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Fourth Circuit Denies DMCA Safe-Harbor Protection to ISP and Tightens Contributory Infringement Knowledge Standard

By Jonathan Bloom and Sarah Ryu

On February 1, 2018, the Fourth Circuit handed down an important ruling in *BMG Rights Management (US) LLC v. Cox Communications, Inc.*, Nos. 16-1972, 17-1352, 17-1353,¹ a closely watched case concerning how much latitude the Digital Millennium Copyright Act (DMCA) affords online service providers in designing and implementing a repeat-infringer termination policy. The court of appeals affirmed in part and reversed in part the judgment of the Eastern District of Virginia, which had held that Cox did not qualify for a DMCA safe harbor and hit Cox with a \$25 million statutory damages award based on a finding of willful contributory copyright infringement. The appellate court agreed that Cox's refusal to accept DMCA infringement notices from BMG's agent or to terminate repeat infringers took it outside the section 512(a) safe-harbor, but it found error in the jury instruction that contributory copyright infringement could lie if Cox "knew or should have known" of infringing activity – a "negligence" standard that the court of appeals found insufficient to establish that Cox had the requisite knowledge of specific infringements on its system.

BMG demonstrates that, at least where the record shows that the defendant consistently allowed revenue considerations to trump good-faith enforcement of a reasonable repeat-infringer termination policy, DMCA protection will be lost. With respect to the underlying contributory infringement claim, the ruling diverges from the recognition by other appellate courts that contributory infringement can, at least in theory, rest on constructive knowledge of the claimed infringement. By instead requiring a showing of actual knowledge of, or willful blindness to, specific claimed infringements, the Fourth Circuit articulated what is, on its face, a more stringent knowledge standard – arguably foreclosing claims based on allegedly suspicious facts and circumstances and generalized awareness of infringement rather than actual knowledge of specific infringing material. It remains to be seen if the court's reasoning leads to a different result on remand or is adopted by other circuits.

Background

Cox Communications, Inc. and CoxCom, LLC (collectively, Cox) provide high-speed Internet service.² Cox addressed copyright infringement complaints with a "thirteen-strike" graduated response policy that progressed from no action in response to the first notice against a subscriber to warnings and temporary account suspension in response to subsequent notices to

possible termination after the thirteenth notice.³ Multiple notices on the same day directed at a single account counted as only one notice, and there was a hard limit on the number of notices a complainant could submit in a day.⁴ The number of notices against a subscriber also reset every six months.⁵ In addition, Cox did not accept or process infringement notices that contained settlement offers; if a complainant did not remove the settlement language, Cox might choose to “blacklist” (i.e., auto-delete) all notices from such complainant.⁶

BMG Rights Management (US) LLC (BMG) owns and administers copyrights in musical compositions.⁷ In December 2011, it hired Rightscorp, Inc. to help enforce its rights.⁸ Rightscorp used its software to monitor BitTorrent activity and to identify sharing that infringed BMG’s copyrighted works. When Rightscorp identified such sharing, it auto-generated and emailed an infringement notice to the alleged infringer’s ISP containing the name of the copyright owner, the title of the copyrighted work, the alleged infringer’s IP address, a time stamp, and a statement under penalty of perjury that Rightscorp was an authorized agent and that the notice was accurate. With the expectation that the ISP would forward the notice to the alleged infringer, the notice also contained a settlement offer.⁹ According to BMG, Rightscorp sent approximately 1.8 million notices to Cox on BMG’s behalf during the relevant period. However, by the time BMG hired Rightscorp, Cox had already “blacklisted” Rightscorp and never received any of the BMG notices.¹⁰ In 2014, BMG sued Cox in the Eastern District of Virginia for vicarious and contributory copyright infringement.¹¹

BMG argued on summary judgment that Cox was not entitled to the section 512(a) DMCA safe-harbor (which would have barred damages and all but very narrow injunctive relief) because of Cox’s failure to reasonably implement a termination policy for repeat infringers, as required by section 512(i)(1)(A). In light of Cox’s convoluted and ineffective “thirteen-strike” system, the district court granted summary judgment to BMG on this issue.¹²

Following a two-week jury trial, the district court instructed the jury that to prove contributory copyright

infringement, BMG had to show (1) “direct infringement of BMG’s copyrighted works” by Cox subscribers; (2) that Cox “knew or should have known of such infringing activity”; and (3) that Cox “induced, caused, or materially contributed to such infringing activity.” The court also instructed the jury that knowledge of infringing activity could be demonstrated by willful blindness.¹³

The jury ultimately found Cox liable for willful copyright infringement (but not vicarious infringement) and awarded BMG \$25 million in statutory damages. The district court thereafter denied both parties’ post-trial motions and entered judgment in accordance with the jury verdict.¹⁴

Cox appealed the grant of summary judgment to BMG on the DMCA safe-harbor defense and sought a new trial on the basis of erroneous jury instructions.¹⁵

Fourth Circuit Ruling

DMCA

The Fourth Circuit affirmed the grant of summary judgment to BMG on Cox’s DMCA defense.¹⁶ Section 512(i)(1)(A) of the DMCA requires, as a condition of safe-harbor protection, that a service provider have “adopted and reasonably implemented, and inform[ed] subscribers and account holders of the service provider’s system or network of, a policy that provides for the termination in appropriate circumstances of subscribers and account holders of the service provider’s system or network who are repeat infringers.”¹⁷ Rejecting Cox’s contention that BMG had to – and did not – show that Cox failed to terminate *adjudicated* repeat infringers in order to establish noncompliance with section 512(i)(1)(A), the court explained that the ordinary meaning of “infringer,” other provisions of the DMCA, and the legislative history of the repeat-infringer provision all cut against reading an “adjudicated infringer” limitation into the statute.¹⁸ The court then recited the damning record evidence concerning Cox’s implementation of its repeat-infringer policy:

- The Cox executive who managed the team responsible for responding to claimed violations of Cox’s policies instructed Cox employees that

subscribers terminated “for DMCA” could readily be reinstated.¹⁹

- For a period of approximately seven months, Cox reinstated every subscriber whose account had been terminated for infringement.²⁰
- After September 2012, Cox’s official policy was to terminate subscribers “for real,” but in practice Cox simply chose not to terminate subscribers.²¹
- Internal communications showed that Cox was loathe to enforce its repeat infringer policy for fear of losing revenue. One email noted that “[e]very terminated Customer becomes lost revenue.”²²
- Cox categorically ignored Rightscorp notices for years, including all of the BMG notices.²³

On this record, the Fourth Circuit agreed with the district court that Cox “failed to qualify for the DMCA safe-harbor because it failed to implement its policy in any consistent or meaningful way – leaving it essentially with no policy.”²⁴

Contributory Infringement

Turning to the merits, the Fourth Circuit rejected most of Cox’s claimed errors in the jury instructions,²⁵ but it agreed that the district court erred in instructing the jury that it could impose liability for contributory copyright infringement if it found that Cox “knew or should have known of such infringing activity.”²⁶

The court began with the Supreme Court’s statement in *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*,²⁷ that “one infringes contributorily by *intentionally* inducing or encouraging direct infringement.”²⁸

Taking the concept of intent as the touchstone for analyzing the appropriate degree of knowledge of infringement, the court cited patent law, where knowledge of direct infringement is necessary to prove contributory patent infringement; criminal law, where an aider and abettor must have “full *knowledge*” of the circumstances surrounding a crime; and tort law, where an individual acting in concert with a tortfeasor must “*know[]*” that the tortious conduct is a breach of duty.²⁹ Based on these principles, and contrary to longstanding copyright precedents, the court reasoned that anything less than actual

knowledge of specific infringements or willful blindness to it – which the court described as “equivalent” to actual knowledge – is insufficient to establish contributory infringement.³⁰ The court held that the “knew or should have known” language in the jury instructions, which it described as a “negligence” standard, was reversible error.³¹

In light of this holding, the court addressed Cox’s arguments that it was an error to instruct the jury that (i) Cox could be held liable for contributory copyright infringement based on proof of direct infringement by Cox’s subscribers and that Cox knew “of such activity” and (ii) it could find willful blindness if it found that Cox had deliberately avoiding learning of infringement while being “aware of a high probability that Cox users were infringing BMG’s copyrights.”³² The court agreed with Cox that these instructions improperly required only generalized knowledge of potentially infringing activity, and it directed the district court on remand to instruct jurors to consider Cox’s specific knowledge as to *which* of its subscribers were infringing.³³

Discussion

The Fourth Circuit’s ruling that Cox did not qualify for the DMCA safe-harbor is neither surprising nor alarming; Cox’s exceptionally forgiving “thirteen-strike” policy and its demonstrated unwillingness to permanently terminate repeat infringers was understandably viewed as problematic by both the district court and the Fourth Circuit. Nothing in the decision threatens service providers who have adopted, and diligently implemented, more stringent infringement policies.

In addition to demonstrating that the DMCA’s repeat-infringer termination policy requirement is not toothless, *BMG* is also notable for the Fourth Circuit’s rejection of constructive knowledge of infringement (which it referred to as a “negligence” standard) as a basis for contributory copyright infringement liability. This is a notable departure from cases that have articulated a contributory infringement standard that includes constructive knowledge.³⁴ The ruling also departs from the knowledge standard for contributory

trademark infringement, which recognizes constructive knowledge.³⁵

In this respect, the court clarified and elevated the knowledge standard, eliminating the fuzziness inherent in an objective “should have known” constructive knowledge test, which invites argumentation based on context, akin to the language in the DMCA that the service provider not be aware of “facts or circumstances from which infringing activity is apparent.”³⁶ The ruling thus creates the anomaly in the Fourth Circuit that the DMCA safe-harbor test is arguably less protective of the defendant than the common-law contributory infringement standard.

The practical impact of the ruling remains to be seen, of course; the revision of the contributory infringement standard may be more academic than impactful. On remand, Cox may well again be found liable on a willful blindness theory. And as a general matter, “should have known” arguments are susceptible to being recast as willful blindness arguments. However, the *BMG* court emphasized that willful blindness, as an alternative form of knowledge, must relate to the specific infringements at issue and not merely to infringement being prevalent – an important limitation on contributory infringement claims.

¹ 2018 WL 650316 (4th Cir. Feb. 1, 2018).

² See *BMG Rights Mgmt. (US) LLC v. Cox Commc'ns, Inc.*, 199 F. Supp. 3d 958, 965 (E.D. Va. 2016).

³ See *id.* at 966.

⁴ See *id.*

⁵ See *id.*

⁶ See *id.* at 968.

⁷ See *id.* at 967.

⁸ See *id.* at 968.

⁹ See *id.* at 967.

¹⁰ See *id.* at 968.

¹¹ See *id.*

¹² See *BMG Rights Mgmt. (US) LLC v. Cox Commc'ns, Inc.*, 149 F. Supp. 3d 634, 662 (E.D. Va. 2015).

¹³ See *BMG*, 2018 WL 650316, at *3.

¹⁴ See *id.*

¹⁵ See *id.*

¹⁶ See *id.* at *5.

¹⁷ 17 U.S.C. § 512(i)(1)(A).

¹⁸ See *BMG*, 2018 WL 650316, at *3-*4.

¹⁹ See *id.* at *5.

²⁰ See *id.*

²¹ See *id.* at *6.

²² See *id.* at *5-*6.

²³ See *id.* at *6.

²⁴ See *id.* at *7.

²⁵ The court rejected Cox's arguments that: (i) it was error not to instruct the jury that contributory copyright liability could not lie if a product or service was “capable of substantial non-infringing uses,” *id.* at *7; (ii) with respect to willfulness, it was error to instruct the jury to consider Cox's knowledge of its subscribers' actions as opposed to its own potentially infringing actions, *id.* at *13; and (iii) it was error not to give an innocent infringer instruction, *id.* The court also rejected Cox's assertions that the district court erred in its evidentiary rulings. See *id.* at *14.

²⁶ See *id.* at *8.

²⁷ 545 U.S. 913 (2005).

²⁸ See *BMG*, 2018 WL 650316, at *8 (emphasis in original) (internal quotation marks omitted).

²⁹ See *id.* at *10 (emphasis in original).

³⁰ See *id.* at *9.

³¹ See *id.* at *11.

³² See *id.* at *12 (emphasis added).

³³ See *id.*

³⁴ See, e.g., *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1020 (9th Cir. 2001) (“Contributory liability requires that the secondary infringer ‘know or have reason to know’ of direct infringement.”) (citations omitted); *Capital Records, LLC v. ReDigi Inc.*, 934 F. Supp. 2d 640, 658 (S.D.N.Y. 2013) (“In weighing the knowledge requirement, courts consider evidence of actual *and constructive knowledge*” (emphasis added)).

³⁵ See *Tiffany (NJ) Inc. v. eBay, Inc.*, 600 F.3d 93, 104 (2d Cir. 2010) (quoting “knows or has reason to know” standard articulated in *Inwood Labs, Inc. v. Ives Labs, Inc.*, 456 U.S. 844 (1982)).

³⁶ 17 U.S.C. § 512(c)(1)(A)(ii).

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