

United States District Court
For the Northern District of California

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IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA

ADOBE SYSTEMS INCORPORATED,

No. C 10-03564 SI

Plaintiff,

**ORDER GRANTING MOTION TO
DISMISS COUNTERCLAIMS**

v.

RENEE NORWOOD,

Defendant.

AND RELATED COUNTER-CLAIMS.

On February 25, 2011, the Court heard argument on the motion by plaintiff/counter-defendant Adobe Systems Incorporated (“Adobe”) and third-party defendant Software & Information Industry Association (“SIIA”) to dismiss Counts One, Two, Three, Four, Eight, Nine, and Ten of the counter-claims filed by defendant/counter-claimant Renee Norwood. Having considered the arguments of counsel and the papers submitted, the Court hereby GRANTS the motion to dismiss counterclaims, with leave to amend Counts Three, Eight, Nine, and Ten. Count Four may be amended to support a declaratory judgment against Adobe, but it is dismissed with prejudice as to any claim for judgment against SIIA or damages generally.

BACKGROUND

Adobe filed this copyright and trademark infringement case on August 13, 2010, alleging that Renee Norwood engaged in “systematic, unauthorized copying and distribution of Adobe’s software

1 products through sales on the eBay online auction site.”¹ Compl. at ¶ 1. Norwood filed an answer on
2 November 17, 2010 and on that same date filed ten counterclaims against Adobe and the Software &
3 Information Industry Association (“SIAA”), a non-profit trade association, alleging three antitrust and
4 unfair competition violations, misuse of copyright, defamation, placing defendant before the public in
5 a false light, business disparagement, aiding and abetting, civil conspiracy, and that SIAA was an alter
6 ego and/or instrumentality of Adobe. Adobe responded on January 7, 2011 and moves to dismiss all
7 of the claims except for the defamation, false light, and business disparagement claims.

8 Norwood claims that Adobe and SIAA “made a concerted effort to stop resale distribution
9 altogether by [] instituting . . . a coordinated campaign of litigation against small individual re-sellers
10 who sell computer software on the secondary market -- computer software lawfully purchased by these
11 small computer software re-sellers,” which Norwood argues violates the first sale doctrine. Counter-
12 claims, at ¶¶ 11, 13. Norwood claims that Adobe and SIAA “have joined together to embark on a scheme
13 to cartelize [the secondary market for computer software] and its [financial] promise for themselves.
14 Their goal is simple: to destroy the secondary market for computer software since they no longer owned
15 or controlled such software products.” Counterclaims, at ¶ 12. To accomplish this goal, Norwood
16 claims that Adobe and SIAA are “specifically targeting small, independent resellers” by filing lawsuits
17 and Digital Millennium Copyright Act (“DMCA”) take-down notices in order to “intimidate, harass and
18 ultimately eliminate from competition these small re-sellers.” *Id.* at ¶¶ 13-14. Norwood claims that
19 Adobe and SIAA intentionally focus on small resellers with limited financial means in order to avoid
20 having to litigate. They “know that their claims of infringement are not valid given the critical
21 limitation on copyright, embodied in the First Sale Doctrine.” *Id.* at ¶ 17.

22 Norwood further claims that SIAA issued a press release on October 6, 2010 which contained
23 defamatory statements accusing Norwood of piracy. Norwood alleges that the statements were made
24 without any evidence to support them and have caused her to suffer “severe emotional, psychological,
25 and medical distress and damages . . . as she experienced the destruction of her reputation, identity,
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27 ¹ The claim for trademark infringement arises because Adobe alleges that Norwood used images
28 similar or identical to Adobe’s trademarks to confuse consumers and to promote their products. Compl.,
at ¶ 16.

1 sense of self-worth, and lost business and customers.” *Id.* at ¶¶ 28-40. Adobe does not move to dismiss
2 the defamation, false light, and disparagement claims, but requests that the remainder of the claims be
3 dismissed with prejudice.

4 5 **LEGAL STANDARD**

6 Under Federal Rule of Civil Procedure 12(b)(6), a district court must dismiss a complaint if it
7 fails to state a claim upon which relief can be granted. The question presented by a motion to dismiss
8 is not whether the plaintiff will prevail in the action, but whether the plaintiff is entitled to offer
9 evidence in support of the claim. *See Scheuer v. Rhodes*, 416 U.S. 232, 236 (1974), *overruled on other*
10 *grounds by Davis v. Scherer*, 468 U.S. 183 (1984).

11 In answering this question, the Court must assume that the plaintiff's allegations are true and
12 must draw all reasonable inferences in the plaintiff's favor. *See Usher v. City of Los Angeles*, 828 F.2d
13 556, 561 (9th Cir. 1987). Even if the face of the pleadings suggests that the chance of recovery is
14 remote, the Court must allow the plaintiff to develop the case at this stage of the proceedings. *See*
15 *United States v. City of Redwood City*, 640 F.2d 963, 966 (9th Cir. 1981).

16 If the Court dismisses the complaint, it must then decide whether to grant leave to amend.
17 Federal Rule of Civil Procedure 15 governs amendment of the pleadings. It states that if a responsive
18 pleading has already been filed, the party seeking amendment may amend the party's pleading only by
19 leave of court or by written consent of the adverse party and that leave shall be freely given when justice
20 so requires. Fed. R. Civ. P. 15(a). This rule reflects an underlying policy that disputes should be
21 determined on their merits, and not on the technicalities of pleading rules. *See Foman v. Davis*, 371
22 U.S. 178, 181-82 (1962). The Ninth Circuit has "repeatedly held that a district court should grant leave
23 to amend even if no request to amend the pleading was made, unless it determines that the pleading
24 could not possibly be cured by the allegation of other facts." *Lopez v. Smith*, 203 F.3d 1122, 1130 (9th
25 Cir. 2000) (citation and internal quotation marks omitted). Accordingly, the Court must be generous
26 in granting leave to amend.

1 **DISCUSSION**

2 **I. Antitrust and unfair competition counterclaims**

3 Norwood’s first, second, and third counterclaims are: (1) conspiracy in restraint of trade in
4 violation of federal antitrust law, (2) violation of California antitrust law, and (3) violation of the
5 California Unfair Competition Act by restraint of trade. Adobe moves to strike these counterclaims,
6 arguing that there can be no antitrust conspiracy between Adobe and SIAA, because SIAA is Adobe’s
7 agent. In making these arguments, Adobe characterizes Norwood’s first three counterclaims as antitrust
8 claims. Norwood argues that the third counterclaim made pursuant to the California Unfair Competition
9 Act, Business and Professions Code Section 17200, is broader than a simple antitrust claim, despite the
10 fact that the primary allegation in the counterclaim is that “Counter-Defendants conspired to and did
11 restrain trade *in ways that violated federal and state antitrust laws*, and/or that violate the policy and
12 spirit of such laws and threatened their incipient violation.” Counterclaims, at ¶ 47 (emphasis added).
13 While Norwood attempts to clarify the pleading by explaining that the uncontested defamation, false
14 light, or disparagement claims could support the unfair competition claim, the third counterclaim, as
15 written, only addresses an antitrust claim.

16 Adobe argues that the antitrust conspiracy claims should be dismissed because SIAA is its agent
17 and therefore, cannot conspire with Adobe. The Ninth Circuit has held that “[a] corporation cannot
18 conspire with its officers or agents to violate the antitrust laws.” *Chapman v. Rudd Paint & Varnish*
19 *Co.*, 409 F.2d 635, 643 n.9 (9th Cir. 1969). Norwood does not provide contradictory case law, but
20 argues that “[n]either SIIA nor Adobe have offered any evidence of their relationship whatsoever” and
21 that “Norwood offers indisputable evidence that SIIA acts on its own behalf, as well as many other of
22 its clients.” Opposition to Motion to Dismiss Counterclaims (“Oppo.”), 6. However, Norwood’s own
23 pleadings allege that the relationship between Adobe and SIIA is that of a principal and its agent.
24 See Counterclaims, at ¶¶ 3, 13-14 (“SIIA has acted as Adobe’s agent”; “SIIA acting on behalf of its
25 association member, Adobe”; “actions of Adobe and its agent, SIIA”).

26 Norwood attempts to offer evidence accompanying her opposition to the motion to dismiss. This
27 evidence, in the form of two declarations from Norwood and her attorney Mike Rodenbaugh, is clearly
28 outside the scope of Norwood’s pleadings and must be excluded from consideration in deciding whether

1 to dismiss the counterclaims. The declarations are discussed here because they provide guidance in
2 deciding whether to grant Norwood leave to amend – and they do not help Norwood. Norwood alleges
3 that “[t]he SIIA makes third party demands and has published many press releases about copyright
4 enforcement in its own name,” and also that “the SIIA profits from the online resale of Adobe’s software
5 as well as the software of its other Premium Resellers, through operation of its Premium Reseller
6 Program and presumably through revenue share from direct sales.” *Id.* at 6-7 (citing Mike Rodenbaugh
7 Decl., ¶¶ 3-4). Norwood’s allegation that the SIIA profits from the online resale of software is offered
8 to show that SIIA is “a direct competitor to eBay and Amazon Marketplace, and by extension Ms.
9 Norwood.” *Id.* The fact that SIIA acts on its own behalf in issuing press releases and demands does
10 not preclude it from being Adobe’s agent with regard to the events relevant to the antitrust claims.
11 Further, Norwood’s allegations of SIIA profiting from the online resale of Adobe’s software seems to
12 point toward an agency relationship between SIIA and Adobe rather than away from it.

13 Norwood also offers a printout from SIIA’s website that provides detail on SIIA’s “Premier
14 Reseller Program” in which “SIIA recognizes outstanding software resellers and promotes them to
15 potential software buyers.” Rodenbaugh Decl., Ex. 4. The website also contains a link to an Adobe
16 sales website. *Id.* It does not contain any information regarding any way in which SIIA profits from
17 the “Premium Reseller” program. Norwood’s assumptions that SIIA profits from the program and
18 speculations about presumable revenue sharing are not supported by the information on SIIA’s website.

19 The Court GRANTS Adobe’s motion to dismiss Counts One and Two, with prejudice.² As for
20 Count Three, the California unfair competition claim, Norwood argues that it can be supported by other
21 causes of action rather than antitrust, including the uncontested defamation, business disparagement,
22 and/or false light claims.³ Therefore, the Court GRANTS Adobe’s motion to dismiss Count Three for
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25 ² Norwood also names “Does 1-10” in her complaint, defining them as “principals, supervisory
26 employees, employees, agents, or associates of Adobe and/or SIIA.” As such, the doe defendants could
not be named as conspirators with Adobe or SIIA. *Id.* at ¶ 4.

27 ³ At the hearing, Adobe argued that a state-law unfair competition claim predicated on copyright
28 misuse would be preempted by the federal Copyright Act, but did not brief this matter. Norwood did
not articulate such a basis for her unfair competition claim and the Court will address preemption, if
necessary, when Norwood submits her amended counterclaims.

1 the reasons discussed above, but GRANTS Norwood leave to amend.⁴

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3 **II. Misuse of copyright**

4 Norwood’s fourth counterclaim is for misuse of copyright. It is based primarily on the allegation
5 that Adobe’s actions are in violation of the first sale doctrine. Adobe argues that misuse of copyright
6 is a defense and cannot support a claim for damages or declaratory judgment. Adobe also argues that
7 Norwood fails to state a misuse of copyright claim because she is a licensee and not a purchaser of the
8 copyrighted work.

9
10 **A. Copyright misuse as a defense**

11 Copyright misuse, which is nearly always regarded as a defense, “forbids a copyright holder
12 from securing an exclusive right or limited monopoly not granted by the Copyright Office” by
13 preventing “copyright holders from leveraging their limited monopoly to allow them control of areas
14 outside the monopoly.” *A & M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1026 (9th Cir. 2001)
15 (internal quotations omitted). Here, Norwood alleges that Adobe and SIIA have attempted to control
16 the resale of Adobe’s software products beyond their first sale in contravention of the first sale doctrine.
17 Counterclaims, at ¶ 53.

18 Many district courts have held that copyright misuse does not support a claim for damages.
19 *Adobe Systems, Inc. v. Kornrumpf*, No. C 10-02769 CW, 2011 WL 181375 at *2 (N.D. Cal. Jan. 19,
20 2011); *Ticketmaster L.L.C. v. RMG Techs., Inc.*, 536 F. Supp. 2d 1191, 1198 (C.D. Cal. 2008); *Online*
21 *Policy Group v. Diebold Inc.*, 337 F. Supp. 2d 1195, 1198 n.4 (N.D. Cal. 2004). As Norwood
22 identifies no legal authority suggesting otherwise and amendment would not cure the deficiency, the
23 Court dismisses with prejudice Norwood’s request for damages for copyright misuse.

24 Norwood does identify a case that suggests that copyright misuse may be asserted as a
25 counterclaim for declaratory judgment. In *Apple Inc. v. Psystar Corp.*, No. C 08-03251 WHA, 2009
26 WL 303046, *2 (N.D. Cal. 2009), the court concluded Psystar’s copyright misuse counterclaim was

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⁴ The request for judicial notice filed by Adobe and SIIA is DENIED as moot.

1 proper because Apple Inc. asserted copyright claims against Psystar, and because “Psystar’s interest in
2 the issue may not be limited solely to the defense of those claims.” Norwood argues that she has a
3 “legitimate interest in establishing misuse of Adobe’s copyrights, to clarify that in fact her resales of
4 sealed, boxed, authorized software - each copy individually sold and authenticated by Adobe - are
5 lawful,” because Adobe is acting in violation of the first sale doctrine and, ultimately, that “Adobe and
6 SIIA deserve the requisite penalty for misuse of the Adobe copyrights.” *Oppo.*, at pgs. 9-10.

7 The Court agrees with *Psystar* that copyright misuse can, in some cases, be a claim for
8 declaratory relief. However, as *Adobe Systems, Inc. v. Kornrumpf* makes clear, such a claim can only
9 survive where the claimant alleges facts showing the applicability of the first sale doctrine. 2011 WL
10 181375, at *2.

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12 **B. First sale doctrine**

13 The first sale doctrine “permits one who has acquired ownership of a copy to dispose of that
14 copy without the permission of the copyright owner.” *UMG Recordings, Inc. v. Augusto*, 628 F.3d
15 1175, 1177 (9th Cir. 2011) (citing 17 U.S.C. § 109(a)). However, the doctrine “does not apply to a
16 person who possesses a copy of the copyrighted work without owning it, such as a licensee.” *Vernor*
17 *v. Autodesk, Inc.*, 621 F.3d 1102, 1107 (9th Cir. 2010) (citing 17 U.S.C. § 109(d)). “[A] software user
18 is a licensee rather than an owner of a copy where the copyright owner (1) specifies that the user is
19 granted a license; (2) significantly restricts the user’s ability to transfer the software; and (3) imposes
20 notable use restrictions.” *Id.* at 1111.

21 Norwood bears the burden of alleging facts sufficient to support her cause of action. *See Bell*
22 *Atl. Corp. v. Twombly*, 550 U.S. 544, 570 (2007). In order to support her copyright misuse claim and
23 avail herself of the first sale doctrine, Norwood must plead facts that distinguish her case from *Vernor*.
24 *See Kornrumpf*, 2011 WL 181375, at *4 (claimant must “plead . . . facts to suggest that [she] owned .
25 . . . particular copies of Adobe software that [she] resold” and “allege that Adobe . . . sold, gave away or
26 transferred title to the particular copies of the software at issue”). Norwood only makes conclusory
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1 allegations that her purchase of the software from “other third party distributors” was “legitimate.”⁵ *See*,
2 *e.g.*, Counterclaims, at ¶ 11. Norwood fails to plead facts to suggest that title was transferred to her, nor
3 does she provide information regarding the terms under which the third party distributors obtained the
4 software. *See Kornrumpf*, 2011 WL 181375, at *4 (claimant must establish “under what terms these
5 distributors obtained the copies”).

6 Further, *Kornrumpf* concluded that naming SIIA as a counter-defendant for the copyright misuse
7 claim was inappropriate, given that SIIA did not own any copyright in question. *Id.*, at *3. The same
8 is true here; SIIA is Adobe’s agent and does not own any relevant copyright. As in *Kornrumpf*, any
9 claim that SIIA engaged in copyright misuse is properly dismissed.

10 For these reasons and those above, Adobe’s motion to dismiss Count Four of the counterclaims
11 is GRANTED. Norwood has leave to amend to show grounds for bringing a claim against Adobe only,
12 for declaratory judgment only. In any amended pleading, Norwood must plead facts showing that title
13 of the software in question was properly transferred to her in order to sustain her copyright misuse claim
14 against Adobe.

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16 **III. Failure to state separate causes of action**

17 Norwood’s eighth, ninth, and tenth counterclaims are for aiding and abetting, civil conspiracy,
18 and alter ego/instrumentality respectively. Adobe argues that counterclaims eight through ten are not
19 independent causes of action, but derivative liability legal doctrines that are “best understood as
20 doctrines applied to the other Counterclaims.” Mot. to Dismiss, at pg. 9. “Upon reflection, Norwood
21 generally agrees and thus would like the opportunity to amend the Counterclaims to clarify that, and to
22 better clarify SIIA’s independent actions and liabilities.” Oppo., at pg. 13. Therefore, the Court
23 GRANTS Adobe’s motion to dismiss Counts Eight through Ten of the counterclaims, with leave to
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25 ⁵ Norwood attempts to supplement her claim by offering a declaration that was filed with her
26 opposition. Adobe argues that this declaration should not be considered because it is outside the scope
27 of the initial pleading. However, the declaration only offers conclusory allegations of the legitimacy
28 of Norwood’s purchase, without giving further detail as to whether title was transferred. *See* Norwood
Decl., ¶¶ 2-3. Norwood’s allegation that “[t]he third party distributor has provided written assurance
that the copies are resellable” still do not provide information about the status of the title of the software
as they do not explain the circumstances under which the “third party distributor” obtained the software.
Id. at ¶ 3.


1 amend, provided that the amended pleadings are not inconsistent with anything in this order.
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3 **CONCLUSION**

4 For the foregoing reasons and for good cause shown, the Court hereby GRANTS Adobe's
5 motion to dismiss Counts One, Two, Three, Four, Eight, Nine and Ten of the Counterclaims (Docket
6 No. 26). Counts One and Two are dismissed with prejudice. Norwood has leave to amend the
7 remaining claims, except for her damages request in Count Four by **March 18, 2011**.
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9 **IT IS SO ORDERED.**

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11 Dated: March 8, 2011



SUSAN ILLSTON
United States District Judge