

Courts in Second Circuit Breathe Life Into Rule 68 for Copyright Infringement Defendants

By Jonathan Bloom

I. Introduction

Defendants caught up in expensive copyright infringement suits in New York federal court over unauthorized use of relatively low-value photographs have found a good way to fight back: Make an offer of judgment under Rule 68 of the Federal Rules of Civil Procedure and then, after it is rejected, cite the plaintiff's potential liability for your client's post-offer attorneys' fees and other costs in moving under Local Civil Rule 54.2 to require the plaintiff to post a bond as a condition of continuing the lawsuit. This strategy, which has been employed in several recent cases, relies on case law in the Second Circuit holding that Rule 68 allows for an award of attorneys' fees to a non-prevailing copyright infringement defendant even though attorneys' fees are not available under section 505 of the Copyright Act because the defendant is not the prevailing party. This fee-shifting occurs even when the defendant is liable because when the plaintiff rejects a Rule 68 offer of judgment and ultimately is awarded less than the unaccepted offer, Rule 68 provides that the plaintiff/offeree "must pay the costs incurred after the offer was made."¹

The plain language of Rule 68 leaves open the question of whether attorneys' fees are included in the costs payable under Rule 68, and the Second Circuit has not yet addressed the issue. But the consensus among New York district courts is held that they are. The Supreme Court held in *Marek v. Chesny*² that Rule 68 covers "all costs properly awardable in an action," and section 505 of the Copyright Act defines "costs" to include attorneys' fees. Therefore, a Southern District court held recently, "A copyright defendant is entitled to seek an award of costs, including attorney's fees, incurred following a Rule 68 offer where the plaintiff's recovery fails to exceed the offer."³ At the same time, Rule 68 cuts off the plaintiff's ability to recover its fees (including attorneys' fees) incurred post-offer, thus limiting the value of section 505 for the prevailing plaintiff.⁴

It may seem anomalous that under section 505 attorneys' fees can be awarded, in the court's discretion, only to the prevailing party, whereas under Rule 68 post-offer costs and fees must be awarded to the *non-prevailing* defendant (who is not eligible to recover costs and fees under section 505) if the plaintiff recovers less than the rejected offer, and some courts have held that Rule 68 does not authorize a fee award to a non-prevailing party. But that view fails to take account of the fact that section 505 and Rule 68 serve different purposes: Discretionary

fee-shifting under section 505 is intended to advance the goals of copyright law by encouraging the litigation of meritorious claims and defenses (and discouraging frivolous ones); the purpose of mandatory fee-shifting under Rule 68 is to encourage settlement by raising the stakes of continuing to litigate.⁵ As the decisions discussed below illustrate, Rule 68 is in fact a potentially powerful tool for defendants seeking to ramp up settlement pressure on an overly aggressive/unrealistic plaintiff where the Rule 68 offer exceeds the plaintiff's maximum likely recovery.

Rulings from outside the Second Circuit, and the older, now minority view within in it, that attorneys' fees cannot be awarded to a losing defendant under Rule 68 because they are not available under section 505 seem to contravene the plain language of Rule 68 and unquestionably drain it of force in copyright cases by making section 505 the sole statutory basis for fee-shifting. Such rulings also do not reflect the distinct purposes of the two rules. However, the proper interpretation of the interplay between Rule 68 and section 505 has yet to be settled definitively.

II. Recent Rule 68 Decisions in the Second Circuit

As of this writing, the most recent of a series of decisions in the Second Circuit to apply Rule 68 in a copyright infringement case is that of Southern District Judge Denise L. Cote in *Mango v. Democracy Now!* Photographer Gregory Mango sued Democracy Now! for unauthorized use of his photograph of Kellyanne and George Conway in a news article on its website. Democracy Now! made a Rule 68 offer of judgment in an amount that it described as five times Mango's typical license fee for editorial use and that included an estimate of Mango's accrued attorneys' fees. Mango rejected the offer. At a pretrial conference, the court ordered Mango to post a \$10,000 bond. Democracy Now! subsequently moved to increase the amount of the bond to \$110,000. The principal issue on the motion was whether Democracy Now! was eligible for an award attorneys' fees incurred following its Rule 68 offer. The court held that it was.

The court noted that because section 505 of the Copyright Act permits an award of attorneys' fees to a prevailing party "as part of the costs," Local Civil Rule 54.2, which authorizes the court to order a party to file a bond

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for costs, allows attorneys' fees to be included in the amount of the bond. The court further noted that the factors courts consider in determining whether to require a bond under Rule 54.2 include "the legal costs expected to be incurred" and "compliance with past court orders."⁶ Referring to Rule 68 as "a cost-shifting rule designed to encourage settlements without the burdens of additional litigation,"⁷ the court stated that a Rule 68 offer of judgment "always includes costs, whether or not specified," because it authorizes such an offer "only with costs then accrued."⁸ In a copyright infringement action, the court held, such costs include attorneys' fees because section 505 of the Copyright Act defines the costs recoverable by the prevailing party to include reasonable attorneys' fees.⁹ Therefore, if the Rule 68 offer is rejected, and the plaintiff recovers less than the offer, the court concluded that Rule 68 requires the plaintiff to pay the defendant's post-offer costs, including attorneys' fees.¹⁰

The *Mango* court noted correctly that the Second Circuit has not yet applied the foregoing analysis in a copyright case. In *Baker v. Urban Outfitters, Inc.*¹¹ the Second Circuit reviewed a ruling by Southern District Judge Loretta A. Preska holding that the (prevailing) defendant was entitled to an award of attorneys' fees under both section 505 and Rule 68,¹² but the Second Circuit's affirmance of the fee award made reference only to section 505; it did not address the district court's analysis of Rule 68. This was understandable, as the district court's

award of post-offer costs and fees to the defendant under Rule 68 was less than, and subsumed by, its award of costs and fees under section 505 (which was not limited to the period following the Rule 68 offer). (It bears noting that this largely duplicative fee award reflected a flaw in the court's application of Rule 68: The court entered judgment against the plaintiff for failure to post a bond; he thus recovered nothing, and Rule 68 applies only where "the judgment that the offeree finally obtains is not more favorable than the unaccepted offer." Fed.R.Civ.P. 68(d). Because the plaintiff in *Baker* did not obtain a judgment—the defendant did—Rule 68 did not, on its face, apply.)

Prior to *Baker*, in the absence of guidance from the Second Circuit, the Eastern District court in *Boisson v. Banian Ltd.*¹³ reached a different result by relying on the Seventh Circuit's ruling in *Harbor Motor Co., Inc. v. Arnell Chevrolet-Geo, Inc.*¹⁴ as well as on non-copyright cases holding that attorneys' fees could not be awarded to non-prevailing defendants under Rule 68 where attorneys' fees were "properly awardable" under the relevant statute only to the prevailing party.¹⁵ The Seventh Circuit reasoned that section 505 limits fee awards to prevailing parties and that "any defendant who is entitled to invoke Rule 68 is by definition not a prevailing party."¹⁶ Judge Cote in *Mango* declined to follow *Harbor Motor*, citing *Stanczyk v. City of New York*,¹⁷ a civil rights action in which the Second Circuit described Rule 68 as a cost-shifting rule that "reverses Rule 54(d) [which excludes attorney's

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fees from costs recoverable by a prevailing party] and requires a prevailing plaintiff to pay a defendant's post-offer costs if the plaintiff's judgment is less favorable than the unaccepted offer."¹⁸ Judge Cote found the rejection of fee-shifting in *Harbor Motor* to be inconsistent with the operation of Rule 68 as described in *Stanczyk*.

The court next found that Mango was unlikely to win a judgment in excess of the Rule 68 offer, which, as noted, was five times Mango's typical license fee. Citing recent rulings in the Southern District, the court noted that the awards in copyright infringement cases "rarely exceed three to five times the license fee for a work."¹⁹ The court also noted that *Democracy Now!* had promptly removed the photo from its website upon receiving notice of the suit; was not alleged to have profited from it; and might have a fair use defense. The court further found, based on Mango's aggressive discovery demands, that it was not unreasonable to predict that *Democracy Now!*'s defense costs would exceed \$110,000 and that it was likely that Mango would be unable to pay the costs *Democracy Now!* would seek.²⁰ As for the "compliance with past court orders" factor, the court found that Mango's counsel's history of failing to comply with court orders, as well as the frequency with which his lawsuits are "voluntarily dismissed, settled, or otherwise disposed of before any merits-based litigation has occurred" (which, unless it were the result of accepting a Rule 68 offer, would frustrate the operation of Rule 68) weighed in favor of imposing an additional bond, although the court exercised its discretion to reduce the amount of the additional bond to \$50,000.²¹

Three weeks before *Mango* was decided, Judge Alison Nathan reached the same conclusion in *Rice v. Musee Lingerie, LLC*.²² In *Rice*, a photographer, Rice, represented by the same counsel as Mango, sued a lingerie shop for a post on its website that included Rice's photograph of a "sweater tree" that he had licensed to the *New York Post*. The defendant made a Rule 68 offer of judgment, which Rice rejected, and then sought an order requiring Rice to post a bond. As in *Mango*, the court's conclusion that a bond was appropriate relied heavily, in applying Local Rule 54.2, on two factors: the legal costs expected to be incurred and compliance with past court orders. With respect to the former, the court noted under Rule 68 the plaintiff might have to pay the defendant's costs and that on the face of the complaint, it appeared to be "a standard infringement case" in which the awards in the Southern District "typically do not extend beyond three to five times the license fee for a work."²³ The defendant represented to the court that its Rule 68 offer was "nearly thirty-one times the highest conceivable license fee for the use of the photograph at issue."²⁴ Thus, the court found, "even if Plaintiff were to prevail on his claim, it is likely that Defendant's Rule 68 offer would exceed the amount Plaintiff ultimately recovers."²⁵ As in *Mango*, the court—citing *Baker, Leibowitz v. Galore Media, Inc.*,²⁶ and *Wallert v. Atlan*²⁷—held that the post-offer costs recoverable under

Rule 68 include attorneys' fees because section 505 defines costs to include attorneys' fees.²⁸

After noting that Rice's counsel previously had been sanctioned for failing to comply with court orders and for filing misleading court documents, the court concluded that imposing a bond, in an amount to be determined, was appropriate.

*Lee v. W Architecture and Landscape Architecture LLC*²⁹ is another recent case, this one in the Eastern District, involving the same plaintiff's counsel and the same issue concerning the interplay between Local Rule 54.2, Rule 68, and section 505. In that case photographer Jackson Lee sued W Architecture ("W") and Landscape Architecture for copyright infringement and for removal or alteration of copyright management information based on the W's alleged use of an enlarged version of Lee's photograph of Katie Holmes and her daughter in an advertisement on a building. Before the initial conference W tendered a Rule 68 offer that it represented was fifty times more than the highest fee Lee charged for a standard print of the photograph. Lee did not respond to the offer within the fourteen days proscribed by the Rule and thus was deemed to have rejected it. W thereafter filed a motion to require Rice to post a bond for costs as a condition of proceeding with the case.

In addressing W's contention that there was a "substantial risk" that Lee would have to pay W's attorney's fees either under section 505 or Rule 68, the court noted with respect to the latter that it assumed, based on W's representations concerning its offer of judgment, that it was approximately \$10,000, such that Lee would be required to pay W's post-offer costs (including attorneys' fees) if he recovered less than \$10,000. Lee argued that he would not be subject to fee-shifting under Rule 68 if he prevailed because in that case W would not be the prevailing party and thus would not be eligible for a fee award under section 505. The court disagreed, citing that under Rule 68 "even if plaintiff prevails at trial, he will still owe defendant for costs and attorneys' fees from the date the Rule 68 offer was made, if the amount that plaintiff recovers at trial is less than the amount of the Rule 68 Offer."³⁰ The court pointed out that whereas being the prevailing party is a prerequisite to a fee award under section 505, it is "not a factor in a Rule 68 analysis."³¹ Rather, the cost-shifting provision of Rule 68 "only comes into play if the plaintiff prevails but receives less than the Rule 68 offer."³² Indeed, the court observed—contrary to *Baker*—Rule 68 *does not apply* if the defendant obtains a judgment in its favor.³³ The court thus concluded that there was "a possibility that defendant may be entitled to the costs and fees it incurred after plaintiff's rejection," which weighed in favor of requiring a bond.³⁴ As in *Mango* and *Rice*, moreover, the court cited the pattern of failures by plaintiff's counsel to timely file motion papers and to comply with court orders as a further ground to

grant the motion, and it ordered Lee’s counsel to post a \$10,000 bond.³⁵

III. Analysis

Recent decisions in the Second Circuit have highlighted the strategic value of Rule 68 offers of judgment in copyright infringement actions involving low-value

Circuit in *Jordan*, have rejected the argument made by counsel in the cases discussed above that “[b]ecause the Copyright Act includes an award of attorney’s fees as part of the costs, but only to a prevailing party, a non-prevailing defendant cannot recover attorney’s fees as part of a Rule 68 award.”⁴⁰ Rather than accepting this argument and allowing Rule 68 to become a dead letter,

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claims that nevertheless impose substantial litigation costs on the defendant. Using the potential for fee-shifting arising from a rejected Rule 68 offer as the basis for requiring the plaintiff to post a bond to continue the case can increase the settlement pressure on plaintiffs whose maximum potential recovery is dwarfed by the likely cost of the litigation. And whether the costs awardable under Rule 68 include attorneys’ fees is an important issue precisely because “the cost of attorneys’ fees often dwarfs other expenses.”³⁶

Several New York district courts have found that Rule 68 operates independently of section 505 in that it authorizes fee-shifting in favor of the non-prevailing defendant if the plaintiff recovers less than the rejected offer of judgment. The alternative view of Rule 68 as limited by the restriction of fees awards under section 505 to prevailing parties renders Rule 68 useless for copyright defendants because, by its terms, Rule 68 does not apply if the defendant prevails (in which case it would become eligible for a fee award only as a matter of the court’s discretion under section 505).

In the Second Circuit, a prevailing defendant must make the case for a discretionary fee award under section 505 with reference to factors such as “frivolousness, motivation, objective unreasonableness (both in the factual and in the legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence.”³⁷ Such awards are granted sparingly. Rule 68, by contrast, is available *only* to a losing defendant, and it *requires* an award of post-offer attorneys’ fees and costs pursuant to an objective criterion: whether the plaintiff recovers less than the rejected offer. As the Eleventh Circuit stated in *Jordan v. Time, Inc.*,³⁸ the directive in Rule 68 that the offeree “must pay the costs incurred after the making of the offer” if the offer exceeds the eventual recovery is “mandatory”; the district court “does not have the discretion to rule otherwise.”³⁹

In construing the plain language of Rule 68, district courts in the Second Circuit, aligned with the Eleventh

courts in copyright cases have given teeth to Rule 68 as an incentive to settlement. As the court put it in *Wallert*:

[M]uch as Universal Music’s decision to make a unilateral [Rule 68] offer exposed itself to a risk—that the offer, if accepted, could exceed the damages [that] might one day be awarded were this litigation to continue—so, too, is Wallert presented with a risk: that rejecting the offer and prolonging this litigation may result, should a judgment fall short of the Rule 68 offer, in his having to absorb Universal’s post-offer costs. That is how Rule 68 works.⁴¹

In the context of a bond motion, where the merits of the case have not yet been adjudicated, Rule 68 allows even a clearly liable defendant to inflict some pain—and risk—on the plaintiff by insisting on security against the plaintiff’s potentially significant exposure to a fee award. Invoking Rule 68 on a bond motion is an especially appealing strategy where the plaintiff’s potential recovery—realistically appraised—is dwarfed by the defendant’s litigation costs. Courts regularly use single-digit multiples of the plaintiff’s typical license fee to estimate the maximum damage award, while defendants, using the same formula, make their Rule 68 offers a higher multiple of the plaintiff’s license fee in order to ensure that the offer exceeds the plaintiff’s recovery.

A plaintiff operating under the assumption (realistic or not) that it will be able to prove willful infringement and thus be eligible for an enhanced statutory damage award of up to \$150,000 per work (if the work was timely registered) is likely to reject a Rule 68 offer based on a multiple of the plaintiff’s license fee. But invoking Rule 68 increases the risk of pursuing a large statutory award and thus might, in theory, prompt a more cold-eyed appraisal of the situation by the plaintiff. The cases discussed above show that prompt removal of an online posting of a single photograph typically does not give rise to an enhanced statutory award.

In short, pointing to a rejected Rule 68 offer as grounds for requiring the plaintiff to post a bond poses a concrete risk to the plaintiff. However, the split of judicial authority concerning the proper interpretation of Rule 68 in relation to section 505 suggests that, like the proper interpretation of the registration requirement of section 411(a) of the Copyright Act and of the term “full costs” in section 505 of the Act, the operation of Rule 68 in copyright cases may ultimately be an issue for the Supreme Court.

IV. Conclusion

District courts in the Second Circuit have breathed life into Rule 68 as a defensive weapon, in conjunction with Local Rule 54.2, in low-value, high-burden copyright infringement cases. In several recent rulings, courts have relied on potential liability for attorneys’ fees arising from rejected Rule 68 offers to require plaintiffs to post bonds as a condition of continuing to litigate. Such orders ensure that the plaintiff cannot avoid paying the defendant’s post-offer costs (including attorney’s fees) by voluntarily dismissing the case and avoiding a judgment. However, whether construing Rule 68 to permit fee awards to non-prevailing defendants will be endorsed by the Second Circuit—or taken up by the Supreme Court—remains to be seen.

Endnotes

1. Fed.R.Civ.P. 68(d) (emphasis added).
2. 473 U.S. 1, 9 (1985).
3. *Mango v. Democracy Now! Prods., Inc.*, 2019 WL 3325842, at *4 (S.D.N.Y. July 24, 2019) (emphasis added).
4. *Id.* at *3.
5. The making of a Rule 68 offer “encourages parties to consider and balance the strengths and weaknesses of their claims against the costs and risks associated with litigation.” *Boisson v. Banian Ltd.*, 221 F.F.D. 378, 380 (E.D.N.Y. 2004).
6. *Id.* at *2.
7. *Id.* at *3 (citation omitted).
8. *Id.* (citing *Steiner v. Lewmar, Inc.*, 816 F.3d 26, 36 (2d Cir. 2016)).
9. *Id.*
10. *Id.* at *4.
11. 249 F. App’x 845 (2d Cir. 2007).
12. *See Baker v. Urban Outfitters, Inc.*, 431 F. Supp. 2d 351 (S.D.N.Y. 2006).
13. 221 F.R.D. 378 (E.D.N.Y. 2004).
14. 265 F.3d 638 (7th Cir. 2001).
15. 221 F.R.D. at 381.
16. *Id.* at 379.
17. 752 F.3d 273 (2d Cir. 2014).
18. *Id.* at *3.
19. *Id.* at *5.
20. *Id.*
21. *Id.*
22. 2019 WL 2865210 (S.D.N.Y. July 3, 2019).

23. *Id.* at *2 (citing cases).
24. *Id.*
25. *Id.*
26. 2018 WL 419208 (S.D.N.Y. Sept. 20, 2018).
27. 2015 WL 518563 (S.D.N.Y. Feb. 5, 2015).
28. 2019 WL 2865210, at *3.
29. 2019 WL 2272757 (E.D.N.Y. May 28, 2019).
30. *Id.* at *4.
31. *Id.*
32. *Id.*
33. *See id.* (citing *Delta Air Lines, Inc. v. August*, 450 U.S. 346, 352 (1981)).
34. *Id.*
35. *Id.*
36. *Boisson*, 221 F.F.D. at 380.
37. *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 534 n.19 (1994).
38. 111 F.3d 102 (11th Cir. 1997).
39. *Id.* at 105.
40. *Leibowitz*, 2018 WL 4519208, at *4.
41. 2015 WL 518563, at *2.

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