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BMG V. Cox Is Major Copyright Victory For Music Industry

By **Alexander Lawrence** (February 5, 2018, 1:47 PM EST)

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While reversing and remanding for a new trial in light of certain errors in the jury instructions, the Fourth Circuit Court of Appeals has largely sided with the copyright holders in the dispute between BMG Rights Management and Cox Communications.[1] The case represents a major victory for the music industry in one of its first attempts to hold an internet service provider liable for unauthorized peer-to-peer file sharing by its subscribers. The decision has broad implications beyond the narrow dispute between BMG and Cox.

With respect to two important questions of copyright law on appeal, the Fourth Circuit sided with BMG. First, to receive safe harbor protection under the Digital Millennium Copyright Act, an ISP will be required to take action against a subscriber where there is evidence the subscriber has engaged in repeated acts of infringement, even if the subscriber has never been proven to be an infringer. Second, an ISP can be held contributorily liable for its subscribers' actions, notwithstanding that the service — providing access to the internet — is capable of substantial noninfringing uses.

The District Court Action Against Cox

On Nov. 26, 2014, BMG commenced the underlying action against Cox in the United States District Court for the Eastern District of Virginia, home of the "rocket docket." BMG claimed that thousands of Cox subscribers had used Cox's network to illegally download copyrighted works via peer-to-peer file sharing programs, and argued that Cox should be held secondarily liable for their infringement.

As its first line of defense, Cox asserted that its actions were protected by Section 512(i) of the DMCA, a "safe harbor" provision that shields service providers from secondary copyright infringement damages, so long as the service provider "reasonably implement[s]" a policy that provides for the termination of "repeat infringers" in "appropriate circumstances."

In a partial summary judgment decision issued on Nov. 19, 2015, the district court sided with BMG and held that Cox did not qualify for the DMCA safe harbor in that it had not reasonably implemented such a policy. In doing so, the court found that "before the fall of 2012 Cox did not implement its repeat infringer policy. Instead, Cox publicly purported to comply with its policy, while privately disparaging and intentionally circumventing the DMCA's requirements."[2]

It was undisputed that Cox had a written policy that prohibited subscribers from using Cox's network to infringe others' intellectual property and warned that violations could result in the "immediate suspension or termination of either … access to the service and or [the] Cox account." In practice, however, Cox seldom terminated subscribers. After receiving a notice of a claim of infringement, Cox would place a "strike" on the subscriber's account and, for every notice but the first, would forward the notice to the subscriber. No further action would be taken until the eighth and ninth notices, when the account holder would be directed to a page warning against further infringement. After the 10th,11th, 12th and 13th notices, the account holder would be shown an additional warning and was required to contact customer support to get back online. After 14 "strikes" within a six-month period, Cox would consider terminating the subscriber's account.

The district court also noted that a series of emails from Cox employees suggested that Cox was intentionally circumventing the DMCA requirements. The district court found that the emails demonstrated that "Cox employees followed an unwritten policy put in place by senior members of Cox's abuse group by which accounts used to repeatedly infringe copyrights would be nominally terminated, only to be reactivated upon request. Once these accounts were reactivated, customers were given clean slates, meaning the next notice of infringement Cox received linked to those accounts would be considered the first in Cox's graduate response procedure."[3]

A jury trial commenced in early December 2015 and resulted in a verdict in favor of BMG. The jury found that Cox's subscribers had used its service to infringe copyrighted works, and while Cox was not liable under a theory of vicarious liability, it was liable under a theory of contributory infringement for the acts of its subscribers. The jury awarded $25 million in statutory damages.[4]

Cox thereafter sought judgment as a matter of law that it could not be held contributorily liable because its Internet service is capable of substantial non-infringing uses. In turn, BMG moved for judgment as a matter of law on its vicarious infringement claim.

In a decision on Aug. 8, 2016, the district court denied both motions.[5] With respect to the vicarious infringement claim, which requires that a party have "an obvious and direct financial interest" in the infringing activity, the court noted that substantial evidence supported the jury's finding that Cox had no such financial interest in its subscribers' infringement of copyrights. The court likewise upheld the jury's contributory infringement verdict, reasoning that because Cox had general knowledge of the infringement on its network, and because Cox materially contributed to the infringement by turning a "blind eye" to the acts of its subscribers, sufficient evidence existed for a reasonable jury to find Cox contributorily liable for infringement of BMG's copyrights.

The Fourth Circuit Decision on Appeal

In its decision on appeal, the Fourth Circuit first addressed the district court's summary judgment order stripping Cox of its DMCA safe harbor. The Fourth Circuit affirmed the district court's ruling.

The Fourth Circuit rejected Cox's argument that a subscriber cannot be a "repeat infringer" unless that subscriber has been "adjudicated" and found liable for infringement. Cox had argued that "infringer" must mean an "actual infringer" rather than simply an "alleged infringer" and pointed to other provisions of the Copyright Act where Congress had used terms like "alleged infringement" or "claimed infringement," thereby indicating that Congress knew how to specify where mere allegations of infringement suffice. Cox argued that none of its subscribers had ever been proven to be infringers; they were simply accused of misconduct.

After dispensing with Cox's proffered interpretation of what constitutes a "repeat infringer," the Fourth Circuit then turned to whether Cox reasonably implemented "a policy that provides for the termination in appropriate circumstances" of its subscribers who repeatedly infringe copyrights. The Fourth Circuit found that Cox had not reasonably implemented such a policy. The Fourth Circuit held that "in carrying out its thirteen-strike process, Cox very clearly determined not to terminate subscribers who in fact repeatedly violated the policy."[6] The Fourth Circuit noted that, until September 2012, "Cox never terminated a subscriber for infringement without reactivating them."[7] The Fourth Circuit held that "[a]n ISP cannot claim the protection of the DMCA safe harbor provision merely by terminating customers as a symbolic gesture before indiscriminately reactivating them within a short timeframe."[8] While in September 2012, Cox abandoned its policy of routine reactivation, the Fourth Circuit held that the record showed that "this was a change in form rather than substance, because instead of terminating and then reactivating subscribers, Cox simply stopped terminating them in the first place."[9] The Fourth Circuit noted that Cox could only point to four terminations for repeat copyright infringement.

After addressing the DMCA safe harbor issues, the Fourth Circuit then turned to the secondary liability issues, in particular contributory infringement, in that the claim of vicarious infringement had been rejected by the jury.

The Fourth Circuit recognized the U.S. Supreme Court's holding in Sony Corporation of America v. Universal City Studios Inc., 464 U.S. 417 (1987), that as a general matter, the distributor of a product cannot be held liable for users' infringement so long as the product has "substantial non-infringing uses." In that case, the Supreme Court held that Sony was not secondarily liable for customers' use of Betamax video recorders to copy television programs, because the recorders were also capable of "substantial non-infringing uses." In Metro-Goldwyn-Mayer Studios Inc. v. Grokster Ltd., 545 U.S. 913 (2005), the Supreme Court held that this general rule set forth in Sony had its limits. In Grokster, the Supreme Court held that while the peer-to-peer file sharing network at issue did have substantial noninfringing uses, secondary liability was nonetheless available because the defendants had intentionally induced or encouraged the direct copyright infringement using the service.

Cox argued that its internet service clearly has substantial noninfringing uses and that it never intentionally induced or encouraged direct copyright infringement using its service. The Fourth Circuit disagreed. Citing to the Restatement (Second) of Torts, the Fourth Circuit held that if a person "knows that the consequences are certain, or substantially certain, to result from his act, and still goes ahead, he is treated by the law as if he had in fact desired to produce the result."[10]

In reaching this conclusion, the Fourth Circuit made clear that those who provide a subscription service — as opposed to a one-time sale of a consumer product like a video recorder — may find it more difficult to point to the substantial noninfringing uses of the service as a shield against secondary liability. If a copyright holder can show that the provider of a service has actual knowledge of specific acts of infringement (or was willfully blind to such acts) and failed to act to put a stop to the conduct, it can be held secondarily liable for the conduct.

Nonetheless, in that the district court instructed the jury in a manner that could lead to the conclusion that Cox could be found secondarily liable upon a showing of recklessness or negligence, the Fourth Circuit reversed and remanded and ordered a new trial.

The Impact of the Decision

While Cox has obtained a new trial and BMG has lost its multimillion-dollar judgment, the Fourth Circuit has provided important guidance regarding the availability of the DMCA safe harbor and the scope of secondary liability under the Copyright Act.

The Fourth Circuit's decision has broad implications for a whole host of service providers who rely on the DMCA safe harbors and the limits of secondary copyright infringement to avoid the potential for crippling damage awards if held liable for the acts of their subscribers. While the Fourth Circuit does not say exactly what must be done to avoid Cox's fate, the decision certainly provides guidance as to what not to do. Service providers cannot insist that copyright holders establish that subscribers have been adjudicated infringers to qualify as "repeat infringers." Likewise, service providers must act upon reasonable evidence that actual infringement occurred and cannot act to avoid obtaining knowledge of specific instances of actual infringement on their networks.

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[1] BMG Rights Mgmt. (US) LLC v. Cox Commc'ns, Inc., __ F.3d __, No. 16-1972, No. 17-1352, No. 17-1353, 2018 U.S. App. LEXIS 2487 (4th Cir. Feb. 1, 2018).

[2] BMG Rights Mgmt. (US) LLC v. Cox Commc'ns, Inc., 149 F. Supp. 3d 634, 655 (E.D. Va. 2015).

[3] Id.at 656.

[4] The district court later awarded BMG approximately $8.5 million in fees and costs.SeeBMG Rights Mgmt. (US) LLC v. Cox Commc'ns, Inc., 234 F. Supp. 3d 760 (E.D. Va. 2017).

[5] BMG Rights Mgmt. (US) LLC v. Cox Commc'ns, Inc., 199 F. Supp. 3d 958 (E.D. Va. 2016)

[6] BMG Rights Mgmt. (US) LL,2018 U.S. App. LEXIS 2487 at *17.

[7] Id.at *18.

[8] Id.

[9] Id.at *19.

[10] Id.at *27.