February 27, 2024

Vacating a Billion-Dollar Damages Award, the Fourth Circuit Clarifies the Applicable Standards for Internet Service Providers' Vicarious and Contributory Liability for Copyright Infringement by Subscribers

By Benjamin E. Marks and Alexandra Blankman

On February 20, 2024, in *Sony Music Entertainment v. Cox Communications, Inc*., the U.S. Court of Appeals for the Fourth Circuit partially reversed the district court's denial of the defendant's renewed motion for judgment as a matter of law vacated the jury's damages award, and remanded for a new trial on the amount of statutory damages to be awarded on the remaining claims.[1] The dispute concerned whether the defendant, Cox Communications, Inc. ("Cox"), could be held contributorily and vicariously liable for copyright infringement by Cox internet service subscribers who had used the service to download and distribute copyrighted music files without permission.

Following a 12-day trial, the jury found Cox liable for both willful contributory and vicarious infringement of more than 10,000 copyrighted works and awarded $1 billion in statutory damages.[2] The Fourth Circuit affirmed the jury's finding of willful contributory infringement, but it reversed the finding of vicarious liability. The appellate court held that the plaintiffs had failed to establish that Cox received a direct financial benefit from the infringement by subscribers and thus their vicarious liability claims failed as a matter of law.[3]

Because the jury had awarded a single quantum of damages for the two sets of claims without any apportionment and the erroneous finding of vicarious liability could have impacted the size of the awarded damages, the appellate court vacated the damages award.[4] The appellate court also addressed Cox's arguments that the number of works allegedly infringed included several thousand instances of impermissible double counting, observing that even if Cox were correct that, as a matter of law, plaintiffs were only entitled to a single award for infringement of a sound recording and the musical work it embodies, even though the sound recording and the musical work are separately copyrighted, Cox had failed to provide sufficient evidence for the jury to identify the instances of double counting.[5]

The Fourth Circuit's ruling serves as a useful reminder of the importance of implementing a reasonable repeat infringer policy for internet service providers ("ISPs") and other services that permit users to reproduce, display, and distribute copyrighted works on their networks, and it provides important guidance for litigating claims of secondary liability that arise out of infringing acts by subscribers on services' platforms or networks.

[1] No. 21-1168, 2024 WL 676432 (4th Cir. Feb. 20, 2024).
[2] *Id.* at *1.
[3] *Id.* at *3-*6.
[4] *Id.* at *9.
[5] *Id.* at *10-*11.

I. The Factual Background and District Court Proceedings

Cox sells internet, telephone, and cable television services to millions of homes and business across the United States. The Digital Millennium Copyright Act ("DMCA") protects ISPs for copyright infringement committed by users of their networks but only if the ISP implements a reasonable policy to terminate repeat infringers (among other conditions).[6] In an earlier case, the Fourth Circuit had held that Cox did not qualify for the statutory safe harbor during the relevant period because its thirteen-strike repeat infringer policy was inadequate under the DMCA.[7]

Sony Music Entertainment and other record companies and music publishers sued Cox for copyright infringement committed by Cox subscribers during 2013 and 2014. MarkMonitor, an anti-piracy company retained by the Recording Industry of America ("RIAA") to catch copyright infringement on peer-to-peer file-sharing networks, generated and sent to Cox 163,148 DMCA takedown notices directing the removal of copyrighted material during the claim period.[8] When Cox received a takedown notice, its automated system sent notices to the infringing subscribers, the content of which varied by how far along the subscriber was in Cox's thirteen-strike policy, with consequences ranging from no action at all to an email warning of a temporary suspension.[9] Cox capped the number of takedown notices it would accept from the RIAA to 600 per day, limited the number of account suspensions per day, and restarted the strike count for subscribers who were reinstated following termination.[10] Cox terminated at most 32 subscribers on account of repeat infringements during this period.[11]

At trial, the plaintiffs limited their case to Cox subscribers who had received three or more notices of infringement. The jury found Cox liable for both vicarious and contributory liability for all 10,017 works the plaintiffs had placed at issue. The jury also found that Cox's infringement was willful, thereby increasing the range of statutory damages it could award per work infringed. The jury awarded $99,830.29 per work, amounting to $1 billion in damages.[12]

After the trial, Cox renewed its Rule 50(b) motion for judgment as a matter of law, arguing that the evidence did not prove either vicarious or contributory infringement and that the number of works allegedly at issue, and therefore the statutory damages awarded, had been inflated by the inclusion of derivative works and compilations.[13] The district court ultimately denied Cox's renewed motion for judgment in full.[14] Cox appealed to the Fourth Circuit, raising a variety of questions of law concerning "the scope of secondary liability for copyright infringement and what constitutes a compilation or a derivative work in the internet age."[15]

II. The Reversal of the Jury's Finding of Liability for Vicarious Infringement

The appellate court first addressed Cox's contention that the district court had erred by denying it judgment as a matter of law on the plaintiff's vicarious infringement claims. A plaintiff may hold a defendant vicariously liable for a third party's copyright infringement if the plaintiff can establish that the defendant "'[1] profits directly from the infringement and [2] has a right and ability to supervise the direct infringer.'"[16] Cox contested both elements but, because the appellate court agreed that plaintiffs failed to prove that Cox profited directly from its subscribers' infringement, it did not reach the issue of Cox's right and ability to supervise its subscribers.

Cox argued that it did not profit directly from its subscribers' infringement because all subscribers paid a flat monthly fee for internet access regardless of what they did online. According to Cox, because a subscriber paid the same flat monthly fee whether they used the service for lawful or unlawful purposes,

[6] *Id.* at *1; 17 U.S.C. § 512.
[7] *See BMG Rts. Mgmt. (US) LLC v. Cox Commc'ns, Inc.*, 881 F.3d 293, 299, 301-305 (4th Cir. 2018) ("*BMG*").
[8] *Sony Music Entm't*, 2024 WL 676432 at *2.
[9] *Id.* at *2.
[10] *Id.*
[11] *Id.*
[12] *Id.*
[13] *Id.* at *3.
[14] *Id.*
[15] *Id.*
[16] *Id.* (quoting *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.* 545 U.S. 913, 930 n.9).

the infringing acts did not benefit Cox. The district court had rejected this argument, finding evidence that Cox repeatedly declined to terminate accounts of infringing subscribers in order to continue collecting monthly subscription fees was sufficient to establish a direct financial benefit. The Fourth Circuit disagreed.

While all circuits recognize that plaintiffs asserting successful vicarious infringement claims must show that the financial benefit received by a purported secondary infringer is causally related to the infringing activities, courts have continued to grapple with how strict this correlation must be. This causal connection can be broader than the most clear-cut examples, such as a third-party receiving a commission from a direct infringer's sale of an infringing product.[17] Generally, courts accept that a "direct financial benefit" may exist where the infringing activities act as a "draw" for customers to use a particular service, which, in turn, leads to financial benefits for that service.[18] In *Ellison v. Robertson*, however, the Ninth Circuit established a limit on this rule: receiving "one-time set up fee[s]" or "flat periodic payments for service[s]" that are paid by both infringing and non-infringing subscribers cannot constitute a financial benefit that is "directly attributable" to infringing activity sufficient to sustain a vicarious infringement claim, unless the "value in the service" lies in its infringing uses.[19] To illustrate this point, the Fourth Circuit compared two Ninth Circuit cases: *Ellison and A&M Records, Inc. v. Napster, Inc. ("Napster")*[20]*.* In *Napster*, the Ninth Circuit found that Napster received a direct financial benefit from infringing activity because an increase in pirated music on its platform was directly correlated to an increase in Napster's registered users, upon which its ad revenue was directly dependent.[21] In other words, the value of Napster's service to users, which directly impacted Napster's ability to attract ad revenue, hinged on the presence of infringing music on its platform. Comparatively, in *Ellison*, the Ninth Circuit concluded that AOL did not receive a direct financial benefit from infringing material posted on online forums by its subscribers because the plaintiff presented no evidence that AOL customers subscribed to its internet services to engage in infringing activities, rather than for other non-infringing purposes.[22]

Applying these principles to the facts presented, the Fourth Circuit held that any financial benefits received by Cox, namely the flat monthly subscription fee, did not "flow directly" from its subscribers' infringing activities, but rather from the general sale of internet services.[23] The appellate court emphasized that the plaintiffs did not present sufficient evidence showing that infringing Cox subscribers purchased internet access to infringe on copyrighted music. It is possible, even likely, that these infringing subscribers purchased Cox's internet services for reasons other than pirating music, such as accessing email, surfing the web, and shopping online. The court rejected the plaintiffs' argument that evidence showing that approximately 13% of Cox's network traffic is attributable to peer-to-peer activity and that over 99% of peer-to-peer usage is infringing was sufficient to illustrate that certain subscribers continue to pay Cox's monthly subscription fee to engage in infringing activities.[24] Similarly, the appellate court found that evidence showing that repeat infringing subscribers were more likely to pay a higher fee to Cox for additional bandwidth also did not suffice to show that these subscribers made these purchases with the purpose of downloading or distributing pirated music.[25] The appellate court recognized that these repeat infringing subscribers may have wished to engage in other "bandwidth-intensive" activities, such as legally streaming movies and television shows or playing video games.[26] Accordingly, the Fourth Circuit held that Cox was not vicariously liable for its subscribers' infringing conduct and reversed the lower court's ruling denying Cox's motion for judgment as a matter of law on the vicarious infringement claim.[27]

---

[17] *See, e.g.*, *Shapiro, Bernstein & Co. v. H. L. Green Co.*, 316 F.2d 304 (2d Cir. 1963).
[18] *Sony Music Entm't*, 2024 WL 676432 at *4; *see also Fonovisa, Inc. v. Cherry Auction, Inc.*, 76 F.3d 259, 263 (9th Cir. 1996).
[19] *Ellison v. Robertson*, 357 F.3d 1072, 1079 (9th Cir. 2004).
[20] 239 F.3d 1004 (9th Cir. 2001).
[21] *Id* at 1023.
[22] *Ellison*, 357 F.3d at 1079.
[23] *Sony Music Entm't*, 2024 WL 676432 at *5.
[24] *Id.*
[25] *Id.* at *6.
[26] *Id.*
[27] *Id.*

III. The Affirmance of the Jury's Finding of Liability for Contributory Infringement

Although it reversed the finding of liability for vicarious infringement, the Fourth Circuit affirmed the jury's finding of liability for willful contributory infringement. Contributory infringement liability requires both a defendant's knowledge of the infringing activity and induction or causation of a material contribution to the third party's infringing conduct.[28] The district court had resolved the question of Cox's knowledge of infringing acts at summary judgment, and the jury found material contribution at trial. The appellate court addressed each prong in turn.

On the question of Cox's knowledge, the district court held that, as a result of the notices of infringement sent to Cox by MarkMonitor on behalf of the RIAA and its members, Cox's knowledge of its subscribers' past infringements was sufficient to establish this element of the claim.[29] On appeal, Cox argued that notices of past infringement did not establish knowledge that the same subscriber was substantially certain to infringe again, but the appellate court held that Cox had forfeited this argument by failing to press it before the district court.[30]

As to the material contribution prong, Cox argued that it could not be liable for materially contributing to copyright infringement because the internet service it provides is capable of substantial lawful use and not designed to promote infringement. Cox also argued that its contribution must amount to conduct equivalent to aiding and abetting the infringement and merely failing to prevent is not enough.[31] The appellate court rejected both contentions. It agreed that merely failing to take affirmative steps to prevent infringement is not enough in the absence of other evidence of intent, but it held that "supplying a product with knowledge that the recipient will use it to infringe copyrights is exactly the sort of culpable conduct sufficient for contributory infringement."[32] The appellate court cited its prior reasoning in *BMG* that "leasing a VCR to a customer—innocent conduct by itself—can support contributory liability if the lessor knows the customer is substantially certain to use it for copyright infringement."[33] The appellate court found than the evidence at trial, viewed in the light most favorable to the plaintiffs, showed more than a mere failure to prevent infringing acts and was more than sufficient to establish a material contribution. It cited the evidence that Cox knew of specific instances of repeat infringement, that Cox had traced those instances to specific users, and that Cox chose to continue providing service to those users to avoid losing subscription revenue. The appellate court also cited the "extensive" evidence that plaintiffs had presented about Cox's "increasingly liberal policies and procedures for responding to reported infringement" and internal Cox emails and chats that the jury reasonably could have interpreted as "displaying contempt for laws intended to curb online infringement."[34] The appellate court acknowledged that the evidence was not one-sided, but its role was limited to determining the sufficiency of evidence to support the finding, not weighing the evidence, given the procedural posture of reviewing a jury determination on that point.[35]

IV. The Scope of the Vacatur and Proceedings on Remand

Having reversed on one theory of liability and affirmed on the other, the Fourth Circuit vacated the damages award and remanded for a new trial on damages for contributory infringement. The court did not disturb the verdict of liability for contributory infringement.

The appellate court "lack[ed] sufficient confidence that the jury's vicarious liability verdict here did not materially influence the statutory damages award."[36] While both sets of claims were predicated on the same underlying conduct and the range of permissible statutory damages was identical, the court observed that "the statutory range is wide and the jury's choice within it is highly discretionary and may have been influenced by the vicarious

[28] *Id.* (quoting *CoStar Grp., Inc. v. LoopNet, Inc.*, 373 F.3d 544, 550 (4th Cir. 2004) (internal quotation omitted).
[29] *Id.* at *7.
[30] *Id.* at *7-*8.
[31] *Id.* at *8.
[32] *Id.* at *9.
[33] *Id.* (citing *BMG*, 881 F.3d at 308).
[34] *Id.*
[35] *Id.*
[36] *Id.*

infringement verdict."[37] The court reasoned that, without the legally erroneous finding of direct profit from the infringement, the jury's assessment of the various factors considered in fashioning the statutory damages award may have been different.[38]

Last, the appellate court addressed Cox's arguments that it should direct the district court to enter judgment in Cox's favor as to certain copyrighted works that Cox claimed could not be used to calculate statutory damages. Cox contended that the number of compensable works was inflated in two ways: (1) counting both sound recordings and the underlying musical works they embody as separate works for purposes of the damages award, and (2) counting individual sound recordings that were compiled into a single album. The appellate court found that whether any of the works at issue in this case are derivative or part of a compilation was a mixed question of law and fact.[39] On Cox's post-trial motion for judgment, the district court had agreed with Cox that plaintiffs were only entitled to one statutory damages award, not two, for infringement of a musical work and a derivative song recording embodying that work, but it found that Cox had not presented evidence at trial sufficient for the jury to determine which recordings and compositions overlapped.[40] The appellate court agreed and affirmed the denial on that basis.[41] As to the issue of whether albums should be treated as compilations, the appellate court declined to decide whether Cox's legal premise was sound because there too Cox had failed to identify evidence presented at trial from which the jury could have determined which works were released together as parts of albums.[42] Accordingly, the appellate court affirmed the denial of Cox's post-trial motion for judgment as a matter of law on the number of compensable works subject to statutory damages.[43]

V. Key Takeaways

- While the damages award here was vacated, this case serves as a reminder that the potential liability for failure to implement a reasonable "repeat infringer" policy is staggering. Juries are not reluctant to punish actors they perceive as unreasonably accommodating of repeat infringers. While the appellate court recognized that the legally erroneous finding of vicarious liability *may* have impacted the amount of the jury award, it did not necessarily do so, and Cox may still face significant liability following a new trial.
- The revenues that ISPs and other platforms and networks earn from subscription fees are insufficient *by themselves* to establish that service providers directly profit from infringement by users for purposes of vicarious liability for users' infringing acts. Plaintiffs must show a closer link between profits and the infringing acts than mere awareness that a user is infringing and a failure to terminate a service that also has lawful uses.
- It is not clear whether the evidence presented at trial was sufficient to establish that Cox had the right and ability to supervise its subscribers' infringing conduct as required for vicarious liability, as the appellate court did not reach that issue.
- The importance of building a complete evidentiary record and preserving issues for appeal cannot be emphasized enough. In rejecting Cox's arguments on contributory infringement liability and the number of copyrighted works subject to a statutory damages award, the appellate court appeared to express sympathy for Cox's legal positions but ruled against Cox because Cox had failed either to build an evidentiary record or to preserve the arguments below.

* * *

[37] *Id.*
[38] *Id.*
[39] *Id.* at *11.
[40] *Id.*
[41] *Id.* at *12.
[42] *Id.*
[43] *Id.*

If you have questions concerning the contents of this issue, or would like more information about Weil's IP/Media practice group, please speak to your regular contact at Weil, or to the editors or practice group members listed below:

Editor:

Benjamin E. Marks (NY)	View Bio	benjamin.marks@weil.com	+1 212 310 8029

Contributing Author:

Alexandra Blankman (NY)	View Bio	alex.blankman@weil.com	+1 212 310 8104