

Fox Broadcasting Co. Inc. v. Dish Network LLC by Andrew B. Lustigman

United States Court of Appeals, Ninth Circuit, 24 July 2013 (No. 12-57048)

In a case involving Dish Network's offering of a TV ad-skipping service, the Ninth Circuit affirmed that Dish does not itself infringe on Fox's copyright through operating the service, in a case that could greatly alter the viability of television advertising.

The dispute between Fox and Dish began when Dish launched the Hopper - Dish's version of a digital video recorder ('DVR'). DVRs enable subscribers to record programming of their choice on their own recording devices in their residence. When viewers watch the playback of their digitally recorded programming on their DVR, they must watch or fast forward through commercials. Television programming providers, in addition to providing personal DVRs, also provide other methods to watch recorded TV shows, including video-on-demand ('VOD'). Some programs are made available for viewing through VOD services without subscribers having to set their personal DVR in advance to record the show. A key difference in the viewing experience between pre-recording a show through a DVR, and watching a show through a VOD service, is the ability to fast forward through commercials. With VOD, users can watch programming with fewer commercials or none at all. There is much less advertising revenue available to content providers when programming is distributed via VOD. To allow for VOD but soften the lost revenue, content providers demand higher licensing fees for distribution.

In addition for VOD, content providers usually demand in their contracts the disabling of the fast-forward function. This contract term was present in the agreement between Fox and Dish. It allows the distributor to pay less for the VOD licence than it would if it were completely commercial free by letting the content provider guarantee at least some advertising revenue.

In March 2012, Dish began providing its subscribers with the Hopper. At the same time, Dish began offering its PrimeTime Anytime ('PTAT') feature, which

gave subscribers the ability to record almost all primetime TV shows of all four major broadcast networks, which includes the plaintiff Fox's programming, at the touch of one button. This eliminated the need for subscribers to set their DVRs to record shows individually. Significantly, all of the television programming recorded through Dish's PTAT feature was recorded with the commercials intact, and stored on the user's DVR for subsequent viewing. Thus, if a user wanted to skip the commercials while watching any primetime content recorded through the PTAT system, the user would need to fast forward through them.

In May 2012 however, that changed, when Dish released its AutoHop feature for the Hopper. AutoHop is not enabled by default; when users employ it, when watching programming recorded on their Hopper (their DVR), the commercials are automatically skipped, without having to fast forward. Instead, when the program segment ends, the user sees only the first and last seconds of the commercial break while an icon appears to indicate that the AutoHop is skipping the commercials. The programs recorded by Hopper through the PTAT system with AutoHop enabled still record the commercials - they are available if the user chooses to fast forward or rewind into them - but during the viewing experience, the viewer need not press any buttons or deal with fast forwarding, and avoids the commercials entirely.

To provide the AutoHop feature for the Hopper, Dish employees watch the programming with commercials during its initial airtime and mark commercial breaks. For quality assurance, Dish also records the transmission of Fox's programming onto its own

systems to confirm that it has properly marked the timing of commercial breaks and that no non-commercial programming was cut off (the 'QA' copies).

The case

After Dish made AutoHop available, Fox sued Dish in the United States District Court for the Central District of California for copyright infringement and breach of contract, and sought a preliminary injunction. Fox claimed that Dish infringed its copyrights by making the QA copies and by enabling its subscribers to make copies via PTAT. Fox's contract claims were based on, among other things, the term prohibiting Dish from distributing its content via VOD without first disabling the fast forward function during playback.

Fox sought via preliminary injunction to enjoin Dish from providing its PTAT and AutoHop features pending the outcome of the trial, but the district court denied injunctive relief based on its finding that Fox was not likely to succeed on the merits of its claims. The district court reasoned that the copies of Fox's content that were copied by Dish's subscribers through PTAT was not copying by Dish since the 'user, not Dish, must take the initial step of enabling' PTAT. As such, Dish could not be liable for direct infringement of the copies made with PTAT because '[t]he user...and not Dish, is the most significant and important cause of the copy.'

Fox appealed the district court's ruling. In July 2013, the Ninth Circuit affirmed the district court finding that 'operating a system used to make copies at the user's command does not mean that the system operator rather than the user, caused the copies to be made. [Since] Dish's program creates the copy only in response to the user's

command...the district court did not err...'

The Ninth Circuit also affirmed the district court's finding that Dish was not secondarily liable for its subscribers copying of Fox's content through PTAT. To find secondary copyright infringement, there must first be direct copyright infringement. The court found that the subscriber's unauthorised copying did establish a *prima facie* case for infringement since Fox owns a copyright in the programs and they were copied by the subscribers. Procedurally, this finding shifted the burden to Dish to prove that its customers' copying was entitled to the affirmative defence of fair use. Relying primarily on the Supreme Court's 'time shifting' decision in *Sony v. Universal*, the court found that the district court did not err in determining that Dish had successfully demonstrated its subscribers' fair use defence and that, as a result, there was no direct infringement for Dish to be secondarily liable. The court held that time-shifting was the primary purpose for the PTAT feature of the Hopper as well so that under *Sony v. Universal*, the use was fair.

Fox also argued that Dish customers use PTAT and AutoHop for more than time-shifting - namely, commercial skipping - and that the Supreme Court in *Sony* did not decide whether that constituted fair use. The Ninth Circuit rejected that argument because Fox did not own a copyright in the commercials, and thus the commercial skipping argument was irrelevant. 'If recording an entire copyrighted program is a fair use, the fact that viewers do not watch the ads not copyrighted by Fox cannot transform the recording into a copyright violation.' Further, according to the court, because recordings made on the Hopper

via the PTAT feature actually did record the commercials too, it was not as though there was a different work created; it was just a pure reproduction, which is protected by fair use under *Sony*. Thus, the court found that AutoHop did not implicate any of Fox's copyright interests and should be completely excluded from the analysis.

After determining that the use was fair under *Sony*, the court still ran through the four fair use factors and again relied on *Sony* to decide that the first three factors favoured Dish. The first because the purpose of the copies was for time-shifting, which under *Sony* is a noncommercial, nonprofit activity. The second and third because, as in *Sony*, 'when one considers the nature of a [TV show], and that time-shifting merely enables a viewer to see [what he could have seen] in its entirety [for] free...the fact that the entire work is reproduced, does not...militat[e] against a finding of fair use.' As for the fourth factor, the court held that the record before the district court established that the market harm was not felt by the recording of the content through PTAT but by the ad-skipping with AutoHop. The court said that the fact that Fox often does not charge an additional fee for its distributors to offer its content via VOD provided they disable the fast-forwarding function 'indicates that the ease of skipping commercials, rather than the on-demand availability of Fox programs, causes any market harm.' Because it already held that commercial skipping with AutoHop does not implicate any of Fox's copyright interests, the court found that this factor did not favour Fox at all.

The court further upheld the district court ruling that the QA copies likely did constitute infringement by Dish, but that Fox

could not demonstrate irreparable harm because: (i) they were used only for quality assurance; (ii) the harms allegedly felt by Fox (loss of control over its copyrighted works, loss of advertising revenue) did not flow from the QA copies but from the entire AutoHop program; and (iii) monetary damages were available to compensate Fox for any losses caused by the QA copies.

Commentary

The Ninth Circuit appeared to understand that Fox's real concern was not the recording function of Dish's PTAT, but rather the commercial skipping function of AutoHop, and the fact that the method of skipping commercials is more seamless than fast forwarding. According to Fox (and others filing *amicus* briefs), AutoHop represents the beginning of the end of ad-supported free television. Whether this is true, however, seems unlikely. Similar parades of horrors were argued years ago when *Sony* was decided, and while the technology at issue in *Sony* was not nearly as effective, the industry has thrived since *Sony*. Also, commercial free VOD exists, which is practically, albeit not technically, the same thing.

Thus, this case appears to be a contract dispute, where Dish enabled a feature in its services that was not contemplated by Fox in their contract. Any benefits Dish obtains from implementing the AutoHop feature is subject to negotiation by Fox when renewal time comes. The ruling also signals to content providers to be more vigilant in their contracting with Dish and others. Furthermore, advertisers need to be aware of the potential limitations in viewers watching their commercials.

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