

No. 12-16616

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**UNITED STATES COURT OF APPEALS  
FOR THE NINTH CIRCUIT**

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ADOBE SYSTEMS INCORPORATED,  
*Plaintiff-Appellee,*

v.

ANTHONY KORNRUMPF AND  
HOOPS ENTERPRISE, LLC,  
*Defendants-Appellants.*

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On Appeal from the United States District Court  
for the Northern District of California, No. 10-cv-02769-CW (Wilken, J.)

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**BRIEF OF AMICUS CURIAE MOTION PICTURE ASSOCIATION OF  
AMERICA, INC., IN SUPPORT OF APPELLEE'S POSITION SEEKING  
AFFIRMANCE**

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## **CORPORATE DISCLOSURE STATEMENT**

Amicus Curiae Motion Picture Association of America, Inc. has no parent corporation, and no publicly held company owns 10 percent or more of its stock.

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## INTEREST OF AMICUS CURIAE

All parties have consented to the filing of this brief by amicus curiae Motion Picture Association of America, Inc. (“MPAA”).<sup>1</sup> MPAA is a not-for-profit trade association founded in 1922 to address issues of concern to the U.S. motion picture industry. Its members include Paramount Pictures Corporation, Sony Pictures Entertainment Inc., Twentieth Century Fox Film Corporation, Universal City Studios LLC, Walt Disney Studios Motion Pictures, and Warner Bros. Entertainment Inc. MPAA’s members and their affiliates are the leading producers and distributors of filmed entertainment in the theatrical, television, and home entertainment markets. MPAA’s members distribute copies of those works on DVDs and Blu-Ray discs and increasingly offer their works online as well, including through digital downloads and streaming, thus making works more readily available to consumers and businesses than ever before.

As part of those efforts to make expressive works more widely available in the different ways that consumers want and at different price points, MPAA members license their content to service providers, who in turn license the content to their customers in various ways. Often, customers choose not to purchase copies of movies or TV shows outright, but instead obtain licenses to reproduce or

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<sup>1</sup> Pursuant to Federal Rule of Appellate Procedure 29(c)(5), MPAA states that no counsel for a party authored this brief in whole or in part, and no person or entity, other than MPAA, its members, or its counsel, made a monetary contribution to the preparation or submission of this brief.

access movies or TV shows for personal viewing. These methods of digital delivery, built upon the use of licensing, have emerged in response to new technologies, and they continue to evolve rapidly to adapt to the business and technology environment and changing customer demand. For example, through online services such as Apple's iTunes and Amazon's "Instant Video," a customer can download a digital copy of a motion picture or TV show pursuant to a license that allows the customer to access the movie or show on several devices.

Similarly, certain of MPAA's members license content to streaming services such as Netflix or Hulu, which in turn license their customers to view movies and TV shows over the Internet, or to cloud services such as UltraViolet, which offer customers options to download or stream a movie or TV show. These services and many others like them are founded upon licensing arrangements that benefit consumers by providing a wide variety of choices on how, when, and where to watch content, at tiered pricing that allows consumers to pay for the particular level of access and flexibility they desire. They accordingly facilitate access to creative works on terms that match the customer's tastes and needs, at affordable price-points.

Settled law recognizes that the first sale doctrine applies to the *sale* of physical copies and does not apply to licensing transactions. That rule dictates the outcome of this case, and the district court correctly applied this Court's

controlling precedent to make the factual determination that Adobe's software here was licensed and not sold. Defendants' appeal from that judgment presents a simple, straightforward question for this Court's review that would not ordinarily warrant amicus participation.

Defendants, however, have raised the unfounded contention that the Supreme Court's recent decision in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013)—silently, and contrary to the plain text of the Copyright Act—curtailed settled law excluding licensees from the first sale defense, even though that case had nothing remotely to do with licensing. If true, that imaginative understanding of *Kirtsaeng* would pull the legal rug out from under the widespread and beneficial licensing arrangements that MPAA's members commonly employ and create significant uncertainty that would hinder the development of new delivery models. MPAA thus respectfully submits this brief for the limited purpose of underscoring that *Kirtsaeng* in fact said nothing of the sort and that its holding bears no relevance to the clear-cut issue before the Court in this case.

## **ARGUMENT**

### ***KIR TSAENG* DID NOT SILENTLY EXTEND THE FIRST SALE DOCTRINE TO LICENSEES OR PROVOKE THE UNCERTAINTY AND DISRUPTION THAT SUCH A HOLDING WOULD CREATE**

As codified in the Copyright Act, the first sale doctrine authorizes only “the owner of a particular copy or phonorecord lawfully made under this title, or any



person authorized by such owner” to sell or dispose of the possession of that copy or phonorecord. 17 U.S.C. § 109(a) (emphasis added). That “privilege” does not “extend to any person who has acquired possession of the copy or phonorecord from the copyright owner, by rental, lease, loan, or otherwise, without acquiring ownership of it.” *Id.* § 109(d). It is thus well settled that “because the protection afforded by § 109(a) is available only to the ‘owner’ of a lawfully made copy,” the first sale doctrine “[does] *not* provide a defense to a [claim of copyright infringement] against any nonowner such as a bailee, a *licensee*, a consignee, or one whose possession of the copy was unlawful.” *Quality King Distribs., Inc. v. L’anza Research Int’l, Inc.*, 523 U.S. 135, 146-147 (1998) (emphasis added); *see also Apple Inc. v. Psystar Corp.*, 658 F.3d 1150, 1155 (9th Cir. 2011); 2 Melville B. Nimmer & David Nimmer, *Nimmer On Copyright* § 8.12 [B][1][a] (2013).

In *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1107 (9th Cir. 2010), this Court reaffirmed that uncontroversial rule, recognizing that the first sale doctrine is “unavailable to those who are only licensed to use their copies of copyrighted works.” And *Vernor* set forth the test for determining whether a transaction is a license or sale. That test considers whether the copyright owner has “(1) specifie[d] that the user is granted a license; (2) significantly restrict[ed] the user’s ability to transfer the software; and (3) impose[d] notable use restrictions.” *Id.* at 1111; *see also Apple Inc.*, 658 F.3d at 1159.

Contrary to Defendants' contention, nothing in the Supreme Court's decision in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013), overruled the long-settled distinction between licenses and sales or altered the test for determining whether a transaction is a sale or a license. Had *Kirtsaeng* reversed settled law on this point, that holding would have had significant disruptive consequences for existing and developing business models in the digital marketplace. Far from the type of "clearly irreconcilable" higher authority that would be required for a panel of this Court to depart from *Vernor* and embrace those disruptive consequences, *see Miller v. Gammie*, 335 F.3d 889, 893, 900 (9th Cir. 2003) (en banc), *Kirtsaeng*, in fact, has no bearing on *Vernor*'s application in this case.

**A. *Kirtsaeng* Did Not Reject The Critical Distinction Between Sales And Licenses Or Undermine This Court's Decision In *Vernor***

1. The sole question presented in *Kirtsaeng* was whether the owner of a physical copy of a copyrighted textbook that was manufactured and first sold outside the United States could assert the first sale doctrine as a defense to the publisher's claim of copyright infringement resulting from the owner's later resale of the textbook in the United States. Resolving that issue required the Supreme Court to decide a narrow question of statutory interpretation: whether a copy manufactured abroad could be "lawfully made *under this title*" as required by section 109(a), notwithstanding the presumption that the Copyright Act, like all

U.S. laws, does not apply extraterritorially. And it required the Court to consider the intersection of section 109(a) with the separate provision of the Copyright Act, section 602(a)(1), that prohibits unauthorized importation of copies of copyrighted works acquired abroad.<sup>2</sup>

That question had nothing to do with the application of the first sale doctrine to one who has acquired a copy of a copyrighted work only through a license. Nor did *Kirtsaeng* have anything to do with the appropriate test for distinguishing an “owner” of a copyrighted work from a “licensee.” To the contrary, it was undisputed in *Kirtsaeng* that the defendants’ friends and family had lawfully *purchased* physical copies of the copyrighted textbooks in Thailand and that the purchasers (and, by extension, the defendant) “owned” those textbooks. *See, e.g., Kirtsaeng*, 133 S. Ct. at 1355; *John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F.3d 210, 213 (2d Cir. 2011); *John Wiley & Sons, Inc. v. Kirtsaeng*, 2009 WL 3364037, at \*5 (S.D.N.Y. Oct. 19, 2009); Br. for Pet’r at 7-8, *Kirtsaeng v. John Wiley & Sons, Inc.*, No. 11-697 (U.S. July 2, 2012) (“There is no dispute that Petitioner’s family lawfully purchased those books.”). The Supreme Court thus had no occasion to,

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<sup>2</sup> The Court resolved that question by holding that section 109(a) embodies no geographical restriction on the scope of the first sale doctrine and that copies made outside the United States can be “lawfully made under this title,” provided their manufacture complies with U.S. copyright law. This brief does not address the consequences of that decision for the district court’s alternative holding in this case, which turned on the place of manufacture of the copies of Adobe’s software.

and did not, address or disturb the settled law that the first sale defense cannot be asserted by one who has acquired a particular copy only through a license. *See Glover v. United States*, 531 U.S. 198, 205 (2001) (Supreme Court does not address issues that are not before it).

To the extent the Court in *Kirtsaeng* addressed the case of licensees at all, it only reaffirmed that the first sale doctrine does *not* apply. *See Kirtsaeng*, 133 S. Ct. at 1361, 1368. That conclusion, the Court explained, was made crystal clear by the Copyright Act's legislative history. *See id.* at 1361. While section 109(a)'s predecessor described the first sale doctrine as applying to one who had "*lawfully obtained*" "the possession of" a copy of a copyrighted work, Congress revised that language in 1976 to restrict the first sale doctrine only to "*the owner*" of a particular copy. *Id.* at 1360. As the Supreme Court explained, that change deliberately "le[ft] out" those "[w]ho might have lawfully *obtained* a copy of a copyrighted work but not *owned* that copy." *Id.* at 1361.

2. Just as nothing in *Kirtsaeng* could have, or did, depart from the unambiguous statutory direction that the first sale defense does not apply to licensees, the Court similarly did not purport to address the dividing line between "owners" and "licensees." The Court therefore adopted no "principles" that would call for a "[n]arrow[]" application of the *Vernor* test for distinguishing an owner

from a licensee or that would place a thumb on the scale against Adobe in the application of that test. *Cf.* Appellants’ Br. 17-24.

Defendants nevertheless infer (at 18-20) from *Kirtsaeng* the alleged “principle” that “market division is not a valid use of copyright law,” and that Adobe therefore may not “[u]se [c]opyright [l]aw to [d]ivide [m]arkets [b]etween [v]ersions of [i]ts [s]oftware.” That assertion takes *Kirtsaeng*’s discussion of market division entirely out of context. In *Kirtsaeng*, the Court considered the practice of market division only in deciding whether, when read in conjunction, sections 109(a) and 602(a)(1) impose a *geographical* limitation on the scope of the first sale defense. The publisher had argued that section 602(a)(1) was enacted to protect copyright owners’ ability to divide markets *geographically*, and that “lawfully made under this title” in section 109(a) should be interpreted consistent with that purpose. In disagreeing, the Court simply concluded that Congress had not intended to give copyright owners “more than ordinary commercial power to divide international markets.” *Kirtsaeng*, 133 S. Ct. at 1371. Far from adopting a new, super-legislative principle disfavoring all market division, as Defendants suggest, the Court stressed: “We do no more here than try to determine what decision Congress has taken” on the particular question before the Court. *Id.*<sup>3</sup>

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<sup>3</sup> Indeed, under the 1976 Copyright Act, a copyright holder may divide its exclusive rights in a work, and particular rights “may be granted” pursuant to

Here, in contrast, Congress indisputably decided to limit the reach of the first sale defense to those who actually own a particular copy of a copyrighted work and to exclude from the defense's coverage those who acquired the copy "by rental, lease, loan, or otherwise." *See* 17 U.S.C. §§ 109(a), (d). That unambiguous text does not turn on the alleged economic motivations of the copyright owner. (It cannot be that the outcome of this case would be different, for example, if Adobe distributed its software *only* through OEM vendors on the same licensing terms at issue here, without distinguishing among distributors or end users. Yet the logic of Defendants' argument suggests that it would.) As long as Adobe licensed, rather than sold, its copyrighted works, Defendants cannot assert the first sale defense.

Defendants' other alleged "principles" similarly do not warrant a "narrow" application of *Vernor*; instead, they reduce to the untenable contention that, despite the plain terms of section 109, the law should not recognize a distinction between sales and license agreements.

Defendants contend (at 20-24) that *Kirtsaeng* requires a rule that "[a]void[s] [b]urdening [c]ourts with [e]nforcing [r]estrictions on [m]ovable [g]oods" and avoids giving effect to "[r]estraints on [a]lienability." But, again, *Kirtsaeng* cited these points only in interpreting the phrase "lawfully made under this title" in

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licenses "with limitations on time, geography, or type of use." 2 *Patry on Copyright* § 5:123 (2013).

section 109(a). *Kirtsaeng*, 133 S. Ct. at 1363-1364. In interpreting that text, the Court reasoned that a rule that disregarded the geographical provenance of a particular copy had the benefit of freeing courts from the burden of determining the origin of “difficult-to-trace, readily movable goods.” *Id.* at 1363. In addition, the Court thought a rule that turned on where a work was manufactured would have been inconsistent with the common-law first sale doctrine, which had not recognized any geographical distinctions. *Id.* The Court’s reasoning on those points was confined to the issue actually before it—whether Congress intended to extend the first sale doctrine to physical copies of protected works manufactured and sold lawfully overseas and then resold in the United States.

The common-law principles regarding restraints on alienation that are described in *Kirtsaeng* and quoted by Defendants (at 22-23) thus have no bearing on this case. Under the common law, the Supreme Court noted, an owner who “give[s] or sell[s] his *whole* interest” in an item cannot restrain that item’s future sale. *See Kirtsaeng*, 133 S. Ct. at 1363 (citing 1 E. Coke, *Institutes of the Laws of England* § 360, p. 223 (1628)) (emphasis added). Citing this principle, the Court reasoned that “[a] law that permits a copyright holder to control the resale or other disposition of a chattel *once sold* is similarly ‘against Trade and Traffi[c], and bargaining and contracting.’” *Id.* (emphasis added).

Crucially, the common law recognized a different rule when the owner of a good did not “give[] or sell[] his whole interest,” a point not at issue in *Kirtsaeng*. Specifically, when an individual leased a good, that individual could impose restraints, even complete restraints, on the lessee’s right to sell or transfer the good. *See, e.g., 2 Powell on Real Property*, § 17.04[1][c] (2000 ed.) (“The common-law rule that disfavored restraints on alienation made an exception with respect to [leasehold] estates. ... A landlord could, by express provision, prohibit the tenant from transferring the leasehold estate to whatever extent the landlord desired.”). The common law thus fully supports the distinction Congress drew between owners of a physical copy of a work (entitled to the first sale defense) and those who acquired the work “by rental, lease, loan, or otherwise, without acquiring ownership of it” (not entitled to the defense). 17 U.S.C. § 109(d).<sup>4</sup>

If Defendants’ contrary “principles” were accepted, the consequence would be to overturn the distinction between sales and licenses altogether. That distinction requires courts to determine whether a copy has been sold or licensed and, if licensed, to enforce applicable restrictions on its further transfer.

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<sup>4</sup> *See also, e.g., Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 851-852 (2d Cir. 1963) (describing how, historically, mere “lawful possession by another [did not] suffic[e] to deprive the copyright proprietor of his right to control the transfer of the copyrighted objects”); *Henry Bill Publ’g Co. v. Smythe*, 27 F. 914, 922 (S.D. Ohio 1886) (concluding that a bailee commits copyright infringement if the bailee sells the copyrighted work entrusted to him).



Defendants' argument that courts should be freed from this "burden" is an argument to reject the distinction between outright "ownership" and possession by other means, which is embodied in the statute and in this Court's precedent.

In any event, this Court's test in *Vernor* protects against the alleged burdens and undue restraints Defendants fear. *Vernor* requires courts to examine more than whether a particular transaction is "label[ed]" a "license," *UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175, 1180 (9th Cir. 2011), and thus places real limits on the number of transactions that will fall outside the reach of the first sale doctrine. It also provides a workable way for courts and others to determine whether a copy has been licensed or sold, and it ensures that where a copy has been sold rather than licensed, its further alienation will not be restricted. *See Vernor*, 621 F.3d at 1111; *Apple*, 658 F.3d at 1156, 1159; *UMG Recordings*, 628 F.3d at 1177, 1180-1183 (concluding that ownership of promotional compact discs that the copyright holder had purported to "license" had, in fact, been transferred (*i.e.*, "sold")).

3. Defendants also err in arguing that the *Vernor* test applies only to agreements between a copyright owner and an end user. Even if Defendants had preserved that argument, the first sale defense reflects the principle that once a copyright owner makes an outright sale of a particular copy, it has exhausted its right to control the distribution of that copy. The proper focus in applying this doctrine is, accordingly, the copyright owner's initial, allegedly exhausting

transaction. Indeed, by definition, the acquiring party in the initial transaction with the copyright holder cannot later transfer any interest to an end user that is greater than the interest he or she initially acquired. *See, e.g., Prima Tek II, L.L.C. v. A-Roo Co.*, 222 F.3d 1372, 1382 (Fed. Cir. 2000) (“[A]n owner or licensee of a patent cannot convey that which it does not possess.”). It follows that the first sale doctrine cannot vary based on whether the copyright owner transacts initially with the end user or with another vendor. Either way, the question is whether the copyright holder exhausted its right to distribute a particular physical copy—by selling it—or instead reserved certain rights by merely licensing or leasing the content.

This Court’s decision in *Vernor* and subsequent cases applying the *Vernor* test thus focus on the initial transaction entered into by the copyright owner. *See Vernor*, 621 F.3d at 1108 (“If the copyright owners’ *initial transfers* of the films were first sales, then the defendant’s resales were protected by the first sale doctrine.” (emphasis added)); *Apple*, 658 F.3d at 1156 (describing *Vernor* as holding that “Autodesk’s customer from whom Vernor acquired the used copies was a licensee, not an owner of the copies”); *UMG Recordings*, 628 F.3d at 1177 (focusing on the copyright owner’s “initial distribution”). Nothing in *Kirtsaeng* supports Defendants’ contention that the *Vernor* test applies only to licensing

agreements between an owner and an end user. Defendants do not claim otherwise.

**B. The Significant Consequences That Would Flow From Defendants' Reading Of *Kirtsaeng* Confirm The Error Of Their View**

If, as Defendants contend, the Supreme Court had implicitly (and inexplicably) altered the manner in which courts should apply the rule that the first sale defense does not apply to licensees, that holding would have had startling and disruptive consequences in the marketplace. The Supreme Court should not be presumed to have wrought such a dramatic result without so much as a word's consideration.

As Adobe has explained (at 14-17), licensing has become a widespread means of delivering software and other copyrighted works. By licensing software and placing some limitations on its transferability and use, software companies can offer consumers products tailored to their specific needs, at prices those consumers can afford. *Id.* at 16-17.

Like the software field, other creative fields including the motion picture and television industry have adapted to the digital age and corresponding changes in consumers' tastes and needs by offering or providing access to digital copies or streams of their copyrighted works that depend on licenses rather than outright sales. These licensing arrangements allow MPAA's members to use innovative

methods of delivering their movies and TV shows to meet customer demand for affordable, readily accessible content on various devices. At the same time, MPAA's members continue to sell traditional copies of movies and TV shows to retailers by the billions on physical discs, which often recirculate in the secondary market. See Digital Entertainment Group, *DEG Year-End 2010 Home Entertainment Report 2*, available at [http://www.degonline.org/pressreleases/2011/f\\_Q410.pdf](http://www.degonline.org/pressreleases/2011/f_Q410.pdf). As a result, the digital marketplace now offers consumers a wide range of choices that are continually evolving, and many of those offerings depend on licensing.

For example, on services such as Apple's iTunes and Amazon's "Instant Video," a consumer can download a digital copy of a movie or TV show, which the consumer can then access on his or her choice of portable and other devices. By licensing the movie or TV show, rather than purchasing it outright, the consumer can acquire (and pay for) only the rights and uses that the customer desires. Through various forms of licenses, the consumer may choose between acquiring long-term access to the downloaded copies, or, alternatively, paying less to receive temporary access that expires after a period of time.

Other delivery models similarly employ licenses that offer customers a variety of options to acquire limited rights to download or view copyrighted motion pictures and TV shows for personal use. Streaming services, such as

Netflix or Hulu, and cloud services, such as UltraViolet, allow customers to access content when, where, and how they want, on tailored pricing terms that match their demand. At the same time, licenses afford the copyright owner a degree of control that helps reduce the risks of piracy and unauthorized distribution. These licensing arrangements thus serve the interests of both consumers and copyright holders by providing consumers many choices to access TV and movies on demand at different times and from various devices at affordable prices.

Although these delivery models are quite different from Adobe's software products at issue before the Court, MPAA's members' use of these licensing arrangements and other developing methods of delivering digital content rests fundamentally on a settled understanding of the distinction between a license and a sale and the rights that attend each transaction. That settled understanding forms an important foundation to today's vibrant digital marketplace. If, as Defendants contend, *Kirtsaeng* weakened the traditional rule that licensees may not assert the first sale defense, the value of licensing agreements would be seriously undermined. That position would inject substantial uncertainty into the digital marketplace, which would threaten not only to disrupt MPAA's members' current business models and the current thriving digital marketplace, but also to hinder the future evolution of new and innovative digital offerings.

Defendants' attempt to read those results into *Kirtsaeng* should be rejected. Rather, as Congress provided and *Kirtsaeng* reaffirmed, the first sale doctrine applies *only* to outright sales of a particular physical copy of a copyrighted work. Where the copyright holder has instead only granted certain rights, the doctrine does not apply.

### CONCLUSION

The district court's judgment should be affirmed.

Respectfully submitted,

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### **CERTIFICATE OF COMPLIANCE**

Pursuant to Fed. R. App. P. 32(a)(7)(C), the undersigned hereby certifies that this brief complies with the type-volume limitation of Fed. R. App. P. 32(a)(7)(B)(i).

1. Exclusive of the exempted portions of the brief, as provided in Fed. R. App. P. 32(a)(7)(B), the brief contains 3,920 words.

2. The brief has been prepared in proportionally spaced typeface using Microsoft Word 2010 in 14 point Times New Roman font. As permitted by Fed. R. App. P. 32(a)(7)(B), the undersigned has relied upon the word count feature of this word processing system in preparing this certificate.

/s/ Randolph D. Moss  
RANDOLPH D. MOSS

July 5, 2013

**CERTIFICATE OF SERVICE**

I hereby certify that on this 5th day of July, 2013, I caused the foregoing to be electronically filed with the Clerk of the Court for the United States Court of Appeals for the Ninth Circuit using the appellate CM/ECF system. Counsel for all parties to the case are registered CM/ECF users and will be served by the appellate CM/ECF system.

/s/ Randolph D. Moss

RANDOLPH D. MOSS