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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

MICROSOFT CORPORATION,
Plaintiff,

v.

A&S ELECTRONICS, INC., ET AL.,
Defendants.

Case No. 15-cv-03570-YGR

**NOTICE OF TENTATIVE RULING RE:
MOTION TO DISMISS FIRST AMENDED
COMPLAINT**

Re: Dkt. No. 26

TO ALL PARTIES AND THEIR ATTORNEYS OF RECORD, PLEASE TAKE NOTICE OF THE FOLLOWING
TENTATIVE RULING FOR THE HEARING SCHEDULED ON **DECEMBER 15, 2015, AT 2:00 P.M.:**

The Court has reviewed the parties' papers, and is tentatively inclined to order that the
Motion to Dismiss the First Amended Complaint is granted with leave to amend, for the reasons
stated more fully below.

This is a tentative ruling and the parties still have an opportunity to present oral argument.
Alternatively, if the parties JOINTLY stipulate in writing to entry of the tentative ruling, the
hearing will be taken off calendar, and the tentative ruling will become the order of the Court.

Such stipulation must be filed no later than **5:00 p.m. on Monday, December 14, 2015.**
Otherwise, the hearing will take place as scheduled. The parties should be prepared to address the
issues as stated in the tentative ruling at the hearing. If the parties intend to rely on authorities not
cited in their briefs, they must notify the Court and opposing counsel of these authorities
reasonably in advance of the hearing by filing a statement of supplemental authorities, with
pinpoint cites, and without argument or additional briefing. Cf. Civil L. R. 7-3(d). The parties
will be given the opportunity at oral argument to explain their reliance on such authority.

United States District Court
Northern District of California

TENTATIVE RULING

1
2 Plaintiff Microsoft Corporation (“Microsoft”) brings this copyright and trademark case
3 against Defendants Alan Lin and A&S Electronics, Inc. (collectively, “A&S”), which resells
4 “used” Microsoft software online without Microsoft’s authorization. Microsoft filed its original
5 complaint on August 3, 2015. Subsequently, in response to a motion to dismiss filed by A&S,
6 Microsoft filed its First Amended Complaint on October 20, 2015 (Dkt. No. 23, “FAC.”)

7 In the FAC, Microsoft asserts six causes of action against A&S: (1) contributory copyright
8 infringement (17 U.S.C. §§ 501, *et seq.*); (2) trademark infringement (15 U.S.C. § 1114); (3) false
9 designation of origin and false description and representation of Microsoft packaging (15 U.S.C.
10 §§ 1125 *et seq.*); (4) unfair competition and false advertising (15 U.S.C. § 1125(a)); (5) imposition
11 of a constructive trust; and (6) an accounting. (FAC ¶¶ 1, 31-74.)

12 A&S has filed a Motion to Dismiss the FAC in its entirety on the grounds that Microsoft
13 has failed to state a claim.

I. BACKGROUND

14
15 Microsoft brings the instant action to enjoin A&S’s alleged conduct in selling “product
16 activation keys,” in combination with distributable media, such as DVDs, containing Microsoft
17 software or instructions for downloading software from Microsoft’s website. A&S uses
18 trademarked terms like “Microsoft Office” to advertise the used software on its website, as well as
19 the physical items which display Microsoft’s trademarks. Microsoft specifically alleges
20 infringement of two copyrighted works: (1) Microsoft Office 2013, and (2) Microsoft Office
21 Professional Plus 2010. (FAC ¶¶ 13-14.) Microsoft further alleges infringement of five
22 trademarks related to Microsoft Office: “Microsoft” (twice for two different trademarks);
23 “Microsoft Office”; “Office 2010” design; and “Office 2012” design. (*Id.* ¶ 15.) Microsoft
24 alleges that its investigators were able to purchase two copies of Microsoft Office, one on eBay
25 offered by Alan Lin, and one on defendants’ website “TRUSTprice.com.” (*Id.* ¶¶ 20-30.) The
26 eBay purchase is alleged to be a combination of a product activation key number on a printed card
27 and an “Office Professional Plus 2013 Backup DVD...both traced to a Home Use Program

1 is nontransferable.” (*Id.* ¶ 22.) The website purchase is alleged as “a counterfeit Microsoft Office
2 Professional 2010 Product Key Card with an illicitly distributed product key, together with
3 instructions to download the Microsoft Office software directly from Microsoft or use the
4 customers’ own matching media.” (*Id.* ¶ 24.)

5 The false designation of origin, unfair competition, and false advertising claims under the
6 Lanham Act derive from the same alleged conduct as the copyright and trademark claims. The
7 fifth and sixth causes of action seek imposition of a constructive trust, and demand that A&S
8 provide an accounting of all of the money earned from A&S’s alleged infringing sales of
9 Microsoft software. (*Id.* ¶¶ 69-74.)

10 A&S argues that its conduct is lawful and that Microsoft is attempting to prevent people
11 who lawfully obtain and own copies of software from reselling those copies without first obtaining
12 Microsoft’s consent. A&S argues that, under the Supreme Court’s ruling in *Kirtsaeng v. John*
13 *Wiley & Sons, Inc.*, 568 U.S. ___, 133 S. Ct. 1352 (2013), importation and sale of lawfully obtained
14 copies of Microsoft’s copyrighted works is subject to the “first sale” doctrine, 17 U.S.C. § 109(a).
15 That doctrine permits the owner of a particular copy of a copyrighted work to sell that copy
16 without the authority or permission of the copyright owner. *Id.* Consequently, A&S argues, the
17 Court should dismiss Microsoft’s copyright claim and all claims derived from it.

18 **II. APPLICABLE STANDARD**

19 A motion to dismiss under Rule 12(b)(6) tests the legal sufficiency of the claims alleged in
20 the complaint. *Ileto v. Glock, Inc.*, 349 F.3d 1191, 1199-1200 (9th Cir. 2003). “Dismissal can be
21 based on the lack of a cognizable legal theory or the absence of sufficient facts alleged under a
22 cognizable legal theory.” *Balistreri v. Pacifica Police Dep’t*, 901 F.2d 696, 699 (9th Cir. 1990).
23 All allegations of material fact are taken as true and construed in the light most favorable to the
24 plaintiff. *Johnson v. Lucent Techs., Inc.*, 653 F.3d 1000, 1010 (9th Cir. 2011). To survive a
25 motion to dismiss, “a complaint must contain sufficient factual matter, accepted as true, to ‘state a
26 claim to relief that is plausible on its face.’” *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009) (quoting
27 *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 557 (2007)).

1 **III. DISCUSSION**

2 **A. Contributory Copyright Infringement**

3 Microsoft alleges that A&S is liable for contributory infringement, a type of secondary
4 infringement. “To establish secondary infringement, [a claimant] must first demonstrate direct
5 infringement” by another. *MDY Indus., LLC v. Blizzard Entm’t, Inc.*, 629 F.3d 928, 937 (9th Cir.
6 2010), *as amended on denial of reh’g* (Feb. 17, 2011), *opinion amended and superseded on denial*
7 *of reh’g*, No. 09-15932, 2011 WL 538748 (9th Cir. Feb. 17, 2011). In order to establish direct
8 infringement under 17 U.S.C. section 501(a), a claimant must allege facts to establish: (1)
9 ownership of the allegedly infringed material; and (2) the alleged direct infringers violated at least
10 one exclusive right granted to copyright holders under 17 U.S.C. section 106. *A&M Records, Inc.*
11 *v. Napster, Inc.*, 239 F.3d 1004, 1013 (9th Cir. 2001). Liability for contributory infringement may
12 then be established by allegations that the contributor infringer knows of the third party’s direct
13 infringing activity and has “intentionally induc[ed] or encourag[ed] [the] direct infringement.” *Id.*
14 at 937-38 (quoting *MGM Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913, 930 (2005)).

15 The federal Copyright Act protects “original works of authorship,” including software
16 programs. 17 U.S.C. §§ 101-103. With respect to these works, the Copyright Act confers certain
17 exclusive rights on copyright owners, including exclusive rights to reproduce the works and to
18 distribute the works by sale or rental. *Id.* § 106(1), (3). Actions in violation of those rights
19 constitute infringement. However, the Copyright Act contains limitations on those rights. For
20 instance, the exclusive distribution right is limited by the “first sale” doctrine, which allows
21 owners of particular copies of copyrighted works to resell those copies. 17 U.S.C. § 109(a).¹
22 And, in the context of computer software, the exclusive reproduction right is limited by the
23 “essential step” defense, which allows the owner of a copyrighted software program to make a

24 _____
25 ¹ Section 109(a) of the Copyright Act provides that:

26 Notwithstanding the provisions of section 106(3), the owner of a particular
27 copy...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....

28 17 U.S.C. § 109(a).

1 copy of the computer program as an “essential step” in the utilization of the program, generally
2 when installing (a copy of) the program onto the computer’s hard-drive memory. 17 U.S.C. §
3 117(a)(1).² However, these limitations only apply when the particular copies of the copyrighted
4 works at issue are owned rather than merely licensed for use. *Vernor*, 621 F.3d at 1107. A true
5 licensee cannot resell the software under the “first sale” doctrine or assert the “essential step”
6 defense to claim of unlawful reproduction.

7 To determine whether a software user is a licensee or an owner, the Ninth Circuit looks to
8 three factors: whether the “copyright owner (1) specifies that the user is granted a license; (2)
9 significantly restricts the user’s ability to transfer the software; and (3) imposes notable use
10 restrictions.” *Vernor*, 621 F.3d at 1111. In *Vernor*, the question before the Ninth Circuit was
11 whether the party that sold copies of software to Vernor was: (i) the owner of that software, such
12 that “both its sales to Vernor and Vernor’s subsequent sales were non-infringing under the first
13 sale doctrine;” or (ii) a licensee permitted to use the software, so that the selling party’s sale, and
14 Vernor’s subsequent sales, were “not protected by the first sale doctrine and would therefore
15 infringe [the copyright owner’s] exclusive distribution right.” *Vernor*, 621 F.3d at 1107. The
16 Ninth Circuit concluded that the software user who had sold to Vernor was a licensee, not an
17 owner, based upon evidence that it retained title to the software and imposed significant transfer
18 and use restrictions. *Id.* at 1111-12. As a consequence, the first sale doctrine did not apply, and
19 the sales to Vernor and subsequent purchasers infringed the copyright owner’s reproduction and
20 distribution rights. *Id.* at 1112. Importantly, the Ninth Circuit in *Vernor* did not hold that all
21 software customers were mere licensees, but instead held that “a software customer bound by a
22 restrictive license agreement may be a licensee of a copy not entitled to the first sale doctrine or

23 _____
24 ² Section 117 of the Copyright Act provides, in part:

25 (a) Making of additional copy or adaptation by owner of copy.-- Notwithstanding
26 the provisions of section 106, it is not an infringement for the owner of a copy of
27 a computer program to make or authorize the making of another copy or
28 adaptation of that computer program provided:

(1) that such a new copy or adaptation is created as an essential step in the
utilization of the computer program in conjunction with a machine and that it is
used in no other manner....

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