# Infringement Policy Lessons From 4th Circ. Sony Music Ruling

By **Benjamin Marks and Alexandra Blankman** (March 15, 2024)

Benjamin Marks

Alexandra Blankman

On Feb. 20, in Sony Music Entertainment v. Cox Communications Inc., the U.S. Court of Appeals for the Fourth Circuit partially reversed the U.S. District Court for the Eastern District of Virginia's denial of Cox's post-trial motion for judgment, vacated a $1 billion statutory damages award and remanded for a new trial on damages.[1]

The dispute concerned whether Cox, which sells internet, telephone, and cable television services, could be held contributorily and vicariously liable for copyright infringement committed by Cox subscribers who had used Cox's service to unlawfully download and distribute copyrighted music files.

The Fourth Circuit affirmed the jury's finding of willful contributory infringement but reversed on vicarious liability because Sony and its fellow music publishers had failed to establish a direct financial benefit to Cox from the infringement. Because the jury awarded a single quantum of damages for both sets of claims, the appellate court vacated the award.[2]

The Digital Millennium Copyright Act protects internet service providers and other services that permit users to reproduce, display and distribute copyrighted works on their networks from liability for infringement by users, but only if the service implements a reasonable policy to terminate repeat infringers, among other conditions.[3]

The Fourth Circuit's opinion serves as a useful reminder of the importance of implementing a reasonable policy, and provides important guidance for litigating claims of secondary liability that arise out of subscribers' or other users' infringing acts.

**The Factual Background and District Court Proceedings**

Sony and its fellow music publishers sued Cox for copyright infringement committed by Cox subscribers during 2013 and 2014.[4]

Markmonitor Inc., a company retained to detect infringement of Sony and its fellow music publishers' works on file-sharing networks, generated and sent to Cox 163,148 DMCA takedown notices directing the removal of copyrighted material during the claim period.[5]

The consequences imposed by Cox when forwarding notices ranged from no action at all to a warning of temporary suspension, depending on how far along the subscriber was in Cox's 13-strike repeat infringer policy.[6] Cox terminated at most 32 subscribers on account of repeat infringements during this period.[7]

At trial, the jury found Cox liable for willful vicarious and contributory liability for the 10,017 works Sony and its fellow music publishers placed at issue. The jury awarded $1 billion — $99,830.29 per work — in damages.[8]

After the trial, Cox renewed its Rule 50(b) motion for judgment, which the district court denied.

Cox appealed, raising a variety of questions of law concerning the scope of secondary liability for copyright infringement and whether and to what extent the number of compensable works was inflated by compilations and derivative works.

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

The appellate court first addressed Cox's arguments on the vicarious infringement claims.

A defendant can be held vicariously liable for a third party's copyright infringement if the plaintiff establishes that the defendant "profits directly from the infringement and has a right and ability to supervise the direct infringer."[9]

In addition to contesting that it had the right and ability to supervise the infringing subscribers, Cox argued that it did not profit directly from the infringement because all subscribers paid a flat monthly fee for internet access regardless of what they did online.

While all circuits recognize that plaintiffs asserting successful vicarious infringement claims must show that the financial benefit received by an alleged secondary infringer is causally related to the infringing activities, courts have grappled with how strict this correlation must be.

Generally, courts accept that, in addition to clear-cut examples such as commissions on third-party sales of infringing products, a direct financial benefit may exist where the infringing activities act as a draw for customers to use the service, which, in turn, leads to financial benefits for that service.[10]

In Ellison v. Robertson in 2004, however, the U.S. Court of Appeals for the Ninth Circuit established a limit on this rule: Receiving one-time set up fees or flat periodic payments for services that are paid by both infringing and noninfringing 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.[11]

To illuminate its disagreement with the district court's rejection of Cox's argument on this point, the Fourth Circuit compared Ellison with A&M Records Inc. v. Napster Inc. in 2001.[12]

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 directly correlated to an increase in the number of registered users, upon which its ad revenue was directly dependent.[13] In other words, the value of Napster's service to users hinged on the presence of infringing music on its platform.

In contrast, 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 Ellison presented no evidence that AOL customers subscribed to its internet services specifically to engage in infringing activities.[14]

Applying these principles, the Fourth Circuit held that any financial benefits received by Cox did not "flow directly" from its subscribers' infringing activities, but rather from the general sale of internet service.[15]

The appellate court emphasized that it is possible, even likely, that these infringing subscribers purchased Cox's internet service for reasons other than pirating music, such as accessing email, shopping online or surfing the web.

Even evidence showing that repeat infringing subscribers were more likely to pay surcharges for additional bandwidth was insufficient to show a direct financial benefit because these subscribers may have wished to engage in bandwidth-intensive activities other than pirating music.[16]

Accordingly, without reaching the issue of whether Cox had the right and ability to supervise its subscribers, the Fourth Circuit held that Cox was not vicariously liable for its subscribers' infringements.[17]

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

Although it reversed on vicarious liability, the Fourth Circuit affirmed the finding of liability for contributory infringement.

Contributory infringement liability requires both a defendant's knowledge of the infringing activity and inducing, causing or materially contributing to the third party's infringing conduct.[18]

As to Cox's knowledge, the district court held that Cox's awareness of its subscribers' past infringements as a result of the infringement notices it had received was sufficient to establish this element of the claim.[19] 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 below.[20]

As to the material contribution element, the appellate court agreed with Cox that merely failing to take affirmative steps to prevent infringement is not enough in the absence of other evidence of intent, but it also recognized 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."[21]

The appellate court found that Sony and its fellow music publishers had presented evidence sufficient to show material contribution, citing the evidence that Cox knew of specific instances of repeat infringement, had traced those instances to specific users, and continued providing services to those users to avoid losing subscription revenue.

The appellate court also cited the extensive evidence that Sony and its fellow music publishers had presented about Cox's "increasingly liberal policies and procedures for responding to reported infringement" and Cox's internal communications that the jury reasonably could have interpreted as "displaying contempt for laws intended to curb online infringement."[22]

**The Scope of the Vacatur and Remand and the Parties' Petitions for Rehearing**

Having reversed on one theory of liability and affirmed on the other, the Fourth Circuit vacated the damages award because it "lack[ed] sufficient confidence that the jury's vicarious liability verdict ... did not materially influence the statutory damages award."[23]

While both sets of claims were predicated on the same 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 infringement verdict."[24]

Last, the appellate court addressed Cox's contention that the number of compensable works at trial was inflated by: counting sound recordings and their underlying compositions as separate works, and counting individual sound recordings released as part of a single album as separate works rather than as a compilation.

As to the first argument, the appellate court agreed that Sony and its fellow music publishers were only entitled to one statutory damages award per recording, but it found that Cox had not presented evidence at trial sufficient for the jury to determine what recordings and compositions overlapped.[25]

The court did not address the merits of Cox's second argument because it found that Cox had failed to identify record evidence from which the jury could have determined what works were released as parts of albums.[26]

Accordingly, it affirmed the lower court's denial of Cox's post-trial motion on the number of compensable works at issue.[27]

On March 5, Cox submitted a petition for rehearing en banc urging reconsideration of the panel's holdings on the material contribution prong of the contributory infringement analysis and on willfulness.

Sony and its fellow music publishers submitted a petition for rehearing on the issue of whether Cox had waived its challenge to the unitary damages award and for rehearing en banc on the vacatur of the damages award.

**Key Takeaways**

While the damages award was vacated, this case serves as a reminder that potential liability for failure to implement a reasonable repeat infringer policy is staggering. Juries have not been 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 affected the amount of the jury award, Cox may still face a significant award following a new trial.

The revenues that Internet service providers 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.

Plaintiffs must show a closer link between profits and the infringing acts than mere awareness that a user is infringing and the 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. The appellate court did not reach that issue.

The case also underscores the importance of building a complete evidentiary record and preserving issues for appeal.

In rejecting Cox's arguments on contributory infringement liability and the number of copyrighted works subject to statutory damages, the appellate court appeared sympathetic to Cox's legal positions but ruled against Cox because Cox had failed either to build the necessary evidentiary record or to preserve the arguments.

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*Benjamin Marks is a partner and head of the intellectual property and media practice at Weil Gotshal & Manges LLP.*

*Alexandra Blankman is a former associate at the firm.*



[1] 93 F.4th 222 (4th Cir. 2024).

[2] Id. at 236-37.

[3] Id. at 227; 17 U.S.C. § 512.

[4] 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 repeat infringer policy was inadequate under the DMCA. See BMG Rts. Mgmt. (US) LLC v. Cox Commc'ns, Inc., 881 F.3d 293, 299, 301-305 (4th Cir. 2018) ("BMG").

[5] Sony Music Entm't, 93 F.4th at 228.

[6] Id.

[7] Id.

[8] Id. at 229.

[9] Id. (quoting Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd. 545 U.S. 913, 930 n.9).

[10] Id. at 230; see also Fonovisa, Inc. v. Cherry Auction, Inc., 76 F.3d 259, 263 (9th Cir. 1996).

[11] 357 F.3d 1072, 1079 (9th Cir. 2004).

[12] 239 F.3d 1004 (9th Cir. 2001).

[13] Id. at 1023.

[14] Ellison, 357 F.3d at 1079.

[15] Sony Music Entm't, 93 F.4th at 232-33.

[16] Id. at 233.

[17] Id.

[18] Id.

[19] Id. at 234.

[20] Id. at 234-35.

[21] Id. at 236.

[22] Id. at 236-37.

[23] Id.

[24] Id.

[25] Id. at 240.

[26] Id.

[27] Id. at 241.