



Al Daniel
Daniel, Seigel & Bimblar
1776 Broadway
11th Floor
New York, NY 10019
(212) 333-7000

Robert J. LaRocca
Michael J. Boni
Joanne Zack, JZ 6432
Neil L. Glazer, NG 7584
KOHN, SWIFT & GRAF, P.C.
One South Broad Street
Suite 2100
Philadelphia, PA 19107
(215) 238-1700

Attorneys for Defendants

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

RANDOM HOUSE, INC.,	:	
	:	
	:	
Plaintiff,	:	01 Civ. 1728 (SHS)
	:	
v.	:	
	:	
ROSETTA BOOKS LLC	:	
and ARTHUR M. KLEBANOFF, in his individual	:	
capacity and as principal of ROSETTA BOOKS LLC.,	:	
	:	
Defendants.	:	

**DEFENDANTS' RESPONSE IN OPPOSITION TO
PLAINTIFF'S MOTION FOR PRELIMINARY INJUNCTION**

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
STATEMENT OF FACTS	4
A. Trade Usage of “Print, Publish and Sell in Book Form”	4
B. The Styron, Vonnegut and Parker Contracts with Random House	7
1. William Styron	7
2. Kurt Vonnegut	9
3. Robert Parker	12
C. Random House’s Adoption of an Electronic Rights Clause	12
D. Electronic Publishing	14
ARGUMENT	19
I. RANDOM HOUSE DOES NOT HAVE A PROBABILITY OF SUCCESS ON THE MERITS	20
A. <u>Boosey</u> and <u>Bartsch</u>	23
1. The Contracts at Issue in <u>Bartsch</u> and <u>Boosey</u> Contained Broad Grants of Rights	25
2. Actual Contractual Intent Is Known	28
3. There Was No Nascent Market for Electronic Publishing Until the 1990's	29
4. Two Separate Media Are Involved	30
B. Random House’s Position Contradicts The Plain Language of the Contracts, and Trade Usage	31

1.	Random House Seeks to Contradict the Contracts on Their Face and Decades of Trade Usage.....	32
2.	Each Separate Right Has a Royalty Structure.....	37
3.	Random House Has Invented A New Phrase	39
4.	Random House’s Position Contradicts Its Own Contractual Interpretation	41
5.	The Non-Compete Provisions Do Not Assist Random House	43
II.	RANDOM HOUSE CANNOT SHOW IRREPARABLE HARM.....	45
III.	BALANCE OF THE HARDSHIPS.....	48
CONCLUSION		49

TABLE OF AUTHORITIES

FEDERAL CASES

	<u>Page</u>
<u>ABKCO Music, Inc. v. Westminster Music, Ltd.</u> , 838 F. Supp. 153 (S.D.N.Y. 1993), <u>aff'd without op.</u> , 41 F.3d 1502 (2d Cir. 1994)	37
<u>Bartsch v. Metropolitan-Goldwyn-Mayer</u> , 391 F.2d 150 (2d Cir.), <u>cert. denied</u> , 393 U.S. 826 (1968)	5, 25, 27, 28, 31, 33
<u>Boosey & Hawkes v. Walt Disney Co.</u> , 145 F.3d 481 (2d Cir. 1998).....	25, 26, 27, 29, 30, 31, 32
<u>Cordingley v. Allied Van Lines Inc.</u> , 563 F.2d 960 (9th Cir. 1977)	43
<u>Field v. True Comics</u> , 89 F. Supp. 611 (S.D.N.Y. 1950)	6, 23, 26, 29
<u>Greenberg v. National Geographic Society</u> , 2001 U.S. App. LEXIS 4270 (11th Cir. March 22, 2001).....	32, 33
<u>Harper & Brothers v. M.A. Donahue & Co.</u> , 144 F. 491, 1905 U.S. App. LEXIS 4172 (C.C.D. Ill. 1905), <u>aff'd</u> , 146 F. 1023 (7 th Cir. 1906).....	5
<u>Karabu Corp. v. Pension Benefit Guaranty Corp.</u> , 1997 U.S. Dist. LEXIS 19582 (S.D.N.Y. 1997).....	34
<u>Littlepage v. Neale Public Co.</u> , 34 App. D.C. 257, 1910 U.S. App. LEXIS 5802 (D.C. Court of Appeals 1910).....	5
<u>Mazzaferro v. RLI Insurance Co.</u> , 50 F.3d 137 (2d Cir. 1995).....	34
<u>Murray v. Roberts</u> , 103 F.2d 889 (2d Cir. 1939).....	44

	<u>Page</u>
<u>Old Colony Trust Co v. City of Omaha,</u> 230 U.S. 100 (1913).....	43
<u>Personalized Media Communications, L.L.C. v. Starsight Telecast, Inc.,</u> 2000 U.S. Dist. LEXIS 14185 (S.D.N.Y. 2000).....	39
<u>Rose Stone & Concrete v. County of Broome,</u> 76 A.D.2d 998, 429 N.Y.S.2d 295 (3d Dept. 1980)	35
<u>Sanchez v. Maher,</u> 560 F.2d 1105 (2d Cir. 1977).....	43
<u>Trans World Metals v. Southwire Co.,</u> 769 F.2d 902 (2d Cir. 1985).....	35
<u>Viacom Intern. Inc v. Lorimar Productions,</u> 486 F. Supp. 95 (S.D.N.Y. 1980)	42, 43
<u>Video Trip Corp. v. Lightning Video Inc.,</u> 866 F.2d 50 (2d Cir. 1989).....	21, 47, 49

STATE CASES

<u>Battista v. Carlo,</u> 57 Misc. 2d 495, 293 N.Y.S.2d 227 (S.Ct. 1968).....	43
<u>Brooke Group Ltd. v. JCH Syndicate,</u> 87 N.Y.2d 530, 640 N.Y.S.2d 479, 663 N.E.2d 635 (1996).....	34
<u>Browning-Ferris Industrial of New York v. County of Monroe,</u> 103 A.D.2d 1040, 478 N.Y.S.2d 428 (4 th Dep't 1984), <u>aff'd</u> , 64 N.Y.2d 1046, 489 N.Y.S.2d 902, 479 N.E.2d 247 (1985).....	34
<u>In re Field's Will,</u> 11 A.D.2d 774, 204 N.Y.S.2d 947 (2d Dept. 1960)	43
<u>Finery Silk Stocking Co. v. Aetna Insurance Co.,</u> 227 A.D. 39, 237 N.Y.S. 36 (N.Y. App. Div. 1929)	34
<u>Madawick Contracting Co . Travelers Insurance Co.,</u> 307 N.Y. 111, 120 N.E.2d 520 (1954).....	43

Page

Seroff v. Simon & Schuster,
6 Misc. 2d 383, 162 N.Y.S.2d 770 (NY Supreme Court 1957),
aff'd, 12 A.D.2d 475, 210 N.Y.S.2d 479 (1st Dep't 1960)6, 35, 36, 38

Theatre Guild Products, Inc. v. Insurance Corp. of Ireland,
25 A.D.2d 109, 267 N.Y.S.2d 297 (1st Dep't 1966),
aff'd, 19 N.Y.2d 656, 278 N.Y.S.2d 625, 225 N.E.2d 216 (1967).....34

Webster's Read Seal v. Gilberton World Wide,
67 A.D.2d 339, 415 N.Y.S.2d 229 (1st Dep't 1979)43

Wood v. Lucy, Lady Duff-Gordon case,
222 N.Y. 88, 118 N.E. 214 (1917).....24

FEDERAL STATUTES

17 U.S.C. §10121

17 U.S.C. §201 (d)21

INTRODUCTION

In October, 2000 and January, 2001, William Styron, Kurt Vonnegut and Robert Parker entered into contracts with defendant RosettaBooks, LLC (hereafter “Rosetta”) for electronic publishing of eight of their works over the internet. Exs. 21-23 hereto.¹ Pursuant to those contracts, Rosetta has actually made those works available online at rosettabooks.com, from which site the works may be downloaded and read via special software and electronic reading devices developed by Microsoft and others.

Messrs. Styron, Vonnegut and Parker were free to license the electronic rights to their works to RosettaBooks because their publishing contracts with plaintiff Random House, which contracts were executed 20 to 40 years ago, did not grant to Random House those electronic rights. Although Random House has never in fact published any of these eight works as electronic books, Random House improperly seeks, by judicial fiat, to have an “electronic rights” provision implied in the contracts and enjoin RosettaBooks from so publishing.

Plaintiff’s complaint, though expansive on the history of Random House, publishing, and the development of electronic media, alleges only that Rosetta’s activities – which were expressly authorized by written agreements with these authors – violated plaintiff’s alleged rights by “reproduction of multiple copies of the Works and their distribution by sale to the public...,” invoking 17 U.S.C. § 106. Complaint ¶ 58. These claims are baseless.

¹The works in suit are: The Confessions of Nat Turner and Sophie’s Choice by William Styron; Slaughterhouse Five, Cat’s Cradle, Sirens of Titan, Breakfast of Champions, and Player Piano by Kurt Vonnegut; and Promised Land by Robert Parker. Rosetta’s contracts with Messrs. Styron, Vonnegut and Parker are Exhibits 21-23 in the separate volume of exhibits submitted herewith.

Rosetta exposes in this brief the manifold fallacies of Random House's claim. Under settled rules of contract interpretation, it would be legal error to construe the Random House contracts at issue to include electronic rights. Random House's attempt to write the term "electronic rights" or "electronic books" into contracts that make no reference whatever to those rights constitutes an about face from decades long trade practice and usages at Random House and the rest of the publishing industry.

As described by former Random House executive Catherine Fowler, hired in 1991 to help develop the electronic rights division at Random House, publishing contracts, industry-wide, have always expressly enumerated each and every right that the author was licensing to the publisher. Ms. Fowler states also that in the early 1990's she and others at Random House discussed and flatly rejected the notion that Random House's standard agreements could be read to include electronic rights. Catherine Fowler Decl. ¶¶ 12, 17, 20-25, 28, Ex. 7. That is why Random House amended its standard contracts to expressly include electronic rights in 1994. Ex. 26. In 1995, Random House admitted it did not even have the right to publish a single chapter online, let alone a whole work, without the author's express permission. Harper Decl. ¶ 10, Ex. 9. Random House's current lawsuit represents a complete reversal under its own interpretation of its contracts.

Further, while Random House argues that the electronic publishing of books was "foreseeable" so that Mr. Styron and other authors waived their rights in the 1960's and 1970's, Random House – the dominant publisher, with over 35% of the market and millions of dollars to spend on development – has admitted that it only launched its eBook publishing in 1998. Sarnoff dep., Ex. 18, pp. 125-26. One may reasonably wonder why this self-professed market

leader waited nearly half a century. The answer is, of course, that it was not foreseeable. As its own witness, Richard Sarnoff, has testified, “It’s only in the last several years that that capability has arrived at the market...there hasn’t been a comfortable and normal technology path for consumers to use to get them and to experience the works.” Id.

Although Random House is using as a “test case” five contracts covering eight (8) books with three authors, Random House asserts in its memorandum and its prayer for relief that its aim is far broader, and extends to every author who ever contracted with Random House or its many affiliates prior to 1994.² This lawsuit, therefore, is a test case by Random House for a judicial declaration that “in book form” means “electronic publishing rights,” as part of an effort to prevent the hundreds or thousands of authors who signed publishing contracts with Random House in the 1950's, 1960's, 1970's, and 1980's from negotiating with RosettaBooks, or with anyone else, for contracts to distribute the author’s works via electronic publication. Hence, this lawsuit is an improper retroactive rights grab by Random House.

Random House’s lawsuit is an unfounded attempt to deprive thousands of authors of their electronic publishing rights. Random House’s motion for preliminary injunctive relief is equally unfounded, and should be denied.

²Random House claims it has over 20,000 titles in its backlist catalogue. Sarnoff affidavit, ¶6. The opening line of its legal memorandum is: “By this action, Random House seeks to protect the exclusive publishing rights it has been granted by its authors in its backlist catalogue of books...” It claims the books in suit are “the tip of the iceberg” (memorandum, p. 2), and it wants to discourage all third parties “from following [Rosetta]” (p. 3). The prayer for relief to its complaint seeks to enjoin Rosetta from contracting with authors as to “any other Random House works as to which Random House has been granted an exclusive license to publish ‘in book form,’” by which Random House means its entire backlist. Random House’s

STATEMENT OF FACTS

Although it styles its argument as one of copyright infringement, the issue posed by Random House’s complaint is one of contract interpretation: namely, the scope and meaning of the licenses granted by Messrs. Styron, Vonnegut and Parker to Random House 20 to 40 years ago. Each of the Random House contracts in suit specifies New York state law as controlling.³ Here, as in Bartsch v. Metro–Goldwyn-Mayer, 391 F.2d 150, 153 (2d Cir.), cert. denied, 393 U.S. 826 (1968), “the fact that the plaintiff is seeking a remedy granted by Congress to copyright owners removes any problem of federal jurisdiction but does not mean that federal principles must govern the disposition of every aspect of her claim.” The issue at bar, as in Bartsch, is one of contract interpretation under state law.

A. Trade Usage of “Print, Publish and Sell in Book Form”

Random House has relied upon and put in issue the phrase in its standard contracts, to “print, publish and sell the work in book form,” and the trade process by which licenses are granted by authors to publishers in the U. S. publishing industry.

The phrase to “print, publish and sell the work in book form” has been used in the United States book publishing industry for at least 90 years. It appears in publishing contracts written at least as early as 1907 and 1903. Littlepage v. Neale Pub. Co., 34 App. D.C. 257, 1910 U.S. App. Lexis 5802 (D.C. Court of Appeals 1910) (“On January 15, 1907, the parties entered into a

attempt to obtain a preliminary injunction as to contracts which it has not placed before the Court is improper.

³Each of these contracts state that “it shall be interpreted in accordance with the laws of the State of New York.” (1961 Styron contract ¶ 21 (Sarnoff Aff., Ex. A); 1977 Styron contract ¶

contract providing... ‘I agree...to publish in book form certain manuscript entitled ‘The Career of the Merrimac Virginia’”); Harper & Bros v. M.A. Donahue & Co., 144 F. 491, 1905 U.S. App. Lexis 4172 (C.C.D. Ill. 1905), aff’d, 146 F. 1023 (7th Cir. 1906) (“the exclusive right of printing and publishing in book form in the United States...”).

In 1957, a New York court described it as “standard contract” language. Seroff v. Simon & Schuster, 6 Misc. 2d 383, 389, 162 N.Y.S.2d 770, 776 (NY Supreme Court 1957), aff’d 12 A.D.2d 475, 210 N.Y.S.2d 479 (1st Dep’t 1960) (“The parties entered into a standard publishing contract, which provides ‘The Author agrees to grant....unto the said Simon & Schuster Inc. the sole and exclusive right to publish, print and put on the market the said work in book form in the United States.’”).

Random House has stated in its moving papers that it is a “broad” grant.⁴ This Court, however, has held it is a “very limited” grant. Field v. True Comics, 89 F. Supp. 611 (S.D.N.Y. 1950) (“Plaintiffs’ rights in the copyright are of a very limited character—only the right to publish the copyrighted work in book form in the United States.”). The Field court had in evidence affidavits submitted by two publishers as to the meaning of the term “in book form.” 89 F. Supp. at 614. One, the president and publisher of Publisher’s Weekly, stated:

5. It is well understood in the trade that the words “book form” do not include magazine or other periodical form, and that a restriction on a publisher to publish in book form constitutes a reservation of all such other publication rights in the author.

22 (Sarnoff Aff., Ex. B); 1967 and 1970 Vonnegut contracts ¶ 16 (Sarnoff Aff., Exs. C and D); Parker contract ¶ 16 (Sarnoff Aff., Ex. E)).

⁴“When the parties used the standard language in these contracts, as identified above, [“to publish and sell the work in book form”] they clearly contemplated that the publisher was being granted a broad grant of rights...” Affidavit of Ashbel Green ¶ 6.

Ex. 12 (emphasis supplied).

When an author conveys to the publisher the license “to print, publish and sell the work in book form” that means the publisher has obtained the right of first publication of the author’s manuscript in the format of a print book. See Decl. of George Borchardt ¶ 10, Ex. 1; Decl. of Helen Brann ¶ 5, Ex. 2 (Parker’s literary agent); Decl. of Donald Congdon ¶ 10, Ex. 3 (Styron’s literary agent); Decl. of Donald Farber ¶ 8, Ex. 6 (Vonnegut’s literary agent); Decl. of Ellen Levine ¶ 10, Ex. 13; Decl. of Donald Maass ¶ 7, Ex. 14.

The publishing industry has historically been one where the author retains the “bundle of sticks” that comprise the various property rights in his or her work, and selectively licenses these. As each right (beyond the initial right to print, publish and sell in book form) is granted from author to publisher, it involves specific contractual language, negotiation, and generally separate royalty structures. In this respect, the publishing industry is different from the motion picture industry (as to which cases Random House relies heavily), where the writer, composer or actor typically convey the broadest possible rights to the producer. Decl. Donald Farber ¶¶ 9, 11-17, Ex. 6; Decl. Catherine Fowler ¶ 17, Ex. 7; Decl. Ellen Levine ¶¶ 10-14, Ex. 13; Decl. Donald Maass ¶¶ 9, 10, Ex. 14.

In addition to the right to “print, publish and sell in book form,” for example, the author owns, and selectively grants, the right to license serialization of the work (i.e., to have the work published in installments). This involves a verbatim printing of the same words (“linear text”) as in the book, but appears in serial magazine installments. It requires separate contractual language, and usually a separate royalty structure. A further distinction has been made in trade

usage between the right to “first” serialization (prior to printing “in book form,” which serialization is more valuable) and “second serialization” (following printing “in book form,” which is less valuable than first serialization). See declarations cited above.

The right to license soft-cover reprints requires separate contractual language. The right to license “school editions” requires separate contractual language. The right to license book clubs to make a special printing of the work requires separate contractual language. These rights all require a separate grant from the author, separate contractual language, and separate royalties. The same is true for Readers’ Digest Condensed Books. Id.

When the technology for audio books, or “books on tape,” became feasible, these were added to the bundle of sticks that comprise the authors’ rights to his or her work. The right to books on tape is not by trade practice understood to be included in the grant to publish “in book form,” and requires a separate contractual grant, separate negotiation, and separate royalties. Random House concedes that the right to publish audio-books is outside the scope of the right to “print, publish and sell the work in book form.” Green affidavit, ¶ 6.⁵

B. The Styron, Vonnegut and Parker Contracts with Random House

An examination of the contracts at issue in this lawsuit demonstrate this process whereby the author separately licensed “sticks” from his bundle of rights in the work, granting some to Random House (or its affiliates) and withholding many others.

⁵Mr. Sarnoff of Random House testified that the grant in a 1995 contract of the license “to publish [and sell] any and all editions and/or formats of said [W]ork,” does not, in publishing trade usage, include the right to publish a “book on tape” unless the right to so publish was otherwise expressly set forth in the contract. Ex. 18, pp. 150-52. This underscores the critical importance of trade usage in construing book publishing contracts.

1. William Styron

Two works by William Styron are at issue in this lawsuit, The Confessions of Nat Turner, and Sophie's Choice.

William Styron signed a contract with Random House on April 10, 1961, to publish The Confessions of Nat Turner. (Sarnoff Aff., Ex. A, and Ex. 24 hereto). Mr. Styron conveyed to Random House the right to “print, publish and sell the work in book form” (Paragraph 1 a i). Mr. Styron conveyed, by separate language, various additional rights outside the scope of the “book form” clause. This included the right for Random House to license book clubs to publish the work (Paragraph 1 a ii), and the right for Random House to license reprint editions (Paragraph 1 a iii). These various rights all have separate royalties.

Mr. Styron struck out various portions of Random House's standard contract for The Confessions of Nat Turner. The right for Random House to license publication of the work in the English language in the British Commonwealth was not granted to Random House. Nor did Mr. Styron license Random House to publish in any foreign languages.

Paragraph 11 of the form contract contained many purported rights. Mr. Styron denied all of the following rights to Random House, and they are crossed out of his contract:

11. The author grants to the Publisher exclusive right, within the territory set forth in Paragraph 1, to act as agent in his behalf in disposing of the following rights, subject to the Author's consent, and the division of any sums received therefrom shall be ninety per cent (90%) to the Author and ten per cent (10%) to the publisher:
Serialization prior to book publication, dramatic, operatic or musical, radio and television broadcasting rights, reproduction by phonograph records or other mechanical devices, motion picture and allied rights, and adaption for commercial use.

In June, 1969, Mr. Styron contracted with Random House to publish three works, two of which were subsequently titled Sophie's Choice and Way of the Warrior. Ex. 24. Eight years later, in 1977, Mr. Styron contracted with Random House, for publication of Sophie's Choice, Way of the Warrior, Lie Down in Darkness, and a collection of non-fiction pieces. Ex.24. Mr. Sarnoff's declaration and Random House's complaint refer only to the later 1977 contract (Sarnoff Aff., ¶ 12 and Ex. B thereto). Mr. Sarnoff does not allude to, or explain the relationship between, the 1969 and 1977 contracts for Sophie's Choice.

In both the 1969 and 1977 contracts for Sophie's Choice , Mr. Styron struck out paragraph 11, not granting those rights to Random House. A legible version of this paragraph appears at Ex. 27. Mr. Styron reserved the following:

11. ...the performance rights including dramatic, musical, radio, television, motion picture and allied rights...⁶

These documents reveal that book contracts are intensely negotiated between the author and the publisher. The intention and trade practice is that the author grants only the rights specifically enumerated in the signed agreement. Declarations cited on p. 6 above. Mr. Styron's literary agent, Donald Congdon, who has represented Mr. Styron for nearly 40 years, has confirmed that Mr. Styron did not intend to convey any electronic rights to Random House (Mr. Congdon actually negotiated the Sophie's Choice contract with Random House). Ex. 3.

⁶A comparison of the legible 1967 contract (Ex. 27) shows that Mr. Styron also struck paragraph 1(v) from each of his 1969 and 1977 agreements. He withheld from Random House as to Sophie's Choice the right "to license periodical publications including magazines, newspapers, and digests prior to book publication." This is consistent with the process, described above, by which, through negotiation, authors selectively grant and deny various rights in the work to publishers.

2. Kurt Vonnegut

There are five works by Mr. Vonnegut at issue in this lawsuit: Slaughterhouse Five, Breakfast of Champions, Cat's Cradle, The Sirens of Titan, and Player Piano.

Random House claims there are only two contractual documents relevant to these works, a March, 1967 contract for Slaughterhouse Five and Breakfast of Champions, and a November, 1970 contract for Cat's Cradle, Sirens of Titan, and Player Piano. Complaint ¶ 23. Mr. Sarnoff has attached to his Affidavit a March 7, 1967 Delacorte (Dell) contract for Slaughterhouse Five and Breakfast of Champions (Ex. C); and a November 20, 1970 Delacorte (Dell) contract for Sirens of Titan, Cat's Cradle, and Player Piano (Ex. D).

However, Random House's contract files contain other documents bearing upon these issues. For example, Random House's contract files contain an April, 1961 contract with Dell for Cat's Cradle. Ex. 25. In that document, Mr. Vonnegut struck out the entirety of the "Subsidiary and Performance" rights clause (Paragraph 5), thereby reserving to himself "all of the subsidiary rights in the Work, such as but not limited to rights of abridgement, adaptation, serialization, digest, Book Club distributions, anthologies, visual reproduction, and all the performance rights in the Work such as, but not limited to, rights in motion pictures, theaters, television and radio..."

In a July, 1962 contract with Holt, Rinehart for Cat's Cradle, Mr. Vonnegut struck the entirety of paragraph 15, and thus reserved to himself:

- a) sheets of the Publisher's regular trade edition of the Work, outside of the United States...;
- b) foreign publication and translation rights in and to the work in book or serial form...

- c) all or parts of the Work to newspapers or periodicals before publication in book form...
- d) dramatic, motion picture, radio and/or television rights through the world...
- e) recordings of the work phonographically or for the purpose of reading aloud, or by any method now or hereafter known or devised...
- f) reproduction of the work on microfilm, or by any method now or hereafter known or devised...
- g) foreign anthology, selection, abridgement, condensation, digest and second serial rights

Ex 25. Mr. Vonnegut struck the same clause in the 1965 Holt, Rinehart contract for Player Piano. Id.

In both the 1967 and 1970 contracts, Mr. Vonnegut denied to Dell many rights, including all of the rights found in Paragraph 5. This reads:

Dramatic, motion picture (silent and sound), radio broadcasting (including mechanical renditions and/or recordings of the text), television.

In the 1967 contract, Mr. Vonnegut denied these to Dell by crossing out the word “Dell” and substituting “agent.” In the 1970 contract, he simply crossed out clause 5 entirely.

In June, 1977, Random House (Dell) executed a publisher’s release in connection with Sirens of Titan. It acknowledged:

the undersigned hereby acknowledges and agrees...that the undersigned has no claim or interest in the worldwide motion picture rights (silent, sound, talking), television rights, radio broadcasting rights or any other rights of any other kind other than publication rights heretofore granted to the undersigned.

Ex. 25, RH 11864.⁷ On April 4, 1979, Random House acknowledged that all audio rights resided with Mr. Vonnegut (“Unfortunately, those rights reside with the author.”). Ex. 25 RH 640.

Mr. Vonnegut’s literary agent, Donald Farber, Esq., who has represented Mr. Vonnegut for many years, has affirmed that Mr. Vonnegut did not grant to Random House any electronic rights. Ex. 6.

3. Robert Parker

Mr. Parker’s 1982 contract with Dell similarly reserved many rights, as appears on the face of the contract. (Ex. E to Sarnoff Aff.). Most significantly, Mr. Parker specifically reserved to himself the entirety of the following rights:

5. The Author shall have the exclusive right to arrange for the disposition of the other rights listed below:

Rights

Dramatic
Motion Picture (Silent and Sound)
Radio Broadcasting
Television
Mechanical or electronic recording of the text

Mr. Parker’s literary agent, Helen Brann, who negotiated this contract, has confirmed that Mr. Parker did not convey any electronic rights to Random House. Brann Decl. ¶¶ 4, 12, 14, Ex. 2.

C. Random House’s Adoption of an Electronic Rights Clause

⁷Although this quitclaim by its terms only applied to Sirens of Titan it was a quitclaim based on Paragraph 5 of the 1967 and 1970 contracts, which Mr. Vonnegut had reserved to

Ms. Catherine Fowler was the Associate Producer at Random House's Reference and Electronic Publishing Division. Fowler Decl. ¶¶ 1, 4, 16, Ex.7. In the early 1990's, Random House' employees, including Ms. Fowler, analyzed Random House contracts, and determined (except in those rare instances where they granted "all rights" to Random House) that Random House had not acquired electronic rights. For at least two authors, National Audubon Society and William Safire, Random House renegotiated electronic rights. *Id.* ¶¶ 12, 20-26. Mr. Sarnoff admitted Random House did this for a number of other authors. Ex. 18, pp. 185-87.

Random House's then-President, Alberto Vitale, announced to the publishing industry on March 28, 1994 that Random House was adopting new contract language. Ex. 26. Random House added a new section (2) to the initial paragraph, differentiating "electronic books" from the right to "print, publish and sell this work in book form" and a new clause (x) concerning the right to publish "electronic versions." The revisions read as follows:

(i) (1). Print, publish, distribute and sell the work in book form and (2) publish and distribute the work (in complete, condensed, adapted or abridged versions) by any means of distribution or transmission, whether nor or hereafter known or developed, intended to make the text of, and any illustrations or photographs contained in, the work available in visual form for reading (including, but not limited to, electronic or machine-readable media, or on-line electronic or satellite-based data transmissions) (referred to as Electronic Books).

.....

x. to prepare, reproduce, publish and sell, to distribute, transmit, download or otherwise transfer copies of, and, with the Author's consent, which consent shall not unreasonably be withheld or delayed, to license the foregoing rights in, electronic versions of the work (referred to as Electronic Versions). As used herein, Electronic Versions shall mean versions that include the text of the

himself for all five works at issue in this litigation.

work and any illustrations contained in the work (in complete, condensed, adapted or abridged versions, and in compilations) for performance and display (i) in any manner intended to make such Electronic Versions of the work available in visual form for reading (whether sequentially or non-sequentially, and together with accompanying sounds and images, if any and (ii) by any electronic means, method, device, process or medium) referred to as Electronic Device or Medium. For the purpose of this subparagraph, Electronic Device or Medium shall include, but not be limited to, electronic, magnetic, digital, optical and laser-based information storage and retrieval systems, floppy diskette-based software, CD Rom, interactive software and compact discs, floptical disks, ROM card, silicon chip, on-line electronic or satellite-based data transmission and other such systems, and any other device or medium for electronic reproduction, publication, distribution or transmission, whether now or hereafter known or developed. Notwithstanding the foregoing, the rights to publish or license Electronic Versions pursuant to this subparagraph shall be revocable by the Author upon giving written notice to the Publisher with respect to any particular Electronic Device or Medium for which the Publisher has not published or licensed publication, transmission or distribution of any Electronic Version within five (5) years after first publication of the work in book form in the United States or after first development of such Electronic Device or Medium in commercially viable form, whichever is later.

Ex. 26; Fowler Decl. ¶ 27 (emphasis supplied). The language used in this 1994 contract to define “Electronic Books” is thus entirely distinct from and different than the phrase “print, publish, distribute and sell the work in book form.” From March, 1994 onwards, Random House used language such as this, or some variant of it, when it wanted to secure electronic publishing rights.

In 1995, a Random House subsidiary admitted to an author that it did not even have the electronic right to publish one chapter from her work, let alone the entire work, without her express permission. Harper Decl. ¶ 10, Ex. 9.

On February 21, 2001, Random House filed this present lawsuit, asserting that it already owns all of the electronic rights for authors who signed contracts in the 1960's and 1970's.

D. Electronic Publishing

Electronic publishing is a newly-emerging technology that holds great promise for the dissemination of information in our society. In brief outline, the work is converted into computer code, embedded into which can be hyper text and hyperlinks. The digital work is disseminated by the internet. It is downloaded into one's computer. Security prevents the work from being printed, e-mailed, or further disseminated.⁸ The work is viewable through speciality software (a special version of Adobe Acrobat and similar software made available by Microsoft, Gemstar, and a few other companies). As explained more fully in the declaration of Rosetta's Chief Operating Officer, Leo Dwyer, the digital work is formatted differently from a printed book. Dwyer Decl. ¶¶ 5-7, Ex. 4. It is searchable electronically. The reader can change the fonts and size of the fonts, can add bookmarks, can instantaneously search linked dictionaries, and will increasingly be able to use hyperlinks and hypertext to access a variety of related visual, sound and text. Id.

⁸The electronic versions made available by Rosetta are for downloading and reading on a computer screen. They are "locked" in the computer code by which they are transmitted so they cannot be printed, e-mailed, or further distributed. Random House fudges this point, by attaching to its Complaint (Exhibit B thereto) and the affidavit of Lisa Cantos (Exhibits B through H thereto) various pages printed out from the Rosetta web cite. Random House did so by bypassing the locking feature and using the "print screen" command on the computer to print a given page. This required bypassing security protocols. Random House also violated the Microsoft Reader End-User License Agreement, which states, "...you may make an unlimited number of copies (either in hardcopy or electronic form), provided that such copies are not republished or distributed to any third party." Microsoft Reader License Agreement ¶ 1.b., Ex. 28 hereto (emphasis added).

In terms of the technology of its transmission, internet connections are increasingly being made through cable lines, the same fiber optic cables that deliver television signals into the home. There are predictions that high resolution television monitors, using cable connections, will emerge as the dominant form of viewing internet materials, rather than personal computers. Users can currently connect to the internet through land lines, or through wireless modems.

Random House's efforts as of October, 2000 are reflected in a business plan of that date, which at Random House's request is being filed under seal. Ex. 29.

Random House's officer, affiant and long-time employee Ashbel Green admitted at his deposition that he had not heard the term electronic books throughout the 1960's, 1970's, or 1980's. Ex. 16, pp. 47-48, 111-112. Mr. Green confirmed that he "never even contemplated anything concerning eBooks at any time before 1990." Ex. 16, p. 223. He further testified:

Q. And you don't have any information that any of the authors, agents, or editors involved with works at issue in this case contemplated anything relating to e-Books prior to 1990, either, do you?

A. I do not.

Ex. 16, pp. 112-113.

Random House's technological expert, Professor Andries van Dam, testified that Microsoft did not form an eBook group until 1998 or 1999. Ex. 20, p. 53. He himself founded one of the first companies to develop ebook software technology, Electronic Book Technologies, in 1989 or 1990. Id. at 55.

Random House's Executive Vice President Richard Sarnoff testified that there was no commercial market for eBooks until the last several years:

- A. In 1961, there was no available audience for any such electronic form, nor any available technology for the delivery of this text in electronic form to an audience who could comfortably read it in this fashion. It's only in the last several years that that capability has arrived at the market...
My point is, there hasn't been a commercially-viable way to deliver these works to consumers until the last few years, because there hasn't been a comfortable and normal technology path for consumers to use to get them and to experience the works.

Ex. 18, pp. 125-26 (emphasis supplied). He confirmed that Random House did not sell any eBooks until 1998. Id. at 127. See also Ex. 29 (filed under seal) for relevant dates.

One of Random House's key assertions is that electronic publishing is identical to physical print because both involve "linear text," and therefore both involve a same "reading experience."⁹

Professor Van Dam disagreed with this central premise of Random House's position, by testifying that hypertext in a digital work is "non-linear":

- Q. Can you tell me what hyper text is?
- A. I can. Hypertext is, its simplest definition, is non linear text, that is, arbitrarily long fragments of text with pointers or links or hyperlinks—those are all the same idea—to other fragments and/or pictures and/or video clips, at which point hypertext becomes hypermedia...
-
- Q. What is the different between text and hypertext?
- A. Text is anything that you see on the printed page, in a newspaper, in a magazine, on television, on a CD ROM. Hypertext is text with these embedded links, pointers or

⁹See, e.g., Random House legal memoranda, p. 1.

hyperlinks. So it's something that you add to traditional text to turn it into a hypertext.

Q. And what is the purpose of that?

A. To give you more flexibility in information access...The hypertext link, say on a web page, you take or you don't take at your option. And when you do take it, you get additional information that presumably you're interested in.

Q. And what are the kinds of places that a hypertext link can take you?

A. In the case of a textbook, it would typically take you to a word glossary, an explanation of a concept, additional information on the same topic by another author or by the same author, deeper treatment of the topic. Those kinds of enrichments.

Q. Can it also take you to another document?

A. And typically it will take you to another document, or to at least another section of the current document.

Ex. 20, pp. 16-19. He confirmed "that the computer is a different medium than a print book."

Id. p. 42; see also Dwyer Decl. ¶¶ 5-7.

The dramatic differences that exist today between print books and e-books are exemplified in the descriptions of eBooks in the affidavit of Random House's Director (now Vice President) of New Media Adam Smith. At Exhibit A of his affidavit, the features of the Microsoft Reader are described:

X Search. "One powerful reading function that is not available with paper books is the ability to Search for words...."

X Annotations Index. Microsoft Reader keeps track of all annotations you make, including Bookmarks, Highlights, Notes and Drawings. You can view all Annotations from one place (no more flipping through pages to find margin notes or highlights), Edit

or Delete an Annotation, and organize your annotations by type, by page number, by date created, or by last modified.

X Font Size. Microsoft Reader allows you to create instant large print editors of any book from the Quick Settings page.

Smith Aff. Ex. A.

The Adobe Acrobat eBook Reader provides the following feature: “With a unique text-to-speech feature, the Acrobat eBook Reader allows you to double-click on a word to hear how it is pronounced.” Id. at Ex. B.

David Ebershoff, Publishing Director of Random House’s Modern Library Division, who is overseeing its Modern Library e-publishing effort, stated in a Random House press release:

“Electronic publishing enables us to present books in ways that were never possible in printed format....”

* * *

“But more important are the options an e-book presents to the reading experience,” says Mr. Ebershoff. “Novels like Ulysses, with its kinetic digressions and meditations, and In Search of Lost Time, with its own internal memory, make ideal e-books. A reader can search the text in a way that’s never been possible on the printed page.”

Sarnoff Aff. Ex. F.

Thus, eBooks as they exist today are fundamentally different from print books. Describing eBooks of the future, Microsoft states: “In the future, imagine a book that includes links to author bios, author notes, and movie trailers or other interactive features; uses laser eye tracking so pages turn automatically; and is voice activated.” Smith Aff. Ex. B.

ARGUMENT

Where, as here, a copyright claim involves issues of contract interpretation to determine who is the licensee of the rights at issue, this Court considers “the application for a preliminary injunction in light of the rule applicable in any contract case.” Video Trip Corp. v. Lightning Video Inc., 866 F.2d 50, 52 (2d Cir. 1989). The Second Circuit held the preliminary injunction should be denied where there is a substantial dispute over contract interpretation:

In this case there is a serious dispute involving the very provision of the contract which it is claimed supports the transfer of the copyrights to Lightning....The presence of these fact issues prevents a finding of probability of success.

Id.

I. RANDOM HOUSE DOES NOT HAVE A PROBABILITY OF SUCCESS ON THE MERITS

In its brief at page 17-20, Random House argues from the assumption that it has the exclusive right to electronically publish the works at issue. That, however, is the disputed issue for this Court to adjudicate. Under copyright law, Messrs. Styron, Vonnegut, and Parker are the original owners of and hold the copyrights to their works. 17 U.S.C. §201 (d). “Initially, these rights vest, as a bundle, in the author.” Patry, I Copyright Law and Practice, “Ownership of Copyrights,” p. 359 (BNA 1994). “Each right or portion of a right may be transferred separately.” Id., p. 360. An exclusive licensee of that particular right becomes the copyright owner as to that particular right. “ ‘Copyright owner,’ with respect to any one of the exclusive rights comprised in a copyright, refers to the owner of that particular right.” Id., quoting 17 U.S.C. §101.

Here, Messrs. Styron, Vonnegut and Parker, not Random House, own the electronic rights to their works. They granted electronic publishing rights to Rosetta, for a limited term.

Exs. 21, 22, 23. They did not grant electronic publishing rights to Random House. Rosetta's contracts with those authors control the issue sub judice. The long-term literary agents for Messrs. Styron, Vonnegut and Parker agree with Rosetta. Brann Decl. ¶¶ 4, 12, 14, Ex. 2; Congdon Decl. ¶¶ 4, 19, Ex. 3; Farber Decl. ¶ 8, Ex. 6. Random House has no copyright interest in the matter at bar and no claim for copyright infringement.

Random House's argument can be reduced to the following syllogism:

- 1) In the 1960's and 1970's, these authors signed contracts giving permission to Random House to "print, publish and sell the work in book form";
- 2) Because print books and electronic books are both supposedly in "linear text fashion," therefore the above clause covers electronic publishing rights;
- 3) Electronic publishing was foreseeable in the 1960's and 1970's, and if Messrs. Vonnegut, Styron and Parker did not want Random House to have electronic publishing rights, the burden was on them to except these rights from the contracts;
- 4) Therefore, Random House, rather than Messrs. Styron, Vonnegut and Parker, currently own all electronic rights to their works.

Numbers 2, 3, and 4 of this argument are not just wrong, but fundamentally misleading.

In moving for a preliminary injunction:

§ Random House has premised its case upon a clause in its contracts that reads "to print, publish and sell the work in book form," but has intentionally omitted the word "print" each and every time it quotes the phrase, in the hope that this Court will not realize the contract is referring only to print medium. Random House misstates the phrase in its complaint,¹⁰ in its

¹⁰¶1 ("the exclusive right to publish 'in book form'"; ¶12 ('exclusive right to publish its authors' work 'in book form'"; ¶18 ("The Styron Agreements grant to Random House an

memorandum of law,¹¹ and in its affidavits.¹² Not once in its voluminous papers does it use the correct language from its own contracts which it asks this Court to find is controlling. However, its expert witness, Edward Miller, admitted at his deposition that to “print” means to put “ink on paper or cloth,” (Ex. 17, p. 23) and Mr. Green of Random House admitted at his deposition that the word “print” is a key term in the contracts (Ex. 16, p. 65);

§ Random House has stated that this “print, publish and sell the work in book form” clause is a “broad grant” of rights (Green affidavit ¶ 6), but has failed to cite a relevant decision that determined it was a “very limited” grant, Field v. True Comics, 89 F. Supp. 611, 613 (S.D.N.Y. 1950), and Ex. 12;

§ Random House has not included in its papers an acknowledgment that it amended its contracts in 1994 to include a description of “electronic books” and “electronic versions,” which use the “in book form” language in a manner that contradicts Random House’s position in this lawsuit. Ex. 26. One of Random House’s affiants, Ashbel Green, was on the Random

exclusive license...to publish The Confessions of Nat Turner and Sophie’s Choice ‘in book form’. Accord ¶¶ 24, 30, and prayer for relief.

¹¹“Random House possesses the exclusive right to publish and sell its authors’ work, for the term of the copyright, ‘in book form’. Longstanding publishing practice establishes that the words ‘in book form’ connote the right to transmit the author’s words to the reader in a linear text fashion.” (Memorandum, p. 2).

¹²Expert affidavit of Edward Miller, ¶11 (“The standard language at issue states that the publisher acquires the exclusive right to ‘publish and sell the Work in book form.’); Affidavit of Ashbel Green, ¶5 (“Most contracts, such as the contracts at issue in this action, contain language stating that the publisher acquires the right ‘to publish and sell the Work in book form. The words ‘in book form’ which appear in virtually every contract, necessarily imply the right of the publisher to transmit the author’s words to the reader in a linear text fashion.”)

House committee that worked on those 1994 contract revisions for many months. Ex 16, pp. 26-27. His affidavit is silent as to this matter ;

§ Random House has premised its argument upon a contention that electronic digital computer code is the identical “linear” text as the printed page, when its expert’s testimony is that computer code includes “non-linear” elements (Ex. 20, p. 16-19) and that electronic books as they evolve will essentially combine links of text, hyper text, sound and graphics (Ex. 20, pp. 36-39);

§ Random House has claimed that electronic publishing of eBooks was “foreseeable” in 1961 when Random House itself did not begin such publishing until 1998, Microsoft did not set up an eBook department until 1998 or 1999 (Ex. 20, p. 53), and Mr. Sarnoff admitted that there was no possible commercial market until several years ago, Ex. 18, pp. 125-26.

§ Random House has impaled itself on the horns of a dilemma. On the one hand, it claims it has had the exclusive right to publish electronic books since 1961 (the date of the earliest contract at issue), and has had that right continuously to the present. Under Wood v. Lucy, Lady Duff-Gordon, 222 N.Y. 88, 118 N.E. 214 (1917), that means Random House had the legal duty to market the works in this fashion. However, Random House has not sought to do so for 40 years. This would be a clear breach of its legal duty under Gordon. Random House seeks to avoid this result by having Mr. Sarnoff testify that technology made it not possible to publish ebooks until “the last several years.” Ex. 18, pp. 125. Thus, Random House simultaneously seeks to have the Court find electronic publishing was “foreseeable” since 1945 (see van Dam Declaration), so that Messrs. Styron, Vonnegut and Parker supposedly waived all of their rights

by not excepting it from their contracts, but that electronic publishing was not “possible” until 1998, so that Random House has not breached any duty under Lady Duff-Gordon. In short, Random House impermissibly and unreasonably seeks to have it both ways.

A. Boosey and Bartsch

Random House relies principally upon two decisions, Boosey & Hawkes v. Walt Disney Co., 145 F.3d 481 (2d Cir. 1998), and Bartsch v. MGM., 391 F.2d 150 (2d Cir. 1968). In Boosey, the Second Circuit made clear that “neutral” contract principles, not slanted toward either licensor or licensee, control to determine the most “reasonable” contract interpretation in a case involving a so-called “new use”:

In our view, new-use analysis should rely on neutral principles of contract interpretation rather than solicitude for either party. Although Bartsch speaks of placing ‘the burden of framing and negotiating an exception...on the grantor’, 391 F.2d at 155, it should not be understood to adopt a default rule in favor of copyright licensees or any default rule whatsoever. What governs under Bartsch is the language of the contract. If the contract is more reasonably read to convey one meaning, the party benefitted by that reading should be able to rely on it; the party seeking exception or deviation from the meaning reasonably conveyed by the words of the contract should bear the burden of negotiating for language that would express the limitation or deviation. This principle favors neither licensors nor licensees. It follows simply from the words of the contract.

145 F.3d at 487. Boosey reversed summary judgment and held that the issue of contractual interpretation must be submitted to the fact finder at final trial on the merits.

Those cases do not support Random House’s argument. Both Boosey and Bartsch involved contracts where there was a “broad” grant of rights, 145 F.3d at 486, in contrast to the contractual language at issue here. This Court held in Field that the language in question (“in

book form”) was a very limited grant. 89 F. Supp. at 613. Bartsch and Boosey are both cases where the actual intent of the parties could not be ascertained. Here, in contrast, the representatives of Messrs. Styron, Vonnegut and Parker have stated their actual intent, which was not to grant electronic rights to Random House. Unlike the technologies at issue in Boosey and Bartsch, there was no market for or industry foreseeability of electronic publishing at the time the contracts in issue were signed, as even Random House’s witnesses have conceded at their depositions. Boosey and Bartsch also state that to include a new use in the contract the “new-use” should be in the same medium, but the instant case involves a new use in a different medium (print medium versus computer medium). These points are addressed more fully below.

1. The Contracts at Issue in Bartsch and Boosey Contained Broad Grants of Rights

Courts do not re-write parties’ contractual obligations to include new-uses. For example, if X contracts with Y to “license Y to use X’s ground transportation,” the Court does not rewrite this provision to include airplanes and helicopters on the basis that airplanes and helicopters were foreseeable at the time of the contract. The Court does not do so even if air transport was actually in use.

Rather, where the contractual language is actually broad enough to cover the “new use,” the Court then determines whether the new-use was foreseeable at the time of contracting so that it is fair to find that the broad language includes the new-use as a matter of fact and law. Thus, under Boosey, the “foreseeability issue” only becomes relevant where the contract at issue includes “a broad license.” 145 F.3d at 145.

Both Boosey and Bartsch involved such broad licenses; both were movie industry cases. (For the comparison between movie and publishing licenses, see Declarations of Donald Farber ¶ 9, Ex. 6; Ellen Levine ¶¶ 10-14, Ex. 13; and Donald Maass ¶¶ 9, 10, Ex. 14.) In Bartsch, the issue was whether a right to exhibit movies included exhibiting movies on television. The language granting the right at issue was very broad, namely:

the sole and exclusive right to use, adapt, translate, add to, subtract from, interpolate in and change said musical play, and the title thereof...in the making of motion picture photoplays and **to project, transmit and otherwise reproduce the said musical play or any adaption or version thereof visually or audibly by the art of cinematography or any process analogous there**, and *to copyright, vend, license and exhibit such motion picture photoplays throughout the world*, together with the further sole and exclusive right by mechanical and/or electrical means to record, reproduce and transmit sound...and to make, use, license, import, vend and copyright any and all records or other devices made or required or desired for any such purposes.

391 F.2d at 152 (emphasis supplied).

Two clauses have been highlighted in the quote above, the first in bold, the second in italics. The Second Circuit did not rely upon the first set of words highlighted above, because it did not believe that a movie shown on a movie screen and the same movie distributed on a television set were “analogous.”¹³ That holding is significant, because Random House argues

¹³“We have grave doubt on that score. We freely grant that ‘analogous’ is a broader word than ‘similar,’ and also that the first step in a telecast of a film, namely, the projection of the motion picture to an electronic pickup, is ‘analogous’ to throwing the picture on a theatre screen. But to characterize the to us nigh miraculous process whereby these images actuate airwaves so as to cause electronic changes in sets in millions of homes which are then ‘unscrambled’ or ‘descanned’ and thus produce pictures on television screens—along with the simultaneous electronic transmission of sound—as ‘analogous’ to cinematography pushes the analogy beyond the breaking point.” 391 F.2d at 153.

here that the print medium and digital medium are not just “analogous” but actually identical.

Bartsch undercuts that argument.

The Court did, however, find that the second set of words, in italics above, permitted the license holder to “exhibit” the movie on television, because the word “exhibit” was not limited. (“Exhibit means to display or to show by any method, and nothing in the rest of the grant sufficiently reveals a contrary intention.” 391 F.2d at 154.) The Court relied upon the breadth of the entire grant: “The words of Bartsch’s assignment, as we have shown, were well designed to give the assignee the broadest rights with respect to its copyrighted property, to wit the photoplay.” Finally, the District Court “correctly found by during 1930 [the time the contract in issue was signed] the future possibilities of television were recognized by knowledgeable people in the entertainment and motion picture industries...” 391 F.2d at 154 (emphasis supplied). Thus, Bartsch stands for the proposition: (1) that a broad and unrestricted right to “exhibit” a movie; (2) granted in the context of a broad assignments of maximum rights to that movie; (3) at a time when television was recognized in the entertainment industry; (4) will be construed to permit broadcasting of the movie on television.

Similarly, in Boosey, the issue was whether Stravinsky’s grant to use “The Rites of Spring” in Disney’s movie Fantasia permitted Disney to license showing of the movie in homes, via video cassette recording, as opposed to just in movie theaters. As in Bartsch, the grant at issue was also very broad:

[Stravinsky] does hereby give and grant unto Walt Disney Enterprises...the nonexclusive, irrevocable right, license, privilege

If “print books” and “electronic books” are substituted in the above quotation, they forcefully dispel any reasonable reliance by Random House upon Bartsch.

and authority to record in any manner, medium or form, and to license the performance of, the musical composition hereinbelow set out.

145 F.3d at 484. That was coupled with another broad grant to use the music in the motion picture Fantasia (“said music may be used in whole or in part and may be adapted, changed, added to or subtracted from, all as shall appear desirable to the Purchaser in its uncontrolled discretion,” id.). The grant was broad enough to reasonably include showing movies at home. The Court determined that at the time of the grant, there was a market for home viewing of movies. (“Disney has proffered unrefuted evidence that a nascent market for home viewing of feature films existed by 1939.”) 145 F.3d at 486. The Second Circuit concluded:

The words of Disney’s license are more reasonably read to include than to exclude a motion picture distributed in video format.

Id. at 487. Hence, Boosey stands for the proposition that: (1) where there is broad grant to use the music in a movie, without restriction to where the movie is shown; and (2) where there is a market for home viewing of movies at the time of the grant; (3) it is more reasonable to read the grant as including, rather than excluding, such home viewing of the movie.

In the case at bar, the grant at issue is not comparable to the grants in Bartsch and Boosey. On its face, and as understood in the trade usage of the publishing industry, the grant “to print, publish and sell in book form” is a “very limited” grant. Field v. True Comics, supra. That position has been supported by declarations of people with decades of knowledge in the publishing industry: Georges Borchardt ¶¶ 9-13, Ex. 1; Helen Brann ¶¶ 5-9, Ex. 2; Donald Congdon ¶¶ 9-17, Ex. 3; Donald Farber ¶¶ 7-17, Ex. 6; Catherine Fowler ¶¶ 10, 20-24, Ex. 7;

Professor Leon Friedman ¶ 7, Ex. 8; Ellen Levine ¶¶ 9-14, Ex. 13; and Donald Maass ¶¶ 8-10, 14, Ex. 14.

That conclusion is even more compelling when the contractual phrase upon which Random House relies is considered in the context of what Messrs. Styron, Vonnegut and Parker reserved to themselves in the various contracts. Without repeating the material contained in the statement of facts above, it is clear that these authors intended to reserve and did reserve to themselves numerous rights, including radio, television, audio, mechanical, electronic, sound recordings, and so forth.

2. Actual Contractual Intent Is Known

Here, unlike Boosey and Bartsch, actual contractual intent is known. Boosey stated that “many years after formation of the contract, it may well be impossible to consult the principals or retrieve documentary evidence to ascertain the parties’ intent...” 145 F.3d at 488. In Boosey and Bartsch, the lapse of time evidently prevented any direct evidence of contractual intent.

Here, in contrast, the persons who negotiated Styron’s Sophie Choice and Parker’s The Promised Land have submitted declarations stating that the contracts upon which Random House rely did not convey electronic rights. Declaration of Helen Brann ¶¶ 4, 9, 14, Ex. 2 (Robert Parker); Declaration of Donald Congdon ¶¶ 4, 19, Ex. 3 (William Styron’s Sophie’ Choice). Further, Vonnegut’s agent confirmed that Vonnegut never intended to convey electronic rights to the five Vonnegut works at issue. Declaration of Donald Farber ¶¶ 3, 8, Ex. 6.

In contrast, Random House has not offered the affidavit of a single person from Random House's side of the negotiations, to state a contrary view.¹⁴

3. There Was No Nascent Market for Electronic Publishing Until the 1990's

Boosey requires there to be at least a "nascent market" at the time of contract for the new-use right to be read into even a very broad contractual grant of rights, stating that "Disney has proffered unrefuted evidence that a nascent market for home viewing of feature films existed by 1939." 145 F.3d at 486. Similarly, in Bartsch, "the future possibilities of television were recognized by knowledgeable people in the entertainment and motion picture industries..." 391 F.2d at 154.

Random House's own witnesses have refuted this as to electronic publishing. Random House's long-term employee and officer Ashbel Green testified he never heard of electronic books until the 1990's, and has no basis to think any author, or editor did either. Ex. 16, pp. 47-48, 112-113, 223. Random House's Executive Vice President, Mr. Sarnoff, conceded "it's only in the last several years that that capability [for the delivery of text in electronic form to an audience who could comfortably read it in this fashion] has arrived at the market." Ex. 18, p. 125. Random House's own internal documents concerning electronic publishing produced in this litigation are dated October, 2000. Ex. 29. Dr. van Dam testified that Microsoft did not set up an electronic publishing department until 1998 or 1999. Ex.20, p. 53. It is manifestly unreasonable for Random House to advance an argument that Messrs. Styron, Vonnegut and

¹⁴At least one such editor has been identified in the record. Robert Loomis was identified in the Green deposition as Mr. Styron's editor. He is still at Random House. Ex. 16, pp. 23-23.

Parker were required to be 20-40 years further ahead of the technology curve for digital computer programming than Bill Gates. Defendants have buttressed this evidence with the Declaration of David Farber, a distinguished professor of telecommunications, Ex. 5. Further, persons who have been active in the publishing industry have explained that electronic publishing did not come onto their radar screens until the mid-1980's or early 1990's.

Declarations of Catherine Fowler ¶¶ 13-15, Ex. 7; Ellen Levine ¶ 15, Ex. 13.

Hence, it would contravene Boosey and Bartsch to adopt Random House's argument, because there obviously was no commercial market, nascent or otherwise, or knowledge in the industry concerning electronic publishing at the time of the Random House contracts at issue.

4. Two Separate Media Are Involved

The threshold for applying the Boosey and Bartsch analysis is not even reached where, as here, there are separate and distinct media involved, namely the print medium as opposed to the digital or computer medium. 145 F.3d at 496. Boosey quoted Nimmer on Copyright as framing the issue whether “the licensee may properly pursue any uses that may reasonably be said to fall within the medium as described in the license.” 145 F.3d at 486.

Here, the medium “as described in the license” to Random House is the print medium, and only the print medium. That is the reason Random House has omitted the word “print” from the phrase “to print, publish and sell the work in book form” each and every time it uses the phrase in its papers.

Dr. van Dam acknowledged that print and digital (or computer) are separate and distinct media. Ex. 20, p. 42. The Court of Appeals for the Eleventh Circuit has recently so held in a

copyright case. Greenberg v. National Geographic Society, 2001 U.S. App. Lexis 4270 (11th Cir. March 22, 2001):

However, common-sense copyright analysis compels the conclusion that the Society, in collaboration with Mindscape, has created a new product ('an original work of authorship') in a new medium, for a new market that far transcends any privilege of revision....The Society analogizes the digitalization of the Magazine to the reproduction of the Magazine on microfilm or microfiche. While it is true that both the digital reproductions and the microfilm/microfiche reproductions require a mechanical device for viewing them, the critical difference, from a copyright perspective, is that the computer, as opposed to the machines used for viewing microfilm and microfiche, requires the interaction of a computer program in order to accomplish the useful reproduction involved with the new medium."

2001 U.S. App. Lexis * 16 and n. 12.

Further significant is Bartsch's holding that projecting a movie on a screen at a theater, and sending it over television airways, are not "analogous" to each other. 391 F.2d at 153. A fortiori, transmitting an entirely different medium (digital computer code) in a completely new manner (by telephone or radio waves through the internet) cannot be considered "identical" to the print medium. Yet this is the misguided premise for Random House's argument.

B. Random House's Position Contradicts The Plain Language of the Contracts, and Trade Usage

As shown in Part A above, this Court need not even reach the issue of whether or not electronic publishing was foreseeable or had a nascent market in the 1960's and 1970's unless and until it determines that the license in question is the type of broad grant that would cover the new technology. As shown below, the phrase at issue, "to print, publish and sell the work in

book form,” cannot reasonably mean what Random House seeks to have the Court declare it to mean.

1. Random House Seeks to Contradict the Contracts on Their Face and Decades of Trade Usage

Random House’s position requires this Court to contravene basic rules of contract interpretation. Pertinent New York contractual principles were recently summarized by this Court:

See Brooke Group Ltd. v. JCH Syndicate, 87 N.Y.2d 530, 533, 640 N.Y.S.2d 479, 663 N.E.2d 635 (1996) (stating that court must consider entire contract "so as to give each part meaning"); ...Browning-Ferris Indus. of New York v. County of Monroe, 103 A.D.2d 1040, 478 N.Y.S.2d 428, 429 (4th Dep’t 1984), *aff’d*, 64 N.Y.2d 1046, 489 N.Y.S.2d 902, 479 N.E.2d 247 (1985) (stating that court should interpret contract to give meaning to all terms and provisions).

Karabu Corp. v. Pension Benefit Guaranty Corp. 1997 U.S. Dist. Lexis 19582 *32 (S.D.N.Y. 1997).¹⁵

None of the contracts at issue refer to “electronic” or “digital” rights. Random House is requesting the Court to interpret the words “to print, publish and sell the work in book form”

¹⁵The Second Circuit recently re-affirmed this principle, citing New York law:

“ Every clause or word is deemed to have some meaning.” Theatre Guild Prods., Inc. v. Insurance Corp. of Ireland, 25 A.D.2d 109, 111, 267 N.Y.S.2d 297 (1st Dep’t 1966), *aff’d*, 19 N.Y.2d 656, 278 N.Y.S.2d 625, 225 N.E.2d 216 (1967). Like any other contract, "effect must be given to all its provisions." Finery Silk Stocking Co. v. Aetna Ins. Co., 227 A.D. 39, 42, 237 N.Y.S. 36 (N.Y. App. Div. 1929).

Mazzaferro v. RLI Ins. Co., 50 F.3d 137, 140 (2d Cir. 1995).

found in each of these five contracts to have conveyed such rights. For some of the contracts, it is requesting that the Court interpret another clause that reads “...microfilm, Xerox or other forms of copying, either now in use or hereafter developed” to convey digital electronic rights.

The actual words of the contracts not only do not mention “electronic” or “digital” publishing, but are inconsistent with this interpretation. For example, Mr. Styron is required by paragraph 6 of his 1961 contract to “correct and return promptly all proof sheets of the work” and to pay for “the cost of alterations in type or in plates.” Ex 24, ¶ 6. This means printing with ink on paper. Similarly, in paragraph 15, Mr. Styron has the right to “purchase the plates” from Random House if Random House does not keep the work in print and the contract terminates. In Paragraph 19, if Random House goes into bankruptcy, the contract terminates and Mr. Styron “may purchase the plates and remaining copies and sheets.” The other four contracts contain similar language. These contracts on their face refer, and can only refer, to printing with ink on paper. Hence, Random House is asking this Court to interpret the contracts in a manner that does not comport with the language actually used in the instruments.

Random House’s interpretation also contradicts established trade usage and, moreover, its own usage, of what the contractual terms mean, and the process by which author’s contracts are negotiated. “Trade terms may be shown by parol evidence to have acquired a meaning by usage.” Trans World Metals v. Southwire Co., 769 F.2d 902, 906 (2d Cir. 1985), quoting Rose Stone & Concrete v. County of Broome, 76 A.D.2d 998, 429 N.Y.S.2d 295, 296 (3d Dept. 1980). “Parol evidence is admissible to explain the meaning which custom or usage has given to words or terms as used in any particular trade or business or in any particular locality.” Seroff v. Simon & Schuster, 6 Misc. 2d 383, 389, 162 N.Y.S.2d 770, 776 (NY Supreme Court 1957), aff’d 12

A.D.2d 475, 210 N.Y.S.2d 479 (1st Dep't 1960). Parol evidence may be used “to show the existence of a trade practice followed by American publishers...” Seroff, 162 N.Y.S.2d at 776 (emphasis supplied). Random House’s argument contradicts the process by which authors have selectively licensed or withheld licenses to secondary rights. Random House concedes that parol evidence of industry custom and usage is appropriate, by submitting and relying upon the declarations of Edward Miller, former general counsel of Harper & Row, and Ashbel Green, a Random House employee.

The trade custom and usage clearly establishes that the phrase “to print, publish and sell in book form” refers only to the first publication rights of the author’s work in the form of a print book. Each additional right (serializations, book club editions, audio rights, foreign publications, and so forth) requires separate contractual language. Numerous declarants very knowledgeable about publishing, and not affiliated with Rosetta, who have negotiated collectively thousands of publishing contracts over a period of many decades, have so testified in the attached exhibits. See Declarations of George Borchardt ¶ 10, Ex.1; Helen Brann ¶ 5, Ex. 2; Donald Congdon ¶ 10, Ex. 3; Donald Farber ¶ 8, Ex. 6; Ellen Levine ¶ 10, Ex. 13; Donald Maass ¶ 9, Ex. 14; and Eugene Winick ¶ 12, Ex. 15.

This testimony is supported by the process actually used at Random House, and throughout the publishing industry. Rights departments have long employed a set procedure when negotiating “outgoing” agreements, i.e., agreements with third parties to exploit uses of a work that are the subject of a publishing agreement between Random House and the author. The procedure was premised on an industry held axiom that the publisher holds only those rights that are expressly enumerated in the publishing agreement. Thus, it was the practice of rights

managers at Random House and throughout the publishing industry to rely on the most explicit language in publishing contracts to determine the extent to which the publisher could exploit the work. Fowler Decl. ¶¶ 17-19, Ex. 7.

Ms. Fowler and others at Random House held discussions in the early 1990s concerning whether certain clauses in the standard contracts could be “stretched” to include electronic rights. One clause under consideration was “other forms of copying, either now in use or hereafter developed.” The result of those discussions was that no one was comfortable interpreting such language to encompass electronic rights. Significantly, the language “in book form” was not even discussed in this context. Ms. Fowler states that it was not considered “gray area” language, and no one at Random House considered that language to include electronic rights. In fact, there was not a single occasion in which Random House understood it had licensed the electronic rights of a work based merely on language in the contract referring to “in book form,” or forms of copying “now in use or hereafter developed.” *Id.* ¶¶ 20-22.

Prior to 1994, when Random House amended its standard publishing contracts to expressly include electronic rights, the only occasions in which Random House exploited electronic rights were in connection with publishing contracts that contained such express language as, for example, “electronic,” “on line,” or “CD-Rom,” or in connection with contracts referred to at Random House and in the industry as “all rights” contracts (where Random House was given permission to exploit the work in any manner whatsoever),¹⁶ or where Random House

¹⁶Even as to “all rights” contracts, this Court in ABKCO Music, Inc. v. Westminster Music, Ltd., 838 F. Supp. 153 (S.D.N.Y. 1993), aff’d without op., 41 F.3d 1502 (2d Cir. 1994), sent to the jury the question whether a grant of “all rights” to sublicense certain songs by the

expressly re-negotiated with the author for electronic rights, as it did, for example with the National Audubon Society.¹⁷ Id. ¶¶ 23-24.

Further, Random House's attempt to stretch the "in book form" clause to cover electronic publishing proves too much. Many of the rights enumerated in the Random House contract could be considered "in book form": foreign translation rights, book club editions, school editions, Readers' Digest Condensed Books, and so forth. Yet, in trade usage, each has required separate enumeration in the contract. All of these are mere surplusage under the argument Random House advances, because the phrase "in book form," as Random House now seeks to redefine it, could encompass virtually every other right in the contract.

The phrase "to print, publish and sell the work in book form" has been in use in the U.S. publishing industry since at least 1904 (see pp. 4-5 above), and has been used for decades to mean the first publication of a print book. This includes through 1957 when the Seroff court described it as "the standard publishing contract." 162 N.Y.S.2d 770 at 772. Random House's

Rolling Stones included the right to sublicense on videocassettes and other media not yet in existence. Id. at 154. The Court charged the jury with resolving "what you think was the parties' intention regarding technologies not yet in existence." Id.

¹⁷In the early 1990s, Ms. Fowler prepared a document to assist her and others in determining whether contracts conferred electronic rights to Random House. She, along with her rights manager, presented that document as part of a discussion with several rights departments in the company to help them interpret contracts when they received electronic rights inquiries. The document was prepared as a result of a careful examination of language in existing Random House agreements and identifying language that (a) could be construed to confer electronic rights and (b) language that was insufficient to confer such rights. The language "in book and pamphlet form," was not even mentioned in this document because this language was so clearly understood in the industry not to include electronic rights. The language "other forms of copying, either now in use or hereafter developed" was included in the document, but was recognized as not being adequate to confer electronic rights on Random House. The only

current argument for a sudden shift in trade usage, with no evidentiary support whatever for such a change, has no judicial support or logic.

2. Each Separate Right Has a Royalty Structure

Every separate right or license under the Random House contracts had its own royalty structure. As an inspection of the contracts shows, hardback rights have one royalty structure; and each other right, such as paperback reprints, book club editions, and foreign translations, have their own royalties. One set of royalties is conspicuously missing: electronic rights.

Random House officer and affiant Ashbel Green confirmed that each right had a corresponding royalty, negotiated and agreed upon between publisher and author:

Q. Is it fair to say that there are different royalty structures for each of the different subsidiary rights?

A. Yes.

Q. And those different royalties are intended to be set out in the form contract, correct?

A. Yes.

Q. And you consider electronic rights to be subsidiary rights currently?

A. Yes.

Ex.16, pp. 94-95.

Random House's expert witness, Mr. Miller, testified that Random House should now go back and renegotiate with the authors in suit for a royalty for electronic rights:

language that was so recognized at Random House were clear and unambiguous terms such as "electronic," "online," "CD-Rom," and "all rights." Ex. 7, ¶ 24.

- A. I believe that if Random House—or at least my advice to Random House, if they wish to publish an electronic version of his book, they should contact Mr. Styron and attempt to reach an agreement with him as to what the royalty rate would be....I don't think the royalty rate for an eBook is covered by the contract.¹⁸

Ex. 17, p. 81 (emphasis supplied).

Mr. Sarnoff of Random House admitted at his deposition that Random House has negotiated royalty rate agreements for electronic rights with authors whose older contracts (like the contracts at issue herein) do not include such a royalty rate. Ex. 18, pp. 185-87.

Random House has never negotiated such rates with Messrs. Styron, Vonnegut and Parker. Instead, Random House, in its moving papers, states that it unilaterally declared a royalty rate. See Sarnoff Affidavit, ¶ 7. Mr. Green testified that, in his many years in publishing, there was no precedent for such a unilateral royalty determination:

- Q. I'm asking you whether Knopf or Random House or any of the related entities have ever, to your knowledge, changed a royalty unilaterally without having amendments signed by the author and the publisher?
- A. Not to my knowledge.

Ex. 16, p. 121.

¹⁸At Mr. Green's deposition, in response to questioning by his own counsel, he testified that paragraph 10(a) of the Styron contract arguably provides a royalty for electronic books because it sets forth a 15% royalty rate on "all copies sold." Ex. 16, pp. 107-08. However, on cross-examination, Mr. Green admitted that in his actual experience at Random House (over 37 years) this 15% royalty rate for "all copies sold" has never been applied to any "copies" other than "hardcover" book copies, and that the royalty rates in paragraphs 10(b)-(k) of the Styron contract set forth the royalty rate for copies other than "hardcover" copies. Ex. 16, pp. 121-22. Thus, it is clear that the trade practice and usage in the publishing industry and at Random House is to include a separate royalty provision for each separate right granted.

Hence, Random House has engaged in a fiction, for purposes of this litigation, whereby (1) electronic rights are supposedly covered by but not specified in the contracts; (2) they are the only supposed right which has no enumerated royalty structure in the contracts; (3) they are the only supposed right with a royalty that has been unilaterally decreed by the publisher as opposed to negotiated between author and publisher; and (4) they are a supposed right as to which Random House's own expert witness has admitted that Random House should now "attempt to reach an agreement," because, he admits, the 20-40 year old contracts do not cover the matter. Royalty rates are an essential term of a copyright license, and cannot be unilaterally decreed by Random House. "At a minimum, the essential terms of a contract include the identification of the parties, a sufficient description of the subject matter, and consideration." Personalized Media Communications, L.L.C. v. Starsight Telecast, Inc., 2000 U.S. Dist. LEXIS 14185 *9 (S.D.N.Y. 2000) (citing New York law). Here the essential elements are missing.

3. Random House Has Invented A New Phrase

Random House has invented for purposes of this litigation a supposed new meaning for the clause "to print, publish and sell the work in book form," namely "linear text fashion."

Hence, its legal memorandum advances the proposition:

An eBook contains the same text as its paper counterpart and is displayed for the reader in the same linear fashion, i.e. the reader reads lines of text no differently than if the work were being read in paper format. The only real difference in reading experience as between eBooks as they exist today and their paper counterparts is that eBooks display content on a screen, rather than on paper.

(Legal memorandum, p. 1). Accord, Green affidavit ¶ 6 ("full content of the work in a linear text fashion.")

This phrase “linear text fashion” appears in no Random House contract. No one in the publishing industry has ever previously heard it. See declarations submitted herewith. Mr. Green, who has worked for Random House for 37 years, admitted he had never heard the term before it miraculously found its way into his affidavit:

Q. Have you ever seen the words ‘linear text fashion’ in any written document other than your own affidavit?

A. Not that I can recall.

Q. Is that a phrase you’re familiar with, linear text fashion?

A. Linear text fashion is not a phrase that rolls off my tongue every day.

Ex. 16, pp. 67-68.

However, even this phrase, newly-minted for the litigation, does not help Random House. Its expert, Dr. van Dam, testified that electronic texts are “non-linear” because they contain hypertext and hyperlinks. Ex. 20, pp. 16-19.

In addition, the new phrase proves too much. Most of the rights in Random House contracts involve “linear text fashion,” such as serialization, book club editions, school editions, foreign translations, and so forth. If “print, publish and sell in book form” were synonymous with “linear text fashion,” virtually all of the clauses in Random House’s contracts covering these additional rights would be rendered surplusage.

4. Random House’s Position Contradicts Its Own Contractual Interpretation

Courts cast a skeptical judicial eye upon a party that follows one course of conduct under its contract for an extended period of time, and then abruptly shifts its position for purposes of litigation. Judge Weinfeld encountered this situation in Viacom Intern. Inc v. Lorimar Productions 486 F. Supp. 95 (S.D.N.Y. 1980), where a party interpreted its contract in one fashion for five years, and then suddenly switched to a different position of what a “television movie” and a “mini-series” meant. The Court relied upon the following propositions of federal and New York law:

The practical interpretation of a contract by the parties, manifested by their conduct subsequent to its formation for any considerable length of time before it becomes a subject of controversy, is entitled to great, if not controlling weight in the construction of the contract. See Old Colony Trust Co v. City of Omaha, 230 U.S. 100, 118 (1913); Sanchez v. Maher, 560 F.2d 1105, 1108 (2d Cir. 1977); Cordingley v. Allied Van Lines Inc., 563 F.2d 960, 964 n. 9 (9th Cir. 1977); Madawick Contracting Co . Travelers Ins Co., 307 N.Y. 111, 120 N.E. 2d 520 (1954); Webster’s Read Seal v. Gilberton World Wide, 67 A.D.2d 339, 340, 415 N.Y.S.2d 229, 230 (1st Dep’t 1979); In re Field’s Will, 11 A.D.2d 774, 775, 204 N.Y.S.2d 947, 949 (2d Dept. 1960); Battista v. Carlo, 57 Misc.2d 495, 496, 293 N.Y.S.2d 227, 229 (S.Ct. 1968).

Id. at n. 3 (emphasis supplied).¹⁹

In the case at bar, in the early 1990's, Random House employees analyzed the standard Random House contractual language (the same language that appears in the Styron, Vonnegut and Parker contracts sub judice), and behaved as if those contracts did not provide to Random

¹⁹Judge Weinfeld found the abrupt change in position has been “fomented” by an attorney who was Vice President and General Counsel, and who abruptly changed the company’s position. 486 F. Supp. at 98. Here, Richard Sarnoff, Random House Executive Vice President, has stated that Random House’s new position in this litigation is “driven by” Random House’s legal counsel. Sarnoff dep. Ex. 18, p. 191.

House electronic or digital rights. On numerous occasions, Random House went back to authors to renegotiate electronic rights. See Fowler affidavit, and Sarnoff deposition, Ex. 18, pp. 185-87. On March 28, 1994, the then-President of Random House, Mr. Vittale, announced to the industry that Random House was amending its contract, to include new provisions (paragraphs (1)(a)(i)(2) and (1)(x)), to cover electronic and digital rights. Ex.26. That language has been quoted on pp. 13-14 above.

Until this lawsuit was commenced, Random House has treated its pre-1994 contractual language as though these contracts did not convey electronic and digital publishing rights, and has required new contractual language in order to acquire electronic rights. In a 1995 letter, a Random House subsidiary acknowledged it could not even publish on the internet one chapter of an author's work without the author's express consent. Decl. Tara Harper ¶ 10, Ex. 9.

However, on February 27, 2001, Random House suddenly reversed positions to claim that the "print, publish and sell the work in book form" clause of all of its old contracts conveyed those electronic and digital rights all along. This is analogous to Lorimar's sudden shift in contractual interpretation, supra, and should be just as skeptically received.

Further, to accept Random House's argument in this litigation would require holding that the new paragraphs (1)(a)(i)(2) and (1)(x) (see pages 13-14 above and Ex. 26), which specifically enumerate electronic rights, are mere surplusage, because, according to Random House's argument, electronic rights are "already conveyed" by the "print, publish and sell the work in book form" language in paragraph (1)(a)(i)(1). A Court necessarily avoids interpreting the contractual words in inconsistent and contradictory ways. Murray v. Roberts, 103 F.2d 889, 897

(2d Cir. 1939) (Court avoids a contractual interpretation which is “absurd” or which produces a “crazy quilt” meaning).

5. The Non-Compete Provisions Do Not Assist Random House

Random House has advanced an argument that “non-compete” language in the contracts has been violated by Messrs. Parker, Vonnegut, and Styron. (Random House brief, p. 6-9). The language upon which Random House relies is:

“5. 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 material in the work” (Styron 1977 agreement) (Ex. 24);

“8. 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 like to injure its sales.” (Styron 1961 agreement) (Sarnoff Aff., Ex. A);

“10. ...The author, during the term of this agreement, will not publish or permit to be published any edition, adaptation or abridgement of the Work by any party other than Dell without Dell’s prior written consent.” (rider 10 to Vonnegut 1970 agreement, but not in standard 1967 Dell contract for Slaughterhouse Five or Breakfast of Champions) (Sarnoff Aff., Ex. D);

“Competing Work. 18. The author agrees that during the term of this Agreement he will not, without the written permission of Dell, publish or permit to be published any material based on the material in the Work, or which is reasonably like to injure its sale.” (Parker, 1982 contract) (Sarnoff Aff., Ex. E).

These clauses do not support Random House’s position. First, as set forth above in this brief, authors retain many rights. A retained right cannot be considered to violate the non-

compete clause, or else the concept of retained rights would be illusory and meaningless. For example, the right to publish audio books is often retained by the author. If an author exercises this retained right, that cannot be considered a violation of the non-compete clause. Here, the authors have retained, and did not grant to Random House, the right to publish the work in an electronic format. This exercise of their retained rights does not violate the non-compete clause.

Second, Random House's affiant, Ashbel Green, testified that, in his experience, Random House has never applied non-compete provisions to works of fiction, but only to works of non-fiction (as when an author writes a book about a subject for one publisher, and a closely related non-fiction subject for a different publisher):

A.This is an issue that comes up in non-fiction rather than fiction.

Q. I was going to ask if you've ever had the issue of a non-compete provision come up with a fiction author?

A. No.

Q. Does the issue come up with non-fiction because the author could cover the same subject matter in another work?

A. Yes.

Q. And if the work is too closely related, then you deem it to be in competition?

A. Yes.

Ex. 16, p. 79.

Third, to the extent defendants rely upon the Boosey and Bartsch decisions to claim these non-compete clauses should be construed broadly, those decisions require a showing that a commercial market existed at the time the contract was signed, before the words of the contract

will be read to apply to the new-use. Here, Random House concedes through Mr. Sarnoff that eBook publishing was not a marketplace reality until the last several years. Ex. 18, pp. 125-26. It would violate Boosey and Bartsch. to construe the non-compete language to prohibit an author from exercising rights as to a new media not in existence at the time the contract was signed.

Finally, it is completely speculative to claim that electronic publishing may or will injure hard-back or soft-back sales. Random House has proffered no empirical evidence of any kind. Many people in the publishing industry believe it will do the opposite, namely stimulate interest in back list titles, and thereby increase sales of hard back and soft-cover versions of the work. See Declarations of Arthur Klebanoff ¶ 21, Ex. 11, and Dorothy Kauffman ¶¶ 13-19, Ex. 10.

For all of the above reasons, Random House cannot show probability of success on the merits.

II. RANDOM HOUSE CANNOT SHOW IRREPARABLE HARM

The Second Circuit generally considers a copyright infringement to satisfy “irreparable harm” for purposes of a preliminary injunction analysis. Video Trip Corp. v. Lightning Video Inc., 866 F.2d 50, 52 (2d Cir. 1989). However, that general conclusion warrants closer analysis in this case, for the following reasons.

Messrs. Styron, Vonnegut, and Parker hold the respective copyrights to their works. They are listed as the copyright claimants. See copyright registrations, attached as exhibit A to the complaint.

Messrs. Styron, Vonnegut and Parker granted limited licenses to Random House in connection with publishing contracts. They granted other limited licenses to Rosetta for

electronic distribution. Messrs. Styron, Vonnegut and Parker retain the residual balance in the copyrights.

If Random House is wrong in this lawsuit, it will have committed a form of copyright misuse – asserting copyright licenses broader than what it is entitled to assert. Random House will have impermissibly asserted a purported copyright right which it did not possess against Rosetta, the valid licensee of Messrs. Styron, Vonnegut and Parker.

Until the Court decides the basic contractual issues, there is no basis for concluding that Random House has any greater claim for “irreparable harm” than Rosetta. In this type of situation, where the true copyright owner (the author) has licensed two entities for two different purposes, and the entities disagree about the scope of their licenses, the “irreparable harm” claim by Random House is balanced and off-set by an equally compelling countervailing “irreparable harm” claim by Rosetta. This is especially true where, as here, Random House has not even published the works at issue as electronic books, yet seeks to prevent RosettaBooks from so doing.

There are other serious jurisprudential concerns at issue. As Mr. Winick cogently points out (Winick Decl. ¶¶ 9-10, Ex. 15), it is a legal requirement, and industry practice, that publishing contracts terminate, and all rights contained therein, revert to the author if the publisher declines to keep the book in print for a certain period. Here, Random House is requesting, by a preliminary injunction, to have this Court fundamentally redefine what “print, publish, and sell the work in book form” means in contracts signed 20 to 40 years ago. If Random House succeeds, arguably all that it needs to do to retain its rights ad infinitum is to digitize a work, post it on a web site somewhere, and without any further effort to market or sell

it, claim it is keeping the work “in book form.” It could thereby retain in futuro all of the rights contained in the contract. This would fundamentally change trade custom and trade usage, and fundamentally alter rights which have been carefully negotiated between authors and publishers for many decades. A preliminary injunction is designed to preserve the status quo. Random House seeks to do the opposite.

Further, because electronic publishing is so new, revenues are de minimus. Random House has sold very few eBooks, especially compared with its total yearly revenues. (Compare October, 2000 ebook revenues (Ex. 29) with pp. 73-74 of Sarnoff confidential deposition (Ex. 30) for Random House total revenues). Rosetta has sold very few eBooks. While the issue in this litigation is of great legal importance, as a practical matter it can abide a full trial on the merits without causing any irreparable harm to Random House.

Finally, Random House argues that it has invested substantial sums of money in production of print books for Messrs. Styron, Vonnegut, and Parker.²⁰ However, by the same token, Random House has already made a profit from sales of those books, as Mr. Sarnoff acknowledged. Ex. 18, pp. 67, 71-72. In short, Random House has been repaid for its investment in print books. And Random House’s argument goes too far, because the same argument about Random House’s “investment” could be made about “audio books,” or “books on tape.”

III. BALANCE OF THE HARDSHIPS

²⁰In its brief, Random House accuses Rosetta of “free riding.” Such ad hominem attack is inaccurate and offensive. The Declarations of Dorothy Kauffman and Arthur Klebanoff

Where a copyright infringement case involves disputed issues of contract, the Court employs the traditional test for a preliminary injunction that it would in any breach of contract action. Video Trip Corp. v. Lightning Video Inc., 866 F.2d 50, 52 (2d Cir. 1989). One of those factors is to balance the harm to Random House if the preliminary injunction is denied, as compared with the harm to Rosetta if the preliminary injunction is granted. Id. Under that analysis, the balance tips toward Rosetta. As a fledgling company, Rosetta will suffer far more harm from being enjoined than Random House will suffer if Rosetta is not enjoined, especially since Random House has not even published the works at issue as electronic books. Since Random House's eBook revenues are an infinitesimal portion of its total revenues (see Ex. 28 hereto, filed under seal, comparing Random House ebook revenue with pp. 73-74 of Mr. Sarnoff's confidential deposition (Ex. 29) setting forth Random House's total world-wide revenues), there will be no material diminution in its income stream if an injunction is denied. Moreover, there is evidence that the promotion, marketing and sales of e-books by Rosetta will actually enhance rather than hinder Random House's print sales of the same works. See Klebanoff Decl. ¶ 21, Ex. 11; Kauffman Decl. ¶¶ 13-19, Ex. 10. Rosetta, in contrast, could face irreparable damage to its survival, or at the least be seriously crippled, if enjoined by this Court. See Klebanoff Decl. ¶¶ 24-26, Ex. 11. For these reasons, the balance of hardships clearly favors Rosetta.

demonstrate the speciousness of Random House's claim. See Kauffman Decl. ¶¶ 6-12, Ex. 10; Klebanoff Decl. ¶¶ 10, 14-16, 21, Ex. 11.

CONCLUSION

For all of the foregoing reasons, the motion for preliminary injunction should be denied.

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Respectfully submitted,

Al Daniel
Daniel, Seigel & Bimblar
1776 Broadway
11th Floor
New York, NY 10019
(212) 333-7000

Robert J. LaRocca
Michael J. Boni
Joanne Zack, JZ 6432
Neil L. Glazer, NG 7584
KOHN, SWIFT & GRAF, P.C.
One South Broad Street
Suite 2100
Philadelphia, PA 19107
(215) 238-1700

Attorneys for Defendants