Litigation Alert:

Ninth Circuit Opens New Questions in Copyright Law in Denying Fox's Request to Enjoin Dish Network's Ad-Skipping Service

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SUMMARY

Fox Broadcasting Company v. Dish Network LLC marks the latest effort by content providers to seek redress for business harm arising from ad-skipping technologies. While more modern technologies were at issue, the Ninth Circuit's July 24, 2013 ruling in this case largely tracked the outcome of the case in which ad-skipping was first addressed, three decades ago, in the context of VCR technology. *See Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417 (1984) ("*Sony*"). In its *Fox* ruling, the Ninth Circuit rejected Fox's appeal, and affirmed the Central District of California District Court's refusal to enjoin Dish's operation. The panel rejected direct infringement on Dish's part, affirming that it is the end consumer, not Dish, who engages in the volitional conduct causing a copy to be made.

As to indirect infringement, the Ninth Circuit confirmed that the consumer's recording for time-shifting purposes is a protected fair use, and because Fox lacked any copyright interest in advertisements, it could not rely on harms caused by ad-skipping to defeat Dish's fair use defense or show irreparable harm. All that remained of Fox's copyright claims pertained to the "quality assurance copies" made internally by Dish in implementing its ad-skipping technology. As to this copying, the Ninth Circuit affirmed the district court's finding that while there is a likelihood of success in establishing infringement, the irreparable harm threshold was not met so as to justify a preliminary injunction.

The Ninth Circuit's decision may prove to be limited in application to the deferential standard of review applied to denials of preliminary injunctions. Nevertheless, the opinion provides some cautionary lessons about whether copyright can limit the emergence of new technologies for accessing protected works.

THE NINTH CIRCUIT AFFIRMS THE DISTRICT COURT'S REFUSAL TO ENJOIN DISH NETWORK'S AD-SKIPPING SERVICE

Dish offers its customers a "Hopper" digital recording device that allows large blocks of broadcast programming to be copied for time-shifted replay. In March 2012, Dish introduced "PrimeTime Anytime" (PTAT), a service that allows consumers using Hopper to concurrently record all primetime broadcast programming for all four networks, including Fox, on the user's local device. Once a consumer selects "enable" for this feature, the Hopper will by default record the entire primetime window for all four networks for every day of the week. Dish then rolled out "AutoHop" for PTAT, allowing subscribers to skip commercials automatically. Dish employees manually review broadcast programming content provided via PTAT, and bookmark commercial breaks to ensure the service skips to the right spots. Dish tests the accuracy of its ad-skipping by using a set of "quality assurance copies" of PTAT content on its own computers.

Fox responded to AutoHop's release by suing Dish for copyright infringement and breach of contract, seeking preliminary injunctive relief. The district court denied the motion, holding Fox failed to show a likelihood of success on most of its claims. The court did find that Dish's quality assurance copies infringed, but that Fox failed to show irreparable harm. *Fox Broad. Co. v. Dish Network, LLC,* 905 F. Supp. 2d 1088 (C.D. Cal. 2012). The court also considered and rejected Fox's breach of contract claims as to its rebroadcasting contract with Dish. Under the "limited and deferential" standard of review, the Ninth Circuit affirmed the district court's denial of injunctive relief.

Direct Infringement

The Ninth Circuit held that the district court properly found that Fox was unlikely to succeed on its direct infringement claim against Dish. Following the Second Circuit's approach in *Cartoon Network LP*

v. CSC Holdings, Inc., 536 F.3d 121 (2d Cir. 2008) ("*Cablevision*"), the panel focused on the question of causation: "*Who* made the copies?" In *Cablevision*, the Second Circuit held that a television service provider did not directly infringe broadcasters' copyrights by offering remote-storage DVRs to subscribers. Similarly, the Ninth Circuit held the district court did not err in finding it was the Dish subscribers who made the copies, citing the user's initial step in enabling the recording feature. Because "Dish's program creates the copy only in response to the user's command," Dish was not liable for directly infringing Fox's copyrights. But the Ninth Circuit noted the facts that Dish could "decid[e] how long copies are available for viewing, modif[y] the start and end times of the primetime block, and preven[t] a user from stopping a recording might be relevant to a secondary or perhaps even a direct infringement claim" (emphasis added).

Contributory Infringement

The Ninth Circuit affirmed the district court's holding that Fox was unlikely to prevail on its secondary liability theory because there must first be direct infringement by users, and use by Dish's subscribers was protectable under the "fair use" principles of *Sony*. *Sony*, the famous Betamax opinion, held that the private recording of copyrighted work for later watching ("time-shifting") constituted fair use, immunizing Sony from secondary liability. The Ninth Circuit, like the district court, held Sony directly controlled on the first three of the four elements of Dish's fair use defense — "(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work." 17 U.S.C. § 107.

On the fourth factor — the "market harm" analysis — the Ninth Circuit acknowledged that market conditions had changed since 1984. But it ducked the question of whether ad-skipping would devastate free over-the-air television, holding that ad-skipping did not "implicate any copyright interest." The court reasoned: "Fox owns the copyrights to television programs, not to the ads aired in the commercial breaks." Therefore, the only remaining issue was whether time-shifting caused market harm, which the Ninth Circuit found unlikely given that Fox often licensed time-shifting video on demand without high fees.

Claims Arising from Dish's Use of "Quality Assurance Copies"

The district court did find that Dish likely infringed Fox's copyrights by making "quality assurance copies" to test AutoHop, but it ultimately held that Fox failed to show irreparable harm. The Ninth Circuit affirmed, holding that the harms identified by Fox "did not 'flow from' the quality assurance copies themselves, but from the entire AutoHop program" and further that "monetary damages could compensate Fox for its losses from the copies."

ANALYSIS

Content providers and distributors should remember that the Ninth Circuit's opinion was narrowly cabined by its highly deferential standard of review. Parties considering whether novel technologies infringe copyrights should be wary of reading this opinion too broadly, as the Ninth Circuit left open key issues for future litigation.

First, the Ninth Circuit avoided what many considered the most important issue: whether ad-skipping technology will dry up television's revenue stream. Fox and its *amici* strongly emphasized the importance of advertising, which makes up approximately 90% of television revenue. If viewers skip commercials, why would companies still pay for them? But the Ninth Circuit held that harm from ad-skipping should not be considered here because it does not implicate Fox's copyright interests — Fox does not own copyrights in the ads. This leaves open the question of whether a different result would occur if the plaintiff were an advertiser or had standing to assert advertisers' copyrights.

Second, the Ninth Circuit left open what causation standard governs copyright actions. Following *Cablevision*, the district court purported to apply ordinary tort principles to determine whether Dish was directly liable. Despite the role that Dish played in operating PTAT, the district court held, and the Ninth Circuit repeated: "The user, then, and not Dish is the 'most significant and important cause' of the copy." 905 F. Supp. 2d at 1102 (quoting Prosser & Keeton on Torts § 42); Opinion at 12. Oddly, this statement

misquotes Prosser & Keeton's commentary on proximate, or legal, causation. The treatise provides that: "[Legal Causation] is sometimes said to depend on whether the conduct has been so significant and important a cause that the defendant should be legally responsible." Prosser & Keeton § 42. By substituting "most" for "so," the opinions suggest that only one actor may be liable for direct infringement. This approach threatens to eliminate the ordinary rule of joint and several liability in favor of a new "primary causation" standard. But, as the Ninth Circuit limited its opinion to the preliminary nature of the proceedings, it did not decide whether Fox might later prevail on this issue.

Third, the Ninth Circuit's irreparable injury analysis contained cryptic remarks about whether monetary relief could compensate Fox's injury, particularly as Fox's existing licenses could constitute a starting point for calculating damages. Perhaps without a contract in place setting potential damage benchmarks, the irreparable harm analysis would have come out differently.

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