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# Extending Copyright Misuse to an Affirmative Cause of Action

Michael E. Rubinstein

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## EXTENDING COPYRIGHT MISUSE TO AN AFFIRMATIVE CAUSE OF ACTION

*Michael E. Rubinstein\**

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*The winter holidays are fast approaching. You anticipate gathering with family and friends. As you shop for groceries in preparation for the congenial holiday atmosphere, you notice an interesting red machine located near the supermarket’s exit. At first, it appears to be a soda machine. Upon further investigation, you discover that the machine is a movie rental kiosk operated by Redbox Automated Retail. The idea of renting some of the blockbuster hits you might have missed this past summer appeals to you. You browse through the selection of movies and recall that you missed “Public Enemies,” so you select that title. The screen blinks “Title Unavailable.” You experience the same result when you select “Harry Potter: The Half-blood Prince”*

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and “Ice Age: Dawn of the Dinosaurs.” These three titles are distributed, respectively, by Universal Studios, Warner Brothers Studios, and Twentieth-Century Fox studios.<sup>1</sup>

The scenario mentioned above is entirely fictional. The hypothetical is posited merely to show what may eventually happen in light of recent litigation between Redbox and three of the major Hollywood studios.<sup>2</sup> The studios have enacted a range of freezes on their Digital Video Disc (DVD) supply to Redbox, from twenty-eight days after the title’s release,<sup>3</sup> to forty-five days after the title’s release.<sup>4</sup> In response, Redbox sued all three studios<sup>5</sup> alleging multiple causes of action, including copyright misuse.<sup>6</sup> Redbox’s copyright misuse claim against Universal was recently dismissed.<sup>7</sup> Similarly, after months of protracted litigation, Redbox dropped its suit against Warner altogether.<sup>8</sup> Redbox President Mitch Lowe explained that, in response to Warner’s

1. See *Public Enemies* (Universal Pictures 2009), <http://www.publicenemies.net/> (last visited Dec. 13, 2010); *Harry Potter and the Half-Blood Prince* (Warner Brothers 2009), <http://harrypotter.warnerbros.com/harrypotterandthehalf-bloodprince/> (last visited Dec. 13, 2010); *Ice Age: Dawn of the Dinosaurs* (Twentieth-Century Fox 2009), <http://www.iceagemovie.com/> (last visited Dec. 13, 2010).

2. As discussed *infra*, Redbox alleged multiple causes of action in its lawsuit against Universal (and later Warner and Fox). While the copyright misuse and tortious interference with contract causes of action were dismissed in its suit against Universal, it is important to note that the antitrust allegations survived a motion to dismiss. See generally Complaint, Redbox Automated Retail, LLC v. Universal Studios Home Entm’t, LLC, No. 08CV00766, 2008 WL 4600432 (D. Del. Oct. 10, 2008) [hereinafter 2008 Complaint]; see also Redbox Automated Retail, LLC v. Universal Studios Home Entm’t, LLC, No. 08-766 (RBK), 2009 WL 2588748, at \*5 (D. Del. Aug. 17, 2009) (explaining how Redbox’s antitrust claims “sufficiently pleaded the illegality of Universal’s actions.”). While Universal’s conduct implicates antitrust law, this Comment will focus exclusively on copyright misuse.

3. See Ben Fritz, *Warner Bros. Delaying Providing Movies to Redbox*, L.A. TIMES, Aug. 14, 2009, at B3, available at <http://www.latimes.com/business/la-fi-ct-warner14-2009aug14,0,1452104.story>. Warner Brothers is the third studio to order its distributors not to provide Redbox with its DVDs until twenty-eight days after the title goes on sale. *Id.*

4. 2008 Complaint, *supra* note 2, ¶ 22.

5. See Dawn C. Chmielewski & Ben Fritz, *Redbox Sues Studio Over DVD Access*, L.A. TIMES, Aug. 13, 2009, at B3, available at <http://articles.latimes.com/2009/aug/13/business/fi-ct-redbox13>. Redbox filed suit against Twentieth Century Fox in Delaware federal court alleging, among other things, copyright misuse. *Id.*; see also 2008 Complaint, *supra* note 2.

6. 2008 Complaint, *supra* note 2, ¶¶ 57-62; Complaint at 40-45, Redbox Automated Retail, LLC v. Warner Home Video, No. 09CV00613, 2009 WL 2956688 (D. Del. Aug. 18, 2009) [hereinafter 2009 Complaint].

7. See Chris Tribbey, *Judge Throws Out Some Redbox Claims in Universal Suit*, HOME MEDIA MAG., Aug. 17, 2009, available at <http://www.homemediamagazine.com/redbox/judge-throws-out-some-redbox-claims-universal-suit-16764/>.

8. See Ben Fritz, *Redbox Agrees to 28-Day Delay in Offering Warner Movies*, L.A. TIMES, Feb. 17, 2010, available at <http://articles.latimes.com/2010/feb/17/business/la-fi-ct-redbox17-2010feb17>.

boycott, Redbox could not keep up with supplying customers with the DVDs they wanted.<sup>9</sup> Although Redbox did win somewhat of a concession from Warner in the form of discounted DVDs, it is clear that Warner walked away with the benefit of the deal with Redbox: a \$124 million revenue sharing contract which will expire in 2012 and an agreement not to offer any Warner titles for twenty-eight days after the release date.<sup>10</sup> Though, as the date of this writing, Redbox's suit against Fox still stands, based on Redbox's settlement with Warner, and the dismissal of the copyright misuse claims against Universal, it is not likely that the misuse claims against Fox will proceed much further. Universal has already convinced the court that copyright misuse is not an affirmative cause of action, but rather an affirmative defense.<sup>11</sup>

This Comment will discuss the copyright misuse doctrine. Part I will introduce Redbox, explain how its business model functions, and describe the history between Redbox and the movie studios involved in the recent litigation. Part II will provide a history and background of the copyright misuse doctrine and how it has been applied in the various circuit courts that have adopted the doctrine. Part II will also touch upon the first sale doctrine, which will be applied to the litigation between Redbox and the studios. Part III will present a proposal for extending the copyright misuse doctrine into an affirmative cause of action in certain, limited circumstances. Finally, in Part IV, this Comment will conclude that Congress needs to clarify the parameters of the misuse doctrine in light of the confusion the different circuits have evidenced in recent years applying the doctrine.

## I. INTRODUCTION

### A. *Redbox's History and How it Works*

Redbox is owned by Coinstar, Inc.,<sup>12</sup> the same company that operates change-counting machines in supermarkets throughout the

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9. *Id.*

10. *Id.*

11. Brief of Defendant at 9, *Redbox Automated Retail, LLC v. Universal Studios Home Entm't, LLC*, No. 08-766 (RBK), 2008 WL 5187900 (D. Del. Dec. 5, 2008); *see also* *Redbox Automated Retail, LLC v. Universal Studios Home Entm't, LLC*, No. 08-766 (RBK), 2009 WL 2588748, at \*4 (D. Del. Aug. 17, 2009).

12. Ben Fritz, *Lions Gate Cuts Deal with Redbox on DVD Rentals*, L.A. TIMES, Aug. 12, 2009, at B3 (stating in a regulatory filing, Redbox's parent company Coinstar estimates it will pay Lions Gate \$158 million over five years), *available at* <http://articles.latimes.com/2009/aug/12/business/fi-ct-lionsgate12>.

country.<sup>13</sup> Redbox was founded in Colorado in 2002, when a McDonald's franchisee sought to increase business at his restaurant by enabling customers to rent movies as they waited in line to purchase their meals.<sup>14</sup> Later, Redbox deployed DVD rental kiosks in a "test market" in Washington, D.C.<sup>15</sup> When that proved successful, the company chose Las Vegas as a second test market in 2003.<sup>16</sup> Redbox continued to achieve remarkable success in installing new kiosks throughout the country.<sup>17</sup> By the time Redbox filed its complaint against Universal in October of 2008, it operated approximately 10,000 kiosks in the United States.<sup>18</sup> By the summer of 2009, Redbox operated nearly 18,000 kiosks.<sup>19</sup> At the end of 2009, Redbox was on track to operate between 21,000 and 22,000 kiosks nationwide.<sup>20</sup>

Home entertainment is the most lucrative market for the movie industry.<sup>21</sup> Traditionally, the studios have made more money from DVD sales than DVD rentals.<sup>22</sup> But recent data indicate that consumers would rather rent a DVD than buy one.<sup>23</sup> Within the DVD rental market itself, consumers have embraced the idea of renting DVDs for a cheap price.<sup>24</sup> This is evident in recent figures released by the nation's largest retail DVD rental chain, Blockbuster.<sup>25</sup> Blockbuster's revenue for the three months, ending in June 2009, dropped 22%.<sup>26</sup> The company is no longer the dominant provider of home video rentals within the video rental market.<sup>27</sup> Perhaps seeking to capitalize on the "seismic shift"<sup>28</sup> of customers seeking to rent cheap DVDs, Blockbuster has emulated

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13. Rich Mullins, *Redbox Gives Consumers Low-Cost DVD Rentals, But Its Popularity is Drawing Complaints as Lines Continue to Grow*, THE TAMPA TRIBUNE, Aug. 23, 2009, at B1, available at <http://www2.tbo.com/content/2009/aug/21/210712/now-playing-redbox-you-waiting-line/>.

14. *Id.*

15. 2008 Complaint, *supra* note 2, ¶ 21.

16. *Id.*

17. *See id.* ¶¶ 22-23.

18. *Id.* ¶ 23.

19. Marc Graser & Marcy Magiera, *H'W'D Red Alert*, DAILY VARIETY, Aug. 26, 2009, at 1, available at [http://www.variety.com/index.asp?layout=print\\_story&articleid=VR1118007723&categoryid=20](http://www.variety.com/index.asp?layout=print_story&articleid=VR1118007723&categoryid=20).

20. Fritz, *supra* note 12.

21. Chmielewski & Fritz, *supra* note 5.

22. Patrick Goldstein, *The Big Picture: If You Can't Beat Redbox, Join It*, L.A. TIMES, Aug. 18, 2009, at D1.

23. *Id.*

24. *Id.*

25. Fritz, *supra* note 3. (stating that Blockbuster is the nation's largest DVD chain).

26. *Id.*

27. *Id.*

28. Goldstein, *supra* note 22.

Redbox and begun deploying DVD rental kiosks. Blockbuster projected a goal of operating 2500 such kiosks by the end of 2009.<sup>29</sup> Redbox, in contrast, experienced a 110% revenue increase this past summer,<sup>30</sup> and has over 17,000 locations to date.<sup>31</sup> Redbox kiosk locations exceed the number of Blockbuster store locations.<sup>32</sup>

Consumers obviously love Redbox. The refrigerator-shaped kiosks are conveniently located in grocery and drug stores.<sup>33</sup> The kiosks are even located outdoors in some locations, where a consumer can have easy access to renting DVDs twenty-four hours a day.<sup>34</sup> Redbox kiosks contain up to forty-five copies of a particular title, with about 700 DVDs total.<sup>35</sup> Consumers use a credit card to rent the DVD of their choice, and can even reserve a particular title on the Internet.<sup>36</sup> Reserving a particular title online can help avoid the frustrating scenario of a kiosk running out of that title.<sup>37</sup> The consumer is not obligated to return the DVD to the same kiosk from which the movie was rented; instead, the consumer may return the DVD to any Redbox kiosk.<sup>38</sup>

Perhaps more significant than Redbox's user-friendly means of dispatching DVDs to the consumer is its unbeatable price: \$1 per night.<sup>39</sup> In contrast, a consumer wishing to rent a DVD from a traditional brick and mortar movie-rental store will pay, on average, over \$3.<sup>40</sup> Additionally, consumers can buy used DVDs from any Redbox kiosk starting twelve days after the movie's release for home viewing for a price of about \$7.<sup>41</sup> The price of a newly-released movie from other sources, in contrast, is approximately \$18.50.<sup>42</sup> That Redbox has proven extremely popular is no wonder. But at the same time, it has caused frustration for some of the prominent movie studios.<sup>43</sup>

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29. Fritz, *supra* note 3.

30. Fritz, *supra* note 12.

31. Mullins, *supra* note 13.

32. 2009 Complaint, *supra* note 6, at 23. (stating Redbox has nearly four times the number of rental locations Blockbuster has).

33. Fritz, *supra* note 12.

34. Travis Hudson, *Review: DVD Kiosks Make Movie Rentals As Easy As Pressing a Button*, September 28, 2009, at 3D, available at [http://www.dallasnews.com/sharedcontent/dws/bus/tech/stories/DN-dvdkiosks\\_27bus.ART.State.Edition1.3cf4fef.html](http://www.dallasnews.com/sharedcontent/dws/bus/tech/stories/DN-dvdkiosks_27bus.ART.State.Edition1.3cf4fef.html).

35. 2008 Complaint, *supra* note 2, ¶ 22.

36. *Id.*

37. Hudson, *supra* note 34.

38. 2008 Complaint, *supra* note 2, ¶ 22.

39. *Id.* ¶ 25.

40. *Id.*

41. *Id.* ¶ 26.

42. *Id.*

43. See Fritz, *supra* note 3.

*B. Universal, Warner Brothers, and Fox's Reaction to Redbox's Success*

Redbox does not deal directly with Universal Studios to obtain Universal's titles; instead, Redbox has contracts with third-party distributors.<sup>44</sup> In the summer of 2008, Universal sought to exploit Redbox's remarkable success by proposing a revenue sharing agreement to Redbox management whereby Universal would cease providing its titles to the third-party distributors and would instead deal directly with Redbox.<sup>45</sup> Redbox had no prior notice as to the nature of the proposal put forth by Universal.<sup>46</sup> The conspicuous attempt by Universal to use its weight to coerce Redbox into signing such an agreement is underscored by the fact that Universal gave Redbox a twenty-four hour deadline to sign the agreement.<sup>47</sup> Universal warned Redbox that, if it chose not to sign the agreement, Universal would compel its distributors to cease supplying Redbox with Universal's movies.<sup>48</sup>

The terms of the revenue sharing agreement also contained other coercive provisions. Specifically, the agreement limited the number of DVDs that any Redbox kiosk could carry, based on a formula that correlated to the gross box office revenue of that movie.<sup>49</sup> For example, where Redbox might ordinarily offer up to forty-five copies of a particular movie, the agreement demanded by Universal limited Redbox to eight.<sup>50</sup> Also, Universal demanded that Redbox wait forty-five days after the movie's release for home viewing before offering that movie for rental at its machines.<sup>51</sup> The date a movie is released for home viewing is known as the "street date."<sup>52</sup> Typically, over 60% of the rental demand for an individual movie title occurs within forty-five days of the movie's street date.<sup>53</sup> Universal's proposal also required Redbox to destroy one hundred percent of the units removed from an active rental machine and provide certification to that effect.<sup>54</sup> This would

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44. 2008 Complaint, *supra* note 2, ¶ 29.

45. *Id.* ¶ 39.

46. *Id.*

47. *Id.*

48. *Id.* ¶ 40.

49. *Id.* ¶ 45.

50. *Id.*

51. 2008 Complaint, *supra* note 2, ¶ 45.

52. *Id.*

53. Redbox Automated Retail, LLC v. Universal Studios Home Entm't, LLC, No. 08-766 (RBK), 2009 WL 2588748, at \*2 (D. Del. Aug. 17, 2009).

54. 2008 Complaint, *supra* note 2, ¶ 45.

reduce the supply of a previously-rented DVD available in the marketplace.<sup>55</sup>

Refusing to buckle under Universal's pressure, Redbox did not sign the agreement.<sup>56</sup> Redbox believed that signing the agreement would substantially limit consumer access to copyrighted works in the form of DVDs and would damage Redbox's ability to meet consumer demand.<sup>57</sup> Fearing Universal's threats to cut off supply of its DVDs to Redbox, Redbox filed suit in the District of Delaware seeking a declaratory judgment that Universal's conduct constituted copyright misuse.<sup>58</sup> Among other things, Redbox alleged that Universal's attempts to circumvent the distributors who supplied Redbox with Universal DVDs violated the first sale doctrine of the Copyright Act.<sup>59</sup>

Redbox charged Universal with orchestrating a boycott of Redbox's services.<sup>60</sup> Universal's demands that its distributors cease supplying Redbox with DVDs resulted in Redbox trying other, more costly and inconvenient channels from which to purchase Universal DVDs.<sup>61</sup> Redbox began buying Universal titles in bulk from retail stores such as Wal-Mart and Best Buy.<sup>62</sup> These efforts were disrupted when, in some instances, retailers canceled orders made by Redbox or refused to sell more than five copies of an individual Universal title to Redbox personnel.<sup>63</sup> On one occasion, a Redbox employee was escorted from the store for committing the crime of trying to buy more than five copies of a Universal DVD.<sup>64</sup> Universal denied orchestrating a boycott against Redbox and said it never demanded that retailers limit the sales of its DVDs to Redbox.<sup>65</sup>

Redbox filed suit against Twentieth Century Fox in August 2009, alleging identical causes of action.<sup>66</sup> Since October of 2009, Fox has withheld its DVDs from Redbox for thirty days from the initial release

55. *Id.*

56. Redbox Automated Retail, LLC v. Universal Studios Home Entm't, LLC, No. 08-766 (RBK), 2009 WL 2588748, at \*2 (D. Del. Aug. 17, 2009).

57. 2008 Complaint, *supra* note 2, ¶ 46.

58. *Id.* ¶ 2.

59. *Id.* ¶ 69.

60. *Id.* ¶ 52.

61. First Amended Complaint at ¶ 49, Redbox Automated Retail, LLC v. Universal Studios Home Entm't, LLC, No. 08-766-RBK, 2009 WL 274259 (D. Del. Jan. 22, 2009).

62. *Id.* ¶ 50.

63. *Id.*

64. *Id.*

65. See Julie Wernau, *Hollywood Battles with Redbox*, THE NEWS TRIBUNE, Oct. 24, 2009, available at <http://www.videobusiness.com/article/CA6687061.html>.

66. Chmielewski & Fritz, *supra* note 5.



date.<sup>67</sup> Fox responded to allegations of copyright abuse by accusing Redbox of challenging Fox's ability to make "business decisions" which affect consumers.<sup>68</sup> Redbox President Mitch Lowe countered that the studios stand to make more money by granting Redbox immediate access to newly released titles because Redbox, through its unique business model, has attracted a profitable new revenue stream for the studios.<sup>69</sup>

Not long after filing suit against Fox, Redbox filed suit against Warner Home Video for imposing a twenty-eight day restriction on newly released Warner movies.<sup>70</sup> Under the twenty-eight day "blackout" imposed by Warner, several summer hits would not be available during the peak rental time of the winter holidays.<sup>71</sup> Redbox alleged that Warner, by coercing the distributors who have already purchased<sup>72</sup> the DVDs to supply to Redbox, is abusing its copyright contrary to the public policy embedded in the copyright grant.<sup>73</sup>

Worth mentioning is how some of the other Hollywood studios have embraced Redbox and its business model, as opposed to undermining it. Perhaps, recognizing that Redbox is "the hot new face"<sup>74</sup> in the entertainment industry, Sony Pictures signed a five-year deal with Redbox in July 2009 worth \$460 million.<sup>75</sup> Lions Gate signed a similar deal with Redbox in August 2009, worth \$158 million.<sup>76</sup> Under the terms of that deal, Redbox will have access to Lions Gate's movies the day they are released for home viewing, but Redbox must destroy the DVDs when it is finished renting them.<sup>77</sup> Paramount Pictures recently signed a whopping \$575 million deal with Redbox, whereby Paramount would guarantee Redbox access to its newly released titles through the end of the year with an option to extend for five more years.<sup>78</sup> Though Walt Disney Studios does not have a formal

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67. *Id.*

68. *Id.*

69. *Id.*

70. See Dawn C. Chmielewski, *Redbox Files Third Suit over DVD Restrictions*, L.A. TIMES, Aug. 20, 2009, at B3.

71. 2009 Complaint, *supra* note 6, ¶ 35.

72. *Id.* ¶¶ 41-45.

73. *Id.*

74. Goldstein, *supra* note 22.

75. Fritz, *supra* note 12.

76. *Id.*

77. *Id.*

78. See Ben Fritz, *Paramount to Give Redbox a Spin*, L.A. TIMES, Aug. 26, 2009, at B1, available at <http://articles.latimes.com/2009/aug/26/business/fi-ct-redbox26/2>.

deal with Redbox, Redbox is permitted to offer Disney movies without interference.<sup>79</sup>

The copyright misuse causes of action against Universal were recently dismissed.<sup>80</sup> It is likely that the copyright misuse claims in the other pending litigation with the other studios will be dismissed too, since those cases are pending in the District of Delaware,<sup>81</sup> which is the same district where Redbox sued Universal.<sup>82</sup> Universal successfully persuaded the judge that the copyright misuse doctrine is limited to an affirmative defense and not an affirmative cause of action.<sup>83</sup> Though this may be the current state of the doctrine in the circuits that have recognized it, some case law supports the argument that misuse may also be a cause of action in addition to a defense to an infringement claim.<sup>84</sup>

## II. COPYRIGHT MISUSE

### A. *Copyright Protection in General*

Before discussing the copyright misuse doctrine, a brief description of copyright in general is appropriate. The United States Constitution grants Congress the power “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”<sup>85</sup> Congress has codified its constitutional power by statute.<sup>86</sup> The intellectual property system provides an incentive for authors and inventors to be creative and to distribute their works to the public.<sup>87</sup> The incentives are in the form of limited monopolies, such as copyright protection.<sup>88</sup> As a result, the public is well served as it will reap the

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79. *Id.*

80. *See* Tribbey, *supra* note 7.

81. *See* 2009 Complaint, *supra* note 6; *see also* Chmielewski & Fritz, *supra* note 5 (stating that Redbox filed suit against Fox Studios in federal court in Delaware).

82. *See* 2008 Complaint, *supra* note 2.

83. Brief, *supra* note 11.

84. *See* Apple, Inc. v. Psystar Corp., No. 08-03251, 2009 U.S. Dist. LEXIS 14370 (N.D. Cal. Feb. 6, 2009); *see also* Open Source Yoga Unity v. Choudhury, No. 03-3182, 2005 U.S. Dist. LEXIS 10440 (N.D. Cal. Apr. 1, 2005).

85. U.S. CONST. art. I, § 8, cl. 8.

86. *See* 17 U.S.C. § 101-1332 (2009).

87. Neal Hartzog, *Gaining Momentum: A Review of Recent Developments Surrounding the Expansion of the Copyright Misuse Doctrine and Analysis of the Doctrine in Its Current Form*, 10 MICH. TELECOMM. TECH. L. REV. 373, 374 (2004).

88. *Id.*

benefits of the artist or innovator's creation, leading to a betterment of society.<sup>89</sup>

A copyright grants its owner the right to reproduce, distribute to the public, perform publicly, display publicly, and prepare derivative works of the copyrighted work.<sup>90</sup> The copyright will protect a work of authorship fixed in any "tangible medium of expression," and it lasts for the life of the author plus seventy years.<sup>91</sup> Although it is important to grant intellectual property rights to the author or creator of a novel creation, the public policy embedded in the copyright and other intellectual property laws requires limiting those intellectual property rights to the minimum necessary to "spur the creation and dissemination of inventions and works of authorship" to the public.<sup>92</sup> As the Supreme Court expressed in the landmark copyright case *Feist Publications, Inc. v. Rural Telephone Service Co.*,<sup>93</sup> "[t]he principal objective of copyright is not to reward the labor of authors, but to 'promote the Progress of Science and useful Arts.'"<sup>94</sup>

### B. Copyright Misuse

Copyright misuse is an evolving common law doctrine.<sup>95</sup> As the doctrine exists now, misuse may only be asserted as an affirmative defense to a copyright infringement claim.<sup>96</sup> It may not be asserted as an affirmative cause of action or an independent tort.<sup>97</sup> The misuse defense "derives from the equitable doctrine of unclean hands."<sup>98</sup> The misuse defense has only recently been extended to copyright actions.<sup>99</sup> Prior to that, misuse was available as a defense in patent infringement cases.<sup>100</sup> Thus, the misuse doctrine has been created "piecemeal."<sup>101</sup>

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89. *Id.*

90. *Id.* at 376-77.

91. *See id.* at 377 (citing 17 U.S.C. §§ 102, 302 (2009)).

92. *Id.* at 377.

93. 499 U.S. 340 (1991).

94. *Id.* at 349.

95. Brett Frischmann & Dan Moylan, *The Evolving Common Law Doctrine of Copyright Misuse: A Unified Theory and Its Application to Software*, 15 BERKELEY TECH. L.J. 865, 870 (2000).

96. MELVILLE B. NIMMER & DAVID NIMMER, 4-13 NIMMER ON COPYRIGHT § 13.09[A][2], 13-299-300 (2009).

97. *Id.*

98. Frischmann & Moylan, *supra* note 95, at 867 (internal quotations omitted).

99. *Id.* at 868.

100. *See id.* at 868 (noting that the Supreme Court established the patent misuse doctrine in 1942 in the pivotal case *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942)).

101. *Id.*

Nevertheless, the doctrine is subject to extensive debate and is quite controversial.<sup>102</sup> Perhaps much of the controversy is based on the fact that the Supreme Court has not yet expressly addressed the issue or expressed its approval of the doctrine in a copyright setting.<sup>103</sup> Adding to the controversy is the fact that Congress has not yet statutorily codified the misuse defense or defined its contours.<sup>104</sup>

The first court<sup>105</sup> to officially recognize the misuse defense in a copyright setting was the Fourth Circuit in *Lasercomb America, Inc. v. Reynolds*.<sup>106</sup> In that case, the plaintiff and defendant were competitors in the manufacture of steel rule dies used to cut and score paper and cardboard for producing boxes and cartons.<sup>107</sup> Lasercomb created a software program which digitally projected a template of the cardboard on a computer screen, which would then enable the mechanized creation of conforming steel rule dies.<sup>108</sup> Lasercomb licensed its software to Reynolds,<sup>109</sup> but required that Reynolds agree to restrict itself from creating any of its own die-making software.<sup>110</sup> Subsequently, Reynolds created its own software program, which was a direct duplicate of Lasercomb's software.<sup>111</sup> Once Lasercomb discovered that Reynolds created a replica of its software, Lasercomb filed suit for copyright infringement.<sup>112</sup>

In the suit, Reynolds defended on the grounds that Lasercomb misused its copyright by impermissibly restricting its licensees from attempting to create their own die-making software.<sup>113</sup> The Fourth Circuit engaged in a lengthy analysis questioning whether a copyright misuse defense even existed, ultimately concluding that it did.<sup>114</sup> In concluding that a copyright misuse defense was available, the Fourth Circuit relied on the parallel public policy shared by both patents and

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102. Sean Michael Aylward, *Copyright Law: The Fourth Circuit's Extension of the Misuse Doctrine to the Area of Copyright: A Misuse of the Misuse Doctrine?*, 17 DAYTON L. REV. 661, 670 (1992).

103. *Id.*

104. See Victoria Smith Ekstrand, *Protecting the Public Policy Rationale of Copyright: Reconsidering Copyright Misuse*, 11 COMM. L. & POL'Y 565, 587 (2006) (noting that the time "may be ripe" for Congress to better define the basis for a copyright misuse defense).

105. Hartzog, *supra* note 87, at 378.

106. 911 F.2d 970 (4th Cir. 1990).

107. *Id.* at 971.

108. *Id.*

109. *Id.*

110. *Id.* at 972.

111. *Id.* at 971.

112. *Id.* at 972.

113. *Id.*

114. *Id.* at 977.

copyrights.<sup>115</sup> The Court analogized from the Supreme Court decision in *Morton Salt Co. v. G.S. Suppiger*,<sup>116</sup> a monumental patent case in which the patent misuse defense was first recognized.<sup>117</sup>

*Morton* involved a patented salt-depositing machine.<sup>118</sup> While Morton had a patent for its machine, it did not have a patent for the salt tablets used in its machine.<sup>119</sup> Nevertheless, Morton required its licensees to use only salt tablets that it produced.<sup>120</sup> In finding that Morton's licensing requirement constituted misuse of its patent, the Supreme Court noted that

The grant to the inventor of the special privilege of a patent monopoly carries out a public policy adopted by the Constitution and laws of the United States 'to promote the Progress of Science and useful Arts, by securing for limited Times to Inventors the exclusive Right to their new and useful' inventions. . . . But the public policy, which includes inventions within the granted monopoly, excludes from it all that is not embraced in the invention. It equally forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office and which it is contrary to public policy to grant.<sup>121</sup>

Thus the public policy rationale is a common underpinning of the misuse doctrine, and is a common element shared by both *Lasercomb* and *Morton*.

In the words of one prominent scholar, *Lasercomb* "blazed a new trail."<sup>122</sup> Four Circuit Courts of Appeal now recognize the copyright misuse doctrine.<sup>123</sup> Following *Lasercomb*, the Ninth Circuit was the next circuit to adopt the copyright misuse doctrine.<sup>124</sup> The Ninth Circuit adopted the doctrine in *Practice Management Information Corp. v. American Medical Ass'n*.<sup>125</sup> The case involved a licensing provision that restricted competition.<sup>126</sup> The American Medical Association (AMA)

115. See *id.* at 975 (noting that the public policy behind the grant of copyright and patent powers is essentially the same).

116. 314 U.S. 488 (1942), *overruled on other grounds by* *Illinois Tool Works, Inc. v. Independent Ink, Inc.*, 547 U.S. 28 (2006).

117. See *Lasercomb America, Inc.*, 911 F.2d at 975 (4th Cir. 1990) (noting that most commentators point to *Morton Salt* as the foundational patent misuse case).

118. *Morton Salt Co.*, 314 U.S. at 489.

119. See *id.* at 490-92.

120. *Id.* at 492.

121. *Id.*

122. NIMMER & NIMMER, *supra* note 96, at 13-298.

123. Ekstrand, *supra* note 104, at 569.

124. Hartzog, *supra* note 87, at 385.

125. 121 F.3d 516 (9th Cir. 1997).

126. See *id.* at 520-21.

contracted with the Health Care Financing Administration (HCFA), granting it a license to copy, publish, and distribute a unique coding system used for medical procedures.<sup>127</sup> The coding system became known as “CPT.”<sup>128</sup> However, the AMA conditioned its license granted to the HCFA on the latter’s agreement not to use any other coding system.<sup>129</sup> Practice Management, a publisher and distributor of medical books, sought to purchase copies of the CPT from AMA for resale.<sup>130</sup> When it failed to obtain the volume discount it requested, it sought a declaratory judgment that the AMA misused its copyright by making the HCFA agree to use the CPT exclusively.<sup>131</sup> The Ninth Circuit concluded that the AMA’s attempts to prohibit HCFA from using any other coding system constituted a misuse of AMA’s copyright over the coding system.<sup>132</sup> In reaching its conclusion, the court placed heavy emphasis on the public policy rationale, which underlies copyright law.<sup>133</sup> The Ninth Circuit followed the logic of the Fourth Circuit in *Lasercomb* almost in its entirety.<sup>134</sup> Interestingly, the court allowed the copyright misuse action to proceed in an affirmative manner, as opposed to limiting it to a defense.<sup>135</sup>

The Fifth Circuit adopted the copyright misuse doctrine in *Alcatel USA, Inc. v. DGI Technologies, Inc.*<sup>136</sup> Alcatel’s predecessor company, DSC Communications Corporation, developed switching equipment for use in routing telephone calls and was granted a copyright for the software which controlled the equipment.<sup>137</sup> Alcatel licensed the use of its software to its competitors, but would only authorize its competitors to use its software with equipment manufactured by Alcatel.<sup>138</sup> The license further prohibited licensees from downloading or copying Alcatel’s software.<sup>139</sup> DGI produced electronic cards that would be added to the switching equipment to enable expanded call-handling

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127. *Id.* at 517.

128. *Id.*

129. *Id.* at 520-21.

130. *Id.* at 518.

131. *Id.*

132. *Id.* at 521.

133. *See id.* (applying a non-antitrust analysis of the copyright misuse doctrine); *see also* Hartzog, *supra* note 87, at 385.

134. Hartzog, *supra* note 87, at 385.

135. *Practice Mgmt. Info. Corp.*, 121 F.3d at 518 (noting Practice Management’s appeal in an action for declaratory relief).

136. 166 F.3d 772 (5th Cir. 1999).

137. *Id.* at 777.

138. *Id.*

139. *Id.*

ability over the switches.<sup>140</sup> To ensure compatibility with Alcatel's switches, DGI downloaded and copied Alcatel's software in violation of Alcatel's licensing agreement.<sup>141</sup> Alcatel sued DGI for copyright infringement, and DGI asserted the copyright misuse defense.<sup>142</sup> The Fifth Circuit found that the terms of DSC's license to DGI effectively prevented DGI from developing its own product because it was not technically feasible to use a non-DSC operating system to install the electronic cards used to expand the network's ability to handle telephone calls.<sup>143</sup> This case is an "illustrative example" of a copyright owner exceeding the scope of the copyright grant to gain a monopoly, which is a misuse of the copyright.<sup>144</sup>

In 2003, two more circuits recognized copyright misuse: The Seventh Circuit in *Assessment Technologies of WI, LLC v. Wiredata, Inc.*,<sup>145</sup> and the Third Circuit in *Video Pipeline, Inc. v. Buena Vista Home Entertainment, Inc.*<sup>146</sup> *Assessment Technologies* was another case involving computer software.<sup>147</sup> *Assessment Technologies* developed a copyrighted computer program used to compile information obtained by property value assessors.<sup>148</sup> The data compiled by the assessor would be automatically allocated into different categories, which would later be used by the municipality's tax officials.<sup>149</sup> *Wiredata*, a subsidiary of the Multiple Listing Services, wished to obtain the information obtained by the assessor using the copyrighted computer program.<sup>150</sup> After *Wiredata* requested the information, several municipalities refused to furnish the data for fear of violating *Assessment Technologies'* copyright.<sup>151</sup> *Wiredata* sued in state court to compel the release of the information, and *Assessment Technologies* followed by suing in federal court to enforce its copyright.<sup>152</sup> The court summarized *Assessment Technologies'* conduct, noting "[t]his case is about the attempt of a copyright owner to use copyright law to block access to data that not

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140. *Id.* at 777-78.

141. *Id.* at 778.

142. *Id.* at 792.

143. *Id.* at 794.

144. Hartzog, *supra* note 87, at 386-87.

145. 350 F.3d 640 (7th Cir. 2003).

146. 342 F.3d 191 (3d Cir. 2003).

147. *See Assessment Technologies of WI, LLC v. Wiredata, Inc.*, 350 F.3d 640, 641-42 (7th Cir. 2003) (noting how *Assessment Technologies* copyrighted a computer program).

148. *Id.* at 642.

149. *Id.* at 642-43.

150. *Id.* at 642.

151. *Id.*

152. *Id.*

only are neither copyrightable nor copyrighted, but were not created or obtained by the copyright owner.”<sup>153</sup> The court found that the data in the tax-assessment databases were beyond Assessment Technologies’ copyright.<sup>154</sup> As such, Assessment Technologies could not by contract prevent the municipalities from revealing the information to Wiredata; its attempts to do so were a misuse of Assessment Technologies’ copyright.<sup>155</sup>

In *Video Pipeline, Inc. v. Buena Vista Home Entertainment, Inc.*,<sup>156</sup> the plaintiff, Video Pipeline, Inc., compiled movie trailers onto videotape for home video retailers to display in their stores.<sup>157</sup> It had an agreement with Disney allowing it to compile over 500 trailers for Disney movies.<sup>158</sup> When Video Pipeline began posting trailers online, Disney requested that Video Pipeline remove the trailers from the internet because they were not covered under Disney’s license agreement with Video Pipeline.<sup>159</sup> Video Pipeline complied, but it sued seeking a declaratory judgment that its online use of the trailers did not violate Disney’s copyright.<sup>160</sup> After Video Pipeline removed the Disney trailers from its website, it copied approximately two minutes from each of at least sixty-two Disney movies to create its own clip previews of the movies.<sup>161</sup> Video Pipeline sought to use the copied clips on its website, so it amended its complaint to seek a declaratory judgment allowing it to use the clips.<sup>162</sup> Disney, which owned Buena Vista, counterclaimed for copyright infringement.<sup>163</sup> The District Court entered a preliminary injunction prohibiting Video Pipeline from posting the copied Disney clips.<sup>164</sup> Video Pipeline appealed, contending that Disney misused its copyright, arguing that certain provisions of Disney’s licensing agreement sought to suppress criticism of Disney’s movies through the use of Disney’s copyright.<sup>165</sup> The court noted that the Supreme Court has yet to affirmatively recognize the copyright misuse doctrine.<sup>166</sup> The

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153. *Id.* at 641.

154. *Id.* at 647.

155. *Id.* at 646-47.

156. 342 F.3d 191 (3d Cir. 2003).

157. *Id.* at 194-95.

158. *Id.* at 195.

159. *Id.*

160. *Id.*

161. *Id.*

162. *Id.* at 196.

163. *Id.*

164. *Id.*

165. *Id.* at 203.

166. *Id.*



court did note that the purpose of copyright is to promote the creation and publication of free expression and any harm caused by the copyright holder's misuse undermines the usefulness of the copyright.<sup>167</sup> But the court did not agree that Disney's conduct interfered with creative expression to such a degree that it undermined the public policy underlying copyright law.<sup>168</sup> The court officially recognized the copyright misuse doctrine, but Video Pipeline's attempts to utilize the doctrine failed.<sup>169</sup> *Video Pipeline* was also significant because it was decided in the circuit where Redbox sued all three movie studios.<sup>170</sup> Universal relied on *Video Pipeline* in its motion to dismiss Redbox's copyright misuse claims, arguing that misuse is a defense, not a claim.<sup>171</sup> The above cases reflect the current status of the copyright misuse doctrine in the circuit courts of appeal. There is some indication that the district courts have grappled with the doctrine as well, though those cases will not be examined significantly in this Comment.<sup>172</sup>

### C. *The First Sale Doctrine*

Redbox alleged Universal's conduct violated the first sale doctrine.<sup>173</sup> Specifically, Redbox pointed to Universal's attempts to prohibit the third party distributors from supplying Redbox with Universal's DVDs if Redbox did not agree to Universal's demands.<sup>174</sup> The first sale doctrine is codified in 17 U.S.C § 109(a).<sup>175</sup> The language of the statute reads, "the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord."<sup>176</sup>

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167. *Id.* at 204.

168. *Id.* at 206.

169. *Id.*

170. See generally 2008 Complaint, *supra* note 2; see also 2009 Complaint, *supra* note 6 (showing both cases filed in the District of Delaware, in the Third Circuit).

171. Brief of Defendant, *supra* note 11, at 8; see also Redbox Automated Retail, LLC v. Universal Studios Home Entm't, LLC, No. 08-766 (RBK), 2009 WL 2588748, at \*4 (D. Del. Aug. 17, 2009) (noting how, in the Third Circuit, misuse is viewed as a defense, not a claim).

172. See Hartzog, *supra* note 87, 396-99 (noting different cases in the district courts which have applied the copyright misuse doctrine).

173. 2008 Complaint, *supra* note 2, ¶ 50. Similar allegations were lodged against Warner; see 2009 Complaint, *supra* note 6, at 41.

174. 2008 Complaint, *supra* note 2, ¶ 51.

175. "Limitations on exclusive rights: Effect of transfer of particular copy or phonorecord." 17 U.S.C § 109(a).

176. 17 U.S.C. § 109(a) (2009).

The statutory privilege imparted by the first sale doctrine was first codified in § 27 of the Copyright Act of 1909,<sup>177</sup> following the 1908 Supreme Court decision of *Bobbs-Merrill Co. v. Straus*.<sup>178</sup> That case concerned a copyright owner's right to "vend" copyrighted material.<sup>179</sup> The Supreme Court held that the exclusive right to vend was applicable only to the initial sale of the copyrighted item.<sup>180</sup> Though the codification of the doctrine is nearly a century old, the language of the statute has proven quite resilient; much of the modern statute's provisions are modeled closely after the initial codification.<sup>181</sup>

The Third Circuit analyzed the first sale doctrine in *Columbia Pictures Industries, Inc. v. Redd Horne, Inc.*<sup>182</sup> Redd Horne operated stores where customers could rent viewing rooms to watch movies.<sup>183</sup> A store employee would place a videocassette into the videocassette machine, which would transmit the motion picture to a screen located in the viewing room.<sup>184</sup> Redd Horne advertised its services on local radio stations and in newspapers.<sup>185</sup> The advertisements did not inform customers that the movies were videocassette copies.<sup>186</sup> Columbia Pictures sued, alleging Redd Horne's services violated the exclusive statutory right of a copyright holder to perform the copyrighted work publicly.<sup>187</sup> Redd Horne countersued, alleging Columbia Pictures' efforts to prevent Redd Horne from continuing to offer its services violated the first sale doctrine.<sup>188</sup> The court explained that "ownership of the material object[s] is distinct from ownership of the copyright in [the video cassettes]."<sup>189</sup> The court explained further that "the transfer of the video cassettes to [Redd Horne] did not result in forfeiture or waiver of all of the exclusive rights found in [the Copyright Act]."<sup>190</sup> The mere fact that the videocassettes left Columbia Pictures' possession

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177. Henry Sprott Long III, *Commentary: Reconsidering the "Balance" of the "Digital First Sale" Debate: Re-Examining the Case for a Statutory Digital First Sale Doctrine to Facilitate Second-Hand Digital Media Markets*, 59 ALA. L. REV. 1183, 1186 (2008).

178. 210 U.S. 339 (1908).

179. *Long III, supra* note 177.

180. *Bobbs-Merrill Co.*, 210 U.S. at 350-51 (1908).

181. *Long III, supra* note 177.

182. 749 F.2d 154 (3d Cir. 1984).

183. *Id.* at 156-57.

184. *Id.* at 157.

185. *Id.*

186. *Id.*

187. *See Id.* at 158 (citing 17 U.S.C. § 106(4)).

188. *Columbia Pictures Indus., Inc.*, 749 F.2d at 159-60 (3d Cir. 1984).

189. *Id.* at 159.

190. *Id.* at 160.

did not preclude it from suing for violation of its exclusive rights to control the public performance of the copyrighted video cassettes.<sup>191</sup> Therefore, notwithstanding the first sale doctrine, Columbia Pictures successfully proved that Redd Horne had infringed its copyright.<sup>192</sup>

### III. THE STUDIOS VIOLATING THE FIRST SALE DOCTRINE

#### A. *The Studios Circumventing the First Sale Doctrine Constitutes Copyright Misuse*

The respective movie studios' efforts to coerce Redbox into signing revenue sharing agreements are reprehensible. After angrily watching from the sidelines how Redbox achieved phenomenal success in the home entertainment market, Universal representatives, including an in-house lawyer, made a surprise visit to Redbox's Illinois headquarters.<sup>193</sup> There, Universal threw its demands on the table: sign the revenue sharing agreement and give us a piece of the (substantial) pie, or pay the consequences.<sup>194</sup> The consequences, as presented by Universal, would be Universal's demands to its third-party distributors to stop the supply of Universal's DVDs to Redbox.<sup>195</sup> While these efforts to punish Redbox are shocking enough, they do not offend the first sale doctrine, though they might violate antitrust laws.<sup>196</sup>

What offends the first sale doctrine is the fact that Redbox had *already purchased* Universal movie titles from the distributors when Universal enacted its boycott of Redbox.<sup>197</sup> But for Universal's scheme to deprive Redbox of copyrighted Universal DVDs, Redbox would have continued to have access to the DVDs it purchased from the distributors.<sup>198</sup> Because of Universal's dominant position in the entertainment industry, the distributors have been forced to acquiesce to Universal's unusual demands.<sup>199</sup> Universal's unlawful coercion of the

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191. *Id.*

192. *Id.*

193. 2008 Complaint, *supra* note 2, ¶ 37.

194. *See id.*

195. *Id.* ¶ 40.

196. *See, e.g.,* Redbox Automated Retail, LLC v. Universal Studios Home Entm't, LLC, No. 08-766 (RBK), 2009 WL 2588748, at \*4 (D. Del. Aug. 17, 2009); *see also* Tribbey, *supra* note 7 (noting that Redbox's copyright misuse claims against Universal were dismissed, but the antitrust claims "sufficiently pleaded the illegality of Universal's actions . . .").

197. *See* First Amended Complaint, *supra* note 61, ¶ 33.

198. Complaint ¶¶ 80-82, Redbox Automated Retail, LLC v. Universal Studios Home Entm't, LLC, 2008 WL 4600432 (no:1:08-cv-00766-UNA) (D. Del. Oct. 10, 2008).

199. First Amended Complaint, *supra* note 61, at 48.

distributors has directly created a situation where Redbox's orders of Universal DVDs, pursuant to its contracts with the distributors, have not been honored.<sup>200</sup> This violates the plain language of the first sale doctrine, which reads, "the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled *without the authority of the copyright owner*, to sell or otherwise dispose of the possession of that copy or phonorecord."<sup>201</sup> As such, Universal's conduct amounts to copyright misuse because it is using its presumed statutory right to circumvent the limits of the first sale doctrine. As applied to the Redbox case, once Redbox has bought DVDs from the distributors, who in turn have bought the DVDs from the studios, the studios do not have any authority or ownership over those DVDs whatsoever.

Warner and Fox are guilty of violating the first sale doctrine on the same grounds. Warner's threatening demands that Redbox share its profit or else pay the penalty of restricted access to Warner DVDs by way of a twenty-eight day blackout thwart the first sale doctrine. The doctrine is violated because Warner is interfering with the distributor's rights to sell or otherwise dispose of the Warner DVDs that the distributors *have already purchased* from Warner and which Redbox has purchased from the distributors.<sup>202</sup> All three studios appear to be using their power in the industry to illegally force the distributors to cease supplying Redbox with DVDs it has bought.<sup>203</sup>

Although Redbox President Mitch Lowe insisted that his company would be able to stock the kiosks with new DVD titles despite the studios' boycott, some industry researchers concluded otherwise.<sup>204</sup> In response to the studios' boycott, Redbox was forced to buy the DVDs at retail stores.<sup>205</sup> These researchers say that Fox surveilled Redbox kiosks in thirty-five states, monitoring the company's ability to withstand the boycott.<sup>206</sup> Of the approximately 1000 kiosks Fox monitored, the Fox title *Ice Age: Dawn of the Dinosaurs* was missing from most kiosks the day after its release; it was only available in about 5% of the surveyed

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200. *Id.*

201. 17 U.S.C. § 109(a) (2009).

202. 2009 Complaint, *supra* note 6, ¶¶ 53-54.

203. See Chmielewski & Fritz, *supra* note 5; see also 2008 Complaint, *supra* note 2.

204. Michael Cieply, *Studios Spying on Redbox Kiosks*, N.Y. TIMES, Nov. 17, 2009, available at <http://mediacoder.blogs.nytimes.com/2009/11/17/studios-spying-on-redbox-kiosks/>.

205. Posting of Shane Smith, Analyst: *Redbox Beginning to Feel the Pain from Delayed Titles*, available at <http://www.insideredbox.com/analyst-redbox-beginning-to-feel-pain-from-delayed-titles/> (Dec. 1, 2009).

206. Cieply, *supra* note 204.

kiosks.<sup>207</sup> Meanwhile, 94% of the kiosks carried *Transformers 2*, a Paramount Pictures title, and 88% carried *The Proposal*, a Disney film.<sup>208</sup> Paramount has a lucrative deal with Redbox and Redbox has full access to Disney movies.<sup>209</sup> While the figures are not exact, they do suggest that the studios' bullying noticeably impacted Redbox. Mr. Lowe conceded that the studios' browbeating caused Redbox some strain as it tried to jump through hoops to work around the boycott and obtain new DVD titles.<sup>210</sup> Lowe admitted that the situation was not "the prettiest picture."<sup>211</sup> And in light of Redbox's recent settlement with Warner, it is apparent that Lowe was probably bluffing all along.<sup>212</sup> Warner, using its industry power, effectively pounded Redbox into submission, walked away \$124 million richer and "convinced" Redbox to agree to a twenty-eight day blackout.<sup>213</sup>

The studios' response to Redbox's accusations of copyright abuse distract from the complex issues at hand. Fox, for example, responded to Redbox's claims with an accusation of its own, charging Redbox with challenging Fox's discretion to make business decisions that affect consumers.<sup>214</sup> Fox's purported goal of placing the consumer first would be honorable, if it were really true. How the consumer is in any way better served by a studio-mandated, forced blackout period of at least thirty days is unknown.<sup>215</sup> Presumably, the studios seek to make it more likely that consumers will buy a newly-released DVD instead of renting one. This is because, traditionally, the studios profit more from DVD sales than they do from DVD rentals.<sup>216</sup> So, the thinking goes, by mandating a blackout on companies like Redbox, an impatient consumer will dole out the cash and buy a DVD instead of waiting a few weeks to rent it. But this thinking ignores recent trends in home entertainment.<sup>217</sup> Consumers are just not buying DVDs like they used to.<sup>218</sup> Furthermore, the boycotting studios' timing is suspicious: they only enacted their

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207. *Id.*

208. *Id.*

209. Fritz, *supra* note 78.

210. "Q&A with Redbox's Mitch Lowe," [http://www.hollywoodreporter.com/hr/content\\_display/features/interviews\\_profiles/e3i57734942e3ef850ebd3b66d8324edf04/](http://www.hollywoodreporter.com/hr/content_display/features/interviews_profiles/e3i57734942e3ef850ebd3b66d8324edf04/).

211. *Id.*

212. *See* Fritz, *supra* note 8 (explaining how Redbox could not withstand Warner's boycott).

213. *Id.*

214. Chmielewski & Fritz, *supra* note 5.

215. *See id.*

216. Goldstein, *supra* note 22.

217. *Id.*

218. *Id.*

boycotts once Redbox achieved its great success.<sup>219</sup> The suspicious timing indicates that the studios merely wanted a piece of the pie for *themselves*. The *consumer* argument is a farce.

This does not mean that the studios are prohibited from making legitimate business decisions. Had the studios not already sold any DVDs to the distributors, nothing would stop the studios from exercising business judgment on where those DVDs may go.<sup>220</sup> That would include declining to permit the distributors from supplying Redbox. But as the *Redd Horne* court put it, “ownership of the material object[s] is distinct from ownership of the copyright in [the video cassettes].”<sup>221</sup> The point of this discussion is that once the studios sold their DVDs to the distributors, the studios no longer owned the DVDs. Thus, the studios’ interference with the distributor’s chain of supply violates the first sale doctrine.

If the studios truly cared about the consumer, they would embrace Redbox for its unparalleled ability to provide them with a profitable new revenue stream.<sup>222</sup> Executives at Fox, Universal, and Warner should just ask their competitors at Sony, Paramount, Lions Gate, and most recently Summit Entertainment, what the benefits of this new revenue stream are.<sup>223</sup> One of those benefits is undoubtedly a happier consumer who has more access to newly released DVDs available for home rental.<sup>224</sup> The studios should take note: the happier consumer is the result of studios dealing *with* Redbox, not dealing *against* Redbox by abusing their copyrights.

### B. *The Public Policy Rationale of Copyright Misuse*

A major theme underlying copyright misuse cases is the public policy approach.<sup>225</sup> Violation of the public policy rationale of misuse is usually triggered when the copyright holder somehow extends the scope of its copyright.<sup>226</sup> In other words, to establish misuse, the inquiry is

219. See 2008 Complaint, *supra* note 2; see also 2009 Complaint, *supra* note 6.

220. See Hartzog, *supra* note 87; see also 2008 Complaint, *supra* note 2 (showing Redbox’s allegations focused on the fact that it had already purchased the DVDs from its distributors and this defeated the studios’ claims).

221. Columbia Pictures Indus., Inc., v. Redd Horne, Inc., 749 F.2d 154, 159 (3d Cir. 1984).

222. Chmielewski & Fritz, *supra* note 5.

223. See Brooks Barnes, *Summit Signs Two-Year Distribution Deal With Redbox*, N.Y. TIMES, Nov. 2, 2009, available at <http://mediadecoder.blogs.nytimes.com/2009/11/02/summit-signs-two-year-distribution-deal-with-redbox/> (describing Redbox’s deal with Summit Entertainment).

224. See Cieply, *supra* note 204.

225. See Hartzog, *supra* note 87, at 401-05.

226. See Lasercomb America, Inc. v. Reynolds, 911 F.2d 970, 977 (4th Cir. 1990).

whether the copyright holder is attempting to secure an exclusive right or limited monopoly not granted by the Copyright Office, and which it is contrary to public policy to grant.<sup>227</sup> In *Lasercomb*, the first case where copyright misuse was applied, the plaintiff's attempts to use its copyright over its software to prevent other companies from developing similar software was an illegal abuse of the plaintiff's copyright.<sup>228</sup> The same reasoning was applied in *Morton*, in a patent setting.<sup>229</sup> In *Practice Management*, the court applied virtually the same analysis, ultimately concluding that the AMA misused its copyright by extending the scope of its copyright via its licensing agreement.<sup>230</sup>

As discussed *supra*, Congress has not yet codified the copyright misuse doctrine.<sup>231</sup> Congress' failure to provide guidance on this issue has created confusion for the courts that have tried to apply the misuse doctrine, and has resulted in extensive controversy and debate.<sup>232</sup> The Supreme Court has never expressed an opinion on copyright misuse, leading the circuit courts to come up with their own justifications as they have developed the doctrine.<sup>233</sup> Nevertheless, several scholars offer support of the doctrine based on the public policy rationale.<sup>234</sup> There is some concern among these scholars that misuse predicated on a public policy rationale could invite willful infringers who face no injury to recklessly assert the defense.<sup>235</sup> However, the following proposal would eliminate this concern.

*C. Proposal: Public Policy Warrants Extending Misuse into an Affirmative Cause of Action*

As misuse exists now, it is available as a defense to an infringement action, not as an independent tort.<sup>236</sup> Based on the public policy approach of copyright misuse, the doctrine should be extended to allow for an affirmative cause of action when a party faces coercive behavior, much like Redbox faced when it received threats from Universal, and later Warner and Fox. Under this proposal, it would be vital to deter

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227. *Id.* (quoting *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488, 492 (1942)).

228. *Lasercomb America, Inc.*, 911 F.2d at 978.

229. *Morton Salt Co.*, 314 U.S. at 491 (1942).

230. *Practice Mgmt. Info. Corp. v. Am. Med. Ass'n.*, 121 F.3d 516, 521 (9th Cir. 1997).

231. Ekstrand, *supra* note 104.

232. Aylward, *supra* note 102.

233. See Frischmann & Moylan, *supra* note 95, at 870 (showing that misuse doctrine has been developed "piecemeal").

234. Ekstrand, *supra* note 104, at 576.

235. *Id.* at 575.

236. NIMMER & NIMMER, *supra* note 96.

reckless application of misuse as a sword (as opposed to a shield). Therefore, the cause of action should be limited to the context of declaratory judgment when a party has reason to believe it will face coercive conduct through the use of another party extending the scope of its copyright. This is the course of action Redbox took: once it felt threatened by Universal's behavior, and it reasonably anticipated an imminent and continuing violation of the first sale doctrine, it filed suit seeking a declaratory judgment that Universal had misused its copyright.<sup>237</sup> If misuse is found in a certain context, the next step would be to enjoin the imminent violative conduct. This would prevent powerful companies like Universal from following through on its threats to thwart the first sale doctrine when smaller companies like Redbox refuse to give in to the playground bully. The public is now well aware of Redbox's surrender to Warner.<sup>238</sup> We may never know if that bully will be stopped in the future.

Misuse in the context of declaratory relief is not unprecedented. For example, in *Open Source Yoga Unity v. Choudhury*,<sup>239</sup> the plaintiff sought a declaration that the defendant did not have a valid copyright in a series of yoga exercises.<sup>240</sup> The court noted that in a declaratory relief setting, the declaratory relief plaintiff is permitted to assert a claim of misuse if it is likely to be accused of infringement.<sup>241</sup> The defendant argued that misuse can only be asserted in a declaratory relief action when infringement claims have been asserted against a defendant.<sup>242</sup> The court refused to condone such a narrow reading of the copyright misuse doctrine,<sup>243</sup> though in that particular case the misuse doctrine was unavailable to the plaintiff for other reasons.<sup>244</sup> The court reasoned that when a party has a reasonable and concrete fear of an infringement suit, that party is entitled to assert any defense that would be available to it in the event it actually was sued; it would not need to wait to be sued in order to utilize the misuse doctrine.<sup>245</sup> Applied to the current litigation between Redbox and the studios, even though Redbox did not have a reasonable and concrete fear of being sued, it did experience coercive conduct that violated the first sale doctrine and it did have a reasonable

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237. See 2008 Complaint, *supra* note 2, ¶¶ 51-52.

238. See Fritz, *supra* note 8 (explaining how Redbox could not withstand Warner's boycott).

239. No. 03-3182, 2005 U.S. Dist. LEXIS 10440 (N.D. Cal. Apr. 1, 2005).

240. *Id.* at \*2.

241. *Id.* at \*25.

242. *Id.*

243. *Id.* at \*1.

244. *Id.*

245. *Id.* at \*25.



fear that the studios intended to commit an ongoing violation of the first sale doctrine.<sup>246</sup>

Similarly, in *Apple, Inc. v. Psystar Corp.*,<sup>247</sup> the court acknowledged that misuse *is not limited* to a defense to an infringement claim.<sup>248</sup> In that case, Psystar alleged that Apple had improperly leveraged its Mac Operating Systems copyright in order to gain exclusive rights with respect to Mac Operating System-compatible hardware systems not granted in Apple's copyrights.<sup>249</sup> Apple contended that misuse may only be asserted as a defense.<sup>250</sup> The court disagreed, holding that misuse may be asserted as a counterclaim for declaratory relief and that Psystar may well have had a legitimate interest in establishing misuse independent of Apple's claims against it.<sup>251</sup> The court also acknowledged that potential defendants not themselves injured by Apple's conduct would be able to claim misuse in the event Psystar could establish it.<sup>252</sup> The court also noted that the *Practice Management* decision arose in the context of a declaratory judgment.<sup>253</sup> The court therefore rejected the argument that the misuse doctrine is limited solely as a defense.<sup>254</sup>

Though both *Open Source Yoga* and *Apple* were district court opinions, perhaps these decisions indicate a willingness of some courts, for the time being, to extend misuse beyond its traditional parameters of a defense and allow for an affirmative cause of action, such as declaratory relief. When the public policy of copyright law is violated by a party seeking to extend the scope of its copyright, such as in the recent Redbox scenario, misuse should be an available cause of action to remedy the violation of public policy by companies like the studios. The studios' attempt to *circumvent* copyright law and browbeat Redbox by violating the first sale doctrine is a noxious violation of public policy, and though the misuse cause of action was dismissed because of a technicality, this proposal hopes the studios' conduct does not go unnoticed by Congress.

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246. See 2008 Complaint, *supra* note 2, ¶ 51.

247. No. 08-03251, 2009 U.S. Dist. LEXIS 14370 (N.D. Cal. Feb. 6, 2009).

248. *Id.* at \*7-8.

249. *Id.* at \*3-4.

250. *Id.* at \*6.

251. *Id.* at \*7.

252. *Id.*

253. *Id.* at \*8.

254. *Id.* at \*9.

## IV. CONCLUSION

Questions still linger about the scope of the copyright misuse doctrine.<sup>255</sup> It is a judicially created doctrine, which continues to evolve.<sup>256</sup> Since its formal recognition by the Fourth Circuit in *Lasercomb* in 1992, several other circuits have adopted the doctrine, despite any clear advice from Congress or the Supreme Court on how far the doctrine goes.<sup>257</sup> There are different approaches taken by the courts when analyzing a misuse case, and the public policy rationale seems to be a prominent approach.<sup>258</sup> When misuse is found on public policy grounds, the relevant analysis is whether the copyright holder seeks to extend the scope of its copyright by engaging in coercive conduct to secure an exclusive right not granted by the Copyright Office.<sup>259</sup>

Applied to the recent litigation between Redbox and the Hollywood studios, it is evident that the studios' attempts to prevent its distributors from supplying Redbox with DVDs until after the respective blackout periods end violate the public policy of copyright law. This is because Redbox has already bought the DVDs from the distributors, who in turn have already bought them from the studios.<sup>260</sup> Thus, the studios are guilty of a clear and blatant violation of the first sale doctrine. Their efforts to work around the first sale doctrine illegally extends their ownership of the DVDs that have already been sold, amounting to an attempt to secure more rights than they have been granted by the Copyright Office. In terms Hollywood can understand, once the studios make the sale, they are out of the picture.

As one commentator put it, "the time may be ripe for Congress to better define the basis for a copyright misuse defense."<sup>261</sup> "Congress has shown it is not averse to expanding rights for copyright holders . . . nor has it ignored the necessity to limit those rights . . . though, admittedly, the latter is done less often and with less fanfare."<sup>262</sup> This comment proposes that Congress codify the misuse doctrine, allowing for a cause of action in circumstances where a party has reason to believe it will be subjected to conduct which violates copyright law and

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255. Ekstrand, *supra* note 104.

256. Frischmann & Moylan, *supra* note 95, at 870.

257. See Aylward, *supra* note 102; see also Frischmann & Moylan, *supra* note 95, at 870.

258. See Hartzog, *supra* note 87, at 401-05; see also Ekstrand, *supra* note 104, at 575.

259. See *Lasercomb America, Inc. v. Reynolds*, 911 F.2d 970, 977 (4th Cir. 1990).

260. See 2009 Complaint, *supra* note 6, ¶ 13; see also First Amended Complaint, *supra* note 61, ¶ 33.

261. Ekstrand, *supra* note 104, at 587.

262. *Id.*

believes a court should enjoin such conduct. This proposal does find some support in federal case law.<sup>263</sup> At the very least, the Supreme Court should weigh in on this important issue, because consumers are the ones affected the most by companies such as the studios who misuse their copyrights.<sup>264</sup> Clarifying the doctrine and allowing for an affirmative copyright misuse cause of action will ensure that the hypothetical mentioned at the beginning of this Comment will remain just that.

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263. See *Apple, Inc. v. Psystar Corp.*, No. 08-03251, 2009 U.S. Dist. LEXIS 14370, at \*7 (N.D. Cal. Feb. 6, 2009); see also *Open Source Yoga Unity v. Choudhury*, No. 03-3182, 2005 U.S. Dist. LEXIS 10440, at \*25 (N.D. Cal. Apr. 1, 2005); see also *Practice Mgmt. Info. Corp. v. Am. Med. Ass'n*, 121 F.3d 516 (9th Cir. 1997) (action for declaratory judgment).

264. See Cieply, *supra* note 204.