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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

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RANDOM HOUSE, INC.,

Plaintiff,

v. 01 Civ. 1728 (SHS)

ROSETTA BOOKS LLC
and ARTHUR M. KLEBANOFF, in his individual
capacity and as principal of ROSETTA BOOKS LLC,

Defendants.

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MEMORANDUM OF *AMICI CURIAE* PENGUIN PUTNAM INC., SIMON AND SCHUSTER, INC., TIME WARNER TRADE PUBLISHING INC., AND THE PERSEUS BOOKS GROUP IN SUPPORT OF PLAINTIFF

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INTRODUCTION

This memorandum is submitted on behalf of Penguin Putnam Inc., Simon and Schuster, Inc., Time Warner Trade Publishing Inc., and The Perseus Books Group as *amici curiae* in support of Plaintiff Random House, Inc.'s ("Random House") motion for a preliminary injunction. Accompanying this memorandum is a motion seeking leave to file this memorandum.

INTEREST OF THE AMICI

Amici curiae are book publishers who collectively publish thousands of books each year. Although the extent of their "backlists" varies, all of the *Amici* derive substantial revenue from books written and first published decades ago.

PRELIMINARY STATEMENT

On February 27, 2001, Random House ("the Publisher") filed this action seeking injunctive relief and damages for copyright infringement and tortious interference with contract against RosettaBooks, LLC ("RosettaBooks") and its principal, Mr. Arthur Klebanoff. Random House's principal argument is straightforward. It alleges that the broad grant it received in past publishing contracts of the exclusive right to "print, publish, and sell in book form" the texts ("the Texts")

of William Styron, Kurt Vonnegut, and Robert Parker ("the Authors") includes the right to sell electronic books or "eBooks."

In response to Plaintiff's motion for a preliminary injunction, Defendants have submitted fifteen affidavits as well as numerous exhibits and excerpts from deposition transcripts. In addition, the Court has granted the motion of *amici curiae* The Author's Guild, Inc. and The Association of Author's Representatives, Inc. for leave to file a brief *amicus curiae* in opposition to Plaintiff's motion. These voluminous submissions are insufficient to overcome Plaintiff's simple and persuasive demonstration that an "exclusive" right to publish a text "in book form" includes the exclusive right to publish eBooks such as those offered by Defendants.

Together, Defendants and the *amici* supporting them make four principal arguments. First, Defendants argue that the Court should look outside the contracts at issue and interpret them based upon custom and trade in the industry to limit their grants to paper publications. Second, Defendants argue that the fact that publishing contracts did not specifically address eBooks before the early 1990s requires a finding that such rights were not included in the earlier, exclusive grants of rights to publish "in book form." Third, Defendants contend that the eBook provides a "different experience" to the reader, notwithstanding the uncontested facts that their eBooks contain the full text of the work and that the eBook producers publicly advertise that their product emulates reading the text in a paper format. Finally, Defendants argue that publishers such as Random House will not suffer irreparable harm if Defendants

are permitted to continue (and presumably expand) their sales of backlist titles. For the reasons set forth in this memorandum, none of these arguments has merit.

Amici submit this brief to focus the Court's attention on the extent to which the result in this case will affect the book publishing industry as a whole. The book publishing business is filled with financial risk. Book sales often do not cover the cost of production, and publishers depend to a large extent on the exclusive rights they have obtained to publish well known works on their backlists to supplement revenues derived from their current catalogues. In exchange for taking the formidable risk of publishing their books, authors have long granted publishers broad and exclusive rights to deliver the text of the book to the public in a form suitable for reading.

The common contractual language "in book form" at issue in this case is precisely the type of grant which gives the publisher the right, unless otherwise specifically limited, to publish the text of the book in any readable form. Similarly, this and other broad language in such contracts prevents an author from attempting to allow a rival publisher later to sell the very same text of the book in the marketplace. With as much as forty percent of a publisher's income derived from backlist sales, these common terms benefit all parties and are essential to the economics of the book publishing industry.

Amici, like Plaintiff Random House, do not seek to broaden any rights previously granted to publishers. *Amici* strongly disagree with the Defendants' narrow interpretation of the standard contractual language which defines the core of

the relationship between authors and their publishers in a manner which is contrary to both the contractual language and to settled case law. *Amici* also disagree with Defendants' references to changes in industry practice regarding electronic rights to argue for an interpretation of those contracts which would contradict the broad grant of rights to the text of the book. If Defendants are not enjoined in this case, they will undoubtedly be joined by other competing eBook publishers seeking a free ride off the investments of original publishers.

THE ARGUMENT

POINT I
THE WORDS "IN BOOK FORM" AND SIMILAR CONTRACTUAL LANGUAGE CONFER UPON PUBLISHERS THE EXCLUSIVE RIGHT TO PUBLISH eBOOKS

A. COURTS MUST RELY ON NEUTRAL PRINCIPLES OF CONTRACT INTERPRETATION

State contract law governs the interpretation of private contracts. Bartsch v. Metro-Goldwyn-Mayer, Inc., 391 F.2d 150, 153-54 (2d Cir. 1968). Under settled New York law, when parties set forth their agreement in a clear, complete document, their writing should, as a rule, be enforced according to its terms. W.W.W. Assoc. Inc. v. Giancontiere, 77 N.Y.2d 157, 565 N.Y.S.2d 440, 566 N.E.2d 639 (1990).

In interpreting contracts in light of new technology, the United States Court of Appeals for the Second Circuit relies on the language of the contract and not extrinsic evidence of the intent of the contracting parties. Boosey & Hawkes Music Publishers,

Ltd. v. Walt Disney Co., 145 F.3d 471 (2d Cir. 1998). In Boosey, this Circuit held that a 1939 license for motion picture rights included the rights to sell and rent video-cassettes and video discs, even though video-cassettes and video discs were not invented until decades later. The Court explicitly rejected the notion that the term "motion picture" included only the core uses of "motion picture" as understood in 1939 and not subsequently developed methods of distribution, such as video discs. Rather, the Court explained that uses which reasonably fall within the scope of the grant, such as the exhibition of a motion picture on television or by means of video discs, were well within the broad grant of rights. Boosey & Hawkes Music Publishers, Ltd. v. Walt Disney Co., 145 F.3d at 486. The fact that video discs may not have been in existence at the time of the grant was immaterial.

According to the Court in Boosey, even if new technologies are not specifically mentioned in the licensing contract, new technological uses should be included in the contract's broad grant of rights if "they reasonably fall within the description of what is licensed." Id. at 487. The Court explained that the intent of the parties "is not likely to be helpful when the subject of the inquiry is something the parties were not thinking about." Parties to a contract "should be entitled to rely on the words of the contract." Id. at 488.

The Court categorically rejected the argument that it would frustrate the purpose of the copyright law to include new technology within the broad grant of rights, explaining that "new-use analysis should rely on neutral principles of contract

interpretation rather than solicitude for either party. . .If the contract is more reasonably read to convey one meaning, the party benefiting from that reading should be able to rely on it. . .This principle favors neither the licensors nor the licensees. It follows simply from the words of the contract." Id. at 487. In granting exclusive rights to video disc distribution based on the 1939 contract, the Court found this result more "fair and sensible than a result that would deprive a contracting party of the rights reasonably found in the terms of the contract it negotiates." Boosey & Hawkes Music Publishers, Ltd., v. Walt Disney Co., 145 F.3d at 487.

In Boosey, the Court relied heavily on its holding thirty years earlier in Bartsch v. Metro-Goldwyn-Mayer, Inc., 391 F.2d 150 (2d Cir. 1968). In that case, this Circuit held that a 1930 assignment of "motion picture rights" to a musical play included the right to broadcast the film on television, even though television was not commercially available until 1941. The Court explained that "licensees may properly pursue any uses which may reasonably be said to fall within the medium as described in the license." Bartsch v. Metro-Goldwyn-Meyer, Inc., 391 F.2d at 155.

As a result of the holdings in Boosey and Bartsch, new technology does not need to be in existence at the time of contract to be included within the "medium as described in the license." Relying on neutral principles of contract interpretation, as long as the new uses "reasonably fall within the description of what is licensed," they will be deemed included in a broad grant of rights. Boosey and Bartsch provide strong

support for Random House's argument that the exclusive grant of the right to publish a work "in book form" includes eBooks.

B. ELECTRONIC PUBLISHING RIGHTS FALL WELL WITHIN THE MEDIUM AS DESCRIBED IN THE LICENSE

The Defendants' own admissions make it clear that the eBook falls within "the medium as described in the license." Defendant RosettaBooks has stated publicly that an eBook is simply another form of book, marketing itself on the Internet as "the leading electronic publisher of quality backlist books. . ." See Exhibit A. Furthermore, the February 2001 Executive Summary from RosettaBooks states that "RosettaBooks publishes books only in electronic formats." See Exhibit B.

The *amici* Authors' Guild, Inc. ("the Guild") and the Association of Author's Representatives, Inc. ("the Representatives") have also publicly endorsed the view that an eBook is just another form of book. In a Position Statement on Electronic Publishing Rights issued by the Guild on October 18, 1993, it explained unambiguously that "electronic books are books." See Exhibit C.

Similarly, a position paper prepared by the Representatives in May 1993 further supports the view that electronic publishing rights belong to the publisher. According to that paper, an eBook falls within the "exclusive print publishing rights" granted to the publisher. "It would seem that the position of most agents today is that nondramatic electronic publishing rights. . .resulting in a visible and readable

reproduction of the verbatim text of the work may be controlled by the publisher." See Exhibit D.

Despite such admissions, Defendants argue that the dissemination of the eBook is not a publication of the text "in book form," and hence does not fall within the medium as described in the license. Oddly enough, both Microsoft and Adobe, the two exclusive distributors of RosettaBooks' product, admit the contrary is true. Microsoft and Adobe market the eBook by explicitly boasting that the eBook displays the Text in a form nearly identical to the font of a hardcover book.

For example, Microsoft Reader has recently developed "ClearType," a method by which eBooks are electronically published. According to public statements on Microsoft's web site, ClearType "enhances display resolution by as much as 300 percent by improving letter shapes and character spacing, making them appear more detailed, more finely crafted, and more like printed fonts." See Exhibit E. RosettaBooks' distributors are thus working hard to make the eBook presentation as much like reading paper text as possible.

Furthermore, Microsoft Reader's explanation of the eBook on its web site supports the view that publication of the eBook is in book form. "Books need not be confined to the physical qualities of their pages. . .A book is really a magical thing that disappears when you read it. The book itself, whether it's made of ink on paper or pixels on a screen, seems to evaporate when you become immersed in the act of

reading. . .that's the kind of experience you can have using Microsoft Reader with ClearType." See Exhibit E.

A published interview with Mr. Bill Hill, a head researcher for the Microsoft Reader development team, further establishes that the eBook is just another "form" of a book. Referring to the eBook as simply "a book" throughout the entire interview, Mr. Hill concludes by announcing "we are taking the book to the next generation." See Exhibit F.

With or without the "e," an eBook is a book which contains the full text and content of a paper book. It clearly falls within the medium as described in the contracts. Consequently, Defendants have violated and continue to infringe Random House's exclusive rights and to interfere with its publishing contracts.

C. ELECTRONIC BOOKS FALL WELL WITHIN THE BROAD GRANT OF THE RIGHT TO PUBLISH ''IN BOOK FORM''

The five contracts at issue between Random House and the Authors grant the Publisher the exclusive right to publish and sell their text "in book form." The rights obtained by the Publisher are broad and clear. Absent a specific reservation of rights, it follows from the words of the contract that the publisher has the exclusive right to publish the Text in any book form. Under Boosey, just as video disc rights fell within the grant of motion picture rights long before the technology was developed (or even contemplated), electronic distribution of books could only be reasonably understood to fall within the grants in this case.

As explained above, whether or not eBooks were specifically contemplated by the contracting parties at the time of contract is immaterial.[1] Furthermore, the absence of a "future technology clause" in earlier contracts does not alter the analysis. Id. at 489. Rather, all this Court needs to ascertain is whether eBooks reasonably fall within the description of what is licensed in the contracts. Relying solely on the words of the contracts, unless the Court finds that an eBook is not a form of a book, Defendant RosettaBooks must be enjoined.

D. HISTORICALLY, COURTS HAVE BROADLY INTERPRETED PUBLISHING AGREEMENTS

While this Court is presented for the first time with the task of applying the principles of Boosey and Bartsch to book publishing, courts have historically interpreted exclusive publishing contracts to include all available means of publication, even when those means are not specified by enumerated contractual terms. In Dolch v. Garrard Pub. Co., 289 F. Supp. 687 (S.D.N.Y. 1968), the Court found that where a contract grants the "exclusive right of publication" with no stated

[1] In arguing that the rights to eBooks were reserved by the Authors, Defendants rely heavily in their opposition papers on the fact that standard publishing contracts, including those at issue here, often provide for varying royalties payable upon publication in a given format. Such clauses are irrelevant to the question presented in this case. Just because a given right is assigned a different royalty or no royalty has nothing to do with whether that right was or was not granted to the licensee. Moreover, Defendants' reasoning runs contrary to the holding in Boosey, which stands for the principle that the absence of specific provisions relating to future technologies does not in any way suggest that specific rights, such as those to eBooks, were or were not granted to the Publisher.

limitation, such a grant includes paperback as well as hardcover rights. The absence of any evidence of negotiation for the paperback rights in that case did not suggest their exclusion. To the contrary, despite no mention whatsoever of paperback rights in the contract, the Court held that paperback rights were conveyed.

Similarly, courts have held that, even where the parties struck out a clause governing "cheap editions" from the form contract, broad language permitting publication in book form gave the publisher the exclusive right to publish reprints with no additional royalty. Dresser v. William Morrow, 278 A.D. 931, 105 N.Y.S. 2d 706 (1951), aff'd, 304 N.Y. 603 (1952).

POINT II
INTERPRETED AS A WHOLE, THE PUBLISHING CONTRACTS IN THIS CASE DO NOT PERMIT DEFENDANTS' COMPETING PUBLICATION

New York law has authoritatively established that contracts should be interpreted as a whole, and every part of the contract should be interpreted with reference to the whole. If possible, the contract should be interpreted in a manner which gives effect to its general purpose. See Empire Properties Corp. v. Manufacturers Trust Co., 288 N.Y. 242, 43 N.E.2d 25 (1942); Fox Film Corp v. Springer, 273 N.Y. 434, 8 N.E.2d 23 (1937). Accordingly, the meaning of the contract must be gleaned from the four corners of the contract in the first instance, and

not from extrinsic evidence of specific negotiations. Frankel v. Tremont Norman Motors Corp., 21 Misc. 2d 20, 193 N.Y.S.2d 722 (1959).

The contracts at issue in this case grant the Publisher the "exclusive" right to print, publish, and sell the Text "in book form." Additional terms in the contracts reinforce the breadth of the Publisher's exclusive rights, as they prohibit any exercise by Defendants or by the Authors of any aspect of those rights. If effect is to be given to the contract's general purpose, the fact that Defendants cannot exploit these rights reinforces the conclusion that the publishers can.

A. THE NON-COMPETE CLAUSE

Four of the five contracts at issue here contain non-compete clauses. The 1961 Styron Agreement, for example, provides that "The Author agrees that during the term of this agreement he will not, without the written permission of the Publisher, publish or permit to be published any material in book or pamphlet form, based on the material in the work, or which is reasonably likely to injure its sale." See Affidavit of Richard Sarnoff, sworn 26th of February, 2001, Exhibits A-E. ("Sarnoff Affidavit, Exhibit [x]"). Similar "non-compete" language has appeared in standard publishing contracts for decades and makes it obvious that only the original publisher has the right to publish or license the full Text.

Defendants' unsupported argument that non-compete clauses do not apply to works of fiction has no merit: as is plain from their face, such clauses apply both to

fiction and non-fiction. Moreover, this is not a case where an author seeks to publish a second novel which, though not identical to the Text under contract, "competes" in a general way with the original novel. Instead, Defendants seek to publish the very same novel, in an eBook form, which obviously threatens to impair the market for the paper version of the text.

B. 'FORM OF COPYING'' CLAUSES SUPPORT THE BROAD GRANT OF PUBLISHING RIGHTS

In the Vonnegut and Parker contracts, the authors granted to the Publisher the "exclusive right to publish and to license the Work for publication. . .in Xerox and other forms of copying, either now in use or hereafter developed." See Sarnoff Affidavit, Exhibits A-E. Although not universal, the widespread use of clauses addressing other forms of copying merely confirms the interpretation of the contracts as granting publishers broad and exclusive rights to publish the Text except where otherwise specifically provided.[2]

[2] As the Boosey Court explains, the absence of such a clause is not determinative. "Neither the absence of a future technologies clause in the Agreement nor the presence of the reservation clause alters that analysis." Boosey, 145 F.3d at 488.

C. EVEN IF THE CONTRACTS DID NOT CONTAIN ADDITIONAL TERMS, THE OBLIGATION NOT TO FRUSTRATE THE OBJECT OF THE CONTACT IS IMPLIED AT LAW

Even if the contracts did not contain "non-compete" or form of copying clauses, the obligation not to frustrate the object of the contract would be implied by law. An implied covenant of good faith and fair dealing exists in every contract to ensure that neither party will do anything which will destroy or injure the right of the other party to receive the fruits of that contract. American Broadcasting Cos. v. Wolf, 76 A.D.2d 162, 171, 430 N.Y.S.2d 275 (1980). See Pernet v. Peabody Engineering Corp., 20 A.D.2d 781, 248 N.Y.S.2d 132 (1964). As explained below, not only have the Defendants threatened the right of Random House to receive the essential benefit of its contract, Random House and other publishers will be irreparably harmed if this Court does not grant the relief sought.[3]

POINT III
PUBLISHERS WILL BE IRREPARABLY HARMED IF THIS COURT DOES NOT GRANT AN INJUNCTION

Book publishers are in the content delivery business. The publisher's exclusive right to publish the author's text is the reason the publisher is willing to take

[3] The basic principle of contract law that neither party shall do anything that will have the effect of diminishing the value of the contract or destroying the rights of the other party to receive the benefits of the contract has received substantial support in New York in the context of new technology cases. See Harper Bros. v. Klaw, 232 F. 609, 613 (S.D.N.Y. 1916).

enormous economic risks to develop and promote the work. A review of some of the statistics concerning the book publishing industry makes it clear that no publisher could have entered into those publishing contracts had they understood that authors retained the right to publish the text in a directly competing format.

A. THE FINANCIAL RISKS OF PUBLISHING A BOOK ARE GREAT

The risk to publishers that their expenses will not be recovered has always been high. Publishers lose money on eighty percent of new books published each year. Accordingly, a publisher expends enormous sums with the hope that, someday, its exclusive right to distribute the Text will yield a positive return on its investment. Even the most established publishers experience a great deal of uncertainty marketing their new books. See SELZ THOMAS D. ET AL., ENTERTAINMENT LAW §2.10 (2nd ed. 2000).

B. PUBLISHERS DEPEND HEAVILY UPON THEIR BACKLISTS

All of the *Amici* depend heavily upon their blacklists (works published in the past which remain in print). The "Backlist is a publisher's reason for being; it keeps them going, and it is the standard against which all other publishing currency is measured. Backlist is what every publisher hopes frontlist will become when it grows up." Margaret Langstaff, *The Business of Backlist: Serving the Bread and Butter,* Publishers Weekly.com, October 18, 1999. Backlist sales typically account for approximately forty percent of a publisher's revenues. To be sure, "without a

successful backlist, a house would have to publish a high percentage of money-making books each year – something that is difficult to do." McDowell, *Publishing's Backbone: Older Books*, N.Y. Times, March 26, 1990, at D12.

In this case, RosettaBooks and like-minded competitors are seeking to "jeopardize the investments publishers make in the works they publish by allowing third parties to take the very same content and offer it to the very same reading public, in competition with the publisher's paper edition." See Affidavit of Edward A. Miller, sworn to on February 23, 2001, at 16. In the light of the extraordinary economic investment and risk undertaken by book publishers, publishers will suffer irreparable harm if the Defendants are not enjoined.

CONCLUSION

Based upon the record in this case and for the reasons set forth above, *Amici* urge the Court to grant Random House's motion for a preliminary injunction.

Dated: New York, New York
April 30, 2001

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