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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,)	ORDER DENYING PLAINTIFFS' MOTION
)	FOR PRELIMINARY INJUNCTION
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.¹ (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."² (Id.)

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

23 ² 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.³
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 ²(...continued)
25 should issue, this court will analyze the "best case scenario"-type
language included on the *Beauty and the Beast* packaging.

26 ³ The pop-up "terms and conditions" dialog window refers to
27 "these terms and conditions" in several places, but does not appear
to include all terms and conditions. Instead, "all applicable
28 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.⁴
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.

25
26 ⁴ 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.⁵ Id. Accepting the analogy for the sake of

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20 ⁵ 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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⁵ (...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.⁶ 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.⁷

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15 ⁶ 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.

⁷ 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.⁸ 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.⁹

20 _____
21 ⁷(...continued)
22 requirements or other traditional elements of contract formation.

23 ⁸ 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 ⁹ 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
25

26 ⁹(...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

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1 violations of license conditions constitute copyright
2 infringement).¹⁰

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."¹¹ (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

20
21 ¹⁰ 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 ¹¹ 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.¹² 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 ¹² 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.¹³ 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

27
28 ¹³ 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]." ¹⁴ 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. ¹⁵ 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. ¹⁶

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

15
16 ¹⁴ 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 ¹⁵ 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 ¹⁶ 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.

¹⁷ 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

25

26 ¹⁷(...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.¹⁸ 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.¹⁹ 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
18

19 ¹⁸ 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 ¹⁹ 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.

18 ***

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.²⁰ 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

26 ²⁰ 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.²¹ 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

23 //

24 //

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27 ²¹ 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

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DEAN D. PREGERSON
United States District Judge