

No. 12-57048

**IN THE
UNITED STATES COURT OF APPEALS
FOR THE
NINTH CIRCUIT**

**FOX BROADCASTING COMPANY, INC., TWENTIETH CENTURY FOX
FILM CORP., AND FOX TELEVISION HOLDINGS, INC.,**

Plaintiffs-Appellants,

v.

DISH NETWORK L.L.C. AND DISH NETWORK CORP.,

Defendants-Appellees.

On Appeal from the United States District Court
for the Central District of California
Case No. 12-cv-04529
District Judge Dolly M. Gee

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I. Introduction

This case is not about time-shifting, the Sony-Betamax, consumer “choice,” technological innovation, the right to get a sandwich during a commercial, roosters, henhouses, or anything Jack Valenti said in 1982. Dish’s colorful allusions, over-the-top mockery, and baseless accusations that Fox is attempting to relitigate the 30-year-old *Sony* case have one purpose: to draw the Court’s attention away from the fact that Dish is directly infringing Fox’s copyrights and breaching its license agreement with Fox.

PTAT is not a DVR. It is a *service* where Dish records programs that Dish selects. AutoHop, which only works on PTAT recordings, is not fast-forward. It is a *service* where Dish renders the PTAT recordings commercial-free on playback. Dish is attracting subscribers by offering them access to an on-demand library of primetime programs which they did not have to record themselves and which can be viewed commercial-free. But Dish could not do this without breaching its license agreement with Fox and infringing Fox’s copyrights. Its solution was to require subscribers to press an “on” button to sign up for PTAT, to create the artifice that it is really the subscriber “doing” the recording.

By accepting Dish’s argument, the district court created a standard for direct infringement more restrictive than any court has ever adopted. It also

effectively nullified the contractual protections against unauthorized copying, commercial-free VOD, and anything “similar” to VOD that Fox bargained for to protect the ongoing profitability of its business model.

Dish did not “create commercial free TV.” Fox has been offering VOD and commercial-free TV to consumers for years. Instead, Dish created a competing, premium, VOD service that Dish’s top executive boasted would make licensed services like Hulu obsolete, and that threatens the ad-supported broadcast television ecosystem. Contrived legal argument to avoid abiding by conditions in a license agreement is not innovation.

[REDACTED]

[REDACTED] Reversing the district court would not, as Dish threatens, imperil DVRs; it would simply restore the *status quo*.

II. Dish Is Breaching The Parties’ Contract.

Preferring to talk about Sony, Dish says as little as possible about its compliance with the terms of its license agreement with Fox. But this case can be resolved on the basis of what Dish agreed not to do.

A. Dish Is Breaching The No-VOD Clause Because PTAT Is “Similar” To VOD.

The No-VOD Clause in the 2002 Agreement is clear:

[Dish] shall have no right to *distribute* all or any portion of the [Fox] programming contained in any Analog Signal on an interactive, time-delayed, *video-on-demand or similar basis*; provided that Fox acknowledges that the foregoing shall not restrict [Dish’s] practice of connecting its Subscribers’ video replay equipment.

ER 1553 (emphasis added). Dish concedes the court was wrong to apply a specialized definition of the term “distribute” that required actual copies of Fox programs to change hands. Dish admits it is “obvious” that it distributes Fox’s television signal to Dish subscribers, which does not involve actual copies changing hands. Respondents’ Brief (“RB”) 41. Indeed, the parties used the terms “distribute” and “distribution” dozens of times throughout the contract in their ordinary, plain English sense, with no reference to copies of anything changing hands. ER 1551, 1554, 1558.

Dish claims Fox’s argument depends on proving that after Dish distributes Fox’s TV signal, Dish again distributes PTAT to subscribers. RB 42. It does not. The contract prohibits Dish from distributing Fox programs “contained in any Analog Signal” on a VOD or similar basis. ER 1553. It

says nothing about re-distribution or secondary distribution after the signal is transmitted. *Id.* Dish also argues that because PTAT is stored locally on a user's set-top box, it is somehow the "opposite" of distribution. *Id.* But according to Dish's Senior Vice President, David Shull, [REDACTED]

[REDACTED]
[REDACTED] ER 1368.

The No-VOD Clause simply means Dish cannot make Fox's programs available to subscribers through a service that is *similar* to VOD. But the district court never reached this question. Instead, it struggled to answer whether PTAT was *exactly the same as VOD* under the separate Limited VOD-License: "[t]he parties' dispute over the VOD provision is especially challenging because PTAT is, in some ways, *a hybrid of DVR and VOD* likely not contemplated by either party when the 2010 Agreement was drafted." ER 660 (emphasis added). In making this finding, the district court unintentionally answered the correct question: if PTAT is a VOD "hybrid," it must be "similar" to VOD. And contrary to the district court's assumption, this exact scenario – Dish launching a service *similar to VOD* –was expressly contemplated and *prohibited* by the contract. ER 1553.

Other evidence, ignored by Dish, confirms PTAT is, at the very least, *similar* to VOD. Dish’s employee and trademark lawyer *admitted under oath* that PTAT is a “video-on-demand service.” ER 569, 572, 574, 586, 588.

Dish’s press release said PTAT “*creates an on demand library of approximately 100 hours of primetime TV shows.*” ER 561 (emphasis added). This squarely fits the definition of VOD given by Dish’s expert: a “service where the content is not broadcast, but *stored in a library*, which users can access *on-demand*” and “content offerings include *recently aired television programs.*” ER 1262-1263 (emphasis added).¹ It’s too late for Dish now to argue that it “neither makes nor provides a library” with PTAT. RB 42-43.

Additionally, the district court found that Dish determines the content of the PTAT library by selecting from programs aired by Fox and the other networks during primetime, and that “Dish . . . decides the length of time each [PTAT] copy is available for viewing.” ER 648. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

¹ Dish claims Mr. Rapp’s VOD definition also states “The provider ‘store[s]’ ‘the content’ ‘in a library’ in the first instance.” RB 43. This is wrong. Dish cherry-picked words from the declaration and created a new sentence. ER 1263. Regardless, Dish exercises complete control over PTAT and thus stores the content in a library in the first instance.

The look, feel, and user experience of PTAT is the same as VOD. PTAT users can click through a series of electronic menus and folders that organize previously-aired TV episodes by network, program, and date. ER 371-372; Lodged DVD. Unlike a DVR, and just like VOD, this is all done “without needing to schedule individual recordings.” ER 385-386.

Dish tries to distinguish PTAT from VOD by relying on the district court’s mistaken belief that if a user “did not enable PTAT for that night,” he or she will not be able to view a program that aired before PTAT was enabled. RB 43. This distinction fails for two reasons. First, PTAT does *not* need to be enabled each night. Once enabled, PTAT will record all of the programs selected by Dish every night in perpetuity, so the user always has a library of programs to view on demand. ER 1129, 1662, 1667. Second, [REDACTED]

[REDACTED] A user who signs up for a VOD service on Wednesday will not be able to watch a program that ceased being available on Tuesday. ER 1368.

B. PTAT With AutoHop Breaches The License.

It is hard to imagine what more Fox could have put into the parties’ contract to prevent Dish from launching PTAT with the AutoHop service for skipping commercials. The 2002 No-VOD Clause prohibits Dish from doing

anything “similar” to VOD. In a 2010 amendment, Fox authorized Dish to offer Fox VOD subject to the “*necessary condition*” that Dish *disable fast forward functionality during all advertisements.*” ER 1594 (emphasis added). As a further precaution, the 2010 amendment added the No-Circumvention Clause, confirming that Dish will not “take *any action whatsoever* intended to frustrate or circumvent . . . the protections granted to” Fox. ER 1568. After signing the contract and amendments, Dish launched PTAT with AutoHop: a service that looks like and functions like commercial-free VOD, and competes with licensed VOD services.

Dish tries to minimize its misconduct by calling the No-Circumvention Clause a “generic catch-all provision” (whatever that means) and by claiming its actions are all “expressly” authorized by the provision that allows Dish to connect subscribers’ DVRs. RB 44-45. Nothing in the contract comes anywhere close to expressly allowing Dish to operate a commercial-free VOD *service*, and parties are not allowed to disregard agreed-upon contract provisions because they later decide the provisions are too “generic.” This is a straightforward breach, and the district court erred by ignoring it.

III. Dish Is A Direct Infringer.

A. Dish Makes The PTAT Copies.

The district court also got it wrong when it concluded that Dish could not be liable for direct infringement because it is really the Dish subscribers who make the PTAT copies. Again, Dish cannot justify the court's reasoning.

Even Dish's own argument compels the conclusion that the PTAT copies are made by Dish. According to Dish, who makes the copies is determined by a "but-for" causation test. RB 36. If so, then Dish makes the copies. But for Dish selecting and marking specific programs for inclusion in PTAT, nothing would be copied. ER 1129, 1162.

Because a subscriber must sign up to receive PTAT, that subscriber may be an *additional* but-for cause of the recording. But that does not help Dish, because a defendant need not be the *sole* but-for cause of an event to be liable. *See* Restatement (Third) of Torts § 26, cmt. c (2010) ("That a party's tortious conduct need only be a cause of the plaintiff's harm and not the sole cause is well recognized and accepted in every jurisdiction.").²

None of Dish's attempts to characterize its PTAT service as a subscriber-operated DVR has any merit. Dish claims the "most damning"

² Accordingly, copyright cases recognize that when multiple parties participate in the infringing acts, they can be jointly liable for direct infringement. *E.g., Pearson Educ., Inc. v. Kumar*, 721 F. Supp. 2d 166, 179-80 (S.D.N.Y. 2010).

fact showing that its subscribers do the copying is that [REDACTED]
[REDACTED]. RB 35. This has nothing to do with *who makes the copies for the people who do sign up*, which is the issue here.

Likewise, it does not matter that Dish allows the subscriber to limit which networks or nights PTAT will record. The only reason the subscriber can limit (but not add to, unlike with a DVR) what is recorded is because [REDACTED]
[REDACTED] ER 1655-56, 1658.

Finally, Dish claims it uses software, not employees, to mark specific programs for PTAT to record. RB 38. This contradicts the testimony of Dish's 30(b)(6) witness, ER 1662, and is not supported by Dish's record citation, *see* ER 1129. Either way, it does not matter. The point is that Dish selects what will be recorded and the subscriber does not.

B. The Volition Standard Is Not A “Button-Pressing” Test.

Unable to persuasively rebut the facts showing that it makes the PTAT copies, Dish insists that, under the volitional conduct standard, only the person who “presses the button” can be liable for direct infringement. Dish further claims this Court cannot reject this view without overruling its own precedent and rejecting *LoopNet* and *Cablevision*. These statements are false.

First, as courts have recognized, the Ninth Circuit has never adopted a volitional conduct standard. *See Warner Bros. Entm't Inc. v. WTV Sys., Inc.*, 824 F. Supp. 2d 1003, 1011 n.7 (C.D. Cal. 2011); *Arista Records LLC v. Myxer Inc.*, No. CV-08-3935-GAF, 2011 U.S. Dist. LEXIS 109668, at *48-49 (C.D. Cal. Apr. 1, 2011)).

Second, even if it had, that standard merely requires that the defendant be an active participant in the infringing conduct, as opposed to a passive conduit like the owner of a copy machine or an Internet service provider. *E.g., CoStar Group, Inc. v. LoopNet, Inc.*, 373 F.3d 544, 550 (4th Cir. 2004)³; *Religious Tech. Ctr. v. Netcom On-line Commc'ns Serv.*, 907 F. Supp. 1361, 1369-70 (N.D. Cal. 1995). Dish cannot dispute that it is a direct infringer under this standard.

Third, *LoopNet* obviously does not stand for the rule that only the party who presses the button can be a direct infringer. In *LoopNet*, it was an employee of the defendant Internet service provider who pressed the button to upload photographs to the website after screening them. 373 F.3d at 556. The outcome, however, turned not on that fact but on a full analysis of

³ The Fourth Circuit has confirmed that the volitional conduct requirement protects only passive conduct “typically engaged in by an ISP.” *Quantum Systems Integrators, Inc. v. Sprint Nextel Corp.*, 338 F. App'x 329, 336 (4th Cir. 2009) (emphasis added).

relative roles played by the defendant and by users in determining which photos to display. *Id.*

Here, Dish – not the subscriber – selects the programs that will be copied. ER 1127. Dish misleadingly implies otherwise, using this screenshot:



RB 8.

But Dish neglects to mention that all of the boxes checked on this screen were checked *by Dish*. This screenshot shows how PTAT is set when the subscriber first accesses it. ER 1127, 1178. The subscriber can only uncheck boxes to prevent certain recordings. ER 1127. Under *LoopNet*, this is not enough to make the subscriber the copier. 373 F.3d at 556.

Fourth, neither of the Ninth Circuit cases cited by Dish endorses a button-pressing test for direct infringement. In *Perfect 10, Inc. v. Amazon.com, Inc.*, 508 F.3d 1146 (9th Cir. 2007), the plaintiff alleged that Google infringed the display right when it provided thumbnail images of copyrighted photographs in response to user search queries. Even though the images were displayed automatically when the user pressed the button to enter the search query, *id.* at 1155, the Court found Google could be directly liable because its computers stored and communicated the images, *id.* at 1160. *Perfect 10* shows it does not matter who “presses the button.”

In the separate section of *Perfect 10* selectively quoted by Dish, this Court held that Google could not be directly liable for merely providing links to webpages containing copyrighted images. The Court’s rationale was not, as Dish claims, that “[a] link is a digital button that the user presses to generate a copy of the picture.” RB 39. Rather, the rationale was that the image generated when the user clicked the link was not stored in Google’s memory, so Google was not displaying a copy of that image – it was simply directing the user’s computer to the website displaying the image. 508 F.3d at 1160-61.

In *UMG Recordings, Inc. v. Shelter Cap. Partners, LLC*, 667 F.3d 1022 (9th Cir. 2011) the Court found that a video distribution website fell within

the DMCA's safe harbor provision (not applicable here) because the site's operator "does not actively participate in or supervise file uploading, nor does it preview or select the files before the upload is complete." *Id.* at 1035. Here, Dish actively participates in the PTAT copying and selects the programs to be copied. ER 647-650. To the extent this case is relevant, it supports the conclusion that Dish is a direct infringer.

The only case cited by Dish that even arguably supports a button-pressing test is *Cablevision*. But Dish's statement that "courts across the country have endorsed . . . *Cablevision*" is untrue. The majority of cases Dish relies on (listed in *Cablevision*'s amicus brief) endorsed *Netcom*'s "some element of volition" standard, not *Cablevision*. District courts within this circuit have rejected *Cablevision*'s version of the volition standard. *E.g.*, *Fox Television Stations, Inc. v. BarryDriller Content Systems, PLC*, --- F. Supp. 2d ----, 2012 WL 6784498, at *3-6 (C.D. Cal. 2012) (criticizing *Cablevision* and rejecting argument that unlicensed Internet retransmission service could not be a direct infringer because the infringing transmission was user-directed); *WTV Systems*, 824 F. Supp. 2d at 1011 n.7.

In any event, Fox's Opening Brief explained that *Cablevision* is inapplicable because PTAT is a service where Dish selects the programs to be copied and offered to its subscribers for on-demand viewing. *E.g.*,

Cablevision, 536 F.3d at 132 (distinguishing Cablevision’s remote DVR from Cablevision VOD, for which Cablevision “actively selects and makes available beforehand the individual programs available for viewing”). Dish is therefore doing much more than “the person who manufactures, maintains, or . . . owns” a machine used by others to make copies. *See* Appellants’ Opening Brief (“AOB”) 24-26; *Cablevision*, 536 F.3d at 131. Dish’s only response is that it selects the programs to be recorded using software, not human employees, which as explained above contradicts its own record testimony and is irrelevant.

Cablevision is also expressly limited to its facts. The *Cablevision* court declined to decide “whether one’s contribution to the creation of an infringing copy may be so great that it warrants holding that party directly liable for the infringement, even though another party has actually made the copy.” 536 F.3d at 133. And it emphasized that “[w]e conclude *only that on the facts of this case*, copies produced by the RS–DVR system are ‘made’ by the RS–DVR customer.” *Id.* (emphasis added).

IV. The District Court Should Have Enjoined The AutoHop Copies.

A. The AutoHop Copies Cause Harm To Fox.

Dish contends the AutoHop copies “do not cause the ad-skipping” and Fox would suffer the “same harm” from ad-skipping even if Dish never made

any AutoHop copies. The district court's findings establish that this is not true. ER 662 ("By making the [AutoHop] copies . . . Dish has reserved for itself the benefits that flow from the copies, in this case, the functioning of AutoHop."). Dish points to nothing in the record suggesting this finding was clear error.⁴

B. The AutoHop Copies Breach The Contract And Are Not Fair Use.

Dish argues that the AutoHop copies are fair as "intermediate copies" under *Sega* and *Connectix*. Dish forgets that the district court found that the AutoHop copies breach the No-Copying Clause, ER 658-59, Dish has not challenged this finding, and there is no fair use defense to breach of contract. Thus, the Court need not reach this issue. In any event, these cases expressly hold that the language of the Copyright Act "unambiguously encompasses and proscribes 'intermediate copying.'" *Sega Enters. v. Accolade, Inc.*, 977 F.2d 1510, 1518 (9th Cir. 1992); *see Sony Computer Ent'mt v. Connectix Corp.*, 203 F.3d 596, 602-03 (9th Cir. 2000).

Additionally, as this Court made clear, the fair-use analysis in *Sega* and *Connectix* applies only in the narrow context of reverse engineering computer

⁴ Dish argues outside the record that the "definitive proof" is that it has suspended its AutoHop copies but AutoHop is still available. RB 61. Obviously the AutoHop copies are necessary for AutoHop to work well, or Dish would not be asking to reinstate them. RB 55 n.5.

software. In *Sega*, the Court recognized its finding of fair use “may seem incongruous” with copyright law and emphasized that “*the key to this case is that we are dealing with computer software, a relatively unexplored area in the world of copyright law.*” 977 F.2d at 1527 (emphasis added).

Various amici assert that the AutoHop copies are fair because they were made for the purpose of obtaining non-copyrightable information, namely the start and end times of the commercials. Law Prof Br. at 12, CCIA Br. at 18. But Dish does not make the copies to learn the timing of the commercials. [REDACTED]

[REDACTED] ER 640. Moreover, the AutoHop copies are not for research and development. They are unauthorized copies that Dish makes every night, in breach of the No-Copying clause, to maintain the ongoing quality of the “commercial-free television” service it claims to have created, which service *also* breaches Dish’s contract with Fox.

V. The District Court Erred In Rejecting Fox’s Alternative Claims For Secondary Infringement.

Because Dish makes the unauthorized PTAT copies itself as part of a for-profit service, it is not entitled to the benefit of fair use defenses its subscribers might have had if they had made the copies themselves. *See Princeton Univ. Press v. Michigan Document Servs., Inc.*, 99 F.3d 1381, 1389 (6th Cir. 1996). Thus, the Court need only reach Dish’s *Sony* defense if it

finds that Dish’s subscribers alone are legally responsible for the copying. If it does, it should rule that the fair-use defense fails and Dish is secondarily liable for the infringement.

A. Dish Distorts Its Own Services And Sony’s Holding By Equating PTAT And AutoHop With Time-Shifting.

1. Dish Misreads *Sony*.

Even a mildly careful reading of the *Sony* decision makes plain that it did not approve ad-skipping or endorse creating libraries of recorded shows, did not find commercial-skipping to be “rampant,” and did not find time-shifting to be “transformative.” Dish further exaggerates when it insists *Sony*’s holding was “expansive” (RB 13, 30), despite the Court’s repeated reliance on specific factual findings “regarding the state of the empirical data” from a five-week bench trial that concluded in 1979. *See* 464 U.S. at 455; *id.* at 423-27, 442-56; *see also* 480 F. Supp. 429, 432, 469 (C.D. Cal. 1979).

But Dish goes beyond ignoring *Sony*’s factual underpinnings and invents its own alternative history of the VCR. Dish’s recollection, for example, that in 1984 “with a few button pushes” consumers could “record a network’s entire weekly primetime schedule” (RB 1, 22) is utter nonsense. No one did that. Tapes were only an hour or two long and cost \$20. People time-shifted by copying a particular program while they were away from home and watching it later. *See* 464 U.S. at 423. They did not stay tethered

to their television sets all week, laboriously switching tapes every hour, to capture a network's weekly primetime schedule.

Moreover, it is irrelevant whether VCR users in 1979 or 1984 theoretically "could" have taped entire primetime lineups "if they bought enough Betamax tapes." RB 22. The Supreme Court based its fair-use analysis in part on trial court findings that VCR users were actually quite *unlikely* to spend the money to build substantial libraries. 464 U.S. at 453 & n.39; *see* 480 F. Supp. at 467 (finding this fact).

2. All Four Fair-Use Factors Favor Fox.

Dish's rehash of *Sony's* fair-use analysis (RB 23-24) has little relevance to PTAT, which Dish deliberately designed as a premium VOD service, competing directly with similar services licensed by Fox. In nature, extent, and effect, PTAT's wholesale copying to create an on-demand library of 100 hours of primetime programming for commercial-free playback is fundamentally different from the time-shifting at issue in *Sony*, which the Supreme Court defined as "the practice of recording a program to view it once at a later time, and thereafter erasing it." 464 U.S. at 423.

Under the first factor, PTAT copying is clearly commercial because the on-demand, commercial-free, VOD library created by PTAT substitutes for services that subscribers otherwise would have to pay for – such as Hulu Plus

or iTunes. *E.g., A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1015 (9th Cir. 2001) (consumer copying “to save the expense of purchasing authorized copies” is commercial); AOB 48 n.12.⁵

Dish’s argument that time-shifting is “transformative” misreads both *Sony* and the Supreme Court’s subsequent decision in *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569 (1994). *Sony* made clear that time-shifting was not a “productive” use, the pre-cursor to the transformative use test. *See* 464 U.S. at 455 n.40; *see also* 480 F. Supp. at 453 (“Betamax owners use the copy for the same purpose as the original. They add nothing of their own.”) *Sony* instead explained that in time-shifting “making a ‘copy’ is a necessary and first step in making exactly the use of the work which the copyright owner intended – viz., home reception and viewing of a ... TV broadcast.” ER 146.

In *Campbell*, the Court confirmed that time-shifting was not transformative, citing *Sony* as any example of a case where “transformative use is not absolutely necessary for a finding of fair use.” *See* 510 U.S. at 579; *see also Elvis Presley Enters. v. Passport Video*, 349 F.3d 622, 629 (9th Cir. 2003) (uses that “serve the same intrinsic entertainment value” as the copied work are not transformative); *UMG Recordings, Inc. v. MP3.com, Inc.*, 92 F.

⁵ Dish ignores these decisions (RB 25) and instead refers inexplicably to 17 U.S.C. § 1008, which concerns copying by libraries and archives, and to dicta in *RIAA v. Diamond Multimedia Sys., Inc.*, 180 F.3d 1072 (9th Cir. 1999), a decision that did not consider a fair-use defense.

Supp. 2d 349, 351 (S.D.N.Y. 2000) (“space shift[ing],” by converting copyrighted CDs into MP3 files to facilitate Internet transmission of songs, was “not transformative”).⁶

On the fourth fair-use factor, Dish contends it is somehow improper, when conducting a *market harm* analysis, to consider the actual existing *markets* for lawful, licensed services that compete with PTAT. RB 27-28. Markets by their nature are dynamic. Yet Dish would have this Court preserve in amber a market-impact analysis conducted 30 years ago in *Sony*, at a time when there were no licensed secondary markets for distribution of television shows – no VOD, Hulu or iTunes. These secondary markets developed organically in response to technological change and evolving consumer demand – not, as Dish absurdly implies (RB 27), because copyright owners conspired on a “whim” to circumvent *Sony*.

As markets evolve, the market harm analysis necessarily also must evolve. The sweeping statements by Dish and its amici that “fair use markets” can never “be reclaimed ... through subsequent licensing practices”

⁶ The cases Dish cites for this point are readily distinguishable in that both involved (i) reproductions of “thumbnail” images that did not substitute for the original works, and (ii) copying for a purpose – namely, facilitating the operation of online search functions – that was wholly distinct from the purpose for which the works were created. *Perfect 10*, 508 F.3d at 1165; *Kelly v. Arriba Soft Corp.*, 336 F.3d 811, 818-21 (9th Cir. 2003).

ignore case law squarely holding exactly that. *Compare Williams & Wilkins Co. v. United States*, 487 F.2d 1345 (Ct. Cl. 1973) (copying medical journal articles for research purposes is fair use) with *Am. Geophysical Union v. Texaco, Inc.*, 60 F.3d 913, 929-31 (2d Cir. 1994) (distinguishing *Williams & Wilkins* and holding that copying scientific journal articles for research purposes is *not* a fair use, based on the emergence in the interim of a “photocopying license” market for such uses).

The impact of the defendant’s conduct on “potential licensing revenues” is “indisputabl[y]” relevant to the fourth factor analysis, so long as the licensing markets are “traditional, reasonable, or likely to be developed.” *Texaco*, 60 F.3d at 929-30; accord *Ringgold v. Black Entm’t Television, Inc.*, 126 F.3d 70, 81 (2d Cir. 1997); see also *Princeton Univ. Press*, 99 F.3d at 1387 (finding it “especially” appropriate to consider potential licensing revenues where the copyright holder has an interest in exploiting a licensing market and “has actually succeeded in doing so”).

Here, the secondary markets for distribution of Fox primetime programming are well developed, and some have existed since at least 2002 (the date of the RTC Agreement expressly addressing VOD) – long before the introduction of PTAT and AutoHop. ER 1553. But this factor would favor Fox even if these markets were brand new or still emerging. As this Court

has explained, lack of present market harm “cannot deprive the copyright holder of the right to develop alternative markets.” *Napster*, 239 F.3d at 1017 (availability of free downloads on Napster’s system “necessarily harms” record labels’ efforts to develop markets for Internet sales of the same songs); *see also Los Angeles Times v. Free Republic*, 54 U.S.P.Q.2d 1453, 1468-71 (C.D. Cal. 2000) (online market for plaintiffs’ newspaper articles was harmed where defendant attempted to exploit that market without plaintiffs’ permission and without the accompanying advertising).

The only case cited by Dish (RB 28) is inapposite, in that it concerned the alleged impairment of a market that the court found to be “transformative” and thus covered by cases holding that a copyright holder may not prevent transformative uses by “developing or licensing a market *for parody, news reporting, educational or other transformative uses*” – uses that also implicate First Amendment concerns. *Bill Graham Archives v. Dorling Kindersley*

Ltd., 448 F.3d 605, 614-15 (2d Cir. 2006) (quoting *Castle Rock Entm't v. Carol Pub. Group*, 150 F.3d 132, 146 n.11 (2d Cir. 1998) (emphasis added)).⁷

Dish also ignores the legal standard under the fourth factor in asserting that Fox has failed to show substantial, quantifiable harm (RB 27). Fox need only show that “*if the [challenged use] should become widespread*, it would adversely affect the *potential* market for the copyrighted work.” *Sony*, 464 U.S. at 451 (emphasis added). “Actual present harm need not be shown; such a requirement would leave the copyright holder with no defense against predictable damage.” *Id.*

Dish’s dire warnings that Fox’s market harm argument would create “boundless” liability (RB 28-29, 31) likewise are specious. These objections rest on a false equivalence between PTAT and traditional DVR functions and between PTAT copying and the narrowly defined time-shifting at issue in *Sony*. PTAT is not a time-shifting device. PTAT is a service that automatically creates a nightly library of programs – selected by Dish – that

⁷ In distinguishing *Texaco*, the court in *Bill Graham* explained that the market harm factor *would* favor the plaintiff where, as here, the allegedly infringing use “would cause the owner to lose license revenues derived from a substantially similar use.” 448 F.3d at 614 n.6. Furthermore, in *Castle Rock*, relied upon by the court in *Bill Graham*, the Second Circuit made clear that “secondary users may not exploit markets that original copyright owners would ‘in general develop or license others to develop’ *even if those owners had not actually done so.*” 150 F.3d at 146 n.11 (emphasis added).

are recorded regardless of whether the subscriber has any interest in watching them, and that are then made available to the subscriber for commercial-free viewing.

That is what makes PTAT easily distinguishable from situations cited by Dish (RB 19, 28) where consumers affirmatively select, schedule and record specific shows for later viewing using a traditional DVR. Dish's prediction that Fox's rationale will "swallow[] time-shifting whole" (RB 28) is baseless.

Dish's further argument that AutoHop should be deemed "irrelevant" to the fair-use analysis (RB 29-31) both misconstrues *Sony* and ignores marketplace realities. Under *Sony*, commercial-skipping is clearly *relevant* to the fair-use analysis – as evidenced by the Court's explicit consideration of it and its finding that Betamax technology made commercial-skipping a "tedious" and inexact process and therefore a minor danger. *See* 464 U.S. at 453 n.36; *see also* 4 Nimmer on Copyright § 13.05[F][5][b] at 13-267 n.648 (noting that few VCRs in 1979 even had remote controls and those controls did not have fast forward buttons). Contrary to Dish's suggestion that commercial-skipping was "rampant" in 1979, the *Sony* Court noted that only 25% of Betamax users skipped commercials when playing back tapes (and the Court did not report any findings as to whether those consumers faithfully

skipped *all* commercials). *Id.* Here, by contrast, when a Dish subscriber uses AutoHop for a PTAT program, the percentage of commercials skipped automatically becomes 100 percent.

B. Fox Demonstrated Likely Success On The Elements Of Its Secondary Infringement Claims.

The district court erred in rejecting all three of Fox’s secondary infringement claims – for vicarious and contributory infringement and for inducement. AOB 6, 43, 52. Dish did not even challenge the merits of Fox’s vicarious infringement claim below.

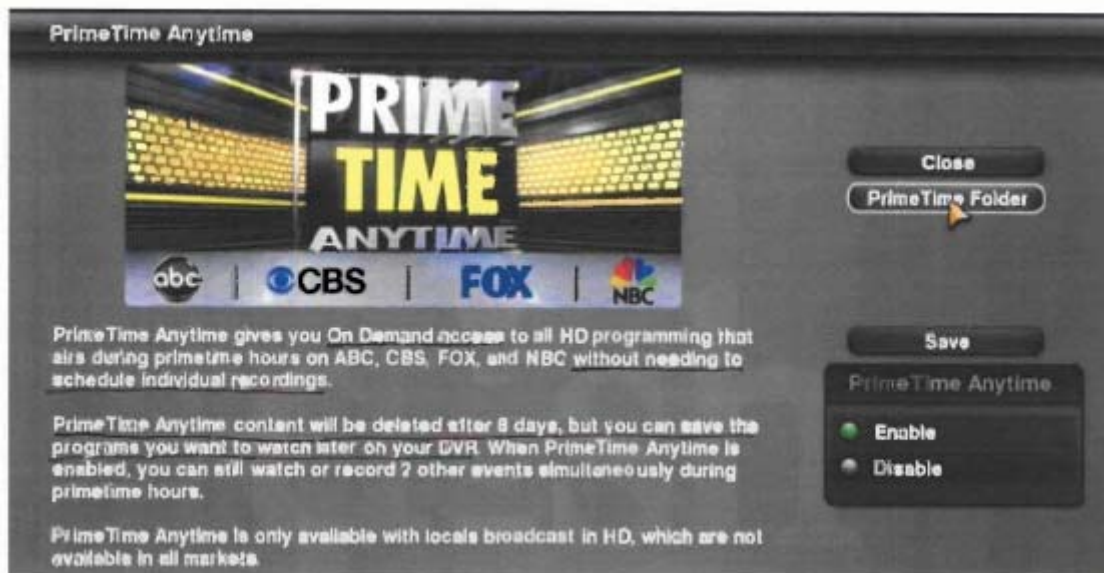
On appeal, Dish does not dispute that it derives a “direct financial benefit” from its subscribers’ infringing activity. *Napster*, 239 F.3d at 1023 (“[f]inancial benefit exists where the availability of infringing material ‘acts as a draw for customers’”). Here, the “infringing activity” is the wholesale copying through PTAT of Fox’s programs for the purpose of on-demand, commercial-free playback. Dish plainly has the ability to control *this* copying and to stop it at any time. ER 649-650, 1129, 1645, 1654-1657, 1662, 1667. That degree of control over the site and system where the infringement occurs is more than sufficient under the law. *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 930 (2005) (defendant is liable for vicarious copyright infringement by “profiting from direct infringement while declining

to exercise a right to stop or limit it”).⁸ Dish’s argument that it cannot “single out” individual infringers (RB 32-33) misconstrues the applicable standard.

Dish likewise does not dispute that the elements of contributory infringement – knowledge and material contribution – are satisfied. *See Napster*, 239 F.3d at 1019-20. Dish instead seeks refuge in the *Sony* “staple article of commerce” doctrine, but that defense has no application where, as here, the defendant has an ongoing relationship with its customers. *See Capitol Records v. MP3Tunes*, 821 F. Supp. 2d 627, 649 (S.D.N.Y. 2011); *Usenet*, 633 F. Supp. 2d at 155; *see also Sony*, 464 U.S. at 438 (Sony’s only contact with Betamax users “occurred at the moment of sale”).

Finally, Dish is liable for inducement because its advertisements actively encourage subscribers to engage in precisely the infringing conduct at issue:

⁸ Dish’s citation to *Sony* for vicarious liability is disingenuous (RB 32) because *Sony* only analyzed contributory infringement. *See Napster*, 239 F.3d at 1022-23; *Arista Records LLC v. Usenet.com, Inc.*, 633 F. Supp. 2d 124, 158 (S.D.N.Y. 2009).



ER 386, 396.

VI. Dish Ignores Fox's Evidence Of Irreparable Harm And Case Law.

Dish audaciously argues that its unauthorized, commercial-eliminating VOD service is somehow a *boon* to Fox that will lead to *more* commercials being watched. RB 50, 52. Yet Dish completely ignores the district court's

finding that Dish's ad-skipping VOD service irreparably harms Fox (ER 663) as well as Dish's own admissions and other evidence proffered by Fox. AOB 58-61.⁹ Dish also ignores the cases cited by Fox that are directly on point. *See WPIX, Inc. v. ivi, Inc.*, 691 F.3d 275, 286 (2d Cir. 2012) ("ivi") (TV network irreparably harmed by service that prevents ads from being seen by intended audience); *WTV Systems*, 824 F. Supp. 2d at 1012-13 (unauthorized, online distribution of plaintiffs' movies when they were only available on DVD irreparably harmed plaintiffs). Just last month, Judge Wu in the Central District of California held that an internet streaming service irreparably harmed broadcast television networks because it interfered with their ability to measure and sell TV ads. *BarryDriller*, 2012 WL 6784498 at *6.

Instead of responding to Fox's evidence and case law, Dish relies on *ipse dixit* assertions from an economist and marketing professor who never worked a day in the television business. Dish complains that Fox has no "concrete proof" of lost advertising revenues or affiliate fees. RB 47-52. But this misses the whole point of the irreparable harm inquiry, which is meant to prevent intangible injuries that are "difficult to value" such as "harm to [a company's] business reputation and goodwill." *Rent-A-Center, Inc. v.*

⁹ The Moody's report did not (as Dish claims) say that widespread use of AutoHop "may" have a negative impact (RB 52); it said it "will" have a negative impact across the entire TV industry (ER 360) (emphasis added).

Canyon Tel. & Appliance Rental, Inc., 944 F.2d 597, 603 (9th Cir. 1991); *Stuhlbarg Int’l Sales Co. v. John D. Brush & Co.*, 240 F.3d 832, 838 (9th Cir. 2001). Indeed, it was “obvious” to the district court in *ivi* that the inability to quantify injuries is precisely what makes them irreparable. 765 F. Supp. 2d 594, 620 (S.D.N.Y. 2011); *Gilder v. PGA Tour, Inc.*, 936 F.2d 417, 423 (9th Cir. 1991) (difficulty quantifying injuries does not make them speculative). Nor is Fox required to prove it *already* has suffered “actual injury.” *Diamontiney v. Borg*, 918 F.2d 793, 795 (9th Cir. 1990).

The Dish experts also claim PTAT’s AutoHop feature poses no threat because it’s the same as the fast-forward or 30-second skip button on a DVR. RB 50. It is not. Evidence presented by both sides confirms that consumers who watch programs on a DVR only push the fast-forward button to skip ads 50 percent of the time. ER 810, 1298, 1321. Therefore, they will still see – or have a chance to see – at least half of the commercials, as well as the “impressions” of ads while fast-forwarding, which are “important and valuable to advertisers.” ER 342.

AutoHop is fundamentally different because it guarantees that *100 percent* of the commercials will be skipped. ER 810. Before this lawsuit was filed, and before Dish began arguing that AutoHop was just like fast forward, Dish told consumers that AutoHop is “not like fast-forwarding.” ER 1385

(emphasis added). Dish boasted that it had “created commercial-free TV” and referred to AutoHop as the “Holy Grail of television” that can “save an hour each night” (ER 378, 1298).

Next, Dish claims PTAT and AutoHop pose no threat to Fox because they are supposedly used by just a “tiny sliver” of Fox’s audience. RB 51. It claims [REDACTED]

[REDACTED] RB 51. But AutoHop usage as a percentage of *all* recorded programs is misleading and irrelevant because “all recorded programs” include all sorts of non-primetime and non-broadcast recordings for which AutoHop is not available. AutoHop is *always* available for the primetime Fox programs at issue (and may actually be used all or most of the time). Furthermore, [REDACTED]

[REDACTED] ER 1260, 952.¹⁰

Dish also argues that because most consumers watch TV live (with commercials), Fox cannot be harmed by PTAT and AutoHop. RB 50. Dish is wrong. First, [REDACTED]

¹⁰ DirecTV plans to offer its 20 million subscribers a competing service depending on what happens here, compounding the harm. ER 349; *WPIX*, 691 F.3d at 286 (finding that absence of a preliminary injunction would encourage others “to follow ivi’s lead” and “threaten to destabilize the entire industry.”).

[REDACTED]

[REDACTED]

[REDACTED] Second, AutoHop is designed to compete with Fox's live broadcasts. Dish makes the commercial-free PTAT recordings available a mere *two hours* after they air (ER 1127, 1142, 1383).

Regardless, the fact that PTAT and AutoHop are not yet widespread does not immunize Dish against an injunction. The defendant in *ivi* also claimed “*ivi* is far too small” to destroy the value of broadcast television content. *WPIX*, 765 F. Supp. 2d at 619. The court rejected this “faulty” argument, holding that being “small” does not allow a defendant to “steal plaintiffs’ programming for personal gain until a resolution of this case on the merits. Such a result leads to an unacceptable slippery slope.” *Id.*

Finally, Dish claims Fox cannot obtain an injunction because it has “ceded” control over its billion dollar slate of primetime programs by making them widely available. Dish gets it backwards. Fox’s careful licensing of its copyrighted works to third parties across different media and channels reflects the *exercise of control*, not relinquishment. As explained in *ivi*, “[d]efendants cannot seriously argue that the existence of thousands of companies who legitimately use plaintiffs’ programming and pay full freight means that *ivi*’s

illegal and uncompensated use does not irreparably harm plaintiffs.” 765 F. Supp. 2d at 619.

Nor does Fox’s licensing of its works put a price tag on Dish’s illegal conduct or make damages “readily quantifi[able].” RB 48; *Jacobsen v. Katzer*, 535 F.3d 1373, 1381-82 (Fed. Cir. 2008) (“Copyright licenses are designed to support the right to exclude; money damages alone do not support or enforce that right”). Here, Fox has expressly decided *not* to license cable and satellite distributors the right to distribute commercial-free versions of its programs on VOD. ER 258-260. *Cf. ActiveVideo Networks, Inc. v. Verizon Commc’ns, Inc.*, 694 F.3d 1312, 1340 (Fed. Cir. 2012) (no irreparable harm where plaintiff sought to license the technology to defendant).¹¹

Finally, this Court should reject out of hand Dish’s claim that Fox unreasonably delayed. Dish announced PTAT in January 2012 and began offering the service in March 2012. ER 561. AutoHop was added on May 10, 2012. ER 594. Fox sued Dish two weeks later.

VII. Dish Faces No Cognizable Harm From A Preliminary Injunction That Would Also Serve The Public Interest.

Dish falsely claims an injunction would “rip a purchased product from consumers’ hands” and Dish would need to mount a “massive campaign” to

¹¹ Fox never put a “pricetag” on AutoHop as Dish claims. RB 47. Dish relies on the assertion that some independent TV stations (i.e., *not* Fox) supposedly demanded compensation for the harm caused by AutoHop.

turn off PTAT and AutoHop. RB 54. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] ER 1648. Nothing would be ripped from anyone's hands.

Dish's pro-consumer bluster is phony. Dish is offering "commercial-free TV" because it helps Dish sell subscriptions. But behind the scenes, Dish is planning to eventually substitute Fox's obliterated ads with its own advertisements. ER 610-612. The only way to serve the public interest is to protect ad-supported television which fuels the local and national economies, employs thousands, and provides millions of Americans with access to quality programming for a fraction of the cost.

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CERTIFICATE OF COMPLIANCE

I certify that, pursuant to Federal Rule of Appellate Procedure 32(a)(7)(C) and Ninth Circuit Rule 32-1, the foregoing **REPLY BRIEF OF PLAINTIFFS-APPELLANTS** is proportionately spaced, has a typeface of 14 points or more, and contains 6,998 words.

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