Fox Television Stations, Inc., et al. v. AereoKiller, et al.

US District Court for the Central District of California, CV 12-6921-GW(JCx), 16 July 2015

The Court found that online TV streaming provider FilmOn could qualify as a cable system subject to compulsory licensing under the US Copyright Act.

Fox Television Stations, Inc., et al. v. AereoKiller, et al is merely the latest, but certainly not the last, in a line of cases that have gone every which way in determining the legality (or not) of internet streaming services that provide broadcast television stations and other video programming services to their subscribers. This case concerns FilmOn, an internet-based TV provider which, along with former internet streaming services Aereo and ivi, is one of the three companies that have had to defend their provision of network TV stations via the internet[1].

This particular decision favoured FilmOn, with Judge Wu of the Central District of California holding that the internet streamer could potentially qualify as a cable system subject to compulsory licensing under section 111 of the Copyright Act[2]. As such, this decision conflicts directly with a 2012 Second Circuit decision holding that internet streamer ivi could not qualify as a cable system[3].

The background of this dispute

Under the Copyright Act, there is no liability for transmission of an audiovisual work unless it is transmitted or performed to the public[4]. In a 2008 case concerning a cable system's use of a remote DVR technology, the Second Circuit held that a cable operator's transmission of a user-requested recording of a programme to that user was not a public performance because the programme was provided to that specific user only[5].

Seizing on that holding, internet streaming companies created a system with miniature antennas so that each user of its system was theoretically receiving a private stream of programming from that antenna. Although the Second Circuit initially agreed that internet streamer Aereo had devised a system that avoided a public performance of the broadcast programmes streamed to its subscribers (and thus, avoided any copyright liability)[6], the US Supreme Court disagreed. Without specifically addressing the *Cablevision* remote DVR case or any similar factual scenario, the Supreme Court held that Aereo publicly performed the works it was transmitting to its subscribers in much the same way that a cable system publicly performs the broadcast programming it transmits to its subscribers[7].

The Supreme Court relied in part on the Copyright Act definition of a public performance, which includes a transmission to the public, 'whether the members of the public[…]receive it in the same place or in separate places and at the same time or at different times.'[8] In the words of the Supreme Court, "when an entity communicates the same contemporaneously perceptible images and sounds to multiple people, it transmits a public performance to them regardless of the number of discrete communications it makes."[9]

The Supreme Court decision in *Aereo II* forced the internet streamers to adopt a different approach. Losing the argument that they did not publicly perform the broadcast programs streamed to their subscribers, FilmOn now claimed to be a 'cable system' subject to compulsory licensing under Section 111 of the Copyright Act[10].

The Second Circuit had previously found for a multitude of reasons that internet streamer ivi was not a cable system under the Copyright Act[11]. When FilmOn found itself back in a New York federal court following *Aereo II*, it argued that the Supreme Court had compared internet streaming to the transmissions made by a cable system and, by implication at least, had thereby overturned the Second Circuit's earlier decision in *ivi*. However, the Southern District of New York rejected that argument, noting that the Supreme Court's analogy to cable was "not the same as a judicial finding that Aereo and its technological peers are, in fact, cable companies entitled to retransmission licenses under §111 of the Copyright Act."[12] Rather, the District Court continued to follow the Second Circuit's 2012 *ivi* decision, which was not even mentioned by the Supreme Court in *Aereo II*, much less overturned.

The findings of this court

In *AereoKiller*, Judge Wu in California felt no obligation to follow Second Circuit jurisprudence, nor did he give any deference to the opinion of the Copyright Office that internet streaming cannot qualify for a cable compulsory licence. Rather, he focused on the Copyright Act's definition of a 'cable system' to reach his conclusions.

Section 111 of the Copyright Act defines a 'cable system' in relevant part as follows: 'A facility, located in any State[…]that[…]receives signals transmitted or programs broadcast by one or more television broadcast stations[…]and makes secondary transmissions of such signals or programs by wires, cables, microwave, or other communications channels to subscribing members of the public who pay for such service. For purposes of determining the royalty fee[…]two or more cable systems in contiguous communities under common ownership or control or operating from one headend shall be considered as one system.'[13]

The Second Circuit held in *ivi*

that the internet is not a "facility" that is "located in any State." Judge Wu noted, however, that the broadcast signals transmitted via the internet are not received by the internet. Rather, those signals "are received by antennas located in particular buildings wholly within particular states. They are then retransmitted out of those facilities on 'wires, cables, microwave, or other communications channels.'"[14]

Judge Wu also addressed the Second Circuit's reliance on the second sentence of the Copyright Act's cable system definition regarding 'headends' and 'contiguous communities' that would not apply to the internet. Judge Wu stated that the second sentence is not part of the definition of a cable system, but "merely provides that certain commonly owned cable systems will be treated as a single system for purposes of computing a royalty."[15] In Judge Wu's words, "whether systems are contiguous or noncontiguous, or use a single or multiple headends, simply does not bear on whether they meet the definition provided in the first sentence of §111(f)(3)."[16]

Judge Wu also countered the opinion of the Copyright Office General Counsel that internet retransmission services do not qualify for the cable compulsory copyright licence in Section 111. He noted that the Copyright Office "has consistently acted and opined in favor of the broadcasters and against the compulsory license."[17] To Judge Wu, more significant than the Copyright Office's opinion is whether or not courts are required to give deference to that opinion under *Chevron*[18]. While the Second Circuit found that the Copyright Office was entitled to such deference, Judge Wu disagreed, finding no linguistic ambiguity in the statute as written. Moreover, in Judge Wu's words:

"The [Copyright] Office noted its view that internet retransmission is even more harmful to copyright holders than cable and satellite retransmission. But if in the Copyright Office's view §111 is 'bad,' and 'really bad' if applied to internet transmission, we must ask what the Office's view of internet retransmission would be if it considered §111 to be 'good,' as Congress deemed it. That question is impossible to answer precisely. At least, the Copyright Office would not be as hostile to internet retransmission as it is. It might even support it."[19]

Judge Wu also addressed an argument that the statutory cable system definition requires that transmissions be made 'to subscribing members of the public who pay for such service,' in view of the fact that FilmOn was providing the broadcast stations for free. FilmOn argued that the free transmissions were part of a 'free trial' that would be terminated at some future date, and Judge Wu found that explanation acceptable.

The Copyright Office noted the pendency of a rulemaking proceeding at the Federal Communications Commission ('FCC') on whether internet-based services qualify as a 'multichannel video programming distributor' under communications law, with that proceeding potentially having an impact on whether those internet services are entitled to programme access or a compulsory copyright licence under §111 of the Copyright Act. While acknowledging the potential relevance of that proceeding, Judge Wu stated that his decision is necessarily based on current law. Furthermore, he noted FilmOn's representation that it would comply with any applicable FCC regulations.

In summary, Judge Wu held that he would find FilmOn entitled to the cable compulsory licence in Section 111 of the Copyright Act, conditioned on FilmOn's payment of the applicable royalties required and any damages due for prior infringements, since no royalties had yet been paid.

Nevertheless, Judge Wu was sensitive to the close and important legal issues involved, including his disagreement with the Second Circuit in the *ivi* case. Accordingly, the court authorised an immediate appeal to the Ninth Circuit, maintained the preliminary injunction that had previously been entered against FilmOn, and stayed the effectiveness of his decision pending the outcome of the appeal.

Where do we go from here?

The broadcasters will undoubtedly take Judge Wu up on his authorisation for an immediate appeal to the Ninth Circuit. While it is difficult to predict what any court will decide in a dispute, the Ninth Circuit may well choose not to follow Judge Wu's logic. Rather, the Ninth Circuit may be more inclined to follow the Second Circuit's lead in determining that internet transmission does not qualify for the cable compulsory licence in Section 111 of the Copyright Act, than to create a dispute between the circuits.

There are several reasons why a reversal may be more likely than not. First, when a question arose as to whether satellite carriers would be covered by the cable compulsory licence, Congress passed the Satellite Home Viewer Act ('SHVA') in 1988, creating a statutory licence applicable to satellite-to-home transmissions[20]. The same arguments that would include or exclude internet transmissions from Section 111 would apply equally to satellite. The passage of SHVA would

support an argument that Congress did not mean to expand the definition of a 'cable system' to include satellite - or internet - transmissions[21].

Second, even accepting Judge Wu's explanation of why FilmOn would qualify as a cable system under the first sentence of the definition in Section 111(f)(3), the second sentence supports the Second Circuit's rationale that the reference to 'headends' and 'contiguous systems' reflects Congressional intent "to support localized - rather than nationwide - systems that use cable or optical fibers to transmit signals through 'a physical, point-to-point connection between a transmission facility and the television sets of individual subscribers.'"[22]

The Second Circuit also noted that there is nothing in the legislative history of Section 111 to indicate that Congress meant to extend the cable compulsory licence to internet transmissions and certainly could have (and would have) done had such a result been intended[23].

Finally, despite the hostility of the Copyright Office toward the compulsory licence generally, the Ninth Circuit is likely to give at least a bit of deference to the Office's opinion that internet transmissions do not qualify for the cable compulsory licence in Section 111 of the Copyright Act. While the Copyright Office opinion alone probably would be an insufficient reason to overturn Judge Wu's opinion, it is likely to be mentioned by the Ninth Circuit as supportive of its decision to overturn Judge Wu, should that be the ultimate result.

If Judge Wu's opinion is overturned, that will leave the internet providers without a legal basis for transmission of broadcast signals to their subscribers. In that case, Congress could step in and create a compulsory licence similar to the satellite licence created by SHVA. In SHVA, Congress was careful to maintain the local markets of broadcasters by allowing retransmission of stations only within their Designated Market Areas ('DMAs'). If there were to be any new legislation on internet transmissions, Congress would undoubtedly impose similar local market restrictions on the transmission of broadcast stations.

If the Ninth Circuit affirms Judge Wu's ruling, then there will be a difference in the holdings of the Second and Ninth Circuits that would support a petition by the broadcast networks for Supreme Court review, assuming Congress does not act in the meantime to pass legislation. Given the speed with which Congress passes legislation, however, Supreme Court review (if granted) would likely happen more quickly.

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1. FilmOn purports to offer more than 200 channels of live TV programming. See http://www.filmon.com. Presumably, FilmOn pays for the non-broadcast channels but not for the broadcast stations or networks who are usually the plaintiffs in the copyright infringement cases filed against the internet streaming companies.
2. 17 U.S.C. §111 (West).
3. WPIX, Inc. v. ivi, Inc. 691 F.3d 275 (2d Cir. 2012) ('ivi').
4. A 'public performance' is one of the exclusive rights protected in the Copyright Act. Others include reproduction, preparation of derivative works and distribution to the public. 17 U.S.C. §106 (West).
5. Cartoon Network LP, LLLP v. CSC Holdings, Inc., 536 F.3d 121 (2d Cir. 2008) ('Cablevision').
6. WNET, Thirteen v. Aereo, Inc., 712 F.3d 676 (2d Cir. 2013) ('Aereo').
7. American Broadcasting Cos., Inc. v. Aereo, Inc., 134 S. Ct. 2498 (2014)('Aereo II'). Rather than focusing on the remote DVR technology discussed in Cablevision, the Supreme Court analogised Aereo's transmission of live programming via the Internet to broadcast channel programming transmitted live to subscribers via cable.
8. 17 U.S.C. §101 (West).
9. Aereo II, 134 S.Ct. at 2509.
10. The cable compulsory licence was enacted as part of the 1976 Copyright Act following two Supreme Court decisions that had held that cable systems did not publicly perform the programs transmitted to their subscribers: Fortnightly Corp. v. United Artists Television, Inc., 392 U.S. 390 (1968) and Teleprompter Corp. v. Columbia Broad. Sys., Inc., 415 U.S. 394 (1974).
11. ivi, 691 F.3d 275 (2d Cir. 2012).
12. CBS Broadcasting, Inc. v. FilmOn.com, Inc., 2014 U.S. Dist. LEXIS 101894 (S.D.N.Y. 24 July 2014).
13. 17 U.S.C. §111(f)(3).
14. 2015 U.S. Dist. LEXIS at *41.
15. Ibid.
16. Ibid at *42.
17. Ibid at *27.
18. Chevron, U.S.A., Inc. v. Natural Resources Def. Council, Inc., 467 U.S. 837, 841-43 (1992).
19. 2015 U.S. Dist. LEXIS at *33. (citations omitted).
20. 17 U.S.C. §119.
21. SHVA was passed despite the fact that the Eleventh Circuit found that satellite carriers would be covered by the cable compulsory licence. Nat'l Broad. Co., Inc. v. Satellite Broad. Networks, Inc., 940 F.2d 1467 (11th Cir. 1991). While Judge Wu found this case supportive of his position, it could be argued that the passage of Section 119 (the satellite compulsory licence) shows Congressional intent to the contrary.
22. ivi, 691 F.3d at 282, citing Turner Broad. Sys., Inc. v. FCC, 512 U.S. 622, 627-28 (1994).
23. Ibid.