outcome in this case will remain the same as before, with Kirtsaeng's bid for attorney's fees being denied.

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[1]*Kirtsaeng v. John Wiley & Sons Inc.*, 133 S. Ct. 1351, 568 US __, 106 USPQ2d 1001 (2013).
[2]17 U.S.C. 505.
[3]*Fogerty*, 29 USPQ2d at 1888.
[4]*See* Fogerty, 29 USPQ2d at 1889, fn. 19.
[5]Specifically, the rulings below follow the Second Circuit's decision in *Matthew Bender & Co. v. West Publishing Co.*, 57 USPQ2d 1708 (2d Cir. 2001), which held that "objective reasonableness is a factor that should be given substantial weight in determining whether an award of attorneys' fees is warranted." *Id.* at 1712.
[6]*See* Slip Op. at 12.
[7]*See* Slip Op. at 1.
[8]*See* Slip Op. at 6-9.
[9]*See* Slip Op. at 4.
[10]*See* Slip Op. at 9.
[11]*See* Slip Op. at 10.
[12]*See* Slip Op. at 12.

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