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UNITED STATES DISTRICT COURT  
CENTRAL DISTRICT OF CALIFORNIA

DISNEY ENTERPRISES, INC.;	)	Case No. CV 17-08655 DDP (AGRx)
BUENA VISTA HOME	)	
ENTERTAINMENT, INC.;	)	
LUCASFILM LTD., LLC, MVL	)	
FILM FINANCE LLC,	)	<b>ORDER DENYING PLAINTIFFS' MOTION</b>
	)	<b>FOR PRELIMINARY INJUNCTION</b>
Plaintiff,	)	
	)	
v.	)	
	)	
REDBOX AUTOMATED RETAIL,	)	[Dkt. 13]
LLC,	)	
	)	
Defendants.	)	
	)	
_____	)	

Presently before the court is Plaintiffs Disney Enterprises, Inc., Buena Vista Home Entertainment, Inc., Lucasfilm Ltd., LLC, and MVL Film Finance LLC (collectively, "Disney")'s Motion for Preliminary Injunction. Having considered the submissions of the parties, the court denies the motion and adopts the following Order.

**I. Background**

Disney owns the copyrights to several well-known movies, including *Beauty and the Beast*, *Frozen*, *Star Wars: Episode VII* -

1 *The Force Awakens, Rogue One: A Star Wars Story, and Guardians of*  
2 *the Galaxy Vol. 2.* (Declaration of Rosa Leda Ehler ¶¶ 3, 6, 17-18,  
3 20; Exs. B, E, P, Q, S.) Disney distributes its films in multiple  
4 formats through a variety of channels, including DVD and Blu-ray  
5 disc sales, on-demand streaming services such as iTunes and Google  
6 Play, and subscription streaming services such as Netflix and  
7 Hulu.<sup>1</sup> (Declaration of Janice Marinelli ¶ 7.) Among Disney's  
8 offerings are "Combo Packs." (Marinelli Decl., ¶ 8, Ex. A.) Combo  
9 Pack boxes feature large-type text reading, "Blu-Ray + DVD +  
10 Digital HD," and include a Blu-ray disc, a digital versatile disc  
11 ("DVD"), and a piece of paper containing an alphanumeric code.  
12 (Marinelli Decl., Ex. A.) The alphanumeric code can be inputted or  
13 redeemed at RedeemDigitalMovies.com or DisneyMoviesAnywhere.com to  
14 allow a user to "instantly stream and download with digital HD."  
15 (Id.) The exteriors of the Combo Pack boxes state, in somewhat  
16 smaller print near the bottom third of the box, that "Codes are not  
17 for sale or transfer." (Id.) Very fine print at the bottom of the  
18 boxes indicates, with respect to "Digital HD," that "Terms and  
19 Conditions apply."<sup>2</sup> (Id.)

20 \_\_\_\_\_  
21 <sup>1</sup> Disney does not sell standalone digital downloads directly  
22 to consumers, but does make standalone downloads available through  
Disney licensees. (Marinelli Decl., ¶ 10.)

23 <sup>2</sup> Although Disney describes its *Beauty and the Beast* (2017)  
24 packaging as a representative sample of the twenty Combo Packs  
25 identified in the Complaint, that does not appear to be the case.  
26 (Marinelli Decl., Ex. 10.) For example, the "Codes are not for  
27 sale or transfer" language appears only on Combo Packs released  
28 after June 2017. (Supplemental Declaration of Kelly Klaus ¶ 3.)  
Similarly, the "Blu-Ray + DVD + Digital HD" language only appears  
on a small number of Combo Packs, while the packaging of other  
works named in the Complaint contain different descriptions, such  
as "Digital Copy." (Supplemental Klaus Decl., Ex. KK.)  
Nevertheless, for purposes of determining whether any injunction  
(continued...)

1 The download code insert within the Combo Pack box instructs  
2 consumers to (1) visit RedeemDigitalMovie.com or Disney Movies  
3 Anywhere, (2) enter the alphanumeric code printed on the insert,  
4 and (3) "enjoy your movie." (Marinelli Decl., Ex. B.) The insert,  
5 like the exterior of the Combo Pack packaging, also states, "Codes  
6 are not for sale or transfer." (Id.)

7 The RedeemDigitalMovies and Disney Movies Anywhere web pages  
8 each set forth additional terms and conditions of use. The former  
9 states that Plaintiff Buena Vista Home Entertainment, Inc. retains  
10 ownership of the codes and authorizes only their conditional use.<sup>3</sup>  
11 The page also states that by redeeming a code, the user "represents  
12 that [he] is the owner of the physical product that accompanied the  
13 digital code at the time of purchase. The redemption of a digital  
14 code sold or transferred separate from the original physical  
15 product is prohibited." (Declaration of Kelly Klaus, Ex. A.) The  
16 more substantial Movies Anywhere click-wrap terms of use provide  
17 that only members with registered Movies Anywhere accounts, who  
18 have by definition agreed to Movies Anywhere's terms of use, can  
19 take advantage of the Movies Anywhere service. (Klaus Decl., Ex. B  
20 at 11.) Among the terms of use are terms concerning digital copy  
21 code redemption, which provide that a consumer "can enter  
22 authorized . . . Digital Copy codes from a Digital Copy enabled . .

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24 <sup>2</sup>(...continued)  
25 should issue, this court will analyze the "best case scenario"-type  
26 language included on the *Beauty and the Beast* packaging.

27 <sup>3</sup> The pop-up "terms and conditions" dialog window refers to  
28 "these terms and conditions" in several places, but does not appear  
to include all terms and conditions. Instead, "all applicable  
terms and conditions" are accessible via a separate link outside  
the dialog box. (Declaration of Kelly Klaus, Ex. A.)

1 . physical product that is owned by [that consumer].” (Id. at 15.)  
2 The terms further state that the “sale, distribution, purchase, or  
3 transfer of Digital Copy codes . . . is strictly prohibited.”  
4 (Id.) The Movies Anywhere terms of use also state that Movies  
5 Anywhere grants the registered member “a limited, personal use,  
6 non-transferable, non-assignable, revocable non-exclusive and non-  
7 sublicensable right” to stream or download movies and to use the  
8 service. (Id. at 12.) The terms of service expressly restrict  
9 users’ right to copy the copyrighted works, except in accordance  
10 with the Movies Anywhere terms of service. (Id.)

11 Defendant Redbox Automated Retail, LLC (“Redbox”) rents and  
12 sells movies to consumers via tens of thousands of automated kiosks  
13 that dispense DVD and Blu-ray discs. (Declaration of Galen Smith  
14 ¶¶ 4,6; Declaration of Richard Chamberlain ¶¶ 2,4.) Redbox also  
15 offers a “Redbox on Demand” service that allows consumers to stream  
16 or download movies owned by studios other than Disney. (Smith  
17 Decl. ¶ 4.) More recently, Redbox has begun to offer digital  
18 downloads of Disney movies in the form of download codes.  
19 (Chamberlain Decl. ¶ 7, Smith Decl. ¶ 17.) Because Redbox does not  
20 have a vendor agreement with Disney, Redbox acquires Disney films  
21 by purchasing copies at retail outlets such as electronics stores,  
22 grocery stores, and the like. (Chamberlain Decl. ¶¶ 3, 5.)  
23 Redbox purchases standalone Blu-rays and DVDs as well as Disney’s  
24 Combo Packs. (Id. at ¶ 4.) Redbox obtains digital download codes  
25 for Disney movies by purchasing Combo Packs and removing the piece  
26 of paper bearing the download code from Disney’s packaging. (Id.  
27 at ¶ 7.) Redbox then places the piece of paper bearing the code

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1 into its own Redbox packaging and offers the code for sale at a  
2 Redbox kiosk. (Id.)

3 Disney's Complaint alleges that Redbox's resale of Combo Pack  
4 digital download codes (1) constitutes contributory copyright  
5 infringement, insofar as it encourages end users to make  
6 unauthorized reproductions of Disney's copyrighted works, (2) is a  
7 breach of the contract Redbox enters into with Buena Vista when  
8 Redbox purchases Combo Packs, (3) interferes with Disney's  
9 contracts with RedeemDigitalMovie.com users, and (4) violates  
10 California false advertising and unfair competition laws. Disney  
11 now moves for a preliminary injunction enjoining Redbox from, among  
12 other things, selling or transferring Disney digital download  
13 codes.

## 14 **II. Legal Standard**

15 A private party seeking a preliminary injunction must show  
16 that: (i) it is likely to succeed on the merits; (ii) it will  
17 suffer irreparable harm in the absence of preliminary relief; (iii)  
18 the balancing of the equities between the parties that would result  
19 from the issuance or denial of the injunction tips in its favor;  
20 and (iv) an injunction will be in the public interest. Winter v.  
21 Natural Resources Def. Council, 555 U.S. 7, 20 (2008). Preliminary  
22 relief may be warranted where a party: (i) shows a combination of  
23 probable success on the merits and the possibility of irreparable  
24 harm; or (ii) raises serious questions on such matters and shows  
25 that the balance of hardships tips in favor of an injunction. See  
26 Arcamuzi v. Continental Air Lines, Inc., 819 F.2d 935, 937 (9th  
27 Cir. 1987). "These two formulations represent two points on a  
28 sliding scale in which the required degree of irreparable harm

1 increases as the probability of success decreases.” Id. Under  
2 both formulations, the party must demonstrate a “fair chance of  
3 success on the merits” and a “significant threat of irreparable  
4 injury” absent the issuance of the requested injunctive relief.<sup>4</sup>  
5 Id.

6 **III. Discussion**

7 A. Breach of Contract

8 Disney contends that Redbox entered into a contract with  
9 Disney when Redbox purchased and opened Disney Combo Packs that  
10 included, on the outside of the packaging, the phrase “Codes are  
11 not for sale or transfer.” (Motion at 9.) The elements of a  
12 breach of contract claim are (1) the existence of a contract, (2)  
13 performance or excuse for nonperformance, (3) defendant’s breach,  
14 and (4) damages. Oasis West Realty, LLC v. Goldman, 51 Cal. 4th  
15 811, 821 (2011). A valid contract requires capable, consenting  
16 parties, a lawful object, and sufficient cause or consideration.  
17 Cal. Civ. Code § 1550; Janda v. Madera Community Hosp., 16 F.  
18 Supp. 2d 1181, 1186 (E.D. Cal. 1998). In California, “[a] contract  
19 for sale of goods may be made in any manner sufficient to show  
20 agreement, including conduct by both parties which recognizes the  
21 existence of such a contract.” Cal. Com. Code § 2204(1). In  
22 general, “silence or inaction does not constitute acceptance of an  
23 offer.” Norcia v. Samsung Telecomm. Am., LLC, 845 F.3d 1279, 1284  
24 (9th Cir. 2017) (quoting Golden Eagle Ins. Co. v. Foremost Ins.

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26 <sup>4</sup> Even under the “serious interests” sliding scale test, a  
27 plaintiff must satisfy the four Winter factors and demonstrate  
28 “that there is a likelihood of irreparable injury and that the  
injunction is in the public interest.” Alliance for the Wild  
Rockies v. Cottrell, 632 F.3d 1127, 1135 (9th Cir. 2011).

1 Co., 20 Cal. App. 4th 1372, 1385 (1993). Nevertheless, a party's  
2 voluntary acceptance of the benefit of an offer may constitute  
3 consent to a contract. Id. At the same time, however, even a  
4 party that has accepted an offered benefit cannot be deemed to have  
5 accepted a contract if the offeree did not have reasonable notice  
6 that an offer had been made. Id. (citing Windsor Mills, Inc. v.  
7 Collins & Aikman Corp., 25 Cal. App. 3d 987, 993 (1972)).

8 In Norcia, the defendant sought to enforce the terms of an  
9 arbitration agreement set forth within a brochure that was located  
10 inside a product box, and which therefore could not be accessed or  
11 viewed by the consumer without opening the product packaging after  
12 purchase. Norcia, 845 F.3d at 1286. The defendant contended that  
13 the plaintiff had consented to the arbitration terms because,  
14 notwithstanding the absence of any terms on the outside of the  
15 packaging, the brochure was analogous to a "shrink-wrap license,"  
16 which states on the outside of a product package that the user  
17 agrees to further, as-yet undisclosed license terms by opening up  
18 the packaging.<sup>5</sup> Id. Accepting the analogy for the sake of

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20 <sup>5</sup> Plaintiff asserts that the instant case is distinguishable  
21 because "Norcia deals with 'shrink wrap' licenses, the terms of  
22 which are found inside the box or when software is booted up."  
23 (Reply at 8:19-20.) The Norcia court defined a shrink-wrap license  
24 as "a form on the packing or on the outside of [a] CD-ROM  
25 containing [] software which states that by opening the packaging  
26 or CD-ROM wrapper, the user agrees to the terms of the license."  
27 Norcia, 845 F.3d at 1286 (quoting Wall Data Inc. v. Los Angeles  
28 County Sheriff's Dep't, 447 F.3d 769, 782 n.4 (9th Cir. 2006); see  
also Arizona Cartridge Remanufacturers Ass'n v. Lexmark Int'l,  
Inc., 421 F.3d 981, 987 n.6 (9th Cir. 2005) (defining shrink-wrap  
license as one that "impose[s] restrictions that a consumer may  
discover only after opening and installing the software." (emphasis  
original); Tompkins v. 23andMe, Inc., No. 5:13-CV-05682-LHK, 2014 WL  
2903752 at \*5 (N.D. Cal. June 25, 2014) ("A shrinkwrap agreement  
generally refers to a situation where a customer buys and receives  
a product, the written agreement is presented with the product

(continued...)

1 argument, the court nevertheless rejected the defendant's position.  
2 Id. Although acknowledging that a shrink wrap license might be  
3 enforceable under California law, the court held that the  
4 plaintiff's silence could not be deemed acceptance where there was  
5 no indication on the outside of the packaging that opening the box  
6 would constitute acceptance of further terms set forth inside the  
7 box. Id. at 1287 ("Even if a license to copy software could be  
8 analogized to a brochure that contains contractual terms, the  
9 *outside of the Galaxy S4 box* did not notify the consumer that  
10 opening the box would be considered acceptance to the terms set  
11 forth in the brochure." (emphasis added)); see also Marshall &  
12 Swift/Boeckh, LLC v. URS Corp., No. CV-0804375-GAF, 2009 WL  
13 10668449, at \*17 (C.D. Cal. Aug. 26, 2009) (explaining that a  
14 shrink-wrap license, even though it is a contract of adhesion, is  
15 "fully enforceable unless certain other factors are present which,  
16 under established legal rules - legislative or judicial - operate  
17 to render it otherwise." (quoting DVD Copy Control Ass'n v.

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<sup>5</sup> (...continued)

21 after purchase, and the customer implicitly accepts by opening and  
22 keeping the product."). Here, Norcia is distinguishable only to  
23 the extent that Disney contends that a single phrase on the  
24 exterior of its Combo Pack packaging itself constitutes a "box-top"  
25 license agreement, to which Redbox consented when it opened the  
26 Combo Pack, as opposed to shrink wrap notice of further license  
27 restrictions stated elsewhere, such as within the box or on the  
28 redemption service portals. The court notes that although the box  
tops also contain "Terms and Conditions Apply" fine print, Disney's  
breach of contract arguments do not rely upon that shrink wrap  
license-type language and, as noted above, Disney disclaims the  
existence of any shrink wrap license. In any event, the issue in  
Norcia, as here, was whether external packaging put the offeree on  
notice that he was accepting a contract by opening the box. See  
Norcia, 845 F.3d at 1287).

1 Kaleidescape, Inc., 176 Cal. App. 4th 697, 716 (2009)) (internal  
2 quotation marks omitted).

3         Disney argues that the circumstances here are more similar to  
4 those before the court in Arizona Cartridge Remanufacturers  
5 Association, Inc. v. Lexmark International, Inc., 421 F.3d 981 (9th  
6 Cir. 2005). There, the plaintiff brought false advertising and  
7 unfair competition claims based upon an allegation that the  
8 defendant was misleading customers into thinking that contractual  
9 terms printed upon the outside of a printer cartridge box were  
10 enforceable. Lexmark, 421 F.3d at 983. Because the case involved  
11 license terms ostensibly printed in their entirety on the outside  
12 of the product packaging, the court distinguished shrink wrap  
13 license disputes and other cases involving lack of notice at the  
14 time of purchase that additional terms applied. Id. at 987 n.6.  
15 With that understanding, the court analyzed the following "box-top  
16 license" language:

17             Please read before opening. Opening of this package or  
18             using the patented cartridge inside confirms your  
19             acceptance of the following license agreement. The patented  
20             cartridge is sold at a special price subject to a  
21             restriction that it may be used only once. Following this  
22             initial use, you agree to return the empty cartridge only  
23             to Lexmark for remanufacturing and recycling. If you don't  
24             accept these terms, return the unopened package to your  
25             point of purchase. A regular price cartridge without these  
26             terms is available.

27 Id. at 983-984.

28         The court rejected the plaintiff's argument, holding that the  
box-top language was sufficient to constitute an enforceable  
contract that consumers accepted by opening the box. Id. at 987.  
The court explained that the contract was enforceable because, by  
its own terms, it gave notice of the existence of a license, set

1 forth the conditions of sale of that license, afforded the consumer  
2 the opportunity to read the terms of the contract before deciding  
3 whether to accept them, and provided consideration in the form of a  
4 reduced price, thus supporting the conclusion that a consumer who  
5 opened the box accepted the terms printed upon it. Id. at 987-88.

6 The question before this Court, then, is whether language on  
7 the Combo Packs stating that "Codes are not for sale or transfer"  
8 is, like the box-top license in Lexmark, an enforceable license,  
9 and whether Redbox's decision to open the Combo Pack packaging  
10 notwithstanding that language constitutes acceptance of that  
11 license. At this stage, whether considering the Combo Pack  
12 language as a shrink wrap or as a box-top license, Disney has not  
13 demonstrated a likelihood of success on the merits of that  
14 question.

15 The phrase "Codes are not for sale or transfer" cannot  
16 constitute a shrink wrap contract because, like the box at issue in  
17 Norcia, Disney's Combo Pack box makes no suggestion that opening  
18 the box constitutes acceptance of any further license restrictions.  
19 Norcia, 845 F.3d at 1287; see also SoftMan Prod. Co. v. Adobe Sys.,  
20 Inc., 171 F. Supp. 2d 1075, 1087 (C.D. Cal. 2001) (finding a  
21 consumer's decision to open a software box bearing language  
22 stating, "NOTICE TO USERS: This product is offered subject to the  
23 license agreement included with the media" insufficient to  
24 constitute assent to a license). Although Disney seeks to  
25 analogize its Combo Pack packaging and language to the packaging  
26 and terms in Lexmark, the comparison is inapt. The thorough box-  
27 top license language in Lexmark not only provided consumers with  
28 specific notice of the existence of a license and explicitly stated

1 that opening the package would constitute acceptance, but also set  
2 forth the full terms of the agreement, including the nature of the  
3 consideration provided, and described a post-purchase mechanism for  
4 rejecting the license. Here, in contrast, Disney relies solely  
5 upon the phrase "Codes are not for sale or transfer" to carry all  
6 of that weight.<sup>6</sup> Unlike the box-top language in Lexmark, Disney's  
7 phrase does not identify the existence of a license offer in the  
8 first instance, let alone identify the nature of any consideration,  
9 specify any means of acceptance, or indicate that the consumer's  
10 decision to open the box will constitute assent. In the absence of  
11 any such indications that an offer was being made, Redbox's silence  
12 cannot reasonably be interpreted as assent to a restrictive  
13 license.<sup>7</sup>

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15 <sup>6</sup> Disney also suggests that Redbox accepted license terms  
16 because it purchased and opened many Combo Packs. This argument is  
17 not persuasive. See, e.g., In re CFLC, Inc., 209 B.R. 508, 514  
18 (B.A.P. 9th Cir. 1997) ("[T]he repetitive use of a standard form by  
19 one party, without a meeting of the minds or express agreement, is  
20 insufficient to establish a course of dealing.") (citing Step-Saver  
21 Data Sys., Inc. v. Wyse Tech., 939 F.2d 91, 104 (3d Cir. 1991)).  
22 Disney's argument that Redbox understands that "Not for Sale or  
23 Transfer" indicates the existence of a license because Redbox also  
24 uses those terms is also unpersuasive. (Mot. at 10:14-20.) Disney  
25 ignores the fact that Redbox's statements do not appear in  
26 isolation, and are accompanied by language far closer to that in  
27 Lexmark. (Klaus Decl., Exs. I, J.) Furthermore, particularly in  
28 the absence of any evidence that particular terms have a particular  
meaning in the relevant industries, this Court cannot ascribe to  
any party knowledge of some special or coded definition of "Not for  
Sale or Transfer," or any other phrase.

<sup>7</sup> Suppose, for example, that a bulk package of pencils stated,  
"Individual pencils not for re-sale," but that a bulk package  
pencil purchaser nevertheless re-sold a single pencil. It is  
doubtful that the manufacturer would be able to state a colorable  
claim for breach of contract or credibly argue that the consumer  
assented to a license. Although the distinction between physical  
goods like pencils and arguably intangible products like a digital  
download code may be relevant in other contexts, no party has  
suggested that the nature of the product has any effect on notice

(continued...)

1           Indeed, the presence of other, similarly assertive but  
2 unquestionably non-binding language on the Combo Pack boxes casts  
3 further doubt upon the argument that the phrase "Not For Sale or  
4 Transfer" communicates the terms or existence of a valid offer.  
5 The packaging also states, for example, that "This product . . .  
6 cannot be resold or rented individually." (Marinelli Decl., Ex.  
7 A.) This prescription is demonstrably false, at least insofar as  
8 it pertains to the Blu-ray disc and DVD portions of the Combo  
9 Pack.<sup>8</sup> The Copyright Act explicitly provides that the owner of a  
10 particular copy "is entitled, without the authority of the  
11 copyright owner, to sell or otherwise dispose of the possession of  
12 that copy." 17 U.S.C. § 109(a); UMG Recordings, Inc. v. Augusto,  
13 628 F.3d 1175, 1180 (9th Cir. 2011) (discussing first sale  
14 doctrine). Thus, the clearly unenforceable "cannot be resold  
15 individually" language conveys nothing so much as Disney's  
16 preference about consumers' future behavior, rather than the  
17 existence of a binding agreement. At this stage, it appears that  
18 the accompanying "Not For Sale or Transfer" language plays a  
19 similar role.<sup>9</sup>

20 \_\_\_\_\_  
21           <sup>7</sup>(...continued)  
22 requirements or other traditional elements of contract formation.

23           <sup>8</sup> Any suggestion that "this product" refers to the Combo Pack  
24 as a whole, and not to the physical discs, is belied by the  
inclusion of the word "individually."

25           <sup>9</sup> Although Disney concedes that any attempt to curtail the  
26 secondary distribution of Blu-rays and DVDs would not be  
27 successful, Disney maintains that any transfer of a Combo Pack in  
its entirety would necessarily violate the supposed contract  
28 because the download code portion of the Combo Pack is non-  
transferable. Thus, under Disney's interpretation of the contract,  
a consumer who purchases a Combo Pack for his child or relative and  
(continued...)

1           Accordingly, Disney has failed to meet its burden to  
2 demonstrate a likelihood of success on the merits of its breach of  
3 contract claim.

4           B.     Contributory Copyright Infringement

5           Disney's First Cause of Action alleges that Redbox  
6 contributorily infringes upon Disney's copyrights by enabling and  
7 encouraging individual consumers to violate the RedeemDigitalMovies  
8 and Disney Movies Anywhere use licenses, and in the process create  
9 unauthorized reproductions of Disney's copyrighted works.

10           A copyright owner has the exclusive right to reproduce the  
11 copyrighted work. 17 U.S.C. § 106. "To establish copyright  
12 infringement, a plaintiff must prove two elements: '(1) ownership  
13 of a valid copyright, and (2) copying of constituent elements of  
14 the work that are original.'" L.A. Printex Indus., Inc.v.  
15 Aeropostale, Inc., 676 F.3d 841, 846 (9th Cir. 2012) (citing Feist  
16 Publ'ns, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340, 361, (1991)).  
17 A defendant is contributorily liable for copyright infringement if  
18 he has "intentionally induced or encouraged direct infringement."  
19 MDY Indus., LLC v. Blizzard Entm't, Inc., 629 F.3d 928, 937 (9th  
20 Cir. 2010) (internal alterations and quotation marks omitted). A  
21 copyright licensee infringes upon a copyright if he exceeds the  
22 scope of his license. S.O.S., Inc. v. Payday, Inc., 886 F.2d 1081,  
23 1085 (9th Cir. 1989) ("To prevail on its claim of copyright  
24 infringement, [the copyright owner] must prove . . . 'copying' of  
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26           <sup>9</sup>(...continued)  
27 proceeds to give that Combo Pack to a family member as a gift has  
28 violated the purchase agreement and is subject to suit for breach  
of contract, notwithstanding Disney's representation that it is  
unlikely to ever bring such a claim.

1 protectable expression by [the accused infringer] beyond the scope  
2 of [the] license.”)

3 A restrictive license exists where the copyright owner “(1)  
4 specifies that the user is granted a license; (2) significantly  
5 restricts the user’s ability to transfer the software; and (3)  
6 imposes notable use restrictions.” Vernor v. Autodesk, Inc., 621  
7 F.3d 1102, 1111 (9th Cir. 2010). There is little doubt that the  
8 RedeemDigitalMovies and Movies Anywhere terms of service meet all  
9 of these criteria. The terms of the RedeemDigitalMovies license  
10 state that Plaintiff Buena Vista owns all digital movie codes and  
11 that users may only use digital codes as authorized. The terms  
12 further require that a user “represent[] that [he] is the owner of  
13 the physical product that accompanied the digital code at the time  
14 of purchase,” and expressly forbid the “redemption of a digital  
15 code sold or transferred separate from the original physical  
16 product.” The Movies Anywhere terms similarly specify that they  
17 comprise “a license agreement and not an agreement for sale . . .”  
18 that creates any ownership interest in licensed content, provide  
19 that users can only “enter authorized . . . Digital Copy codes from  
20 a Digital Copy enabled . . . physical product that is owned by  
21 [that user],” and state that “the purchase of Digital Copy codes  
22 . . . is strictly prohibited.” By buying a standalone Disney code  
23 from Redbox and then redeeming that code on the licensed download  
24 service portals, end users necessarily violate the terms of the  
25 licenses and, Disney contends, therefore infringe upon Disney’s  
26 copyrights. See MDY Indus., LLC, 629 F.3d at 939 (explaining that

27

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1 violations of license conditions constitute copyright  
2 infringement).<sup>10</sup>

3         Nevertheless, Redbox argues that Disney cannot demonstrate a  
4 likelihood of success on the merits of its contributory copyright  
5 claim because Disney has engaged in copyright misuse. Copyright  
6 misuse is an affirmative defense that "prevents copyright holders  
7 from leveraging their limited monopoly to allow them control of  
8 areas outside the monopoly." A&M Records, Inc. v. Napster, Inc.,  
9 239 F.3d 1004, 1026 (9th Cir. 2001). Disney responds that it is  
10 not guilty of copyright misuse because it is not "trying to extend  
11 its copyright over the underlying movies to other, non-copyrighted  
12 products."<sup>11</sup> (Reply at 6:24-25.) Disney is correct that the  
13 copyright misuse defense often applies to situations in which  
14 copyright holders attempt to use their copyright to obtain some  
15 power over other, non-copyrighted goods or services. In Practice  
16 Management Information Corporation v. American Medical Association,  
17 121 F.3d 516 (9th Cir. 1997), for example, the defendant misused  
18 its copyright when it obtained an unfair advantage over its  
19 competitors by licensing a copyrighted coding system on the

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20  
21         <sup>10</sup> The court notes that Defendant's opposition to Plaintiffs'  
22 argument regarding contributory infringement appears to  
23 misunderstand the nature of Plaintiffs' claim. Defendant argues  
24 that "there is no license and even Plaintiffs do not claim one was  
25 created." (Opposition at 13:12-13.) Although that statement is  
26 arguably true with respect to the relationship between Disney and  
27 Redbox, Disney's contributory copyright infringement claim is  
28 predicated not upon that relationship, but rather upon the license  
agreement between the end user/downloader and one or both of the  
digital download services.

26         <sup>11</sup> Redbox also argues that Disney is engaged in copyright  
27 misuse because it is attempting to "impose an artificial price  
28 floor by eliminating competition." (Opposition at 17:12-13.)  
Although copyright misuse may be rooted in anticompetitive behavior  
or public policy considerations, Redbox does not adequately develop  
its price-fixing theory.

1 condition that licensees agree not to use the competing systems.  
2 Practice Mgmt., 121 F.3d at 521. In Omega S.A. v. Costco Wholesale  
3 Corporation, 776 F.3d 692 (9th Cir. 2015), the owner of a  
4 copyrighted design sought to use its copyright to restrict sales of  
5 otherwise uncopyrightable watches. Omega, S.A., 776 F.3d at 693-  
6 94. The watch seller frustrated the plaintiff's domestic  
7 distribution strategy by obtaining genuine watches abroad, then  
8 legitimately re-selling them in the United States. Id. In an  
9 attempt to foreclose this practice, the copyright holder began  
10 engraving a "barely perceptible" version of the copyrighted design  
11 onto the bottom of the watches, then sued the watch seller for  
12 copyright infringement.<sup>12</sup> Id. The district court concluded that  
13 the copyright holder misused its copyright "by leveraging its  
14 limited monopoly in being able to control the importation of [the  
15 copyrighted design] to control the importation of [the] watches."  
16 Id.

17 Here, Disney contends that its actions are distinguishable  
18 from those at issue in Practice Management and Omega, S.A. because  
19 Disney's control of and restraints on digital downloads only  
20 pertain to the copyrighted work itself, and not to other, non-  
21 copyrighted products such as the competitors' code systems in  
22 Practice Management or the watches in Omega, S.A. The copyright  
23 misuse defense, however, is not so narrow as Disney would have it.  
24 Indeed, copyright misuse need not even be grounded in anti-  
25 competitive behavior, and extends to any situation implicating "the  
26 public policy embodied in the grant of a copyright." Omega, S.A.,

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28 <sup>12</sup> See 17 U.S.C. § 602.

1 776 F.3d at 699-700 (Wardlaw, J. concurring). The pertinent  
2 inquiry, then, is not whether the digital download services'  
3 restrictive license terms give Disney power over some entirely  
4 unrelated product, but whether those terms improperly grant Disney  
5 power beyond the scope of its copyright. A&M Records, Inc., 239  
6 F.3d at 102.

7 The Copyright Act gives copyright owners the exclusive right  
8 to distribute copies of the copyrighted work. 17 U.S.C. § 106(3);  
9 Adobe Sys., Inc. v. Christenson, 809 F.3d 1071, 1076 (9th Cir.  
10 2015). That right is exhausted, however, once the owner places a  
11 copy of a copyrighted item into the stream of commerce by selling  
12 it. Id.; 17 U.S.C. § 109(a); Vernor v. Autodesk, 621 F.3d 1102,  
13 1107 (9th Cir. 2010). In other words, once a copyright owner  
14 transfers title to a particular copy of a work, the transferor is  
15 powerless to stop the transferee from redistributing that copy as  
16 he chooses. UMG Recordings, 628 F.3d at 1180.

17 There can be no dispute, therefore, that Disney's copyrights  
18 do not give it the power to prevent consumers from selling or  
19 otherwise transferring the Blu-ray discs and DVDs contained within  
20 Combo Packs. Disney does not contend otherwise.<sup>13</sup> Nevertheless,  
21 the terms of both digital download services' license agreements  
22 purport to give Disney a power specifically denied to copyright  
23 holders by § 109(a). RedeemDigitalMovies requires redeemers to  
24 represent that they are currently "the owner of the physical  
25 product that accompanied the digital code at the time of purchase,"  
26 while the Movies Anywhere terms of use only allow registered

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27  
28 <sup>13</sup> See note 9, supra.

1 members to "enter authorized . . . Digital Copy codes from a  
2 Digital Copy enabled . . . physical product that is owned by [that  
3 member]." <sup>14</sup> Thus, Combo Pack purchasers cannot access digital  
4 movie content, for which they have already paid, without exceeding  
5 the scope of the license agreement unless they forego their  
6 statutorily-guaranteed right to distribute their physical copies of  
7 that same movie as they see fit. <sup>15</sup> This improper leveraging of  
8 Disney's copyright in the digital content to restrict secondary  
9 transfers of physical copies directly implicates and conflicts with  
10 public policy enshrined in the Copyright Act, and constitutes  
11 copyright misuse. <sup>16</sup>

12 Accordingly, Disney has not demonstrated a likelihood of  
13 success on the merits of its contributory copyright infringement  
14 claim. <sup>17</sup>

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15  
16 <sup>14</sup> Redbox also argues that "physical product" includes the  
17 pieces of paper upon which the digital download code is printed,  
18 and that digital downloaders therefore do not violate any terms of  
19 use even when inputting a code purchased from Redbox. That  
20 argument has no merit. The paper insert, like the alphanumeric  
21 code it bears, has no value separate from the digital content that  
22 the code represents.

23 <sup>15</sup> At argument, Disney suggested that consumers can contract  
24 away their redistribution rights. To the extent Disney suggests  
25 that that occurred here, that argument has no merit, for the  
26 reasons described in the breach of contract discussion, above.

27 <sup>16</sup> Although the court need not and does not address the  
28 remaining Winter factors beyond likelihood of success on the  
merits, the court notes that the policy considerations underlying  
the copyright misuse defense raise serious questions about Disney's  
ability to demonstrate that an injunction essentially ratifying  
Disney's misuse would nevertheless be in the public interest.

<sup>17</sup> As alluded to in the context of the box-top and shrink  
wrap license discussion, above, significant questions remain  
regarding the representations made to consumers on the Combo Pack  
packaging. Disney characterizes the purchase of "Digital HD" as  
effectively the purchase of a coupon that will allow consumers to  
download digital content only if they agree to the terms of a  
license in the future. Although beyond the scope of briefing here,  
the question whether the representations made on the box actually

(continued...)

## 1 C. First Sale Doctrine

2 Much of the parties' briefing and argument focuses on Redbox's  
3 contention that Disney's attempts to prohibit transfer of digital  
4 download codes are barred by the first sale doctrine. For the  
5 reasons stated above, the issues presently before the court can be  
6 resolved irrespective of the first sale doctrine question. Indeed,  
7 at this stage of proceedings, it appears to the court that the  
8 first sale doctrine is not applicable to this case.

9 The first sale doctrine, recognized first by the Supreme Court  
10 and later codified, allows the "owner of a particular copy or  
11 phonorecord lawfully made under [the Copyright Act] . . . to sell  
12 or otherwise dispose of the possession of that copy or  
13 phonorecord," without the permission of the copyright holder. UMG  
14 v. Augusto, 628 F.3d 1175, 1180 (9th Cir. 2011) (quoting 17 U.S.C.  
15 § 109(a)); Bobbs-Merrill Co. v. Strauss, 210 U.S. 339, 341 (1908).  
16 Thus, as explained above, a copyright owner's exclusive right to  
17 distribute a particular copy of a copyrighted work is exhausted  
18 once the owner transfers title to that copy. Christenson, 809 F.3d  
19 1071 at 1076 (9th Cir. 2015); Vernor, 621 F.3d at 1107; 17 U.S.C. §  
20 106(3).

21 Not all transfers of a copy of a copyrighted work constitute a  
22 transfer of title sufficient to trigger exhaustion of the copyright  
23 holder's distribution rights. Vernor, 621 F.3d at 1111. Under  
24 certain conditions, a transferee may be a licensee rather than an

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26 <sup>17</sup>(...continued)  
27 support Disney's characterization or give rise to other legal or  
28 equitable defenses to allegations of infringement and other  
potential claims casts further doubt upon Disney's likelihood of  
success.

1 owner, and will not enjoy the protections of the first sale  
2 doctrine. Id. Redbox spends much of its opposition arguing that  
3 Disney's transfer of a digital code in a Combo Pack does not bear  
4 the indicia of a license, and therefore should be considered a  
5 transfer of title to a particular copy. This argument misses the  
6 thrust of Disney's position regarding the first sale doctrine.  
7 Disney does not argue that it transferred a restrictive license  
8 rather than title to a digital copy, but rather that the first sale  
9 doctrine does not apply here for the fundamental reason that the  
10 digital download codes are not "copies" in the first instance, let  
11 alone "particular copies." For copyright purposes, "[c]opies' are  
12 material objects, other than phonorecords, in which a work is fixed  
13 by any method now known or later developed, and from which the work  
14 can be perceived, reproduced, or otherwise communicated, either  
15 directly or with the aid of a machine or device." 17 U.S.C. § 101.  
16 By Disney's reading, no "copy" exists until a copyrighted work is  
17 fixed onto a downloader's hard drive, and Redbox's purchase of a  
18 download code therefore cannot possibly involve a "particular copy"  
19 to which a first sale defense could apply. Thus, Disney contends,  
20 this case is solely about the exclusive right to reproduce a  
21 copyrighted work, and has nothing to do with the right of  
22 distribution or, by extension, the first sale doctrine's limitation  
23 on that exclusive right.

24 One court that addressed a similar issue applied logic similar  
25 to that Disney puts forth here. In Capitol Records, LLC v. ReDigi  
26 Inc., 934 F. Supp. 2d 640 (S.D.N.Y. 2013), the defendant attempted  
27 to create a marketplace for used digital music downloads by  
28 devising a technology that "migrated" a seller's digital music file

1 from the seller's computer, data packet by data packet, onto the  
2 defendant's server, from whence it could then again be migrated to  
3 a secondary purchaser's computer without any bit of data ever  
4 existing in any two places at the same time. ReDigi Inc., 934 F.  
5 Supp. 2d at 645. On summary judgment, the court rejected the  
6 defendant's first sale doctrine defense.<sup>18</sup> Id. at 655. Regardless  
7 of the defendant's claim that no datum existed in two places at the  
8 same time, the court observed, the digital files at issue could not  
9 be re-sold without a "new" version first being created on the  
10 defendant's physical server. Id. Thus, the court concluded, the  
11 new version was not the same "particular copy," but rather an  
12 unauthorized reproduction of a copyrighted work.<sup>19</sup> Id. "Put  
13 another way, the first sale defense is limited to material items,  
14 like records, that the copyright owner put into the stream of  
15 commerce." Id.

16 Policy considerations also supported the ReDigi court's  
17 conclusion. In 2001, the United States Copyright Office, at  
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19 <sup>18</sup> With respect to the right of reproduction, the ReDigi court  
20 rejected the first sale defense out of hand as inapplicable.  
ReDigi, 934 F.Supp.2d at 655.

21 <sup>19</sup> The ReDigi court's discussion of the first sale defense  
22 concerned the plaintiff's exclusive distribution right, which  
23 applies only to "copies or phonorecords." 17 U.S.C. § 106; ReDigi,  
24 934 F.Supp.2d at 655. "Phonorecords," like "copies," are defined  
25 as "material objects." 17 U.S.C. § 101. Nevertheless, no party  
26 disputed that an electronic transfer of a copyrighted work  
27 constitutes a distribution for copyright purposes. ReDigi, 934  
28 F.Supp.2d at 651. One court, in determining that electronic files  
qualify as phonorecords, has stated that "Electronic Files Are  
Material Objects." London-Sire Records, Inc. v. Doe 1, 542 F.  
Supp. 2d 153, 170 (D. Mass. 2008). As the London-Sire court  
elaborated, however, "more accurately, *the appropriate segment of  
the hard disk[] is . . . a 'phonorecord' within the meaning of the  
statute.*" Id. at 171 (emphasis added).

1 Congress' command, prepared a report on, among other things, the  
2 effect of emerging technologies on copyright law. USCO, Library of  
3 Cong., DMCA Section 104 Report (2001) ("USCO Report"); Digital  
4 Millennium Copyright Act of 1998, § 104, Pub. L. No. 105-304, 112  
5 Stat. 2860, 2876. The Copyright Office engaged in a lengthy  
6 discussion of the first sale doctrine, including the rationales  
7 underpinning the doctrine as it relates to tangible goods in the  
8 physical world. USCO Report at 74-101. The Copyright Office  
9 specifically addressed the potential implications of expressly  
10 expanding the first sale doctrine "to permit the transmission of a  
11 digital work by the owner of a lawful copy of that work, so long as  
12 that copy is destroyed." USCO Report at 80-81. Ultimately, the  
13 USCO recommended that the first sale doctrine not be explicitly  
14 expanded to include digital transmission. As the USCO report  
15 explained:

16 Physical copies of works degrade with time and use, making  
17 used copies less desirable than new ones. Digital  
18 information does not degrade, and can be reproduced  
19 perfectly on a recipient's computer. The "used" copy is  
20 just as desirable as (in fact, is indistinguishable from)  
21 a new copy of the same work. Time, space, effort and cost  
22 no longer act as barriers to the movement of copies, since  
23 digital copies can be transmitted nearly instantaneously  
24 anywhere in the world with minimal effort and negligible  
25 cost. The need to transport physical copies of works, which  
26 acts as a natural brake on the effect of resales on the  
27 copyright owner's market, no longer exists in the realm of  
28 digital transmissions. The ability of such "used" copies to  
compete for market share with new copies is thus far  
greater in the digital world. Even the "lending" of a  
fairly small number of copies of a work by digital  
transmission could substitute for a large number of  
purchases. For example, one could devise an aggregation  
site on the Internet that stores (or, in a peer-to-peer  
model, points to) multiple copies of an electronic book. A  
user can "borrow" a copy of the book for as long as he is  
actually reading it. Once the book is "closed," it is  
"returned" into circulation. Unlike a typical lending  
library, where the book, once lent to a patron, is out of  
circulation for days or weeks at a time, the electronic

1 book in this scenario is available to other readers at any  
2 moment that it is not actually being read. Since, at any  
3 given time, only a limited number of readers will actually  
4 be reading the book, a small number of copies can supply  
5 the demand of a much larger audience. The effect of this  
6 activity on the copyright owner's market for the work is  
7 far greater than the effect of the analogous activity in  
8 the non-digital world.

9 \*\*\*

10 [T]hese differences between circulation of tangible and  
11 intangible copies is directly relevant to the balance  
12 between copyright owners and users in section 109. In  
13 weighing the detrimental effect of a digital first sale  
14 doctrine on copyright owners' markets against the  
15 furtherance of the policies behind the first sale doctrine  
16 it must be acknowledged that the detrimental effect  
17 increases significantly in the online environment.

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19 In the final analysis, the concerns about expanding first  
20 sale to limit the reproduction right, harm to the market as  
21 a result of the ease of distribution, and the lessened  
22 deterrent effect of the law that could promote piracy,  
23 outweigh the pro-competitive gains that might be realized  
24 from the creation of a digital first sale doctrine.

25 USCO Report at 82-83, 85, 100.

26 Notwithstanding ReDigi, the plain language of the statutes,  
27 and the important policy considerations described by the Copyright  
28 Office, Redbox urges this court to conclude that Disney's sale of  
a download code is indistinguishable from the sale of a tangible,  
physical, particular copy of a copyrighted work that has simply  
not yet been delivered. Even assuming that the transfer is a sale  
and not a license, and putting aside what Disney's representations  
on the box may suggest about whether or not a "copy" is being  
transferred, this court cannot agree that a "particular material  
object" can be said to exist, let alone be transferred, prior to  
the time that a download code is redeemed and the copyrighted work  
is fixed onto the downloader's physical hard drive. Instead,  
Disney appears to have sold something akin to an option to create

1 a physical copy at some point in the future.<sup>20</sup> Because no  
2 particular, fixed copy of a copyrighted work yet existed at the  
3 time Redbox purchased, or sold, a digital download code, the first  
4 sale doctrine is inapplicable to this case.

5 D. Additional Claims

6 Disney also alleges that Redbox's sale of digital download  
7 codes constitutes "tortious interference" with the contractual  
8 relationship formed between Disney's and downloaders when the  
9 latter agree to the digital download services' terms of use. A  
10 plaintiff alleging intentional interference with an existing  
11 contractual relationship must show "(1) a valid contract between  
12 plaintiff and a third party; (2) defendant's knowledge of this  
13 contract; (3) defendant's intentional acts designed to induce a  
14 breach or disruption of the contractual relationship; (4) actual  
15 breach or disruption of the contractual relationship; and (5)  
16 resulting damage." Quelimane Co. v. Stewart Title Guaranty Co.,  
17 19 Cal. 4th 26, 55 (1998) (quoting Pac. Gas & Elec. Co. v. Bear  
18 Stearns & Co.), 50 Cal. 3d 1118, 1126 (1990).

19 The parties' discussion of Disney's intentional interference  
20 claims are relatively undeveloped, and largely derivative of other  
21 arguments. Furthermore, even assuming that Disney is a  
22 beneficiary of the contracts between the online redemption  
23 services and their users, Plaintiffs have submitted no evidence of  
24 pre-existing contracts between the redemption services and any

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26 <sup>20</sup> Again, whether that fact is adequately communicated to  
27 purchasers, whether purchasers are ultimately able to enjoy that  
28 benefit, and whether the answers to those questions give rise to  
potential defenses or affirmative claims are all separate issues.  
See note 14, supra.

1 user who subsequently purchased a download code from Redbox. For  
2 these reasons, and for the reasons stated above, Disney has not  
3 met its burden to show a likelihood of the success on the merits  
4 of its intentional interference claim, and particularly the first,  
5 second, and third elements of that claim.

6 Nor, at this stage, has Disney demonstrated a likelihood of  
7 success on the merits of its state law false advertising and  
8 unfair competition claims.<sup>21</sup> Although Disney alleges that Redbox  
9 misleads customers by omitting details about license restrictions  
10 Disney imposes upon digital downloaders, as noted above,  
11 significant questions remain about the validity and enforceability  
12 of those restrictions. See note 14, supra. Nor has Disney  
13 sufficiently demonstrated, at this stage, that it has standing to  
14 assert false advertising claims in the absence of its own reliance  
15 upon Redbox's statements. See Youngevity Int'l Corp. v. Smith,  
16 224 F.Supp.3d 1022, 1031 (S.D. Cal. 2016); L.A. Taxi Cooperative,  
17 Inc. v. Uber Technologies, Inc., 114 F.Supp.3d 852, 866 (S.D. Cal.  
18 2015).

19 **IV. Conclusion**

20 For the reasons stated above, Disney has failed to  
21 demonstrate a likelihood of success on the merits of its claims.  
22 The court need not, therefore, address the remaining preliminary

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27 <sup>21</sup> Plaintiffs' unfair competition claim under California  
28 Business & Professions Code § 17200 is predicated upon Plaintiffs'  
other claims.

1 injunction factors. Plaintiffs' Motion for Preliminary Injunction  
2 is DENIED.

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5 IT IS SO ORDERED.

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7 Dated: February 20, 2018



DEAN D. PREGERSON  
United States District Judge

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