

## **CORPORATE DISCLOSURE STATEMENT**

Pursuant to Rule 26.1 of the Federal Rules of Appellate Procedure, Appellant Random House, Inc., by and through its undersigned attorneys, Weil, Gotshal & Manges LLP, hereby certify that:

Random House, Inc., a New York corporation, is a wholly owned subsidiary of Bertelsmann Publishing Group, Inc., a publicly held corporation, which is in turn a wholly owned subsidiary of Bertelsmann, Inc., a publicly held corporation. Bertelsmann, Inc. is a wholly owned subsidiary of Bertelsmann AG. The majority interest in Bertelsmann AG is privately owned; Group Bruxelles Lambert S.A., a publicly traded company, owns a minority interest in Bertelsmann AG.

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## **PRELIMINARY STATEMENT**

The decision below was rendered by the Honorable Sidney H. Stein of the United States District Court for the Southern District of New York. The opinion is reported at 150 F. Supp. 2d 613 (S.D.N.Y. 2001).

## **JURISDICTIONAL STATEMENT**

Random House, Inc. (“Random House”) filed this copyright infringement action in the Southern District of New York against RosettaBooks, LLC (“RosettaBooks”) and Arthur M. Klebanoff, in his individual capacity and as principal of RosettaBooks, to enjoin defendants-appellees from violating Random House’s copyright rights by selling as electronic books (“ebooks”) novels that Random House had been granted exclusive licenses to publish “in book form.” The district court had subject matter jurisdiction over this action pursuant to 28 U.S.C. §§ 1338 and 1367. The district court issued an Opinion and Order on July 11, 2001 denying Random House’s motion for a preliminary injunction. JA 1667, 1668-87. (The Court issued an Order making minor corrections to its Opinion on July 24, 2001. JA 1688.) Random House timely filed a notice of appeal on August 6, 2001. JA 1689-91. This Court has appellate jurisdiction pursuant

to 28 U.S.C. § 1292(a)(1) in that this is an appeal from an interlocutory order refusing an injunction.

### **ISSUES PRESENTED FOR REVIEW**

1. Whether the district court erred in determining that license agreements between Random House and its authors granting Random House the exclusive right to publish the authors' works "in book form" do not convey to Random House the exclusive right to publish its authors' works as "ebooks."

2. Whether the district court misinterpreted and/or misapplied controlling Second Circuit precedent in its analysis of whether Random House is entitled to utilize a newly developed method for distributing copyrighted content covered by its license.



## STATEMENT OF THE CASE

### A. Introduction

Random House has been the publisher, for decades, of books by leading authors such as Kurt Vonnegut, William Styron and Robert B. Parker. The pertinent license agreements convey to Random House the exclusive right, among others, to publish these authors' works "in book form."

A new publishing venture, seeking to compete with Random House, has begun to offer these authors' works, featuring "exactly the same text" as the Random House editions, as "ebooks" – that is, "digital books that you can read on a computer screen or an electronic device."

JA 1669-70. It is the avowed intention of this competitor – defendant-appellee RosettaBooks – to become "the leading electronic publisher of classic books." JA 763.

The law of this Circuit makes clear that a grantee of copyright rights such as Random House is entitled to exploit the rights it has bargained for – specifically, in the context presented herein, to disseminate the content it has licensed through new distribution mechanisms – so long as the "new use" is one that "may reasonably be said to fall within the medium as described in the license." Bartsch v. Metro-Goldwyn-Mayer, Inc., 391 F.2d

150, 155 (2d Cir. 1968). This does not entail a bright-line litmus test requiring a showing by the licensee that the grant language in issue conclusively and unambiguously comprehends the new distribution format. To the contrary, this Circuit has specifically eschewed a requirement that the proposed new mode of distribution “fall within the unambiguous core meaning” of the contract, thereby “exclud[ing] any uses which lie within the ambiguous penumbra.” Bartsch, 391 F.2d at 155. Instead, “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.” Id.

In determining whether a new use reasonably may be said to fall within the grant language, the governing precedents of this Court dictate that, so long as the “fundamental characteristic” of the content under license remains unchanged, “the physical form in which [it] is fixed” is of no consequence. Bourne v. Walt Disney Co., 68 F.3d 621, 630 (2d Cir. 1995). In other words, so long as the new use is essentially “a forward step in the same art,” L.C. Page & Co. v. Fox Film Corp., 83 F.2d 196, 199 (2d Cir. 1936) – but a “species” of the same “genus” (id.) – the licensee is entitled commercially to exploit the new use and mode of distribution so long as the new use is not clearly excluded by the language of the contract.

It is apparent that the Random House contract language here in issue – the right to publish the authors’ words “in book form” (supplemented by guarantees of non-competition and the right to reproduce copies of the works in media now known or hereafter developed) – “reasonably may be said” to convey to Random House the exclusive rights to publish the works in issue as ebooks of the type competitively being published by RosettaBooks. For it is evident that the “genus” – or essence – of the rights granted by its authors to Random House is the right to present the artistic expression of these authors in complete textual form. The ebook is but a mode of distribution of such expression. Put differently, so long as the “fundamental characteristic” of the grant to Random House – here, the right to present the full authorial content in textual form for reading – remains unaltered, Bourne, 68 F.3d at 630, Random House is entitled to exploit “penumbral” distribution media, including those media that evolve over time to reflect technological developments. Bartsch, 391 F.2d at 155.

For its part, RosettaBooks’ acknowledged interest is to “cleanly and simply” “publish in electronic format the words of the author[s] precisely as they wrote them.” JA 774. This activity directly infringes upon the “genus” of rights exclusively conveyed to Random House.

RosettaBooks’ activities, accordingly, must be enjoined.

The district court, purporting to rely upon this Circuit’s “new-use” precedents, reached the opposite conclusion by misapprehending both the basic nature of the grants of rights involved here as well as the core precepts of the new-use cases. Contrary to common sense and to the internal logic of the contracts, and purporting to rely on trade usage of the sort the new-use cases instruct is of no moment, the lower court narrowly construed the concept of publication “in book form” to be limited to one distribution format – “the exclusive rights to publish a hardcover trade book.” JA 1683. In so concluding, the court cited, but gave no weight to, the testimony of RosettaBooks’ founder and CEO, a literary agent of nearly 25 years’ standing (JA 460 at ¶ 3), that is directly to the contrary. More important, the Court’s artificial extraction of the clause “in book form” from its contractual context, and its resulting exceedingly narrow interpretation of that clause as relating solely to a mode of packaging authorial content, was clearly erroneous. When Random House contracts to publish its authors’ works “in book form,” the far broader right conferred upon it is to present those works in textual form for reading in whatever formats are commercially and technologically feasible.

To conclude otherwise, as the lower court did, is to ignore the very rationale of the new-use cases, which look beyond distribution formats

that may exist at the time a contract was entered into to the fundamental characteristics of the rights granted. Whereas the cases seek to encourage grantees such as Random House to exploit new technology, so as not to create “anti-progressive incentives,” Boosey & Hawkes Music Publishers, Ltd. v. Walt Disney Co., 145 F.3d 481, 488 n.4 (2d Cir. 1998), the effect of an affirmance of the district court’s exceedingly narrow – and seemingly hostile – construction of these precedents would be to create the very opposite effect.

The district court fundamentally misconstrued the new-use cases in two critical respects. First, the court focused not on the fundamental shared characteristics of paper books and ebooks but on the minor functional differences between them, such as highlighting and note-taking functions in ebooks, that are both secondary to the appeal of the author’s work and that are analogous to old-fashioned methods but merely more “high tech.” Second, the court determined that ebooks constitute a distinct “medium” from paper books because their method of distribution is different. The latter are “printed words on paper” whereas the former are sent via “electronic digital signals sent over the internet.” JA 1684. This distinction, in the court’s view, made the new-use cases inapposite. By this reasoning, the district court engrafted onto the new-use jurisprudence a radical new

requirement that the new-use occur in the same medium in the sense of constituting the same form of distribution or functionality. This erroneous holding will, if not overturned, adversely impact industries far beyond book publishing.

The district court's view cannot be squared with the facts of the new-use cases or their salutary view of encouraging licensees to develop and use evolving technology. By definition, "new uses" will offer the consumer some different features than the older technology; otherwise, no one would bother to invent or market them. Thus, movies shown on television, videocassettes and laser discs all involve different methods of distribution and feature attractive functions not found in the old-fashioned reels of celluloid film shown in a movie theater. Yet, those facts did not preclude the licensees of motion picture rights in Boosey and Bartsch from disseminating the licensed motion pictures via these later-developed distribution formats.

In sum, the district court failed to recognize that the salient medium for the purpose of new-use analysis is the medium of expression – not the medium of distribution – that is the subject of the license. In this case, that medium is the author's words. No matter whether those words are written on vellum or papyrus, as with ancient manuscripts, printed in a

hardcover or paperback, or reproduced on a computer screen, they still constitute a book, and their publication accordingly is “in book form.” The district court’s denial of preliminary injunctive relief in favor of Random House should, accordingly, be reversed and the requested injunction issued by this Court.

**B. The Nature of the Case**

This case arises from exclusive license agreements entered into by Random House, or entities owned by Random House, which granted Random House the right to “print, publish and sell” novels by William Styron, Kurt Vonnegut, and Robert B. Parker (the “Works”) “in book form.” The earliest of the agreements was entered into in 1961. See JA 132-36.

The dispute between the parties arose in February 2001, when RosettaBooks launched an Internet Web site that offered textually identical competing editions of the Works for sale as ebooks. Random House contends that RosettaBooks’ offering of the Works, or any other Random House titles, in electronic form, infringes Random House’s exclusive “book form” publication rights.

**C. The Course of Proceedings**

On February 27, 2001, Random House filed a complaint against RosettaBooks and its Chief Executive Officer, Arthur M. Klebanoff,

alleging that RosettaBooks' publication of the Works in ebook editions infringed Random House's beneficial copyright rights as exclusive licensee and tortiously interfered with Random House's publishing agreements with its authors. JA 8-31. On February 28, 2001, Random House moved for a preliminary injunction on its copyright infringement claim. JA 102. On May 8, 2001, the district court held a hearing on the preliminary injunction motion. JA 1571.

**D. The Disposition Below**

On July 11, 2001, the district court issued a ruling in which it rejected Random House's contention that ebooks fall within the scope of Random House's exclusive "book form" publication rights. Random House, Inc. v. Rosetta Books LLC, 150 F. Supp. 2d 613 (S.D.N.Y. 2001); JA 1668-1687. The Court held that Random House was not likely to succeed on the merits of its copyright infringement claim and therefore was not entitled to a preliminary injunction. Id.

**STATEMENT OF FACTS**

**A. Random House's Publishing Operations**

Random House is today the world's largest English language general book publisher. JA 118-19 at ¶ 5. One of the most critical aspects



of its business is its publishing “backlist” (titles published more than one year earlier), which comprises more than 20,000 titles. JA 119 at ¶ 5.

Among its many celebrated authors are William Faulkner, Truman Capote, Eudora Welty, James A. Michener, E.L. Doctorow, Maya Angelou, Norman Mailer, and David Halberstam. Id.

Random House makes substantial expenditures of time and money in order to maximize the success of the works it publishes. Random House’s editors are intimately involved in every aspect of the publishing process, including evaluating the publishing merits of book proposals, extensively editing manuscript drafts, and helping to develop a work’s marketing strategy. One or more editors often collaborate with an author on a given project over a series of months or even years. JA 120-21 at ¶ 8.

Once the editing process is complete, Random House makes further expenditures in marketing and promoting the work, including, inter alia, trade and consumer advertising, in-store displays, sponsoring author tours and readings, and distributing copies to members of the media and influential readers. In the fiscal year ending in June 2000, Random House spent over \$100 million in promoting its licensed works and in developing the various markets for its publications. JA 120-21 at ¶¶ 8-9.

Random House has invested significant resources in making ebooks a marketplace reality. To date, it has invested in excess of \$5 million in support of ebooks and anticipates investing an additional \$10 to 15 million in the next three to five years. JA 124 at ¶ 18.

Over the last few years, Random House has been developing various in-house ebook publishing programs. Random House currently offers more than 450 titles in ebook format from its various divisions and expects to offer many additional titles over the next year, including the Works. JA 124-25 at ¶¶ 20-21.

**B. The Random House Licenses at Issue**

Random House is an 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.

In each of the contracts for these Works, Random House contracted with the author for the exclusive license, for the term of copyright, to publish the Work “in book form” in the English language in North America and other territories, and “in such style and manner and at

such price as [Random House] deems suitable.”<sup>1</sup> The Vonnegut and Parker agreements at issue also grant Random House the exclusive right “to publish and to license the Work for publication . . . in anthologies, selections, digests, abridgements, magazine condensations, serializations, newspaper syndication, picture book versions, microfilming, Xerox and other forms of copying, either now in use or hereafter developed.”<sup>2</sup>

All of the contracts (with the exception of the contract for Slaughterhouse-Five and Breakfast of Champions) also contain a provision precluding the author from authorizing any use of his works that would injure Random House’s rights in the works.<sup>3</sup> Thus, for example, the 1970 Vonnegut contract provides that the author will not “publish or permit to be published any edition, adaptation or abridgement of the Work by any party other than [Random House division] Dell without Dell’s prior written consent.” JA 158 at ¶ 10(e); see also JA 168 at ¶ 18 (Parker contract providing that author will not publish “any material based on the material in the Work or which is reasonably likely to injure its sale”).

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<sup>1</sup> JA 132 at ¶¶ 1a.1, 2; 137 at ¶¶ 1a.1, 6; 149 at ¶ 1a; 154 at ¶ 1a; 161 at ¶ 1a.

<sup>2</sup> JA 149 at ¶ 1(d); 154 at ¶ 1(d); 161 at ¶ 1(d).

<sup>3</sup> JA 133 at ¶ 8; 138 at ¶ 5(d); 158 at ¶ 10(e); 168 at ¶ 18.

### **C. Ebooks Are the Latest Evolutionary Development of Books**

The essence or core characteristic of a book is (1) its text or content, (2) faithfully reproduced in complete, full-length form and (3) presented as a reading experience. JA 111 at ¶ 15; 114-115 at ¶ 6; 1148-49, 1327.

Books have been presented to the reading public using a wide variety of media over time. Over the ages the presentation of books has evolved from stone tablets to papyrus (made from plants), parchment (animal skins), vellum (animal skins), and paper (made from wood). See “publishing, history of” available at <http://www.britannica.com/eb/article?eu=117358>. Recognizing that electronic publishing is but another evolutionary step in the form in which books are presented to readers, RosettaBooks’ CEO, Mr. Klebanoff, has noted that “[e]-publishing,” representing “the first substantive change in publishing since Gutenberg,” will “bring books to an ever wider marketplace.” JA 783.<sup>4</sup>

Ebooks are the latest format in the publishing industry that allows content to be presented to a reader, here in electronic format. Consumers can obtain ebooks through a variety of sources such as online

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<sup>4</sup> Mr. Klebanoff has also observed that the earliest books were “handwritten manuscripts dating back to original vellum sheets of Virgil.” JA 783.

booksellers (e.g., Amazon.com, BarnesandNoble.com), ebook publishers, device-specific retailers, and Internet libraries. A consumer who visits Amazon.com or BarnesandNoble.com and searches for a book title will be presented with the opportunity to purchase it as a traditional hardcover or paperback or as an ebook (depending, of course, on current availability) – thus reinforcing the competitive nature of the products. In most instances, after an ebook format is selected, the ebook is then downloaded directly from the online distributor’s Web site (or its service provider’s file server) onto the reader’s computer, and/or ebook reading device. JA 205 at ¶ 6, 10. Ebooks can be read on the screen of a personal digital assistant such as a Palm Pilot, a dedicated hand-held ebook reading device that is approximately the size of a hardcover or paperback book (depending on the model), a desktop computer, or a laptop computer. JA 205-07 at ¶¶ 5, 9-12.

The differences between an ebook and its paper counterpart are minimal and insignificant: Irrespective of the reading device that a consumer chooses, once an ebook is downloaded, it can be read from cover to cover like a traditional paper book. JA 205-07 at ¶¶ 5-12. An ebook displays precisely the same copyrighted content on a computer screen or ebook reading device rather than on paper. Instead of physically turning the paper page, the ebook reader pushes a button or computer key to move to the

next page. JA 204 at ¶ 4; 206 at ¶ 11; 127 at ¶ 27.

Notwithstanding the district court’s reference to the fact that ebooks “are in the process of evolving,” and may, in the future, incorporate “audio, graphics, full-motion video, and internet hyperlinks,” JA 1670 at n.5, the ebooks at issue in this case contain none of those features. JA 761-62, 773-76. In fact, RosettaBooks’ contracts do not give it the right unilaterally to enhance or augment the text in a manner that would alter the traditional reading experience. See, e.g., JA 684 at ¶ 5H, 1660-61. Moreover, Mr. Klebanoff has expressed skepticism whether meaningful augmentations to the traditional reading experience will find a market and testified that this is not a direction in which RosettaBooks is moving. JA 775-76.

Respecting the features available to readers of RosettaBooks’ ebooks found by the lower court to be sufficiently significant to render ebooks something other than “in book form,” these features are, in fact, little other than electronic analogues to aspects of the print-on-paper reading experience and, in any event, do not alter the fundamental nature of the product: the author’s novel. See, e.g., JA 841 (testimony of RosettaBooks’ CFO explaining that ebook readers “can create their custom version, just as when you buy a softback and you put notes in it”) (emphasis added). For example, one can affix an electronic note to a page of text in an ebook and,

in certain ebook readers, organize those notes, just as one can take notes in the margin of a paper page or on index cards, which can then easily be organized.<sup>5</sup> JA 1592, 1638.

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 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. JA 275-76 at ¶¶ 8, 10.

By the 1960s, technological advances in computerized information storage and retrieval systems had reached the publishing

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<sup>5</sup> Likewise, one can use an electronic highlighter on the electronic edition of a work instead of using an ink highlighter on the paper edition of a work. JA 1591. Similarly, RosettaBooks' ebooks contain an electronic feature called "book marking," which is analogous to using a physical bookmark to tab or flag a portion of the text. *Id.* Further, certain ebook readers that are compatible with dictionary software that a consumer can download separately allow an ebook user to click on a word and have the word pronounced or defined. JA 1636-37. This function is equivalent to looking up the definition and pronunciation of a word in a paper dictionary.

industry. Magazine articles were appearing containing statements such as: “In the future, all material – text, line illustrations, and photographs – will be fed into the computer video system by placing them into optical scanning devices.” JA 929. The Association of Authors Representatives (AAR) acknowledged this fact in its 1993 position paper on electronic rights, which observes that electronics “first entered the field of publishing in the late 1950’s and early 1960’s” and that, although “no one knew what other forms of storage and retrieval would be invented,” it was “obvious that there would be more and that they would be electronic.” JA 874.

By 1968, Alan Kay conceived of a new storage and retrieval device 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. JA 277 at ¶ 16.

In 1971 Project Gutenberg, a project devoted to creating, inter alia, electronic books of public domain works that would be stored, retrieved, and read on computers, began by making publicly available computer files of smaller texts such as the Declaration of Independence. By the mid-1970s, it was making publicly available entire books in electronic



form, including the Bible, Shakespeare, and Alice in Wonderland. JA 277-78 at ¶ 17.

#### **D. RosettaBooks Aims to Be a Competing Book Publisher**

RosettaBooks' own statements confirm that it regards its offerings as books. RosettaBooks' mission admittedly is "to use the digital revolution to bring classic books, in new and exciting form, to more people worldwide." JA 783 (emphasis added). Its business plan entails becoming "the leading electronic publisher of classic books" by exploiting the "opportunity in backlist books which have already proven their high rate of sale." JA 784, 763 (emphasis added). To achieve this objective, RosettaBooks has set out to cherrypick "iconographic" authors of "evergreen works of fiction and non-fiction that essentially constitute annuities for publishers." JA 790-91. This business strategy is founded on the theory that (in RosettaBooks' words) "[i]f the backlist is the financial sweet spot in publishing, classics are the sweet spot within the backlist." JA 790.

RosettaBooks makes no pretense that its ebooks serve any other basic purpose, or offer any fundamentally different reading experience, than the paper edition counterparts with which they compete. In RosettaBooks' own words, its objective is to "cleanly and simply" "publish in electronic format the words of the author[s] precisely as they wrote them." JA 794. As

the district court aptly noted, RosettaBooks' product is but a "digital book that you can read on a computer screen or an electronic device." JA 1669.

By thus presenting the precise authorial content as is published by Random House to potentially the same readership and through many of the same distribution channels, as well as focusing on works of proven sales success, RosettaBooks capitalizes on – indeed, free rides upon – Random House's significant investment in its most successful works. JA 128 at ¶¶ 28-30.

RosettaBooks commenced operations on February 26, 2001. Among the ebooks it has offered for sale through its Web site, RosettaBooks.com, are Slaughterhouse-Five, Cat's Cradle, Player Piano, Breakfast of Champions, The Sirens of Titan, The Confessions of Nat Turner and Sophie's Choice. JA 227 at ¶ 6.<sup>6</sup> These novels are available in any of three digital formats: Microsoft Reader, Adobe Acrobat, and Acrobat eBook Reader. See JA 57-78.

The extent of RosettaBooks' "publishing" activities to date has entailed: the copying in digital form of copyrighted works, including those covered by the Styron, Vonnegut and Parker Agreements (which can be

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<sup>6</sup> The site indicates that Parker's Promised Land will be "Available Soon." See <http://www.rosettabooks.com/pages/titles-92.html>.

accomplished easily and relatively inexpensively by scanning paper editions of the works);<sup>7</sup> 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 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 has been able to supply readers with the full texts of the Works, which those readers would otherwise likely purchase as paper books or, in the future, lawfully acquire as ebooks from Random House. JA 128 at ¶ 29.

### **SUMMARY OF ARGUMENT**

This Court’s precedents make clear that a grantee of copyright rights is entitled to exploit the rights it has bargained for – in particular, to distribute the content it has licensed through technologically new distribution mechanisms – so long as the “new use” is one that “may reasonably be said to fall within the medium as described in the license.” Bartsch, 391 F.2d at 155. In this regard, provided that the “fundamental

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<sup>7</sup> Without seeking permission from Random House, Rosetta acquired paper versions of the Works (from a bookstore) and, at least in the case of the Vonnegut works, copied every word into a digital file through use of a process called “scanning.” JA 838-40, 778.

characteristic” of the content under license remains unchanged, “the physical form in which [it] is fixed” is of no consequence. Bourne, 68 F.3d at 630.

The contract language here in issue – the right to publish authors’ works “in book form” – reasonably may be said to convey to Random House the exclusive right to publish the Works as “ebooks” of the type competitively being published by RosettaBooks. This is so because the essence of the grant conveys to Random House the right to present the authors’ works in complete textual form for reading – precisely the business objective of RosettaBooks’ offering of ebooks.

The trial court, claiming to rely on this Circuit’s new-use precedents, reached the opposite conclusion by misapprehending the basic nature of the rights grants involved here as well as the core precepts of the governing cases. Its most fundamental errors constituted:

- its assumption that, to be encompassed within the scope of the grant language in issue, the new use must fall within the core meaning of the language, as opposed to within its ambiguous penumbra;
- its corresponding failure to recognize that a new use is covered by a license if it shares the fundamental characteristics of the subject of the grant irrespective of whether (as would be the case virtually by definition) there are certain functional differences between the new and old uses;

- its conclusion that a reviewing court must discern “the most reasonable interpretation” to be given the grant language, as opposed to whether it can reasonably be read to convey the rights in question;
- its interpretation of these cases as requiring that the new use be within the same distribution “medium” as the original use; and
- its judgment that the parties’ original intent and supposed subsequent trade usage have particular relevance to the analysis.

The foregoing analytic errors infused the district court’s analysis of the contracts, leading it to conclude that “the most reasonable interpretation” of the concept of publication “in book form” is limited to traditional print-on-paper books. The interpretive principles established by this court specifically to govern new-use cases, as well as the plain language and internal logic of the contracts, demonstrate that the district court committed reversible error in so concluding.

## **ARGUMENT**

### **I. PLENARY REVIEW IS APPROPRIATE**

Although courts ordinarily review a preliminary injunction decision under an abuse of discretion standard, where the preliminary injunction decision more closely resembles a final decision, the decision instead may be subject to plenary review. Hsu v. Roslyn Union Freeschool

District No. 3, 85 F.3d 839, 852 (2d Cir. 1996); Romer v. Green Point Savings Bank, 27 F.3d 12 (2d Cir. 1994). Because the district court’s resolution of Random House’s preliminary injunction motion apparently represented its definitive (if erroneous) determination of the merits issues raised, it should be subject to plenary review.

A preliminary injunction more closely resembles a definitive ruling on the merits when the dispute concerns the legal standard to be applied to undisputed facts. Hsu, 85 F.3d at 852. In this case, as in Hsu, “resolution of the case hinged not on what the facts were . . . but on how the law should be applied.” Id. at 853. In Hsu, there was no dispute as to the terms of the nondiscrimination policy at issue; the dispute concerned whether a specific application of that policy violated the Equal Access Act, the Establishment Clause, and the Free Speech Clause. Similarly, in this case, there is no dispute as to what the terms of the licenses at issue are; the dispute concerns the proper interpretation of the “in book form” grant language and the appropriate application of this Circuit’s new-use precedents to the resolution of that question. These are legal, not factual, issues. Moreover, as in Hsu, the district court gave no indication that its conclusion was tentative or that its resolution of the merits was dependent upon further development of the factual record. See Hsu, 85 F.3d at 852-53.

On the contrary, the district court concluded that the language of the contracts “lead[s] almost ineluctably to the conclusion that Random House does not own the right to publish the works as ebooks.” JA 1682.

Also like Hsu, the district court’s consideration of the case was not abbreviated by any undue time constraints. See Hsu, 85 F.3d at 853. The May 8, 2001 preliminary injunction hearing was held more than two months after Random House filed its Complaint, JA 8, and the court’s ruling on Random House’s motion was not issued until July 11 – more than two months after the hearing. JA 1667.

Further, the preliminary injunction motion did not seek merely to preserve the relative positions of the parties. See Hsu, 85 F.3d at 853. Rather, part of the relief sought by Random House was an order directing RosettaBooks to destroy all infringing copies of works for which Random House had been granted an exclusive license to publish in book form. JA 29-30.

Finally, the district court’s decision resembles a definitive ruling on the merits of the parties’ claims because it “effectively awarded victory in the litigation” to RosettaBooks. Hsu, 85 F.3d at 853. Although the district court concluded its opinion with language appropriate to the disposition of a preliminary injunction motion, see JA 1687, the language of

the court’s opinion, based in part on its evaluation of documentary discovery and depositions conducted in the case, suggests that a future decision on the merits may be nothing more than a formality:

- “the right to ‘print, publish and sell the work[s] in book form’ in the contracts at issue does not include the right to publish the works in the format that has come to be known as the ‘ebook.’” JA 1668-69;
- “the most reasonable interpretation of the grant in the contracts at issue to ‘print, publish and sell the work in book form’ does not include the right to publish the work as an ebook.” JA 1679; and
- “Random House is not the beneficial owner of the right to publish the eight works at issue as ebooks.” JA 1687.

See Hsu, 85 F.3d at 853 n.5. Therefore, as in Hsu, plenary review is the appropriate standard for assessing whether the district court erroneously denied Random House’s request for a preliminary injunction.

## **II. RANDOM HOUSE MEETS THE STANDARD FOR A PRELIMINARY INJUNCTION**

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). Under either standard, Random House is entitled to injunctive relief.

**A. Random House Is Entitled to Seek to Enjoin Infringement of Its Beneficial Copyright Rights**

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. Only the first of these elements is disputed in this case. JA 838-40.

The Copyright Act accords the “legal or beneficial owner of an exclusive right under copyright” the right to institute an action for infringement of that right “while he or she is the owner of it.” 17 U.S.C. § 501(b).

**B. This Circuit’s New-Use Cases Compel the Conclusion That the Random House Licenses Embrace Electronic Publication Rights**

**1. The new-use cases and their antecedents**

This Circuit’s new-use cases make clear that the “in book form” grant language properly is construed to encompass precisely the form of technical advancement in the distribution of books as is represented by

ebooks. The fundamental legal error committed by the lower court was its patent failure to apply the interpretive principles established in these controlling precedents.

This Court 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, 391 F.2d at 155 (emphasis added); accord Boosey, 145 F.3d at 486-87. 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 . . . .” 391 F.2d at 155.

Public policy prescriptives support this approach. As the Second Circuit noted in Boosey, “an approach to new-use problems that tilts against licensees gives rise to antiprogressive incentives. [Licensees] would be reluctant to explore and utilize innovative technologies for the exhibition

of [the licensed work] if the consequence would be that they would lose the right to exhibit [product] containing [the] licensed works.” 145 F.3d at 488 n.4. See also Bartsch, 391 F.2d at 155 (noting that the broader approach ensures that there is “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”).

The broader approach, which permits the licensee to rely upon a “reasonable” reading of ambiguous contractual language, is crafted for situations in which, as in this case, the new use at issue did not yet exist or was not yet commercially viable at the time of contracting and thus was not specifically contemplated by either party or the subject of established trade practice. See Boosey, 145 F.3d at 488. Thus, Professor Nimmer, whose approach Judge Friendly expressly adopted in Bartsch and Judge Leval endorsed in Boosey, made clear that the uses the licensee properly may pursue

include uses within the ambiguous penumbra because if whether or not a given use falls within the description of the medium is ambiguous, it must, by definition, mean that it is within the medium in a reasonable sense (albeit this is not the only reasonable sense).

Melville B. Nimmer & David Nimmer, 3 Nimmer on Copyright, § 10.10[B], at 10-90 (2000) (emphasis added).

The question in this case, then, is not whether ebooks were specifically contemplated by the parties, or whether at the time of the contracts “in book form” was generally understood in the publishing industry to mean books printed on paper, but only whether it is “reasonable” to view ebooks as falling within the ambiguous penumbra of “in book form.” If so, then Random House’s exclusive “book form” publication rights were violated by RosettaBooks’ publication of the Works as ebooks. Because the district court failed to analyze the contractual language in this manner, instead applying garden-variety tools of contractual interpretation that are ill-suited to new-use issues, it arrived at the insupportable conclusion that ebooks are not “in book form.”

We turn now to the key Second Circuit cases giving rise to the operative principles, beginning with Page, 83 F.2d 196. Page involved the issue of whether a 1923 grant of “exclusive moving picture rights” included the right to exhibit “talking” motion pictures, which were not commercially in use at the time of the license. 83 F.2d at 198-99. The Court concluded that it did, on a rationale that applies with full force here. Finding 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 held 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.

The Page opinion emphasized that the development of talking pictures was “nothing more than a forward step in the same art.” 83 F.2d at 199. Insofar as talking pictures retained the essential defining characteristics of the “genus” of “motion picture,” irrespective of the addition of sound, the Court was able to conclude that “‘talkies’ are but a species of the genus motion pictures.” Id. at 199. See also G. Riccordi & Co. v. Paramount Pictures, Inc., 92 F. Supp. 537, 541 (S.D.N.Y. 1950) (“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 U.S. Supreme Court’s decision in Kalem Co. v. Harper Bros., 222 U.S. 55 (1911), which held that a license pre-dating 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. See Page, 83 F.2d at 199.

The Supreme Court in Kalem 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 of the matter . . . is not the mechanism employed, but that we see the event or story lived.” 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 were granted the exclusive right to dramatize 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”).

In analogous reasoning, the Second Circuit in Bourne, 68 F.3d 621 construed a 1930s agreement licensing to 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. 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.

Id. at 630 (emphasis added) (citation omitted).<sup>8</sup>

What the foregoing opinions recognize is that so long as the fundamental nature of what is being exploited (in this case, the author’s words in full length) remains unchanged, new mechanisms for delivering that content do not negate the bargained-for rights to exploit it. The “fundamental characteristic” of the original rights grant is to be examined at a high level of abstraction; that is, a reviewing court is to discern “the essence of the matter,” Kalem, 222 U.S. at 61, carefully distinguishing between the often broad basic nature of the rights granted and the “physical form” or “mechanism employed” for conveying them.

This Court has subsequently reinforced these guiding principles. In Bartsch, the Court (per Judge Friendly) held that “licensee[s]

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<sup>8</sup> Whether the format in question was actually contemplated at the time the pertinent agreement was entered into 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, Boosey 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.

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.” 391 F.2d at 155. 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 construed the grant of rights given the licensee ““to copyright, vend, [l]icense and exhibit such motion picture photoplays,” in the absence of other limiting contractual language, as affording the licensee “the broadest rights with respect to its copyrighted property.” Id. at 153-54.

In Bartsch, the fundamental characteristic of the grant was the right to disseminate the motion picture version of a musical play. Although the medium of television did not exist as of 1930, the date of the original grant, the Court concluded that the grant encompassed distribution of the motion picture via the later-developed television medium. Notably, the Court in Bartsch was troubled neither by the fact that one was dealing with a new medium for disseminating the intellectual property nor by the fact that the physical transmission mechanisms employed, respectively, to project a motion picture film onto a theatrical screen versus to broadcast that film over the airways for purposes of telecasting, differ significantly. As Judge Friendly observed:



[I]f Bartsch or his assignors had desired to limit ‘exhibition’ of the motion picture to the conventional method where light is carried from a projector to a screen beheld by the viewer, they could have said so.

391 F.2d at 155.

More recently, this Court in Boosey reaffirmed that, as between construing a license of rights as conferring only such uses as fall within the unambiguous core meaning of the term in issue, thereby excluding any uses lying within the ambiguous penumbra, and permitting the licensee to pursue any uses that reasonably may be said to fall within the medium described in the license, the latter approach, consistent with Judge Friendly’s view, is preferred. 145 F.3d at 486-87.

Boosey involved the question of whether a 1939 license conveying motion picture rights extended to the sale and rental of videocassettes and laser discs. That VCRs and laser discs – technologies which did not exist at the time of the license grant – comprehend features associated with viewing motion pictures that differ from film projection was no bar to the Court’s determination that the original grants encompassed these distribution formats.

## **2. The application of the new-use case law to this case**

Against the backdrop of these new-use precedents, the central issue posed by this case – whether the licenses giving Random House the right to “print, publish and sell the work[s] in book form” convey the right to publish the works in ebook formats – is readily resolved in Random House’s favor. The “fundamental characteristic” of the intellectual property in question here – the exclusive right to print, publish and sell the Works in book form – is the faithful presentation of the authors’ writings in full text form for reading. If, as in Kalem, a dramatization is defined as a performance whether seen in a live performance or in a motion picture, and if, as in Bourne, a motion picture is defined as “a series of related images that impart an impression of motion,” with integrated sound, then just as surely the term “book form” should be construed as a series of related words imparting content for reading.

So recognized, ebooks – as virtually everyone, including RosettaBooks has recognized – are books, and the development of ebook technology represents but a “mechanism employed” for conveying these books to the public. Under the Page framework, the “genus” – the essence of the rights granted by its authors to Random House – is the words of the author conveyed in full-length textual form; the “species” are the publishing

formats adopted to disseminate that expression. As the Page Court put it: “The genus embrace[s] the later developed species.” 83 F.2d at 199.

The technological “advancement” or “forward step” ebooks represent from books on paper is, in fact, far less significant than the evolution from a silent moving picture to a talking moving picture, or from a theatrical play to a movie. A talking moving picture includes an entirely new element, namely, sound, which significantly amplifies the experience of the viewing audience; a movie represents the transformation from a live stage performance to a pre-recorded presentation of images, many of which would be graphically impossible to depict on a stage. An electronic book, by contrast, essentially embodies the same content of its paper counterpart in a different physical form.

At the very least, the words “print, publish and sell” “in book form” are “broad enough to cover” the publishing of ebooks. See Bartsch, 391 F.2d at 155. They unquestionably can be “reasonably read to cover” this new mode of book distribution. Boosey, 145 F.3d at 486. As the descriptive name given by the industry implies, an ebook or electronic book is simply another book edition, the functional equivalent of a book printed on paper. JA 204 at ¶ 4; 127 at ¶ 27; 278 at ¶ 18; 111 at ¶ 14; 114-15 at ¶ 6. 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). JA 274 at ¶¶ 8-9. It is simply another way for a publisher to distribute the same content.

The record demonstrates that the essence of a book is not the container in which it is presented but rather (1) its text, or content, (2) presented in complete, full-length form, (3) as a reading experience.<sup>9</sup> As RosettaBooks has recognized, "content is king," *i.e.*, the author's words are what matter most to consumers. See JA 774. That is why Rosetta has focused on delivering the author's words to the reader "cleanly and simply," "precisely as they wrote them," in text that is "identical to the text of the paper version." JA 771, 761-62, 774. See also JA 797 (Author's Guild statement that "Electronic books are books.").

As noted above, the burden of creating a departure from a reasonable interpretation of the contractual grant falls upon the grantor. See Bartsch, 391 F.2d at 155; Boosey, 145 F.3d at 486. Accordingly, it was the authors' obligation to insert contractual language excluding ebooks or new

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<sup>9</sup> See JA 111 at ¶ 15; 114-15 at ¶ 6; 759-60, 810.

technological modes of delivery from the grant of rights to which Random House was entitled. See Boosey, 145 F.3d at 487 (“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”).

Here, none of the Random House contracts at issue reserves to the authors any rights to future methods of distribution. Moreover, nothing on the face of the grant language purports to limit “book form” to one species of distribution of a book. The agreements could have stipulated, but did not, that the sole “book form” to which publishing rights had been conferred on Random House was hardcover and/or paperback. The language instead is non-specific as to the means of distribution for presenting the author’s work. So long as the work is presented in “book” form, Random House owns the exclusive right to publish it.

That differences exist, reflecting features or attributes of the new mode of delivery of the content, does not preclude construing the original grant of rights to encompass the new-use. See supra pp. 27-35. In contravention of the new use case law, the lower court in this case gave undue weight to a series of “bells and whistles” associated with ebooks. These include the ability electronically to search the text and to “hyperlink”

to specific parts of the text (namely, the beginning of each chapter).

JA 1684. But such secondary characteristics are of no relevance to the new-use analysis, as demonstrated by Boosey. After all, “[a] Laser Disc is an electronic storage and retrieval system” that permits the user to search by typing in a frame number or through the use of “chapter marks” (the equivalent of “tracks” on a CD or chapters in a book), or with the aid of barcode readers or computer programs. See Laser Discs Tutorial, available at <http://cops.vwf.edu/tutorials/technolo/laserdis/laserdis.htm>. Yet, the Court in Boosey construed the original grant of rights to include a motion picture distributed in video and laser formats, focusing on the sole relevant inquiry: whether the new uses may reasonably be said to fall within the subject matter of the original grant.

Apart from the fact that most of the distinguishing features of ebooks identified by the lower court, JA 1684, have paper analogues these attributes no more define the “fundamental characteristic” of the ebook, which is the presentation of an author’s full text for reading, than did the new attributes of television, the VCR or the laser disc define the fundamental characteristics of those new uses for the delivery of motion pictures. Similarly, the district court’s reliance, in finding analog formats (paper books) to be distinct from digital formats (ebooks), on the need for a

software program and specific hardware to view the texts, JA 1684, is misplaced. The new and old technologies at issue in Boosey and Bartsch have analogous distinctions – laser discs, for example, also require computer software and specific hardware to view the original celluloid film – but the Court did not deem these distinctions relevant. So, too, the “bells and whistles” available on ebooks, and the software and hardware required, are of no consequence to the proper analysis here.

The district court also appeared to find relevant the possibility that ebooks in some future state of development might have attributes different from the reading of text. See JA 1670 at n.5. But this hypothetical ebook of the future is not what this case is about. The record is clear that RosettaBooks is (a) not now offering any such enhancements and (b) has no intention to do so given its skepticism over whether such multimedia reading products will find a market. JA 775-76.

### **3. The district court misread and misapplied this Circuit’s new-use cases**

The district court purported to harmonize this Court’s new-use precedents, specifically Boosey and Bartsch, with its conclusion that the licenses at issue do not convey the right to publish the Works as ebooks. JA 1668-69. But examination of the court’s analysis of these cases reveals a

fundamental misreading of their import.

**a. Grants include the ambiguous penumbra.** Most fundamentally, the lower court perceived its role as entailing uncovering the unambiguous, core meaning of the grant language – in the court’s words, to ascertain “the most reasonable interpretation” of that language. JA 1679. In so approaching the preliminary injunction motion, the court disregarded the approach mandated by the new-use cases, which specifically reject the search for “core meaning” in favor of determining whether a new use falls within the “ambiguous penumbra” of the grant. See Bartsch, 391 F.2d at 155. The court also deviated from this Court’s instruction that, because the new use by definition did not exist at the time of the original grant, resort either to the parties’ intent at the time of contracting or to trade usage is of little relevance to the analysis. See Boosey, 145 F.3d at 488.

The foregoing errors caused the lower court to fail to focus on the key issue, namely, identifying the “fundamental characteristic” of the grant language here involved. Had it done so, the answer, we submit, would have been apparent: That characteristic is the right to present authors’ writings in their full-text form for reading. The fact that, in recent history, such presentation has been principally via paper editions is beside the point. As Bourne teaches, once the fundamental characteristic has been identified,



“the physical form in which the [book] is fixed . . . is irrelevant.” 68 F.3d at 630. Ebooks, being simply a physical form of delivery of the text of an author’s work for reading, plainly fall within the grant language here in issue. At a bare minimum, the ambiguous penumbra of the right to “print, publish and sell” “in book form” may reasonably be construed to encompass ebooks.

**b. New uses embrace multiple media of distribution.**

The district court also purported to distinguish Bartsch and Boosey on the ground that the new uses in those cases “fell squarely within the same medium as the original grant.” JA 1683. It distinguished this case, insofar as it determined that ebooks constitute a distinct “medium” from paper books because their method of distribution is different – “printed words on paper” in the case of paper books and “electronic digital signals sent over the internet” in the case of ebooks. JA 1684. In this, as in other respects, the court’s reading of Bartsch and Boosey is plainly wrong. In fact, it is contrary to the central premise of the new-use cases.

The essence of the lower court’s error was to confuse two very different conceptions of “medium”: one, pertaining to the “medium” of expression (e.g., motion picture, book), and the other, the “medium” of delivery of that expression. Just as a sculptor’s medium of expression may be clay and a painter’s medium of expression may be paint, an author’s

medium of expression is words or text. The new-use cases focus, as they should, on whether the new-use medium of distribution preserves the essential medium of expression. If so, the new use falls within the licensee's grant.

In adopting as a litmus test the requirement that the new use be confined to the same form of distribution or functionality, the lower court demonstrated its misapprehension of this Court's use of the term "medium" and, as a result, departed radically from the controlling precedents.

For instance, the Court in Bartsch ruled in favor of the licensee despite expressly rejecting the notion that distribution via television broadcast was analogous to distribution via cinematography. The court observed:

[T]o characterize the to us nigh miraculous processes 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.

Bartsch, 391 F.2d at 153.

Similarly, in Boosey, the grant language was found to embrace multiple distribution formats. See 145 F.3d at 484. As noted, the significant differences between the functionality of a motion picture shown in a movie

theater and videocassettes and laser discs did not keep the Court from concluding that the latter were embraced by a license that conveyed the right to record Stravinsky's "The Rite of Spring" for use in a "motion picture."<sup>10</sup>

c. **Other interpretive errors.** The district court also purported to distinguish Bartsch and Boosey on the ground that the licensees in those cases created a new work based on the material from the licensor. Once again, the cases themselves do not support this assertion. Bartsch involved the telecasting of a motion picture; the fact that a new work may have been created when the original musical play was turned into a motion picture by the licensee (MGM) had no bearing on the court's decision that the license at issue permitted television broadcast without a further grant

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<sup>10</sup> The cases the district court relied upon to support the proposition that Bartsch and Boosey are limited to uses within the same medium all are distinguishable on the ground that the licenses in those cases clearly excluded the new uses in question. See Raine v. CBS Inc., 25 F. Supp. 2d 434, 445 (S.D.N.Y. 1998) (right to exhibit films of musical performances on "television broadcasts" did not include cable television broadcasts or videocassettes in light of other broadcast television-specific language in agreements); General Mills, Inc. v. Filmtel Int'l Corp., 195 A.D.2d 251, 252, 599 N.Y.S.2d 820 (1st Dep't 1993) (rights to exhibit animated cartoon series "on television and in theaters" did not include videocassette or video disc rights); Tele-Pac, Inc. v. Video-Cinema Films, Inc., 168 A.D.2d 11, 570 N.Y.S.2d 521 (1st Dep't 1991) (agreement granting right to distribute motion pictures "for broadcasting by television or any other similar device now known or hereafter to be made known" does not encompass videocassette or videodisc; noting inapplicability of term "broadcasting" to videotape).

from the copyright owner. In Boosey, likewise, the fact that Stravinsky's musical composition was incorporated into a new copyrighted work by Disney did not drive the court's analysis of the contractual language.

Second, the district court found inapplicable to this case Judge Leval's observation in Boosey that "an approach to new-use problems that tilts against licensees gives rise to antiprogressive incentives" by, for example, making motion picture producers "reluctant to explore and utilize innovative technologies for the exhibition of movies." 145 F.3d at 488 n.4. The district court found that the concern with "antiprogressive incentives" was not implicated here because "it cannot be said that licensees such as book publishers are ipso facto more likely to make advances in digital technology than start-up companies." JA 1685. This is wrong. First, established book publishers, which hold the rights to the vast majority of major works written in the 20th century, will be more reluctant to explore and utilize innovative technologies if those technologies can then be utilized to deprive the publishers of their traditional rights. In addition, because the non-compete clauses in the Random House contracts prevent the authors from publishing any other edition or adaptation of their works, see, e.g. JA 168 at ¶ 18, third parties, whether start-up companies or otherwise, will not have access to many valuable properties. If, in accordance with these

provisions, the authors cannot publish their works as ebooks, and if the Random House contracts are construed not to grant Random House the ebook rights, then a deadlock will occur “prevent[ing] the work’s being shown over the new medium at all.” Bartsch, 391 F.2d at 155. This is the very type of deadlock that the Court in Bartsch sought to avoid.<sup>11</sup>

**C. The District Court, Misapprehending the Contracts Themselves and the Legal Framework Governing the Interpretation to Be Given Them, Misconstrued the Meaning of the Grant Clauses**

**1. The district court erroneously interpreted the meaning of “in book form”**

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<sup>11</sup> The question of whether the new use must have been foreseeable at the time the contract at issue was entered into – an issue the district court did not reach – remains an open one under this Court’s precedents. See Boosey, 145 F.3d at 486. To the extent foreseeability does figure into the analysis, it is a liberal requirement that is satisfied if experimentation with some early form of the technology in question was occurring at the time the agreements were negotiated. See Bartsch, 391 F.2d at 154 (sufficient that in 1930 future possibilities of television were recognized); Bourne, 68 F.3d at 630 (accepting as sufficient to establish foreseeability that home viewing of motion pictures by means of film reels as opposed to VCRs – was contemplated during 1930s). In any event, uncontroverted record evidence clearly demonstrates that electronic publishing was a foreseeable development from antecedents that predate the contracts at issue. For example, Professor van Dam’s affidavit establishes that reading books in an electronic format was a foreseeable consequence of computerized methods of textual storage and retrieval methods developed in the 1950s and 1960s. See JA 274-76, 278 at ¶¶ 8, 11, 12, 18. See also JA 668, 874, 921-33.

Although the district court purported to follow this Court’s directive in Boosey that “[w]hat governs is the language of the contract,” (JA 1678) (quoting Boosey, 145 F.3d at 487), its finding that “the language of the contract itself lead[s] almost inelectably to the conclusion that Random House does not own the right to publish the works as ebooks” (JA 1682) misapprehends the language and structure of the contracts.

The district court’s first error was to parse the clause “to print, publish or sell the work in book form” to draw an artificial distinction between “the work” and “in book form.” The court suggested that the parties, in employing this language, intended to convey rights to the content – “the work” – solely within a narrow, then-existing “book form” – as a printed and bound book. JA 1683. (Indeed, the court went so far as to suggest that “in book form” traditionally had even narrower application: to hardcover printed and bound editions of the authors’ works. Id.) The court cited no support for such a parsing, nor did it conclude that such parsing was the only reasonable interpretation of the grant language. In fact, the court’s interpretation is counterintuitive. The right to publish a work “in book form” far more naturally is understood to authorize presenting the work as a book (as opposed, say, to as a motion picture or in audio format).

For its conclusion that “in book form” connotes paper-only publication, the lower court relied on a dictionary definition of “book” as being presented “usually on sheets of paper fastened or bound together within covers.” JA 1679 (emphasis added). Apart from ignoring the import of the word “usually,” the court ignored the alternative definition of “book” as “such a literary work in any format.” Random House Webster’s College Dictionary (2000).

The district court’s etymology of the word “form” – which it defined as pertaining to the physical appearance or shape of a thing – was no more precise. Id. In fact, the word admits of multiple, and often vague, meanings and is not confined to a physical container. The court proved this very point by its use of the word “form” in its citation for its definition from the Random House Webster’s Unabridged Dictionary, which it indicated was available in “searchable form at <http://www.allwords.com>.” Id.

The district court’s construction of the meaning of “in book form” also ignored the testimony elicited on cross-examination of RosettaBooks’ own affiants. Mr. Klebanoff acknowledged the common-sense proposition that “book form” includes numerous formats, such as book club editions, large print editions, leather bound editions, and trade and mass market paperbacks. JA 1683 (citing JA 779-80). Appellees’ declarant

literary agent Ellen Levine, while subscribing to the written boilerplate affidavit supplied her by RosettaBooks’ counsel (JA 501-08), at her deposition candidly debunked the notions that “in book form” (a) is restricted to publication on paper; (b) requires binding by glue or stitching; or (c) even requires “printing” in the traditional sense of the word. JA 818.

To be sure, Mr. Klebanoff and Ms. Levine drew the “in book form” line at “physical,” as opposed to electronic, books; but when pressed for the basis for that distinction, the most each could muster was that an ebook is not a book but an “E thing” (JA 819), and “The name e-book has come about I mean I would argue because it is actually a different form of a book.” JA 760. Ms. Levine found herself in the absurd position of arguing that a RosettaBooks ebook is not a book, but that if one printed out the text from the RosettaBooks ebook (as in JA 252-59) and velobound it, it would magically transform back into a book. JA 824-25.

**2. Neither the delineation of specific formats in the clauses granting Random House the right to license the works nor the authors’ reservation of certain rights, narrows the scope of the grant clause**

The district court cited two aspects of the contracts in issue as evidence for the proposition that the contracts convey only specifically-



delineated rights to Random House, but it misapprehended the import of both of the cited items.

First, the court erred in the inference it drew from the fact that, in addition to the “in book form” grant clause, there exist other clauses pertaining to, for example, book club editions, reprint editions, abridged forms, and Braille editions. The court concluded therefrom that the license “specifies exactly which rights were being granted by the author to the publisher.” JA 1679. The absence of any specifically delineated ebook rights evidenced to the district court that such rights had not been conveyed.

We note first that the teachings of the new-use case law make apparent that the absence from a license of a specifically delineated distribution format that had not yet been invented or that was not yet commercially viable does not thereby deprive the licensee of the right to exploit the licensed content utilizing such formats. Were it otherwise, the very new-use analysis mandated by this Court would be a moot exercise.

Equally, the court fundamentally misconstrued the nature of these other clauses. They do not detract from the broad meaning of – or the breadth of the conveyances afforded by – the “in book form” grant language. Rather, they serve a special purpose, namely, to clarify that Random House

may sublicense the works to third parties in the enumerated formats.

JA 1679-80.

The practice of enumerating such licensing rights in relation to third parties arises from a requirement under the 1909 Copyright Act, which governed at the time such contract language initially was drafted. Under that Act, “a licensee (whether exclusive or not) had no right to resell or sublicense the rights acquired unless he ha[d] been expressly authorized so to do.” ). Indeed, this notion is carried forward in the present copyright law which, in Section 106, confers on the owner of copyright two different rights: “the exclusive rights to do and to authorize any of the following . . . .” 17 U.S.C. § 106 (emphasis added).

The practice reflected in these other clauses, which has continued through the years, does not constrict the principal grant clause; the “in book form” grant language encompasses Random House’s right itself to publish, for example, book club and reprint editions, as Mr. Klebanoff himself has acknowledged. JA 779-80. The interpretation of the scope of this clause, accordingly, should be undertaken independently of these other clauses, which serve to clarify that Random House has a different type of right, namely the right to sublicense.

The distinction between publication by Random House and publication by third parties of such so-called “subsidiary rights” is underlined by the different structure of compensation to the authors. On sales of the work by Random House, the author receives a royalty based on copies sold by Random House. On sales of subsidiary rights, the author receives a percentage of the license fee recovered from third Parties. See, e.g., JA 161-71.

Second, the fact that the authors struck out portions of the publisher’s form contract, JA 1679-80, also does not support the lower court’s conclusion that the authors conveyed rights only to specifically delineated formats. The court misunderstood that the basic components of a grant are (1) the nature of the rights granted, (2) the language (usually English), and (3) the territory. See, e.g., JA 114 at ¶¶ 3-4. The deleted provisions cited by the lower court either pertain to publication rights outside the United States or to publication in languages other than English, i.e., the second and third aspects of the grant. See JA 132-36, 149-71.

These deletions do not affect the nature of the rights granted by means of the term “in book form.”<sup>12</sup>

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<sup>12</sup> Moreover, even if the deletions did relate to “book form” formats, this Circuit has unambiguously placed upon licensors the obligation of reserving

Controlling case law also demonstrates that Random House’s publication rights are not limited to those specifically delineated in the licenses. In Dresser v. William Morrow & Co., 105 N.Y.S.2d 706, 707 (1st Dep’t 1951), aff’d, 304 N.Y. 603 (1952), the court held that a grant giving the publisher the right to publish plaintiff’s literary works “in book form” and “in such style and manner as the [publisher] shall deem expedient” was broad enough to include “cheap” reprints, even though, as the dissent noted, “the provisions of the contract form authorizing the publisher to publish cheap editions were expressly deleted before execution.”

The Appellate Division, affirmed by the Court of Appeals, rejected the very argument made by RosettaBooks below and adopted by the lower court, namely, that both the contract and trade practice dictated that a grant to publish “in book form” was limited to the “right of original publication in book form” and did not include other formats not enumerated, such as cheap reprint editions (i.e., paperbacks). Id. (dissent).

In purporting to distinguish Dresser, the district court noted the Dresser court’s observation that the contract there was “at variance with the usual pattern of contracts between author and publisher,” Dresser, 105

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rights encompassed by a reasonable reading of the grant language. See supra p. 42.

N.Y.S.2d at 707. The district court then distinguished Dresser on the ground that none of the contracts in this case is unusual. JA 1686. But what was unusual in the Dresser contract was the compensation structure (an outright fixed payment and no royalties), not the nature of the rights granted. More important, whether or not the contracts were unusual is beside the point. The significance of Dresser is that, construing grant language that is in all material respects the same as that in the Random House licenses, the court held that a format that not only was not expressly delineated in the grant language but that was actually deleted by the author nevertheless fell within the scope of a license conveying exclusive “book form” publication rights.

In Dolch v. Garrard Publ’g Co., 289 F. Supp. 687 (S.D.N.Y. 1968), the court held that the “exclusive right of publication of the books” in an educational book series included the right to publish them in paperback. The plaintiffs in Dolch argued that the grant was limited to hardcover publication because the royalty clauses did not appropriately pertain to paperbacks and because “this is the construction which the parties themselves made before the controversy . . . began.” 289 F. Supp. at 691. The court rejected those arguments, holding that the grant to publish books “cannot reasonably be construed as withholding the right of paperback publication” and noting that “the provision granting [the publisher] ‘the

exclusive right of publication of the books’ is not indefinite or ambiguous.”  
289 F. Supp. at 693, 696.<sup>13</sup>

Field v. True Comics, Inc., 89 F. Supp. 611 (S.D.N.Y. 1950) – which the district court cited for the proposition that “in book form” is a “limited grant” (JA 1682) – does not support a more limited construction of Random House’s “book form” publication rights. The court there merely held that “publish, print and market in book form” is not broad enough to cover an eight-page cartoon strip based on a full-length book and incorporated within a comic magazine. The uncontroversial conclusion that “book form” rights do not encompass such a cartoon strip in a cartoon magazine does nothing to support the district court’s finding that such rights are limited to first hardcover publication or other specifically enumerated

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<sup>13</sup> The district court’s efforts to distinguish Dolch do not withstand analysis. See JA 1685-86. First, the fact that the “exclusive right of publication of the books” does not distinguish between “work” and “book” does not make the Dolch license “far broader” than the Random House licenses; the plain meaning of the licenses is exactly the same: the right to publish the author’s words as a book. Second, the fact that Dolch was applying Illinois contract law, which (the district court asserted without citation) is stricter about the use of parol evidence than New York law, had no bearing on the court’s construction of the license. Likewise here, parol evidence did not centrally figure in the district court’s conclusion that ebook rights were not conveyed; on the contrary, it appears to have found that the contracts unambiguously did not convey ebook publication rights. JA 1679.

book formats.<sup>14</sup> Moreover, in context, it is clear that Field was characterizing the grant to publish the work in book form as “of a limited character” only in the sense that it did not convey all of the copyright rights to the publisher. The court’s point was merely that “[DiMaggio] could . . . have licensed or permitted True Comics to publish the copyrighted work in any manner except in book form.” Field, 89 F. Supp. at 613.<sup>15</sup>

**3. The “other forms of copying” and “style and manner” clauses buttress the conclusion that Random House obtained the right to publish the Works as ebooks**

Although the district court paid lip service to the maxim of contractual interpretation that a contract must be interpreted as a whole, JA 1680, it failed to follow that time-honored rule in assessing the import of other provisions of the contracts

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<sup>14</sup> To the extent that the district court in Field suggested that the right to publish in book form is a narrower right than the right to publish the book, we submit that this conclusory statement, unsupported by reasoning or case citation, is dictum that should not be followed by this Court.

<sup>15</sup> It is noteworthy that an affidavit that appellees submitted from the Field case states that “publish in book form” means “the right of a publisher to publish a full length work in the form in which the work is written (JA 498-500) (emphasis added). The clear import of this language is to reinforce the proposition that it is the content (“the form in which the work is written”) that is determinative, not the physical means by which it is packaged.

In addition to the right to publish the works “in book form,” Random House enjoys the right to publish certain of the Works via “Xerox and other forms of copying, either now in use or hereafter developed.” JA 149 at ¶ 1(d); 154 at ¶ 1(d); 161 at ¶ 1(d). The plain purport of this provision, 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. This clause thus supports and forms an independent basis for the conclusion that Random House enjoys ebook publication rights in the Works.

The district court decided in a wholly conclusory fashion that this clause “refers only to new developments in xerography and other forms of photocopying.” JA 1681. This reading simply cannot be squared with the plain meaning of the modifying phrase “either now in use or hereafter developed.” The district court’s limiting of this clause to a particular technology of copying is wholly arbitrary, especially in the face of such broad future-looking contractual language. That “photocopying” but not “scanning” should be deemed included within the grant has no logical grounding. The only reasonable interpretation of the contractual language is that the means by which the author’s words – the complete text – are reproduced and sold by Random House was not restricted to any particular



mode of delivery. And certainly, even if this is not the only reasonable interpretation of this clause, it is a reasonable interpretation in line with the “ambiguous penumbra” approach of the new-use cases.

With respect to the “style and manner” clause,<sup>16</sup> the district court, noting that the clause appears in the “Style, Price and Date of Publication” paragraph rather than the grant paragraph, found that it merely granted Random House “control over the appearance of the formats granted to Random House” in the grant clause. JA 1680. But this conclusion conflicts with the plain meaning and spirit of the “style and manner” clause, which is that it was left to Random House’s sole discretion to publish the author’s words in full-length form by whatever means it deemed appropriate.

#### **4. The non-compete clauses confirm that RosettaBooks’ ebooks infringe Random House’s exclusive rights**

The district court also failed to properly take into account the import of the non-compete clauses in the Random House contracts. Four out of the five contracts for the Works contain non-compete provisions that, while variously worded, prohibit the author from publishing anything that

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<sup>16</sup> The contracts grant Random House the right to publish the works “in such style and manner and at such price as it deems suitable.” JA 132 at ¶ 2.

might interfere with the sale of Random House's editions of the Works.<sup>17</sup>

These clauses clearly were intended to protect Random House from precisely the type of direct competitive interference presented by RosettaBooks' publication of the same titles in electronic form.

The district court dismissed the non-compete clauses on the asserted grounds that: (1) only the grant clause defines the scope of the grant of rights; (2) non-compete clauses must be limited in scope in order to be enforceable under New York law; and (3) the non-complete clauses do not confer a cause of action against RosettaBooks, as opposed to against the authors. Even assuming arguendo that these observations were accurate, they are beside the point. The preliminary injunction motion is not premised on a contract claim against RosettaBooks for violation of the non-compete clauses, nor is Random House here seeking to enforce these clauses against the authors. The non-compete clauses are relevant because, by broadly proscribing competing uses of "the works," i.e., the content, they illuminate the expectations of Random House and its authors that Random House enjoys a broad right to publish the works free of competitive interference.

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<sup>17</sup> See JA 158 at ¶ 10(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 JA 133 at ¶ 8; 135 at ¶ 8; 168 at ¶ 18.

This concept is not bounded by the delivery format of the works. Moreover, 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.<sup>18</sup>

**D. Random House Has Established Both Irreparable Harm and Fair Grounds for Litigation and a Balance of Hardships in Its Favor**

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; Hasbro, 780 F.2d at 192. Because Random House has demonstrated a prima facie case of copyright infringement, it is entitled to a preliminary injunction without a specific showing of irreparable harm. See Rice v. American Program Bureau, 446

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<sup>18</sup> See Kirke La Shelle Co. v. Paul Armstrong Co., 188 N.E. 163, 167-68 (N.Y. 1933) (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., 232 F. at 613 (enjoining licensor from developing a motion picture dramatization that would diminish the value of the licensee's grant of play rights); cf. Page, 83 F.2d 199 (enjoining licensor from exploiting alleged rights in "talkies" because "[talkies] are employed by the same theaters, enjoyed by the same audiences," and have the same "form and area of exploitation"). The record here establishes the likelihood that precisely such a diminution of the value of Random House's exclusive "book form" publication rights will result from defendant/appellees' infringing activities.

F.2d 685, 688 (2d Cir. 1971); Eve of Milady v. Impression Bridal, Inc., 986 F. Supp. 158, 161 (S.D.N.Y. 1997).

Random House nevertheless submitted an affidavit from the president of its New Media group, Richard Sarnoff. Mr. Sarnoff's affidavit details at length the irreparable injury to Random House's ability to sell its backlist titles in ebook form, to its substantial investment in ebook technology, and to its consumer goodwill should RosettaBooks' directly competitive infringing activities not be enjoined – thus encouraging like-minded electronic publishers to engage in similar intellectual property theft. See JA 127-31 at ¶¶ 27-36. In apparent disregard of this testimony, the district court conclusorily opined that Random House “has made no showing of irreparable harm.” JA 1687. We respectfully submit that to the extent such a showing is necessary, it has been made by Mr. Sarnoff.

Should a balancing of the hardships be deemed necessary, the harm to Random House should an injunction not issue easily outweighs the conclusory assertions by Mr. Klebanoff that removing Random House's works from his ebook catalogue will drive RosettaBooks out of business. See JA 469-70. Apart from the fact that original works, public domain works, and works not subject to exclusive publishing licenses (for instance, works where rights have specifically reverted to the author) remain available

to RosettaBooks, news reports detailing RosettaBooks' aggressive business strategy notwithstanding this litigation belie Mr. Klebanoff's doomsday prognostications. See Mike Batistick, "RosettaBooks: Did Random House's Lawsuit Save This Company?" Silicon Alley Daily (June 18, 2001) (quoting Mr. Klebanoff as stating "We don't plan to go away if we're enjoined.").

### CONCLUSION

For the foregoing reasons, the district court's denial of Random House's motion for a preliminary injunction should be reversed.

Dated: New York, New York  
September 13, 2001

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**CERTIFICATE OF COMPLIANCE  
WITH FED. R. APP. P. 32(a)(7)(B)**

Pursuant to Fed. R. App. P. 32(a)(7), I hereby certify that the foregoing brief complies with Fed. R. App. P. 32(a)(7)(b)(i) with respect to the 14,000 word type-volume limitation. I make this representation based upon the fact that the word processing equipment used to generate the brief indicates that the brief, excluding those portions exempted by Fed. R. App. P. 32(a)(7)(B)(iii), contains 13,984 words. The font in this brief is Times New Roman, 14 point.

Dated: September 13, 2001

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