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

APPLE INC., a California corporation,

No. C 08-03251 WHA

Plaintiff,

v.

**ORDER RE PSYSTAR'S
MOTION FOR LEAVE TO
AMEND COUNTERCLAIMS**

PSYSTAR CORPORATION, a Florida
corporation,

Defendant.

INTRODUCTION

Plaintiff Apple Incorporated filed this lawsuit against defendant Psystar Corporation asserting copyright, trademark and other claims related to PsyStar's use of Apple's computer operating system. PsyStar filed counterclaims against Apple alleging violations of federal and state antitrust laws. A previous order granted Apple's motion to dismiss the counterclaims without prejudice. Psystar now moves for leave to amend in order to assert counterclaims under the copyright misuse doctrine and state unfair competition laws. For the reasons stated below, the motion for leave to amend is **GRANTED IN PART AND DENIED IN PART**.

STATEMENT

In its proposed pleading, PsyStar no longer presses its antitrust counterclaims but instead seeks leave to amend in order to assert counterclaims for copyright misuse, and for unfair competition violations predicated on the alleged copyright misuse. The facts of this case

1 were set forth in detail in the order granting Apple’s motion to dismiss and do not differ
2 significantly in PsyStar’s proposed amendment (Dkt. No. 33).

3 Apple manufactures and markets the Macintosh Computer and the OS X Operating
4 System (“Mac OS”). Operating systems like Mac OS control and direct the interaction between
5 software applications such as word processors and internet browsers, and the central processing
6 unit and the various hardware in a computer. Apple is the exclusive manufacturer and master
7 licensor of Mac OS (Countercl. ¶¶ 9, 14, 17).¹

8 PsyStar manufactures and distributes a tailored line of computers called Open
9 Computers. PsyStar’s Open Computers support a wide range of operating systems including
10 Mac OS, Microsoft Windows XP and XP 64-bit, Windows Vista and Vista 64-bit and Linux 32
11 and 64-bit kernels. PsyStar allows its customers to choose the operating system on the
12 computers they purchase (Countercl. ¶¶ 11–12).

13 Numerous companies manufacture entire computer hardware systems, including (but
14 not limited to) Dell, Acer, Lenovo, Sony and Hewlett-Packard. In addition, numerous
15 companies manufacture and sell components — such as hard drives, processors and graphics
16 processing cards — used by those computer manufacturers. Few competitors, if any, other than
17 PsyStar, however, currently sell computers compatible with Mac OS (Countercl. ¶¶ 18–19, 22,
18 57).

19 PsyStar alleges that Apple has improperly leveraged its Mac OS copyrights in order to
20 gain exclusive rights with respect to Mac OS-compatible computer hardware systems not
21 granted in the Mac OS copyrights, in two general respects.

22 *First*, PsyStar alleges that Apple has wrongfully extended the scope of its Mac OS
23 copyright via its End User License Agreement (“EULA”), which specifically required that
24 consumers install Mac OS *only* on Apple-labeled computers, as well as by embedding certain
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28 ¹ All references to the counterclaim and citations to “Countercl.” hereafter refer to the proposed first amended counterclaim.

1 technical barriers to interoperability in Mac OS — kernel panic and infinite loops (Countercl. ¶¶
2 36–51).²

3 *Second*, PsyStar alleges that Apple is leveraging its Mac OS copyrights by improperly
4 asserting claims under the Digital Millennium Copyright Act, 17 U.S.C. 1201 *et seq.*
5 (“DMCA”). PsyStar alleges, in effect, that Apple is improperly extending its Mac OS copyright
6 into the computer hardware market by intimidating potential competitors into avoiding the
7 market with dubious DMCA claims (Countercl. ¶¶ 52–56).

8 The proposed counterclaim asserts four claims for relief, all of which seek a declaratory
9 judgment that Apple’s Mac OS copyrights are unenforceable. The first claim alleges copyright
10 misuse based on Apple’s exclusive licensing of Mac OS in its EULA. The second claim alleges
11 copyright misuse based on Apple’s use or threat of DMCA claims against potential competitors
12 for Apple’s Mac OS -based computers. The third claim alleges a violation of California’s
13 unfair competition laws predicated on the alleged copyright misuse related to the EULA. The
14 fourth claim alleges a violation of California’s unfair competition laws predicated on the alleged
15 copyright misuse related Apple’s DMCA claims.

16 ANALYSIS

17 Under FRCP 15(a), leave to amend a complaint shall be freely given when justice so
18 requires, but “[l]eave to amend need not be granted when an amendment would be futile.”
19 *In re Vantive Corp. Sec. Litig.*, 283 F.3d 1079, 1097 (9th Cir. 2002). As stated, in its proposed
20 amendment PsyStar abandons its antitrust claims and instead asserts counterclaims for
21 copyright misuse and for violations of California’s unfair competition laws predicated on the
22 alleged copyright misuse. In its answer to Apple’s complaint, PsyStar asserted copyright
23 misuse as an affirmative defense. PsyStar now seeks to assert it as a counterclaim as well.

24 Apple contends that the proposed amendment would be futile, for the following reasons:
25 (1) copyright misuse may be alleged only as a defense, not as a counterclaim; (2) the
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28 ²The EULA states, “This license allows you to install, use and run (1) copy of the Apple Software on a single Apple-labeled computer at a time. You agree not to install, use or run the Apple Software on any non-Apple-Labeled computer or enable another to do so” (Countercl. ¶ 47).

1 counterclaims fail adequately to plead copyright misuse; (3) that state unfair competition claims
2 may not be predicated on the defense of copyright misuse.

3 The Ninth Circuit explicitly adopted the doctrine of copyright misuse for the first time in
4 *Practice Management*:

5 We have implied in prior decisions that misuse is a defense to
6 copyright infringement. *See Triad Sys. Corp. v. Southeastern*
7 *Express Co.*, 64 F.3d 1330, 1337 (9th Cir.1995); *Supermarket of*
8 *Homes, Inc. v. San Fernando Valley Bd. of Realtors*, 786 F.2d
9 1400, 1408 (9th Cir.1986). We now adopt that rule.

10 *Practice Management Information Corp. v. American Medical Ass’n*, 121 F.3d 516, 520 (9th
11 Cir. 1997). The doctrine “forbids the use of the [copyright] to secure an exclusive right or
12 limited monopoly not granted by the [Copyright] Office and which is contrary to public policy
13 to grant.” *Altera Corp. v. Clear Logic, Inc.*, 424 F.3d 1079, 1090 (9th Cir. 2005) (citation
14 omitted).

15 “Copyright misuse does not invalidate a copyright, but precludes its enforcement during
16 the period of misuse.” *Practice Management*, 121 F.3d at 520 n.9. Moreover, “a defendant in a
17 copyright infringement suit need not prove an antitrust violation to prevail on a copyright
18 misuse defense.” *Id.* at 521.

19 Apple contends that copyright misuse may *only* be asserted as a defense, not as a
20 counterclaim. This order is unconvinced, however, that misuse may never be asserted as a
21 counterclaim for declaratory relief. PsyStar may well have a legitimate interest in establishing
22 misuse independent of Apple’s claim against it, for example, to clarify the risks it confronts by
23 marketing the products at issue in this case or others it may wish to develop. Moreover, if
24 established, misuse would bar enforcement (for the period of misuse) not only as to defendants
25 who are actually a party to the challenged license but also as to potential defendants not
26 themselves injured by the misuse who may have similar interests. *See Lasercomb America, Inc.*
27 *v. Reynolds*, 911 F.2d 970, 979 (4th Cir. 1990).

28 The best analogy is to patent misuse. *See Lasercomb America, Inc. v. Reynolds*, 911
F.2d 970, 979 (4th Cir. 1990). Apple identifies no rule analogous to the one it here urges
barring counterclaims for patent misuse, and in fact patent misuse counterclaims have been

1 permitted. *See, e.g., Allan Block Corp. v. County Materials Corp.*, 512 F.3d 912 (7th Cir.
2 2008); *Glitsch, Inc. v. Koch Engineering Co., Inc.*, 216 F.3d 1382 (Fed. Cir. 2000) (both
3 discussing patent misuse counterclaims). This order finds no reason to reject plaintiff’s misuse
4 counterclaims as necessarily futile.

5 It is true that the Ninth Circuit has described the doctrine of copyright misuse as a
6 defense. *Altera Corp. v. Clear Logic, Inc.*, 424 F.3d 1079, 1090 (9th Cir. 2005). The doctrine
7 has, however, been permitted in actions for declaratory relief in this circuit as well. *Practice*
8 *Management*, 121 F.3d at 518 (describing the doctrine as a defense, but the issue actually arose
9 in an action for declaratory judgment); *Open Source Yoga Unity v. Choudhury*, 2005 WL
10 756558, *8 (N.D. Cal. 2005) (Hamilton, J.) (declaratory relief action). Insofar as other district
11 courts have concluded that the doctrine may not be asserted as a counterclaim, this order
12 respectfully disagrees.³

13 It is also true that, in *Altera*, the Ninth Circuit rejected an effort affirmatively to assert a
14 misuse claim and emphasized that the doctrine is ordinarily a defense. *Altera*, 424 F.3d at 1090.
15 That decision, however, is distinguishable. It simply agreed with the district court that the
16 doctrine of copyright misuse should not be extended beyond its “logical place” as a defense to
17 an infringement claim in order to allow it to be used as a defense to *state law* claims or as a
18 “pretext” to avoid enforcement of certain licensing agreements, when no claim or threat of
19 copyright infringement had been asserted. *Altera Corp.*, 424 F.3d at 1090. Here, Apple *has*
20 asserted copyright claims against PsyStar, and as stated, Psystar’s interest in the issue may not
21 be limited solely to its defense of those claims. As in *Open Source Yoga*, subject-matter
22 jurisdiction exists over the declaratory judgment action. *Open Source Yoga Unity*, 2005 WL
23 756558, at *8. This order, therefore, rejects the argument that misuse may never be asserted as
24 a counterclaim and declines to find PsyStar’s misuse counterclaims futile on that basis.

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27 ³ *See, e.g., Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 269 F. Supp. 2d 1213, 1225–26 (C.D.
28 Cal. 2003), *aff’d*, 380 F.3d 1154, *vacated on other grounds by Metro-Goldwyn-Mayer Studios Inc. v. Grokster,*
Ltd., 545 U.S. 913 (2005); *Ticketmaster L.L.C. v. RMG Technologies, Inc.*, 536 F. Supp. 2d 1191, 1199 (C.D.
Cal. 2008).

1 Apple further argues that amendment would be futile because the proposed amended
2 counterclaims fail to plead sufficient facts to support the claim. In its proposed amended
3 counterclaims, PsyStar alleges that Apple leveraged Mac OS copyrights to secure exclusive
4 rights not within the scope of the monopolies granted by those copyrights, *i.e.*, to Mac OS-
5 compatible computer hardware systems. The complaint avers that Apple accomplished this
6 through its EULA, through allegedly spurious litigation and by other means.

7 Apple responds that it is within its rights to determine whether, how or by whom its
8 software is reproduced and how it is to be licensed, distributed or used. This may ultimately
9 prove to be true. Apple, however, identifies no reason to bar the claims as a matter of law at the
10 pleading stage. This order declines to find the claims futile.

11 Apple cites *Triad Systems v. Southeastern Express Company*, 64 F.3d 1330 (9th
12 Cir.1995). Triad was a seller of computer systems that performed sales, inventory and
13 accounting tasks for auto parts stores. It held copyrights in the computers' operating systems,
14 application software, and in service software. The service software included utilities,
15 diagnostic, and auxiliary software which was used by technicians to repair Triad computers.
16 Triad sued Southeastern, an independent service organization that serviced Triad computers.
17 Triad and Southeastern competed in the business of servicing Triad computers. Triad brought
18 an infringement action against Southeastern claiming that in servicing the computers,
19 Southeastern used the computers' OS and service software, and in so doing it infringed the
20 copyrights because copies of the software were made in the computer's random access memory
21 when the computer was in use. The service potentially also involved making copies onto the
22 computer's hard drive or backup copies. *Triad*, 64 F.3d at 1333-34.

23 Triad had instituted a regime whereby it licensed rather than sold its software and, under
24 the agreements, customers could not duplicate the software or allow it to be used by third
25 parties. Southeastern asserted that these limitations constituted misuse. The decision agreed
26 with the district court's rejection of the misuse defense, because "Triad did not attempt to
27 prohibit Southeastern or any other ISO from developing its own service software to compete
28 with Triad." *Id.* at 1337. Apple contends that *Triad* governs PsyStar's motion, because "[a]s is

1 the case with the Apple [EULA], Triad did not attempt to control the use of its hardware, but
2 only the use of its copyrighted software” (Opp. at 7).

3 In *Triad*, the district court had rejected the misuse defense in the course of issuing a
4 preliminary injunction, and the Ninth Circuit simply agreed with that ruling, finding that
5 Southeastern could “[n]ot show that it is likely to prevail on its asserted copyright misuse
6 defense.” The issue did not arise in an effort to bar a claim or counterclaim. Moreover, *Triad*
7 did not clarify the scope of its holding; its entire analysis consisted of four sentences. Apple
8 interprets the decision to have hinged on whether or not Triad had sought to “control the use of
9 its hardware,” but that is not the only interpretation. The decision may eventually be found to
10 provide some degree of guidance, but this order declines to find the proposed pleading futile
11 based on *Triad*. Apple also cites language from the November 2008 order in this case granting
12 Apple’s motion to dismiss PsyStar’s counterclaims. The order addressed the *antitrust* issues
13 then before the court; it did not opine one way or the other on the merits of Apple’s instant
14 *copyright* claims or PsyStar’s misuse allegations. For all of these reasons, PsyStar’s motion for
15 leave to amend is granted with respect to the proposed misuse counterclaims.

16 As stated, PsyStar also seeks leave to amend in order to assert Section 17200 claims
17 predicated on the misuse claims. Apple’s opposition thereto relies in part on its contentions that
18 the misuse counterclaims themselves fail, and to that extent, its contentions are foreclosed by
19 the conclusions reached above.

20 Apple also contends that those claims fail because PsyStar has failed adequately to plead
21 any actual or incipient violation of the antitrust laws. Both sides agree that “unfair” conduct
22 under Section 17200 is conduct that threatens or harms competition. *Cel-Tech Communications*
23 *v. Los Angeles Cellular Telephone Co.*, 20 Cal.4th 163, 186–87 (1999) (requiring “that any
24 finding of unfairness to competitors under section 17200 be tethered to some legislatively
25 declared policy or proof of some actual or threatened impact on competition”). Thus, although
26 the misuse doctrine does not hinge on antitrust violations, plaintiff’s Section 17200 claims
27 survive only if the complaint pleads conduct that “threatens an incipient violation of [] antitrust
28 law[s], or violates the policy or spirit of one of those laws.” *Id.* at 187.

