R. Bruce Rich (RBR-03 13)
Jonathan S. Shapiro (JS-3068)
WEIL, GOTSHAL & MANGES LLP
767 Fifth Avenue
New York, New York 10 153-0119
Telephone: (212) 310-8000

Attorneys for Plaintiff
Random House, Inc.

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

----------x

RANDOM HOUSE, INC., . .

Plaintiff, . .

v .

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

01 Civ.

Defendants. . .

----------x

MEMORANDUM OF LAW IN SUPPORT OF
PLAINTIFF'S MOTION FOR A PRELIMINARY INJUNCTION

TABLE OF CONTENTS

TABLE OF AUTHORITIES

Cases

Statutes

Rules

Miscellaneous

PRELIMINARY STATEMENT

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 from systematic infringement by the defendants, who have commenced a competitive, Internet-based publishing venture which has begun to offer, in electronic, or "eBook" form, competing editions of certain Random House books. Defendants' activities have not been authorized by Random House, which possesses the exclusive right to publish these titles in any book form, and to do so free of competitive offerings of the type defendants have now created. Defendants have instead unlawfully induced several Random House authors to breach their publishing agreements with Random House so as to enable defendants to publish and sell eBooks in competition both with Random House's paper editions of these authors' works, as well as with Random House's own forthcoming eBook publishing activities.

An eBook such as those offered by defendants is an electronic file that contains the text of an entire book formatted in a manner that allows the author's text to be read on a computer, a personal digital assistant ("PDA") like a Palm Pilot, or a dedicated handheld eBook reader. The eBook reading experience is that of a book presented in an electronic format. An eBook contains the same text of 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 as 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.

Defendants launched an Internet web site on February 26, 2001 with the domain name RosettaBooks.com. The site features some eighty-six eBook offerings, including eight

well-known Random House works, authored by Kurt Vonnegut, William Styron and Robert B. Parker. In a matter of minutes, a visitor to the web site can purchase one of the works and have a copy delivered via modem to his or her home computer. That eBook copy serves as a complete substitute for purchase of the work in paper form.

The current RosettaBooks' offerings are just the tip of the iceberg. Defendants have announced plans to expand RosettaBooks' offerings dramatically – to some 20,000 titles, with the goal of amassing "the best backlist titles of the 20th century."[1] Defendants would thus cherry pick the best of modem literature in utter disregard of the contractual and copyright rights owned in such works by, among other publishers, Random House. They also gladly would free ride on the enormous investments made by Random House and other publishers in introducing, marketing and selling these works to the public over the years.

Rosetta Books' activities infringe upon Random House's exclusive copyright rights and should be preliminarily (as well as permanently) enjoined. Random House possesses the exclusive right to publish and sell its authors' works, for the term of 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. That is precisely what an eBook accomplishes.

It matters not that eBooks were not in existence at the time various of the governing contracts were entered into. The law makes clear that Random House is entitled to benefit from evolving technology over the term of its license that serves to facilitate its exercise

[1] Backlist is a term commonly used in the publishing industry to mean titles that were published more than a year earlier.

of the core grants of rights it has obtained. That is precisely what eBook publishing entails: the offer of an additional distribution method for the delivery of the texts of the works of Random House's authors to the reading public. Defendants' ongoing and planned business activities would strike at the heart of that core publishing right and must be enjoined.

Defendants' ongoing, and further threatened, infringements warrant preliminary injunctive relief in Random House's favor requiring the defendants to desist from further sales of Random House works in eBook format. As we demonstrate in the balance of this memorandum, Random House easily meets the test for obtaining such relief. It has made out a prima facie case of copyright infringement, giving rise to a presumption of irreparable injury. Even were Random House not entitled to that presumption, as the accompanying affidavit of Richard Sarnoff, President of Random House New Media, attests, the deleterious consequences to the business and goodwill of Random House of permitting the defendants to continue their illegal actions (which would encourage third parties to follow suit) would be significant, and could not be adequately compensated for by money damages.

FACTUAL BACKGROUND

The facts relevant to this motion are established in the accompanying fact and expert declaration and affidavits of Ashbel Green ("Green Aff."), Richard Sarnoff ("Sarnoff Aff."), Adam Smith ("Smith Aff."), Andries van Dam ("van Dam Decl."), Edward A. Miller ("Miller Aff.") and Lisa Cantos ("Cantos Aff."). Those facts are summarized below.

The Publishing Operations Of Random House

Random House (through its various publishing divisions) is today the world's largest English language general book publisher.[2] Built on a reputation its publishing divisions have developed over many decades, Random House has developed a publishing "backlist" (i.e., titles published more than one year earlier) comprising more than twenty-thousand (20,000) titles. Among its many celebrated authors are William Styron, Kurt Vonnegut, Robert B. Parker, William Faulkner, Truman Capote, Eudora Welty, James A. Michener, John Grisham, Dean Koontz, Carl Sagan, E.L. Doctorow, Maya Angelou, Norman Mailer, Danielle Steel, Louis L'Amour, David Halberstam, Ken Burns, Geoffrey Ward, Tom Brokaw, John Glenn and Colin Powell. (Sarnoff Aff. at ¶ 5.)

As a book publisher, Random House's basic function is to present its authors' works to the reading public in a variety of "book forms" that meet marketplace demand. Through the years, these "book forms" have evolved to include hardcover, trade paperback, and mass market paperback editions. As technology continues to advance and be applied to the book publishing process, it has become economically viable to deliver books to readers in electronic, versus paper, format. Random House has made significant investments to enable it to utilize this latest, "eBook" format, which affords those who traditionally read books in paper form with new reading options and flexibility, and may even promise an expansion of the base of readers of Random House works. (Sarnoff Aff. at ¶ 6.)

[2] These divisions are the Ballantine Publishing Group, the Bantam Dell Publishing Group, the Doubleday Broadway Publishing Group, the Knopf Publishing Group, the Crown Publishing Group, the Random House Trade Publishing Group, Random House Children's Books, the Random House Information Group and the Random House Diversified Publishing Group.

Random House's publishing agreements with its authors grant Random House the exclusive right for the term of copyright to publish and sell those authors' works "in book form" (at a minimum, in English in North America) (Green Aff. at ¶ 4.) "In book form" is a widely used term in the publishing industry that gives a publisher broad rights to exploit a work, by presenting the author's entire writing to readers displayed as linear text. (Green Aff. at ¶ 5; Miller Aff. at ¶ 11.)

In return for obtaining exclusive rights to publish its authors' works "in book form," Random House generally pays an author an advance against the royalty earnings from the sale of copies of his or her book. If the book earns royalties equal to the advance, the author begins to receive additional royalties on each copy sold. However, even if the book never earns sufficient royalties to earn out the advance, which often occurs, authors are not required to refund their advances. The royalty structure may vary depending upon the publishing format, typically ranging from ten to fifteen percent of the retail cover price for hard cover editions to six to seven-and-a-half percent of the retail cover price for trade paperbacks to eight to ten percent of the retail cover price for mass market paperbacks. With respect to eBooks, Random House announced an across-the-board upward revision of its author royalty rate, from fifteen percent of eBook list price to fifty percent of net receipts. (Sarnoff Aff. at ¶¶ 7, 19.)

Random House makes substantial investments of time and money to maximize the success of the works it publishes. For example, Random House's editors are intimately involved with every aspect of the publishing process – including evaluating the publishing merits of book proposals, extensive editing of manuscript drafts, and overall involvement in the marketing strategy. In fact, it is not unusual for one or more editors to work with an author on a given project over a series of months or even years. Random House's efforts do not end there.

Once the editing process is complete, Random House makes further substantial expenditures in marketing and promoting the work including, *inter alia*, trade and consumer advertising, in-store displays, sponsoring author tours and readings, and distributing review and promotional copies to members of the media and influential readers. In the fiscal year ending in June 2000, Random House spent over one hundred million dollars in promoting its licensed works and in developing the various markets for its publications. (Sarnoff at ¶¶ 8, 9.)

Due in part to these efforts, authors and works published by Random House, including those that are the subject of this lawsuit, have achieved critical acclaim and significant commercial success. These efforts, and this success, have given Random House an outstanding overall reputation and earned it enormous goodwill with authors, literary agents, booksellers, and the reading public. (Sarnoff Aff. at ¶ 11.)

The Random House Licenses Herein Involved

Random House is the exclusive licensee of certain copyrighted works by William Styron, including *The Confessions of Nat Turner* and *Sophie's Choice;* by Kurt Vonnegut, including *Slaughterhouse-Five, Breakfast of Champions, The Sirens of Titan, Cat's Cradle,* and *Player Piano;* and by Robert B. Parker, including *Promised Land* (the Styron, Vonnegut, and Parker works are collectively referred to herein as the "Works").

Styron Agreements

On April 10, 1961, Random House contracted with William Styron for the exclusive license, for the term of copyright, to publish *The Confessions of Nat Turner* "in book form," in the English language, *inter alia*, in North America, "in such style and manner and at such price as [Random House] deems suitable" (the "1961 Styron Contract," Sarnoff Aff. Ex. A at ¶¶ 1 .a.i., 2). The 1961 Styron Contract in addition precludes Styron from authorizing any use

of his work that would injure Random House's rights in the work. Specifically, Styron agreed that, "during the term of this agreement, he will not, without the written permission of the Publisher, publish or permit to be published any material in book or pamphlet form, based on the material in the work, or which is reasonably likely to injure its sale." (Id. at ¶ 8.)

On May 30, 1979, Random House again contracted with Styron, this time for the exclusive license to publish four works, including *Sophie's Choice*, "in book form," in the English language, *inter alia*, in North America, "in such style, and manner . . . as [Random House] deems suitable" (the "1979 Styron Contract," Sarnoff Aff. Ex. B at ¶¶ 1.a; 1.a.i.; 6). The 1979 Styron Contract also specifically provides that Styron 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." (Id. at ¶ 5.)[3]

Vonnegut Agreements

On March 7, 1967, Random House, through its predecessor-in-interest Dell Publishing Co., Inc. ("Dell"), contracted with Kurt Vonnegut for the exclusive license, for the term of copyright, to publish three works, including *Slaughterhouse-Five* and *Breakfast of Champions*, "in book form," in the English language, *inter alia*, in North America (the "1967 Vonnegut Contract," Sarnoff Aff. Ex. C at ¶ l(a).) The contract also grants Random House the exclusive right "to publish and to license the Work for publication . . . in anthologies, selections, digests, abridgements, magazine condensations, serialization, newspaper syndication, picture book versions, microfilming, Xerox and other forms of copying, either now in use or hereafter developed." (Id. at ¶ 1 (d).)

---

[3] The United States Copyright Office granted Certificates of Registration in the name of William Styron for *The Confessions of Nat Turner* in 1967, which was renewed on September 26, 1995, and for *Sophie's Choice* in 1979 (Styron Certificates, Complaint Ex. A).

On November 20, 1970, Random House again contracted with Vonnegut, this time for the exclusive license to publish five works, including *The Sirens of Titan, Cat's Cradle,* and *Player Piano,* "in book form," in the English language, *inter alia,* in North America (the "1970 Vonnegut Contract," Sarnoff **Aff.** Ex. D at ¶ 1 (a)). This contract also grants Random House the exclusive right "to publish and to license the Work for publication . . . in anthologies, selections, digests, abridgements, magazine condensations, serialization, newspaper syndication, picture book versions, microfilming, Xerox and other forms of copying, either now in use or hereafter developed." (Id. at ¶ l(d).) The 1970 Vonnegut Contract also precludes Vonnegut from authorizing any use of his work that would injure Random House's rights in the work. Specifically, Vonnegut represented and warranted that during the term of the agreement he would not "publish or permit to be published any edition, adaptation or abridgment of the Work by any party other than Dell without Dell's prior written consent." (Id. at ¶ 10.)[4]

Parker Agreement

On February 4, 1982, Random House, through its predecessor-in-interest Dell, contracted with Robert B. Parker for the exclusive license, for the term of copyright, to publish five works, including *Promised Land,* "in book form" in the English language, *inter alia,* in North America (the "Parker Contract," Sarnoff Aff. Ex. E at ¶ 1 (a)).[5] In addition, Parker granted to Random House the exclusive right "to publish and to license the Work for publication . . . in

[4] The United States Copyright Office granted Certificates of Registration in the name of Kurt Vonnegut for: *Slaughterhouse-Five* in 1969, which was renewed on December 29, 1997; *Breakfast of Champions* in *1973; The Sirens of Titan* in 1959, which was renewed on December *9,* 1987; *Cat's Cradle* in 1963, which was renewed on July *5,* 1991, and *Player Piano* in 1952, which was renewed on Jan. 16, 1980. (Vonnegut Certificates, Complaint Ex. A.)

[5] The 1961 Styron Contract, 1979 Styron Contract, 1967 Vonnegut Contract, 1970 Vonnegut Contract and the Parker Contract are collectively referred to herein as the "Random House Contracts."

anthologies, selections, digests, abridgements, magazine condensations, second serialization, newspaper syndication, microfilming, Xerox and other forms of copying of the printed page, either now in use or hereafter developed." (Id. at ¶ l(d).) The Parker Contract precludes Parker from authorizing any use of his work that would injure Random House's rights in the work. (Id. at ¶ 18) ("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 likely to injure its sale.")[6]

Due in part to Random House's editorial and promotional efforts, the Works have achieved critical and commercial success in the United States. For example, *The Confessions of* Nat *Turner* won the Pulitzer Prize for Fiction in 1967 and is one of the most lauded American novels of its time. Similarly, *Sophie 's Choice,* winner of the National Book Award for fiction in 1980, is considered a late 20th Century American masterpiece. *Slaughterhouse-Five,* published in 1952, is one of Vonnegut's signature works and became one of the most popular and enduring novels of its time. *Promised Land* won the prestigious Edgar Allan Poe Award from the Mystery Writers of America in 1976. (Sarnoff Aff. at ¶ 13.)

To date, Random House has sold over 260,000 copies of *The Confessions of Nat Turner,* over 3.2 million copies of *Sophie 's Choice,* over 1.3 million copies of *Slaughterhouse-Five,* over *400,000* copies of *Breakfast of Champions,* over 200,000 copies of *The Sirens of Titan,* over *600,000* copies of *Cat's Cradle,* over 20,000 copies of *Player Piano* and over *300,000* copies of *Promised Land* in hardcover and paperback formats. Since their first

[6] The United States Copyright Office granted a Certificate of Registration in the name of Robert B. Parker for *Promised Land* in 1976 (Parker Certificate, Complaint, Ex. A).

publication, the Works have become integrally associated with Random House. (Sarnoff Aff. at ¶ 14.)

The History And Development Of "Electronic" Books Or "eBooks"[7]

As the descriptive name given by the industry implies, an eBook is a book presented in electronic format.' 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 as if the work were being read in paper form. The only real difference in reading experience between the eBook and its paper counterpart is that the eBook displays the copyrighted content on a computer screen or eBook reading device, rather than on paper. Rather than physically turning the paper page, the eBook reader pushes a button or computer key to move to the next page. (Smith Aff. at ¶¶ 4, 11; Sarnoff Aff. at ¶ 27.)[8]

An eBook can be obtained through a variety of sources such as online booksellers (e.g., Amazon.com, BamesandNoble.com), free distributors, eBook publishers, device specific retailers and Internet libraries. eBooks can be read on the screen of a desktop computer, laptop computer, personal digital assistant such as a Palm Pilot, or on a dedicated handheld eBook reading device that is approximately the size of a hardcover or paperback book, depending on the model. Irrespective of the reading device that a consumer chooses, once an eBook is

[7] In fact, RosettaBooks explains that "[a]n e-book, or electronic book, is a digital book that you can read on a computer screen or electronic device." (Cantos Aff. at ¶ 3.)

[8] Random House's current boilerplate contracts differentiate between electronic rights (eBooks) and "electronic versions," which are multimedia products containing added sounds, images or graphics which are more than incidental to the text. The Rosetta Books eBooks clearly fall within the former category. (Smith Aff. at ¶ 4, n. 1.)

downloaded, it can be read from cover to cover like a traditional paper book. (Smith Aff. at ¶¶ 5-12.)

As attested to by Professor Andries van Dam, a pioneer in systems for creating and reading eBooks, the concept of an electronic book – namely, the ability to read text in a non-paper format – is a natural extension and outgrowth of technological developments that significantly pre-date 1961, the year the earliest agreement covering the infringed works was entered into. The eBook as it presently exists – namely, the ability to store text in electronic form and subsequently retrieve it through the use of a computerized device – can trace its lineage back to the early methods of automated textual storage and retrieval, particularly microfilm and microfiche, developed as long as a century ago, as well as to the development of electronic document creation, storage, retrieval and output mechanisms in the 1950s and 1960s. While the commercial realization of the eBook as it now exists is of more recent vintage, its conception from these roots has long been foreseeable. (van Dam Decl. at ¶ 8.)

Microfilm and microfiche, developed in the nineteenth and early twentieth centuries, represented early storage and retrieval systems. Microfilming, or microphotography, is a mechanical process by which, *inter alia*, pages of books, newspapers and magazines can be photographed, reduced in size (often to just one percent of the original) and stored on strips of film (microfilm) or sheets of film (microfiche). (van Dam Decl. at ¶ 10.)

Prior to the advent of the computer, microfilm and microfiche were retrievable by and could be read on devices that enlarged the film onto a screen and allowed a viewer to flip through the stored pages of text. (van Dam Decl. at ¶ 10.) In 1945, Vannevar Bush, President Roosevelt's Science Advisor, proposed the creation of a more sophisticated microfilm reader, which he called the "memex." Bush, referred to by some as the father of the eBook, envisioned

the memex as "a device in which an individual stores all his [or her] books, records, and communications, and which is mechanized so that it may be consulted with exceeding speed and flexibility." Using a memex, a reader would simply have to tap a book's code on the memex's keyboard, and the microfilm version of the book would promptly appear. (Id. at ¶ 11; Ex B, at 11.)

In the 1950s and 1960s, computer scientists, including Douglas Englebart, J.C.R. Licklider, Theodor Nelson, Alan Kay, and expert declarant Andries van Dam (who has been credited with coining the term "electronic book") saw the potential of combining Bush's ideas for storage and retrieval of text with the burgeoning computer industry. In fact, their ensuing research in this area was predicated on the certainty that, at some point, computers would have the memory and speed sufficient to store entire books, and even entire libraries as Bush had predicted, and would also have an output device capable of showing the text on a screen. (van Dam Decl. at ¶ 12.)

Englebart, Nelson, and van Dam focused their research and scholarly writing on the creation of information storage and retrieval systems that would allow people to do all of their reading, writing, and communicating on computers. Their work was facilitated by the introduction, by 196 1, of computer time-sharing, which allowed many people to retrieve and read information, stored on one mainframe computer, on numerous computer screens located in different locations. (van Dam Decl. at ¶ 13.)

By the late 1960's, these efforts in computer information storage and retrieval came to fruition. Various systems, including Englebart's oNLine System (NLS) (on which he had been working since 1962), allowed text to be read on a computer screen. (van Dam Decl. at ¶ 14.)

In 1968, Alan Kay articulated a new storage and retrieval device that he called the Dynabook. Kay envisioned that the Dynabook would be the size of a three-ring binder and would have a multipurpose screen that a consumer could use for both reading and writing. His vision of a Dynabook is seen by many as the first portable eBook reading device and also served as a template for the personal computer. (van Dam Decl. at ¶ 16.)

In 197 1 Project Gutenberg, a project devoted to creating, *inter alia*, electronic books of public domain works that would be stored, retrieved, and read on computers, was begun. The project began by making publicly available computer files of smaller texts, e.g., the Declaration of Independence; by the mid-l 970's, it was making publicly available entire books in electronic form, including the Bible, Shakespeare, and Alice in Wonderland. (van Dam Decl. at ¶ 17.)

Random House's Investments In eBooks

Random House has invested significant resources into making eBooks a marketplace reality, based on its belief that eBooks will someday become the book format of choice for a significant segment of the book consuming public, much in the way the paperback book format has become a mainstay of the book market. Random House has, to date, invested in excess of five million dollars in support of eBooks, including investments in eBook hardware and software, human resources, consultants, and digital conversion of titles, and anticipates investing an additional ten to fifteen million dollars in the next three to five years. (Sarnoff Aff at ¶ 18.)

On November 7, 2000, Random House announced that it would share its net receipts from eBooks equally with its authors, which would in many cases dramatically increase an author's earnings from each eBook sold. This policy provides authors with royalties that

reflect the anticipated future cost savings of eBooks (lack of returns, elimination of paper and printing costs, etc.). Moreover, the eBook royalty policy reflects Random House's commitment to build the evolving electronic format in partnership with Random House's authors. This partnership is designed to increase the authors' readership as well as the authors' earning potential in both print and electronic form. (Sarnoff Aff. at ¶¶ 19.)

Over the last few years, Random House has been developing various in-house eBook publishing programs. Random House currently offers hundreds of titles in eBook format from its various divisions and expects to offer an additional 1000 frontlist titles within the next twelve months and an additional 1000 backlist titles within the next eighteen months. Among the current publishing programs, Modem Library, a recognized publisher of eminent literature in high quality and affordable formats, offers 100 classic titles in electronic format. As part of this ongoing eBook rollout, Random House expects to make the Works available in eBook format by the end of the year. Assuming adequate consumer demand, Random House plans to continue to publish and sell both the paper and electronic format of books to which it has exclusive rights. (Sarnoff Aff. at ¶¶ 20, 2 1.)

In addition to its in-house programs, on March 3 1, 2000, Random House created Random House Ventures, LLC, a wholly owned e-investment subsidiary. Its mandate is to invest in and support online and technology-driven companies that have the potential to reshape traditional publishing concepts, services and relationships, as well as to complement Random House's longstanding publishing programs. (Sarnoff Aff. at ¶¶ 25.)

RosettaBooks' Infringing Conduct

RosettaBooks operates an Internet web site, the domain name of which is RosettaBooks.com (referred to herein as "RosettaBooks" or "site"). Although it is an Internet

start-up company which launched only on February 26, 2001. RosettaBooks touts itself as "the preeminent electronic publisher of great works of fiction and non-fiction.. . ." (Cantos Aff. Exh. A). RosettaBooks advertises titles, including the Works, for sale and provides a picture of what appears to be a front cover or "jacket" of the work, which looks no different than the front cover of a typical hardcover or paperback book. The site also provides informati-on about the book and author, including awards won by either and other selling points such as whether the book was the basis for a successful movie. (Cantos Aff. at ¶ 5.)

The sum total of RosettaBooks' "publishing" activities to date with respect to the Works has entailed: the copying in digital form of copyrighted works such as those covered by the Styron, Vonnegut and Parker Agreements (which can be accomplished easily and relatively inexpensively by scanning paper editions of the works); the storage of such copies on one or more computer file servers; the offering to the public over its web site of individual digital copies of these works, in a variety of eBook formats; and the fulfillment of such orders upon payment by credit card of the requested fee (currently, $8.99 per work). By these activities, RosettaBooks is able to supply readers with the full texts of the Works which those readers would otherwise likely purchase in paper form or, in the future lawfully acquire in eBook form from Random House. (Sarnoff Aff. at ¶ 29.)

RosettaBooks is offering eBooks for sale and fulfilling book orders, including for *Slaughterhouse-Five, Cat's Cradle, Player Piano, Breakfast of Champions, The Sirens of Titan, The Confessions of Nat Turner* and *Sophie 's Choice.* The Works are available in any of three digital formats: Microsoft Reader, Secured Adobe PDF, and Glassbook. (Cantos Aff. at ¶ 6.) Exhibit B to the Complaint (attaching the first chapter of *Slaughterhouse-Five)* depicts the form in which RosettaBooks delivers eBooks in one of these formats (Microsoft Reader). The site

indicates that these titles will in the future be available in additional eBook formats. (Id.) Additionally, the site indicates that Parker's *Promised Land* will be "Available Soon." (Id. at ¶ 7.) As a comparison to Exhibit C to the Complaint (attaching the first chapter of *Slaughterhouse-Five* in paperback format) makes clear, these eBooks contain the same text, are displayed for the reader in the same linear fashion, and offer the same basic reading experience as their paperback counterparts. In fact, the only real difference in the reading experience between these eBooks and their paper counterparts is that the eBooks display the copyrighted content on a computer screen, rather than on paper. (Sarnoff Aff. at ¶ 27, Smith Aff. at ¶ 4.)

In its zeal to stockpile "the best backlist titles of the 20th century," RosettaBooks has trampled on Random House's exclusive rights to publish eBooks of the works covered by the Styron, Vonnegut and Parker Agreements, and has rebuffed Random House's demands that it cease this unlawful activity. See Cantos Aff. Ex. I.[9] This posture necessitated the filing of the Complaint in the instant action on February 27, 2001 alleging infringements of Random House's copyright rights in the works, as well as tortious interference by defendants with Random House's contracts in respect of such works.

This preliminary injunction motion followed, both to halt defendants' ongoing infringements and to prevent further infringements since there is every indication that, unless immediately enjoined, RosettaBooks will expand its infringing activities to encompass additional significant Random House authors and works.

[9] RosettaBooks has, moreover, brazenly traded on the enormous popularity of works such as *Slaughterhouse-Five* and *Sophie's Choice* by prominently featuring these works both on its web site and in its promotional material announcing the launch of the business of RosettaBooks.com. (Cantos Aff. at ¶ 4; Ex. B and H.)

ARGUMENT

To obtain a preliminary injunction, the moving party must demonstrate (1) irreparable injury and (2) either (a) a likelihood of success on the merits or (b) serious questions concerning the merits so as to make them a fair ground for litigation and a balance of hardships tipping decidedly in favor of the party seeking relief. See Fed. R. Civ. P. 65; Abkco Music, Inc. v. Stellar Records. Inc., 96 F.3d 60, 64 (2d Cir. 1996); Hasbro, Inc. v. Lanard Toys, Ltd., 858 F.2d 70, 73 (2d Cir. 1988). Under either standard, Random House is entitled to injunctive relief.

I. RANDOM HOUSE IS LIKELY TO SUCCEED ON THE MERITS OF ITS COPYRIGHT CLAIMS"

In order to prevail on a copyright infringement claim, a plaintiff must demonstrate (1) ownership of a valid copyright and (2) unauthorized copying of its protectible expression. See Feist Publ'ns Inc. v. Rural Tel. Serv. Co., 499 U.S. 340,361 (1991); see also Abkco, 96 F.3d at 64; Hasbro Bradley, Inc. v. Sparkle Toys, Inc., 780 F.2d 189, 192 (2d Cir. 1985).

A. Random House, As Exclusive Licensee, Is The "Beneficial Owner" Of Valid Copyrights In The Works

Under the Copyright Act, an exclusive licensee has the right to institute an action for copyright infringement. 17 U.S.C. § 501(b) ("The legal or beneficial owner of an exclusive right under a copyright is entitled . . . to institute an action for any infringement of that particular right committed while he or she is the owner of it"); see also Essex Music, Inc. v. Abkco Music & Records. Inc., 743 F. Supp. 237,241 (S.D.N.Y. 1990) (holding that an exclusive licensee has the right to institute an action for copyright infringement); Peter Pan Fabrics Inc. v. Lida Fabrics

[10] Random House has not moved for preliminary injunctive relief in relation to its tortious interference claims (see Complaint Count II) insofar as, at this early stage of the litigation, the details of defendants' unlawful activities in this vein are uniquely in their possession.

Inc., No. 91 Civ. 3172, 1992 WL 131609, at * 2 (S.D.N.Y. June 4, 1992) (same). Pursuant to the Random House Contracts, Random House obtained the exclusive rights here pertinent to publish and sell the Works in exchange for royalties based on sales. (Licensing Agreements for Works, Sarnoff Aff. Ex. A - E). As the owner of these exclusive rights, Random House is thus entitled to bring the instant action for copyright infringement.

B. RosettaBooks Has Engaged In Unauthorized Copying Of The Works Through Its Copying And Distribution To The Public For Sale Of The Works In Electronic Format

1. RosettaBooks Has Engaged In Copying Within The Meaning Of The Copyright Act

It is indisputable that the following RosettaBooks activities, at a minimum, constitute acts of "copying" implicating the exclusive rights licensed to Random House under the Copyright Act:

- the copying into multiple digital formats of the complete texts of the Works;
- the copying of the digital texts of the Works in multiple formats onto computer servers; and
- the public distribution for a fee of digital copies of the Works, through the downloading of such works to purchasers' desktop or laptop computers.

Copyright infringement is established when the owner (or exclusive licensee) of a valid copyright demonstrates unauthorized acts of copying. See Repp v. Webber, 132 F.3d 882, 889 (2d Cir. 1997); Procter & Gamble Co. v. Colgate-Palmolive Co., 199 F.3d 74, 77 (2d Cir. 1999). Copying is "'shorthand for the infringing of any of the copyright owner's five exclusive rights, described at 17 U.S.C. § 106."' Microsoft Corp. v. Harmony Computers & Elecs., Inc., 846 F. Supp. 208,210 (E.D.N.Y. 1994) (quoting S.O.S., Inc. v. Payday, Inc., 886 F.2d 1081, 1085 n.5 (9th Cir. 1989)). Section 106 of the Copyright Act provides the owner of copyright -

or, here, Random House as owner of the pertinent exclusive rights – with, among others, the exclusive rights "(1) to reproduce the copyrighted work in copies [and] . . . (3) to distribute copies ... of the copyrighted work to the public by sale or other transfer of ownership.. . ." 17 U.S.C. § 106.

There is no question but that RosettaBooks is reproducing copies of the Works. The Copyright Act defines "copies" as "material objects . . . in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device." 17 U.S.C. § 101 .[11] The copies made by RosettaBooks of the Works in eBook format are "material objects" within the meaning of the Act, since digital copies of the Works can be downloaded and can be perceived with the aid of a "device" – either computer software or a handheld reader. See Advanced Computer Servs. v. MA1 Svs., Corp., 845 F. Supp. 356,363 (E.D.Va. 1994) (holding that "electrical impulses [of a copyrighted work] are material objects, which, although themselves imperceptible to the ordinary observer, can be perceived by persons with the aid of a computer"). Additionally, the Works are "fixed" within the meaning of the Act since RosettaBooks has stored or caused the Works to be stored in a server for purchase and download. See Religious Tech. Ctr. v. Netcom On-Line Communication Servs., 907 F. Supp. 1361, 1368 (N.D. Cal. 1995) (holding that posting reproductions of copyrighted works on an Internet newsgroup which "remained on [the Internet Service Provider's system] for at most eleven days . . . were sufficiently 'fixed' to constitute recognizable copies under the Copyright Act"); MA1

[11] "A work is 'fixed' in a tangible medium of expression when its embodiment in a copy . . . is sufficiently permanent or stable to permit it to be perceived, reproduced or otherwise communicated for a period of more than transitory duration." 17 U.S.C. § 101.

Svs. Corp. v. Peak Computer. Inc., 991 F.2d 5 11, 5 18 (9th Cir. 1993) (transient storage, in computer RAM, suffices to meet fixation requirement).

RosettaBooks has also distributed copies of the Works within the meaning of 17 U.S.C. § 106(3). The right of distribution "is the right to control a work's publication" and is infringed through the public dissemination of copies. See Melville B. Nimmer & David Nimmer, 2 Nimmer on Copyright, § 8.11 (2000); National Car Rental Sys., Inc. v. Computer Assocs., Int'l, Inc., 99 1 F.2d 426,434 (8th Cir. 1993) (infringement of the distribution right occurs through the "actual dissemination of.. . copies").

2. RosettaBooks' Copying Activities Have Infringed Random House's Exclusive Rights

a. Random House Acquired Exclusive Rights To The eBook Format When It Acquired Rights To Publish "In Book Form"

Consistent with its longstanding practice, Random House has entered into publishing agreements with its authors that grant Random House, at a minimum, exclusive rights to publish and sell those authors' works in English in North America (United States and Canada) "in book form." As one of Random House's most senior editors, Ashbel Green, who has been at Random House for nearly 37 years, has attested, the words "in book form" necessarily imply the right of the publisher to transmit the author's words to the reader in a linear text fashion. (Green Aff. at ¶ 5.) As Mr. Green and plaintiffs expert Edward A. Miller, the former General Counsel of Harper & Row, Publishers, Inc., have both explicated, the words "in book form" plainly encompass the delivery of the work to readers in ebook formats. Whether a work is read on printed paper, on a computer screen or on a handheld eBook reading device, the same content and linear text is being delivered to the reader, who is provided with fundamentally the same reading experience. (Green Aff. at ¶ 6; Miller Aff. at 15.) In contrast, were the author's work

transformed into a truly different product with a different purpose and use, one that provided something other than a linear text reading experience – as, for example, occurs with respect to an audio recording, motion picture or true multimedia presentation – it could not be said that such forms of exploitation constitute publication "in book form." (Green Aff. at ¶ 6.)[12]

Sales of the Works in eBook format are directly competitive with sales in paper formats. (Sarnoff Aff. at ¶ 28.) It is unlikely that someone interested in reading Cat's *Cradle*, for example, will purchase both paperback and eBook versions of the work. The reality of this technology is that the eBook reading experience is not different than that of reading a book in paper format. (Smith Aff. at ¶ 19.)

Were the contractual words "in book form" construed not to protect Random House from the head-to-head competition afforded by third-party publications of the same works in eBook form, the very premise of the book publisher-author relationship would be undermined. Random House is in the content delivery business. Ultimately, it is a work's content, not the format in which such content is delivered, that drives sales. [13] (Sarnoff Aff. at ¶ 10.) Accordingly, Random House's fundamental role is to maximize the market opportunities for the content it publishes and it makes significant investments in the works for which it contracts precisely with the expectation that it can publish and sell this content "in book form" free of competition. (Green Aff. at ¶ 8.) Indeed, four out of five of the contracts for the Works contain

---

[12] The publisher's right to exploit these different media would be dependent upon what is provided for in the balance of the publishing agreement.

[13] As Mr. Sarnoff indicates, the lion's share of Random House's expenses derive from the advances and royalties paid to authors coupled with the costs of editing, marketing, and promoting works in order to popularize them with consumers. A relatively small percentage (approximately 10%) of Random House's overall expenses go to paper, printing and binding. (Sarnoff Aff. at ¶ 10.)

non-compete provisions which, while variously worded, prohibit the author from publishing anything which might interfere with the sale of Random House's editions of the Works. [14]

In sum, Random House having been granted such broad rights to publish the Works, and in the absence of any specific reservation of rights to the contrary (which there is not), it is hard to argue credibly that Random House does not have the right to publish the works in eBook format. This conclusion is particularly compelling when one considers that the eBook format is sold in direct competition with, and is a direct substitute for, the paper format of titles that Random House has spent significant resources publishing. [15]

---

[14] See 1970 Vonnegut Contract, Sarnoff Aff. Ex. D at ¶ 1 O(e) (the Author.. . . 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 written consent); see also 196 1 Styron Contract, Sarnoff Aff. Ex. A at ¶ 8; 1979 Styron Contract, Sarnoff Aff, Ex. B at ¶ 8; Parker Contract, Sarnoff Aff., Ex. E at ¶ 18.

[15] This conclusion is only reinforced by reference to other relevant contract provisions governing rights to the Works. As earlier noted, Random House additionally enjoys the rights: to publish "in such style and manner" as it "deems suitable" (1961 Styron Contract, Sarnoff Aff., Ex. A at ¶ 2; 1979 Styron Contract, Sarnoff Aff. Ex. B at ¶ 6) and to publish the Works via forms of copying "either now in use or hereafter developed" (1967 Vonnegut Contract, Sarnoff Aff. Ex. C at ¶ 1 (d); 1970 Vonnegut Contract, Sarnoff Aff. Ex. D at ¶ 1 (d); Parker Contract, Sarnoff Aff., Ex. E at ¶ l(d)). The plain purport of such provisions, read in conjunction with Random House's right to publish the Works in book form, is to provide Random House the freedom to publish in all appropriate text formats, free of competitive interference. See, e.g., Muller v. Walt Disney Prods., 871 F. Supp. 678,682 (S.D.N.Y. 1994) (holding that grant of exclusive right to photoplay which included a future technology clause was "clearly designed to embrace future means by which motion pictures [could] reach consumers"); Roonev v. Columbia Pictures Indus., Inc., 538 F. Supp. 211,224 (S.D.N.Y. 1982) (holding that contracts granting motion picture companies the exclusive rights to exhibit an actor's pre-1960 films "in any present or future kind of motion picture production" and "in any manner whatsoever" "clearly and unambiguously" granted the rights to exhibit the films on commercial and pay television and audiovisual device markets); Landon v. Twentieth Century-Fox Film Corp., 384 F. Supp. 450, 454-55 (S.D.N.Y. 1974) (holding that 1944 agreement between author and film corporation which granted the exclusive right to use the property in "any form or media" including "new versions, adaptations and sequels" encompassed the right to exhibit the motion picture on television); Platinum Record Co. v. Lucasfilm, Ltd., 566 F. Supp. 226,227 (D.N.J. 1983) (holding that motion picture license grant which granted motion picture producers the right to exploit the film through "any means or methods now or hereafter known" included the right to exhibit the film on videocassettes and laser discs).

b. The Concept Of The eBook Has Long Been Foreseeable And Is Encompassed Within The Terms Of The Random House Contracts

As noted, the distribution and sale of books in eBook format reflects essentially a new means of delivering the same content (the full linear text of an author's work) to the same potential reading audience. While this new distribution technique and reading format have been enabled by advances in technology, the conceptual underpinnings of the eBook date back to well before the contracts for the Works were executed. (van Dam Decl. at ¶¶ 8, 18.) This being the case, even if the words "in book form," as they appear in the Random House Contracts (and are read in conjunction with the non-compete clauses) are not abundantly clear in affording Random House, as licensee of its authors' works, the exclusive right to publish and sell the Works in eBook form, the law of this Circuit makes clear that those words properly are construed to encompass precisely this form of technical improvement in the distribution of the core intellectual property rights licensed to Random House.

The Second Circuit has determined, in circumstances in which the scope of a grant of intellectual property rights in relation to later-developed technology may be ambiguous, that "[a]s between an approach that 'a license of rights in a given medium . . . includes only such uses as fall within the unambiguous core meaning of the term . . . and exclude any uses which lie within the ambiguous penumbra . . .' and another [approach] whereby 'the licensee may properly pursue any uses which may be reasonably said to fall within the medium as described in the license,"' the latter approach is to govern. Bartsch v. Metro-Goldwyn-Mayer, 391 F.2d 150, 155 (2d Cir. 1968); accord Boosey & Hawkes Music Publishers. Ltd. v. Walt Disney Co., 145 F.3d 481, 486-87 (2d Cir. 1998). As Judge Friendly explained in Bartsch:

> If the words are broad enough to cover the new use, it seems fairer that the burden of framing and negotiating an exception should fall

> on the grantor . . . . A further reason favoring the broader view . . . is that it provides a single person who can make the copyrighted work available to the public over the penumbral medium, whereas the narrower one involves the risk that a deadlock between the grantor and the grantee might prevent the work's being shown over the new medium at all.

391 F.2d at 155.

In Boosey, Judge Leval further explicated the rationale for providing the intellectual property licensee with adequate leeway to exploit the rights for which it had bargained:

> We note . . . that an approach to new-use problems that tilts against licensees gives rise to antiprogressive initiatives. [Licensees] would be reluctant to explore and utilize innovative technologies for the exhibition of [the licensed works] if the consequence would be that they would lose the right to exhibit [product] containing [the] licensed works. Nor do we believe that our approach disadvantages licensors. By holding contracting parties accountable to the reasonable interpretation of their agreements, we encourage licensors and licensees to anticipate and bargain for the full value of potential future uses. Licensors reluctant to anticipate future developments remain free to negotiate language that clearly reserves the rights to future uses. But the creation of exceptional principles of contract construction that places doubt on the capacity of a license to transfer new technologies is likely to harm licensors together with licensees, by placing a significant percentage of the profits they might have shared in the hands of lawyers instead.

145 F.3d at 488 n.4.

The application of these principles in a series of Second Circuit cases arising in the media setting provides clear guidance to the Court here, and underscores that Random House should enjoy the exclusive rights to commercially exploit the Works in eBook format.

L.C. Page & Co. v. Fox Film Corn., 83 F.2d 196 (2d Cir. 1936), involved the issue whether a 1923 grant of "exclusive moving picture rights" (i.e., during the silent film era) included the right to exhibit "talking" motion pictures, which were not commercially in use at the

time of the license. Id. at 198-99. The Court concluded that it did, on a rationale that finds full force here. The Court found of no relevance the fact that the objecting party did not have talking motion pictures in mind at the time the agreement was concluded; the Court concluded instead that the words "'exclusive moving picture rights,' were sufficient to embrace not only motion pictures of the sort then known but also such technical improvements in motion pictures as might be developed during the term of the license, namely, the term of copyright." Id. at 199. [16]

The Page opinion emphasized that the development of talking pictures was "nothing more than a forward step in the same art." Id. Insofar as "the form and area of exploitation" of what it termed the "genus" of "motion pictures" remained the same irrespective of the addition of sound, the Court was able to conclude that "'talkies' are but a species of the genus motion pictures." Id.; see also G. Riccordi & Co. v. Paramount Pictures, Inc., 92 F. Supp. 537,541 (S.D.N.Y. 1950) (stating that "motion picture rights" include "silent, sound, talking and all motion picture rights of every type and nature").

In performing its analysis, the Court in Page drew upon the United States Supreme Court's decision in Kalem Co. v. Harper Bros., 222 U.S. 55 (191 1), which held that a license predating the advent of motion pictures, and providing for the "exclusive right to dramatize" Ben *Hur*, included not only the right to produce a theatrical performance of that work but also the right to produce a motion picture version of it. 83 F.2d at 199. The Supreme Court explained that "drama may be achieved by action as well as by speech" and that "if a pantomime of *Ben Hur* would be a dramatizing of Ben Hur, it would be none the less so that it was exhibited to the audience by reflection from a glass, and not by direct vision of the figures.. . .*The essence*

[16] The Court observed, but did not dwell on, the fact that "inventors had been experimenting with the idea for some years.. . ." Page, 83 F.2d at 199.

of the matter . . . is not the mechanism employed, but that we see the event or story lived." Kalem Co., 222 U.S. at 61 (emphasis added); accord Harper Bros. v. Klaw, 232 F. 609,612 (S.D.N.Y. 1916) (explaining that if a licensee was granted the exclusive right of dramatizing a story, there would be "no doubt at all as to their rights to make a 'movie play,' as well as the kind of play that has heretofore been produced").

Much as the Supreme Court in Harper Bros. was able to conclude that advancements in technology provided to the licensee of the "exclusive right to dramatize" *Ben Hur* the right, not merely to produce a legitimate theatre performance, but also to produce a motion picture version of the work; and much as the Second Circuit in Page was able to conclude that technical advances in the motion picture "art" provided the licensee with the rights to produce, not merely a silent, but also a talking version of a motion picture film, so, too, on the facts presented here, the grant to Random House of the right to publish the Works "in book form" should be interpreted to encompass eBook delivery formats. As the Harper Bros. and Page opinions recognize, so long as the fundamental nature of what is being exploited remains unchanged, new mechanisms for delivering that product do not negate the bargained-for rights to exploit it.

Here, the "genus" – the essence of the rights granted by its authors to Random House – is the artistic expression of an author conveyed in textual form; the "species" are the publishing formats adopted to disseminate that expression. As the Court in Page put it, the genus embrace[s] the later developed species." 83 F.2d at 199.

As Random House's affiants attest, an eBook is the functional equivalent of a book in a printed format insofar as the reading experience is concerned. (Smith Aff. at ¶ 4; Sarnoff Aff. at ¶ 27; van Dam Decl. at ¶ 18; Miller Aff. at ¶ 14; Green Aff. at ¶ 6.) As one of the

pioneers of the eBook has attested, none of the technological advances reflected in the eBooks being marketed by RosettaBooks has altered either the core intellectual property involved (the author's work) or the fundamental reading experience (viewing the written word as a means of receiving and digesting ideas and creative expression.) (van Dam Decl. at ¶ 8.)

Insofar as the eBook constitutes essentially but a new distribution mechanism for content licensed to Random House for exploitation in linear text form, the law of this Circuit establishes that such distribution mechanism falls within Random House's license authority. In analogous reasoning, the Second Circuit in Boume v. Walt Disney Co., 68 F.3d 621,624 (2d Cir. 1995) construed a 1930s agreement licensing Disney the rights to utilize certain musical compositions "in synchronism with any and all motion pictures which may be made by [Disney]," as permitting Disney's use of such music in home videocassettes. In reasoning that has equal applicability here, the Court concluded that, "rather than referring simply to the celluloid film medium," the term "motion picture" reasonably should be construed to refer to

> "a broad genus whose fundamental characteristic is a series of related images that impart an impression of motion when shown in succession, including any sounds integrally conjoined with the images. *Under this concept the physical form in which the motion picture is fixed – film, tape, discs, and so forth – is irrelevant."*

Boume, 68 F.3d at 630 (emphasis added) (citation omitted).

Whether the format in question was actually contemplated at the time the pertinent agreement was entered is, the cases instruct, of no moment. See Page, 83 F.2d at 199 ("The mere fact that the species 'talkies' may have been unknown and not within the contemplation of the parties in their description of the generic 'moving pictures' does not prevent the latter from comprehending the former"); Boosey, 145 F.3d at 487 ("intent [of the contracting parties] is not likely to be helpful when the subject of the inquiry is something the parties were

not thinking about"). Likewise irrelevant, Boosev instructs, is evidence of "past dealings or industry custom" insofar as "the use in question was, by hypothesis, new, and could not have been the subject of prior negotiations or established practice." 145 F. 3d at 488.

The relevant inquiry is, instead, whether the new format in issue is simply "a forward step in the same art." Pane, 83 F.2d at 199. The development of eBook technology, occurring over the terms of the Random House licenses, is properly so viewed. In fact, the technological "advancement" or "forward step" from a silent moving picture to a talking moving picture, or from a theatrical play to a movie, is far greater than the advancement from a paper book to an electronic book format. A talking moving picture includes an entirely new element, namely, sound, which amplifies the experience of the viewing audience; a movie represents the transformation from a live stage performance to a pre-recorded presentation of images. An electronic book, by contrast, essentially transfers the same content of its paper counterpart onto a different distribution medium."

More recent Second Circuit case law merely reinforces these guiding principles. In Bartsch , the Court (per Judge Friendly), again adopted the "preferred approach" articulated by Professor Nimmer. 391 F.2d at 155. It held that "licensee[s] may properly pursue any" new distribution channels made possible by technological advances, referred to as "new uses," "which may reasonably be said to fall within the medium as described in the license." Id. The issue in Bartsch was whether a 1930 grant of motion picture rights to a musical play encompassed the right to telecast it. In answering in the affirmative, the Court began with a recognition of the broad grant of rights given the licensee "" to copyright, vend, [l]icense and

[17] As found noteworthy in Page, moreover, the same venues (e.g., BarnesandNoble corn Amazon.com) that sell paper versions of the Works also sell the eBook format of such works, appealing to the same audiences. See Page, 83 F.2d at 199.

exhibit such motion picture photoplays.. ." which, absent other limiting contractual language, was construed by the Court as affording the licensee "the broadest rights with respect to its copyrighted property." Id. at 153-54. It continued with the observation that, while television was not as of 1930 a commercial reality, "'the future possibilities of television were recognized by knowledgeable people in the entertainment and motion picture industries,' though surely not in the scope it has attained." Id. at 154 (citation omitted).

Recently, the Second Circuit in Boosev, building on Bartsch, held that "if the broad terms of the license are more reasonably read to include the particular future technology in question, then the licensee may rely on that language." 145 F.2d at 488. The facts in Boosey involved the determination whether a 1939 license conveying motion picture rights extended to the sale and rental of video-cassettes and video discs. While VCRs and video discs did not exist in the 1930s, Disney, as licensee, proffered testimony as to the existence prior to the 1930's of an "out-of-theatre" market, taking the form of 16 mm film and other formats, designed to show the forseeability of the later-developed videocassette and video disc channels of distribution. See Cantos Aff. Ex. I at ¶¶ 3, 16. Based on this limited record, the Court, while not indicating that such a showing of forseeability was even required, concluded: "If a new-use hinges on the foreseeability of new channels of distribution at the time of contracting – a question left open in Bartsch – Disney has proffered unrefuted evidence that a nascent market for home viewing of feature films existed in 1939." Id. at 486.

Bartsch and Boosev, read together, illuminate several propositions. The language of the contracts themselves is most instructive in determining whether the grant language in issue included the new uses at issue. So long as the new use "may reasonably be said" to fall within the terms of the license, the licensee may pursue that use. Second, to the

extent the forseeability of the new use may be relevant, it suffices to demonstrate that future possibilities in the general vein of the new use were recognized by knowledgeable people – at the very most, that a evidence of a "nascent market" presaging the new use at the most generic level suffices.

Applying these principles to the facts presented here, as the affidavits of Messrs. Green and Miller establish, the terminology "in book form" at the very least "may reasonably be said" to encompass the sale of eBooks. (Green Aff. at ¶¶ 5, 6; Miller Aff. at ¶ 15.) As the descriptive name given by the industry implies, an eBook or electronic book is simply another book format. An eBook is the functional equivalent of a book in a printed format and is simply another way for a publisher to distribute the same content. An electronic book contains the same text of the paper format, is displayed for the reader in the same linear fashion as a printed book and thus provides essentially the same reading experience. (Sarnoff Aff. at ¶ 27; Smith Aff. at ¶ 4.)[18]

As far as forseeability is concerned, the accompanying expert declaration of Professor van Dam makes clear that the conceptual underpinnings of the eBook, namely, the ability to read text in a non-paper format, date back to well before 1961 – the date the earliest contract here in issue was entered into. (van Dam Decl. at ¶ 8). In fact, Project Gutenberg was posting the first rudimentary eBooks by the early 1970s. Id. at ¶ 17.

In this connection it is important to observe that, to the extent forseeability has relevance at all in the legal analysis – an issue left open by Bartsch and Boosey – the Second Circuit has made clear that the showing is not a stringent one; rather, it suffices that "future

[18] In fact, as explained by Random House's Director of New Media, Adam Smith, technological innovations are in the offing to make eBook readers closer and closer to the paper book. (Smith Aff. at ¶ 19.)

possibilities" were recognized, Bartsch, 391 F.2d at 154-that, at a very basic conceptual level, the development may have been in its "nascent" form. Boosey, 145 F.3d at 486. This is well illustrated by the facts of Boosev, where the evidence of forseeability as to later-developed video and laser disc formats was the far more generic "out of theatre" viewing of motion pictures in the 1930s. See Cantos Aff. Ex. I at ¶ 3; see also Page, 83 F.2d at 198-99 ("'Talkies' were not commercially known in 1923, but inventors had been experimenting with the idea for some years"); Philadelphia Orchestra Ass'n v. Walt Disney Co., 82 1 F. Supp. 341,346 (E.D. PA. 1993) (stating that a jury might easily conclude that home video technology was contemplated at the time of a 1939 agreement since there was evidence that as early as 1927 an inventor used phonograph equipment to record a television signal on a disc for playback on a mechanical television device). [19]

It bears emphasis that the burden of creating a departure from a reasonable interpretation of the contractual grant falls upon the grantor. As the Second Circuit noted in Bartsch, "[i]f the words are broad enough to cover the new use, it seems fairer that the burden of framing and negotiating an exception should fall on the grantor," at least when the new medium is not completely unknown at the time of contracting. 391 F.2d at 154-l 55; see also Boosev, 145 F.3d at 486 ("Bartsch holds that when a license includes a grant of rights that is reasonably read to cover a new use (at least where the new use was foreseeable at the time of contracting), the burden of excluding the right to the new use will rest on the grantor"); accord Bloom v. Hearst

[19] Indeed, Boosev specifically rejected a narrower approach to analyzing the forseeability of new distribution methods that focused solely on technology in use at the time of contracting, one that would limit the "license given in 1939 to 'motion picture' rights [and] would include only the core uses of 'motion picture' as understood in 1939–presumably theatrical distribution-and would not include subsequently developed methods of distribution of a motion picture such as television videocassettes or laser discs."

Entm't Inc., 33 F.3d 518, 524-25 (5th Cir. 1994) (cited with approval in Boosev and applying Bartsch to hold that a grant of movie and television rights to a book also encompassed video rights).

Here, it was the authors' burden to insert contractual language limiting the grant of rights to which Random House was entitled since a clearly reasonable interpretation of the phrase "in book form" contemplates delivery of the same content electronically in the same linear text format as the paper format of the work. See Boosey, 145 F.3d at 487 ("The words of Disney's license are more reasonably read to include than to exclude a motion picture distributed in video format. Thus, we conclude that the burden fell on Stravinsky, if he wished to exclude new markets arising from subsequently developed motion picture technology, to insert such language of limitation in the license, rather than on Disney to add language that reiterated what the license already stated.").

Neither is the absence of a future technologies clause in some of the contracts at issue nor the presence of a reservation clause of particular significance. As the Court noted in Boosev:

> The reservation clause stands for no more than the truism that Stravinsky retained whatever he had not granted. It contributes nothing to the definition of the boundaries of the license. See Bartsch, 391 F.2d at 154 n. 1. And irrespective of the presence or absence of a clause expressly confirming a license over future technologies, the burden still falls on the party advancing a deviation from the most reasonable reading of the license to insure that the desired deviation is reflected in the final terms of the contract.

Id. at 488. The Vonnegut and Styron Contracts do not even have general "reservation of rights" clauses, which would "reserve" to the authors any rights not granted to Random House. To the contrary, many contain non-compete provisions which make clear that, absent written permission

from Random House, the authors are barred from authorizing any use of their book's content that would injure Random House's rights to sell the work. See, e.g., Parker Contract, Sarnoff Aff. Ex. E at ¶ 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 likely to injure its sale.").[20]

As importantly, none of the Random House Contracts reserve to the authors any rights to future methods of distribution. In fact, many of the contracts specifically grant to Random House "other forms of copying, either now in use or hereafter developed." (1967 Vonnegut Contract, Sarnoff Aff., Ex. C, ¶ 1 (d); 1970 Vonnegut Contract, Sarnoff Aff., Ex. D, ¶ l(d); see also Parker Contract, Sarnoff Aff. Ex. E, ¶ l(d).) Of course, as discussed, the absence of such "future technologies" clauses does not negate the reasonable reading of the contract which would grant the rights to future technologies, leaving the burden on the grantor to specifically reserve the rights.

As demonstrated above, RosettaBooks has engaged in, and continues to engage in, copyright infringement by its unauthorized copying of the Works and its distributions of electronic formats of the Works to the public for sale. Random House thus is easily able to demonstrate that it is likely to succeed on the merits of its copyright infringement claim.

---

[20] Independently of these non-compete clauses stands the basic principle of contract law that neither party shall do anything that will have the effect of diminishing the value or destroying the rights of the other party to receive the benefits of the contract. See Kirke La Shelle Co. v. Paul Armstrong Co., 188 N.E. 163, 167-68 (N.Y. 1933) (finding that a contract that granted the licensee the rights to a stage production entitled the licensee to share in the profits resulting from the licensor's grant of "talkie" rights to a third party since any other finding would "render valueless the right conferred by the contract"); Harper Bros. v. Klaw, 232 F. 609,613 (S.D.N.Y. 1916)(enjoining licensor from developing a motion picture dramatization that would diminish the value of the licensee's grant of play rights); cf. L.C. Page & Co. v. Fox Film Corp., 83 F.2d 196, 199 (2d Cir. 1936) (enjoining licensor from exploiting alleged rights in "talkies" because such technological improvement was encompassed in prior grant to licensee; explaining that

II. RANDOM HOUSE WILL BE IRREPARABLY HARMED IF ROSETTABOOKS IS NOT ENJOINED FROM INFRINGING RANDOM HOUSE'S COPYRIGHT RIGHTS

A. A Prima Facie Case Of Copyright Infringement Gives Rise To Presumption Of Irreparable Injury

In the Second Circuit, a prima facie case of copyright infringement gives rise to a presumption that the copyright owner will suffer irreparable harm. See, e.g., Abkco, 96 F.3d at 64 (stating general rule that "when a copyright plaintiff makes out a prima facie showing of infringement, irreparable harm may be presumed"); Hasbro, 780 F.2d at 192 (same); see also Wainwrinht Sec., Inc. v. Wall Street Transcript Corp., 558 F.2d 91, 94 (2d Cir. 1977) (stating that allegations of irreparable injury need not be overly detailed since such injury can be presumed upon a showing of copyright infringement). Because Random House has not only demonstrated a prima facie case of copyright infringement, but also a substantial likelihood of success on the merits (see section I above), Random House is entitled to a preliminary injunction without a specific showing of irreparable harm. See Rice v. American Program Bureau, 446 F.2d 685,688 (2d Cir. 1971) ("[I]t is likewise well settled that when a prima facie case [of copyright infringement] is made out a preliminary injunction should issue without the showing of irreparable injury...."); Eve of Miladv v. Impression Bridal, Inc., 986 F. Supp. 158, 161 (S.D.N.Y. 1997) ("[A] plaintiff that demonstrates a likelihood of success on the merits has met its burden under Rule 65 of showing it is entitled to preliminary injunctive relief.").

"[talkies] are employed by the same theaters, enjoyed by the same audiences," and have the same "form and area of exploitation.").

B. Random House Will Be Irreparably Harmed If RosettaBooks Is Permitted To Continue Its Unauthorized Copying And Exploitation Of The Works

The eBook is directly competitive with the paper format of the book and, under industry forecasts, will increasingly become a substitute for the paper book for many consumers in the decades to come. These forecasts predict that digital delivery of custom-printed books, textbooks, and eBooks could account for revenues as high as $7.8 billion (17.5% of the publishing industry) in five years. Forrester Report, Books Unbound (December 2000), attached to Sarnoff Aff. as Exhibit I. It is projected that 2.6 million eBook reading devices will be in use by 2005. Id.

Threatened harm to Random House is imminent from RosettaBooks' efforts to exploit the Works and public announcements evidencing an intent to similarly misappropriate numerous other Random House titles. It is highly unlikely that consumers who choose to purchase eBook formats of the Works – or other Random House titles that RosettaBooks will attempt to sell if not enjoined – will also purchase such titles in their paper format (or, in the alternative, as will soon be available, in eBook format through Random House itself). (Sarnoff Aff. at ¶ 29.)

RosettaBooks' unauthorized reproduction and public distribution of eBook formats of the Works devalues Random House's exclusive rights to exploit the Works and will cause Random House immeasurable harm to its ability to realize expected profits. If RosettaBooks were free to cherry-pick Random House's highly prominent works, as they have done by attempting to exploit the Works, they would thereby divert sales from Random House, and Random House would face the prospect of funding the development and marketing of a wide range of its literary offerings, but be deprived of a growing and significant part of the economic benefits of exclusivity which Random House bargained and paid for in acquiring rights to those

works. This threatened loss of a relatively unique product which Random House has devoted substantial resources in developing warrants preliminary injunctive relief.[21] (Sarnoff Aff. at ¶ 30.)

Additionally, RosettaBooks has indicated its intention to expand significantly the numbers of backlist titles it will publish in eBook form. Many such works will undoubtedly be works to which Random House possesses exclusive publishing rights. Such activities will, if not enjoined, not only, in and of themselves, impair Random House's ability to sell its extraordinarily valuable backlist, which generates approximately forty percent of Random House's annual sales and incalculable goodwill; it will also invite countless other third parties to commence similar unauthorized eBook "publishing" enterprises. The injury to Random House from such a proliferation of unauthorized third-party "publishers" – none of whom will have invested even a single dollar in the development of the works involved, let alone in bringing about their commercial success – would be incalculable. (Sarnoff Aff. at ¶ 31.)

Moreover, as earlier discussed, consistent with Random House's business strategy and in partnership with its authors, Random House has made very significant investments in its own eBook business. RosettaBooks' purloining of Random House's most successful books will, if not enjoined, hobble this important new line of business, once again in a fashion impossible to quantify. (Sarnoff Aff. at ¶ 32.)

Further, Random House devotes significant creative and economic resources to the marketing and positioning of its authors in order to foster a particular image of the author and

[21] In Tom Doherty Assocs., Inc. v. Saban Entm't, Inc., 60 F.3d 27, 37 (2d Cir. 1995) the court granted injunctive relief to a publisher of children's books since, without that relief, the publisher would have stood to lose "a wholly unique opportunity, and the amount of damages . . . [would] be largely indeterminate if the opportunity [was] denied." Id. at 38.

clear message about the content of the work. Random House also develops important distribution channel relationships and strategies to enhance the market for these books. RosettaBooks' offer of the works of Random House authors without regard for those efforts threatens to dilute the good will that both Random House and its authors have gained from such positioning efforts, thus creating additional irreparable harm. (Sarnoff Aff. at ¶ 33.)

Relatedly, literary agents, booksellers and the public have come to associate many noted authors with Random House. At a minimum, RosettaBooks' competing publications of works by such authors will create marketplace confusion and will diminish Random House's standing in the publishing industry – a loss that cannot be compensated for simply by money damages. See Tom Doherty Assocs., Inc. v. Saban Entm't, Inc., 60 F.3d 27, 37 (2d Cir. 1995) (where copyright infringement represents a threat to consumer goodwill, preliminary injunctive relief is necessary to prevent irreparable harm to the copyright owner). Moreover, the inevitable injury to Random House's goodwill cannot be fully recompensed with monetary damages. See id.; Jacobson & Co. v. Armstrong Cork Co., 548 F.2d 438,445 (2d Cir. 1977) (affirming finding of irreparable harm because plaintiff was able to "show a threatened loss of good will and customers, both present and potential, neither of which could be rectified by monetary damages"); Reuters Ltd. v. United Press Int'l, 903 F.2d 904 (2d Cir. 1990).

Finally, as explained in a recent Random House press release, Random House's eBooks will be published with the same standards of quality that its readers have come to expect. Quality has always been an integral part of Random House's publishing philosophy, and that commitment to quality remains firmly in place in the realm of electronic books. For Random House, quality means superior production values, error-free text, and vital enhancements such as introductions and biographical notes. (Sarnoff Aff. at ¶ 35; see Random House July 3 1, 2000

Press Release, ***Modern Library To Publish 100 Classic Titles As E-Books,*** attached as Exhibit G to Sarnoff Aff.)

There is no guarantee that RosettaBooks will adhere to the same high level of quality as Random House. Absent similar quality control, RosettaBooks may well harm the market for the work and the author's reputation, both of which Random House has spent significant resources developing. Moreover, because readers associate many of Random House's most successful titles, such as the Works, with Random House – as a direct result of, among other things, Random House's marketing and publicity efforts – an offering to the public of eBook formats of the Works by RosettaBooks that does not meet Random House quality control standards may cause significant harm to Random House's reputation for quality publishing as readers may wrongfully associate the lack of quality with Random House. (Sarnoff Aff. at ¶ 36.)

III. ALTERNATIVELY, RANDOM HOUSE HAS PRESENTED FAIR GROUNDS FOR LITIGATION CONCERNING ITS COPYRIGHT INFRINGEMENT CLAIM, AND THE BALANCE OF HARDSHIPS WEIGHS IN RANDOM HOUSE'S FAVOR

Even assuming ***arguendo*** that Random House is unable to establish a likelihood of success on the merits of its claim, Random House is still entitled to preliminary injunctive relief because, at a minimum, Random House has presented complex legal and factual issues that make its copyright infringement claim a fair ground for litigation and because a balancing of the hardships tips decidedly in favor of Random House. "The balance of hardships inquiry asks which of the two parties would suffer most grievously if the preliminary injunction motion were wrongly decided." Tradescape.com v. Shivaram, 77 F. Supp. 2d 408,411 (S.D.N.Y. 1999). In this case, absent a preliminary injunction, Random House faces serious and certain hardship,

whereas the risk to RosettaBooks if a preliminary injunction is incorrectly granted is, at best, minimal.

A preliminary injunction will simply maintain the status quo. Random House will continue to exploit its exclusive rights to the Works. Moreover, if Random House publishes the Works in eBook format, the authors will continue to receive royalties for sales of the Work. In fact, the authors will receive a higher standard royalty rate than they would receive for paper sales of the Works – fifty percent (50%) of Random House's net receipts from eBook sales. (Sarnoff Aff. at ¶ 7.) Cf. Boosey, 145 F.3d at 487 (authors are not being deprived of "participation in the profits" when the Works are published and sold as eBooks).

By contrast, the denial of preliminary injunctive relief will lead to particularly unjust results. Absent the preliminary injunctive relief sought herein, RosettaBooks will continue to publicize its purported rights to publish eBook formats of the Works and it will continue to sell eBook formats of the Works in direct competition with Random House, thereby depriving Random House of its exclusive right to publish the Works. As discussed, Random House's ability to exploit the eBook format of the works that it has spent significant resources developing will be significantly hampered. Additionally, sales of the paper copies of the Works stand to be depressed as consumers are unlikely to purchase both eBook and paper formats of the Works. Moreover, there will be inevitable injury to the consumer goodwill that Random House has attained as the sole publisher of these Works. (Sarnoff Aff. at ¶¶ 29, 30.)

Finally, a preliminary injunction would not, in any way, prevent RosettaBooks from launching and operating its business with works that it lawfully has the rights to exploit. RosettaBooks would simply be barred from publishing, publicizing, and selling eBook formats of titles which Random House has been exclusively licensed to publish in book form. C.f.

Standard & Poor's Corn. v. Commodity Exch., Inc., 683 F.2d 704,711 (2d Cir. 1982) (claimed hardship from delayed market entry does not alter the balance of hardships). Further, any financial losses suffered by RosettaBooks would be a consequence of RosettaBooks' unlawful infringement and hence would not entitle RosettaBooks to the benefit of equitable consideration. See Woods v. Universal City Studios, Inc., 920 F. Supp. 62, 65 (S.D.N.Y. 1996) (rejecting argument that preliminary injunction should not be entered because infringer would suffer considerable financial loss; "[c]opyright infringement can be expensive. The Copyright law does not condone a practice of 'infringe now, pay later.'"); see also Page, 83 F.2d at 200 ("A willful infringer should not by the extent of his investment be allowed to gain immunity from the injunctive remedy."). Moreover, any such financial losses can be recompensed monetarily more easily than Random House's loss of consumer goodwill. As demonstrated, the balance of hardships tips decidedly in favor of Random House and, therefore, a preliminary injunction should be granted.

CONCLUSION

For the foregoing reasons, the Court should grant Random House the preliminary injunctive relief it seeks.

Dated: New York, New York
February 27, 2001

R. Bruce Rich (RBR-03 13)
Jonathan S. Shapiro (JS-3068)
WEIL, GOTSHAL & MANGES LLP
767 Fifth Avenue
New York, New York 10153
(212) 310-8000

Attorneys for Plaintiff
Random House, Inc.

Of Counsel:

Harriette K. Dorsen
Linda Steinman
Matthew E. Martin
RANDOM HOUSE, INC.