

Docket No. 01-7912

To be argued by
Roger L. Zissu

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

RANDOM HOUSE, INC.,

Plaintiff-Appellant,

-against-

ROSETTA BOOKS LLC and ARTHUR KLEBANOFF, in his
individual capacity and as principal of Rosetta Books LLC,

Defendants-Appellees.

On Appeal from the United States District Court
for the Southern District of New York

BRIEF FOR DEFENDANTS-APPELLEES

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CORPORATE DISCLOSURE STATEMENT

Pursuant to Fed. R. App. P. 26.1, appellees state that Rosetta Books, Inc. is a privately held company with no corporate parent, and Arthur Klebanoff is an individual. There are no corporate parents and no public corporation that hold any stock involved in this appeal with respect to either appellee.

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STATEMENT OF THE ISSUES

Whether the court below abused its discretion or otherwise erred in denying Random House's motion for preliminary injunction.

STATEMENT OF THE CASE

Between 1961 and 1982, authors William Styron, Kurt Vonnegut and Robert Parker entered into contracts granting Random House the right to “print, publish, and sell the[ir] work[s] in book form.” JA 132-161. The authors presented to Random House their “works,” i.e., the novels they had written, and Random House printed, published and sold those works in book form. Random House, Inc. v. Rosetta Books LLC, 150 F. Supp.2d 613, 615-616 (S.D.N.Y. 2001). The contracts expressly enumerated the rights granted to Random House. The contracts did not grant to Random House the right to publish or sell the works in any electronic medium.

In October 2000 and January 2001, Messrs. Styron, Vonnegut and Parker entered into contracts with defendant RosettaBooks, LLC (“Rosetta”) to publish their works in electronic form. JA 683-698. The works may be downloaded and viewed on one's personal computer or hand-held electronic reader, but the works may not be printed. Rosetta launched its web site and opened for business on

February 25, 2001. The next day, Random House filed this preliminary injunction proceeding.

Random House claims that the authors could not convey electronic rights to their works to Rosetta in 2000-2001, because they (as well as thousands of other authors who granted print publishing licenses to Random House) surrendered those rights decades ago when they contracted with Random House to “print, publish and sell the works in book form.” Random House’s lawsuit is, in Rosetta’s view and the view of the authors’ community, an attempted retroactive “rights grab” by Random House. Rather than enter the competitive arena and negotiate in the marketplace for electronic rights, Random House improperly seeks those rights – for which it never bargained – by judicial fiat.

The starting point is this Court’s most recent decision covering this kind of contract dispute (referred to as “new use” cases), Boosey & Hawkes Music Publishers, Ltd. v. Walt Disney Co., 145 F.3d 486 (2d Cir. 1998).¹ In Boosey, Judge Leval held that “what governs...is the language of the contract,” and that the first inquiry is whether “the contract is more reasonably read” to include a grant of

¹“New use” cases address the question “whether licensees may exploit licensed works through new marketing channels made possible by technologies developed after the licensing contract.” Random House, 150 F. Supp.2d at 618, quoting Boosey, 145 F.3d at 486.

the rights at issue. He based this holding on Judge Friendly’s decision 30 years earlier in Bartsch v. Metro-Goldwyn-Mayer, Inc., 391 F.2d 150 (2d Cir. 1968).

Here, following the same analytic approach, the district court examined the language of the grant and other text in the agreements in question and found that “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.” Random House, 150 F. Supp.2d at 620.

Random House argues that Judge Stein should not have decided whether the contractual grant was a broad one, “more reasonably read” to include electronic rights, but only whether “it is ‘reasonable’ to view ebooks as falling within the ambiguous penumbra of ‘in book form.’” (RH 30.)² Once within the “ambiguous penumbra,” Random House argues, the analysis is over and the contracts must be read to include electronic rights. Random House posits that Bartsch requires the court to apply slanted, pro-grantee principles, whereby the authors were required to “except” electronic rights from contracts written in the 1960's-1980's. (RH 4, 28.)

Random House presents an inaccurate statement of the law. Not only does it ignore Boosey’s unanimous explication of the governing rules of contract

²References to Random House’s brief are cited herein as “RH ___.”

construction but it also fails accurately to describe the analysis set forth in Bartsch.

As this court stated in Boosey, new use cases are, first and last, contract disputes and therefore courts must apply neutral principles of contract interpretation to the question of whether a contract covers the new use. Boosey, 145 F.3d at 487.

Courts may not “adopt a default rule in favor of copyright licensees or any default rule whatsoever.” Id. Instead, “if the contract is more reasonably read to convey one meaning, the party benefitted by that reading should be able to rely on it.” Id.

Under the law of this Circuit, “new use” analysis is a multi-step process. First, the court must determine whether the grant language on its face is so broad as to encompass the new use, or limited so as not to encompass the new use. Second, if the grant is found to be sufficiently broad to encompass the new use, the court must then determine whether the new use was sufficiently commercially developed at the time of the grant to make it reasonably foreseeable. In addition, courts must determine whether the new use falls within the same medium as described in the license. Only if all of those conditions are met will the grantors (here, the authors) be deemed to have granted the right to the grantee (Random House). Id. at 486; Bartsch, 391 F.2d at 154.

Judge Stein faithfully employed neutral principles of contract interpretation and correctly established the “more reasonable” construction of the contract,

instead of searching for a less reasonable reading and applying the “default rule” urged by Random House. Analyzing an extensive preliminary injunction record, Judge Stein concluded that the grant to Random House was a narrow grant that did not include electronic rights. He also properly found that the digital medium is different from the print medium. Once he concluded that Random House received a limited, not broad, grant, Judge Stein did not have to reach the question of whether the new use was foreseeable.³

The court noted that, under New York law, contracts must be interpreted “so as to give effect to the intention of the parties as expressed in the contract’s language,” and that the court “must consider the entire contract and reconcile all parts, if possible, to avoid an inconsistency.” Random House, 150 F. Supp.2d at 618. The court then pointed out that the contracts’ grant clauses contained separately enumerated rights to publish the work in, for example, book club

³However, that prong of the analysis also favors Rosetta. Random House’s own witnesses admitted that “ebooks” were not foreseeable in the 1960’s-1980’s, when the contracts at issue were executed. Thus, application of the “foreseeability” or “nascent market” test would establish a further ground for affirmance of the decision below. (See Section III.D.1. below.)

editions, reprint editions, abridged forms, and editions in Braille. The court correctly observed that if the language “in book form” was intended to include all rights to the authors’ text or words, then the list of expressly enumerated rights granted by the author to the publisher would be rendered superfluous. The court found significant the fact that a number of the enumerated rights in the contracts (which were standard book publishing contracts written by Random House), were crossed out by the author. “This evidences an intent by these authors not to grant the publisher the broadest rights in their works.” Id. at 620. The court also found that, “To print, publish and sell the work in book form” is understood in the publishing industry to be a ‘limited’ grant.” Id. at 621.

Random House’s contention that the phrase “to print, publish and sell the work in book form” is a broad grant and includes electronic rights cannot withstand scrutiny under settled rules of contract interpretation under New York law,⁴ and contravenes (1) decades of industry trade usage as to what the phrase

⁴Random House fails even to acknowledge that the issue is one of construing contracts under state law (in this case, New York law). Random House’s brief makes no mention that the contracts at issue are to be interpreted in accordance with New York contract law. Random House does not claim that Judge Stein erred in apprehending and applying New York law. Indeed, one reading Random House’s brief is led to conclude that some type of unusual “federal common law” or “federal contract law” was implicated in this case, whereby ambiguous license agreements are, by default, automatically construed in favor of licensees.

means,⁵ (2) treatises as to what the phrase means,⁶ (3) the one federal court decision that has adjudicated what the phrase means,⁷ and (4) Random House's own contracts during the 1990's, which define electronic distribution as a "non-book form," the opposite of Random House's current argument.

Random House cites Bartsch and Boosey. Those decisions involved the motion picture industry, and held that the new use (in Boosey, the right to use music to accompany motion pictures on video cassettes; in Bartsch, the right to

⁵Ten prominent authors, literary agents, academics, lawyers for publishing companies, and even a former Random House executive testified on Rosetta's behalf to establish the custom and trade usage of that phrase. Georges Borchardt, JA 324; Helen Brann, JA 332; Donald Congdon, JA 337; Donald Farber, JA 380; Catherine Fowler, JA 390; Tara Harper, JA 405; Leon Friedman, JA 401; Ellen Levine, JA 501; Donald Maass, JA 509; Eugene Winick, JA 518.

⁶1 *Lindley on Entertainment, Publishing and the Arts*, Form 1.01-1 (2d ed. 2000); 3 *Nimmer on Copyright*, ¶10.14 "Judicial Interpretation of Recurring Phrases," p. 10-108.

⁷Field v. True Comics, Inc., 89 F. Supp. 611, 613-614 (S.D.N.Y. 1950).

exhibit motion picture by television broadcast) fell within the grant language of the contracts, and thus found for the grantee. Those cases and the present case are factually distinguishable. Aside from other differences between those cases and this case (discussed below), the threshold, dispositive difference is the grant language in each:

Boosey: “To record in any manner, medium or form, and to license the performance of, the musical composition.” 145 F.3d at 484 (emphasis added).

Bartsch: “To use, adapt, translate, add to, subtract from, interpolate in and change said musical play, and the title thereof...in the making of motion picture photoplays and to project, transmit and otherwise reproduce the said musical play or any adaption or version thereof visually or audibly by the art of cinematography or any process analogous there, and to copyright, vend, license and exhibit such motion picture photoplays throughout the world, together with the further sole and exclusive right by mechanical and/or electrical means to record, reproduce and transmit sound...and to make, use, license, import, vend and copyright any and all records or other devices made or required or desired for any such purposes.” 391 F.2d at 152 (emphasis added).

Random House: “To print, publish and sell the work in book form.” 150 F. Supp.2d at 615 (emphasis added).

The fatal weakness in Random House’s argument is that it repeatedly blurs the distinction between “the work” – the authors’ words comprising the novels at issue, which the authors own under the copyright laws – and the specific, limited grant Random House received from the authors – to print, publish and sell the

work in book form. This blurred distinction is exemplified in the position Random House took at the preliminary injunction hearing, when it stated that the author's words written on a sidewalk or placed around the courtroom walls constitute a "book." JA 1610-11.⁸ Only by falsely claiming to own in full the entirety of the authors' words (i.e., the "work") can Random House argue it has the right to control every means, manner, or medium of publication of those words, including via electronic files on the Internet.

But Random House does not own the authors' words. The authors do. Contrary to Random House's ipse dixit argument, the agreements do not provide that the subject of the license is any and all forms of publication of "the authors' words." Rather, the authors conveyed a limited grant to Random House, namely to "print, publish, and sell" those words (the "work") in a specified, limited format,

⁸See also RH 8-9 (the "medium is the author's words. No matter...[how displayed], they still constitute a book, and their publication accordingly is 'in book form.'"). In this statement, Random House unambiguously equates the author's words, i.e., the "work," with a "book," and with "in book form." However, if it were really so, then "in book form" would be mere surplusage to the phrase "to print, publish and sell the work."

“in book form.” Random House obtained nothing more and nothing less. Indeed, although audio books contain the “author’s words,” Random House by its own concession did not obtain the right to make “audio books” (the full text, spoken onto an audio cassette) when it received the grant “to print, publish and sell the work in book form.” JA 115 ¶ 6. Nor did Random House receive a grant to use the authors’ words in movies or on television, even as subtitles, which Random House also concedes. Id. Nor did Random House receive a grant to distribute these words in any electronic medium.

Under Random House’s “ambiguous penumbra” default rule, and under its ipse dixit definition of “in book form” as the “full authorial content in textual form for reading” (RH 5), the grant “to print, publish and sell the work in book form” would have to include foreign translation rights, English language rights in the British Commonwealth, and subsidiary rights such as, for example, rights of abridgment, adaption, serialization, digest, Book Club distribution, or anthologies.

As shown below, however, Random House did not receive all of those rights from Messrs. Styron, Vonnegut and Parker despite the fact that their contracts conveyed to Random House the right to print, publish and sell the work in book form. (See Statement of Facts, Section C, below.)

The long and short of this case is that the contractual grants in Boosey and Bartsch were extremely broad grants, as this Court found in each case, whereas the grants by the authors to Random House are narrow, and have a well-defined trade meaning, as shown by the voluminous evidence proffered by Rosetta. Application of settled New York contract law establishes that the authors did not grant their electronic rights to Random House. The court below was correct to deny Random House's motion for a preliminary injunction.

PROCEEDINGS BELOW

Although Random House portrays its appeal as one from a grant of summary judgment, its appeal is from denial of a preliminary injunction. Random House's motion was determined on the basis of the parties' affidavits, deposition testimony, documentary exhibits and argument without live testimony.

STATEMENT OF FACTS

A. Parties

Plaintiff Random House is the world's largest English language print book publisher. (RH 10.) It purportedly has invested large sums to promote and publish the works of authors who chose to do business with Random House.⁹ (RH 11.) It has also earned large profits from the sale of hard cover and paperback and other printed-on-paper books. JA 1727-28. It would also have the Court believe it has done its part in "making ebooks a marketplace reality" (RH 12), but that is not accurate. In fact, it has published in electronic form just 450 of over 20,000 works in its back list. (RH 11, 12.) Although it claims for purposes of this litigation to own the electronic rights of Messrs. Styron, Vonnegut and Parker (and many other authors) by virtue of the "in book form" grant, Random House has not published those authors' works in electronic form.

Defendant Rosetta is one of the first electronic book publishing companies in the world. Rosetta was founded in 2000, and launched its website in February 2001. Unlike Random House, Rosetta bargains for and pays for the rights to publish literary works in electronic form, and then actually technologically delivers, commercially markets and promotes those works. JA 465. It does so by accepting relatively short license terms and paying authors advances against

⁹Random House's claimed \$100 million in promotional expenditures (RH 11) represents less than five percent of its sales. JA 465.

royalties, which Random House does not do for electronic rights.¹⁰ Id. Rosetta burnishes works in its catalogue with new visual, editorial and electronic enhancements, and has established marketing alliances and distribution relationships with other electronic publishing industry pioneers such as Microsoft, Adobe and Palm. JA 451-52.

¹⁰Under Random House's claim, the Styron, Vonnegut and Parker works at issue would be committed to Random House for electronic publication for the life of the copyright with no advance payment and with no assurance of quality or promotional publication. JA 465.

Random House calls Rosetta a “free rider.” (RH 20.) However, it is Rosetta that has pioneered the electronic book publishing market, not Random House. Contrary to Random House’s unsupported suggestion that ebook sales will detract from print book sales (RH 21), Rosetta and other electronic publishers enhance Random House’s backlist sales by the renewed exposure and promotions those works receive in the e-reading market. JA 454-456 ¶¶ 11-19, 467, 479.¹¹

¹¹Random House characterizes the authors’ works as “Random House works” (RH 20), and even the authors themselves as “Random House’s authors” (RH 2), as if they are kept in a stable somewhere. But the enduring value of the works derives from the words the authors wrote, not the manner in which Random House packaged and sold the works. Otherwise, all books published and distributed by Random House would be equally valuable.

B. Trade Usage of “Print, Publish and Sell the Work in Book Form”

The phrase to “print, publish and sell the work in book form” has been used in the United States book publishing industry for at least 90 years. It appears in publishing contracts written at least as early as 1907 and 1903. Littlepage v. Neale Pub. Co., 34 App. D.C. 257, 1910 U.S. App. LEXIS 5802 (D.C. Cir. 1910) (“On January 15, 1907, the parties to this suit entered into a contract providing... ‘I agree...to publish in book form certain manuscript entitled ‘The Career of the Merrimac-Virginia’”); Harper & Bros. v. M.A. Donohue & Co., 144 F. 491 (C.C.D. Ill. 1905), aff’d, 146 F. 1023 (7th Cir. 1906) (“the exclusive right of printing and publishing in book form in the United States...”).

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

The right “to print, publish and sell the work in book form” is different from the “broad grant” language “to print, publish and sell the Work,” which latter

phrase is used by publishers when they license all publication rights. See Dannay, Richard, “A Guide to the Drafting and Negotiating of Book Publication Contracts,” Vol. 15, No. 5 Bull Cop’y Sc. 295 (June 1968).

Random House, nevertheless, contended below that the right to “print, publish and sell the work in book form” is a “broad” grant. JA 114-115 ¶ 6. However, the one case that has adjudicated the scope of the grant held it was a “very limited” grant. Field v. True Comics, 89 F. Supp. 611, 613 (S.D.N.Y. 1950) (“Plaintiffs’ rights in the copyright are of a very limited character – only the right to publish the copyrighted work in book form in the United States.”). The court further held that “the sole and exclusive right to publish, print and market *in book form*” was “much more limited” than the “sole and exclusive right to publish, print and market *the book*.” Id. at 612 (emphasis supplied); accord Dannay, supra; see also Lindley and Nimmer, supra p. 7 n.6.

In support of its position on the meaning of the phrase at issue, Random House tendered to the court below affidavits by two persons. One, Random House employee Ashbel Green, claimed that the phrase “to print, publish and sell [the work] in book form” “implied” a meaning of “linear text fashion.” JA 114-115 ¶¶ 5-6. According to Random House, that latter phrase (invoked no less than 12 times in its opening brief below) was the true meaning of “print, publish and sell [the

work] in book form,” and must therefore include electronic rights. See Rec. Doc. # 5 at 2, 20.

However, Mr. Green conceded at his deposition that he had never read or used the phrase “linear text fashion” in his decades of work in the publishing industry, until it appeared in his affidavit. JA 541. This lawyer-created “linear text” definition was further undercut by Random House’s own technology expert, Professor Van Dam, who testified at his deposition that computer code by its nature consists of “non-linear” features.¹²

¹²After these concessions, the phrase “linear text fashion” did not make a single appearance in Random House’s reply brief, oral argument below or appellate brief. Now, for the first time on appeal, Random House defines “print, publish and sell the work in book form” as the “full authorial content in textual form for reading.” (RH 5.) This, too, is an attorney-created construct that finds no support whatever in the evidentiary record. Aside from the fact that Random House is not entitled to advance on appeal this altogether new construction of “print, publish and sell the work in book form,” the new construction is contradicted by voluminous record evidence.

The other Random House affiant was a former general counsel for a publishing company, who purported to give an “expert” legal opinion that the authors had conveyed electronic rights to Random House. JA 110-111. As set forth below, however, this expert conceded at his deposition that the contracts at issue contained no royalty provision for electronic rights, and that, as a result, construing the contracts to include electronic rights could create a deadlock if the parties are unable to agree on an acceptable royalty amount. JA 578-579.

In contrast, Rosetta tendered affidavits from people who testified as to the actual trade usage and practice. These included distinguished literary agents (Georges Borchardt, JA 324, Helen Brann, JA 332, Donald Congdon, JA 337, Donald Farber, JA 380, Ellen Levine, JA 501, Donald Maass, JA 509), an author of a treatise on publishing contracts (Professor Leon Friedman, JA 401), lawyers who have represented publishers in contract negotiations (Eugene Winick, JA 518, Leon Friedman, supra), and even a key former Random House employee in charge of securing electronic rights from authors (Catherine Fowler, JA 390). Collectively, they have negotiated thousands of book publishing contracts.

Mr. Congdon, Mr. Farber, and Ms. Brann are the literary agents, respectively, for the authors William Styron, Kurt Vonnegut, and Robert Parker. Mr. Farber and Ms. Levine had been employed by publishers earlier in their

careers. Mr. Winick and Mr. Friedman are lawyers who currently represent publishers. The above affiants fairly represent the United States publishing community, and provided to the court below the publishing trade usage of the phrase “to print, publish and sell the work in book form.” The grant is understood in the publishing industry to be a limited grant where the publisher has obtained the right of first publication of the author’s manuscript in the format of a print book. See JA 327 ¶ 10; 333 ¶ 5 (Parker’s literary agent); 339 ¶ 10 (Styron’s literary agent); 383 ¶ 8 (Vonnegut’s literary agent); 503 ¶ 10; 511 ¶ 7. The term was never meant to convey electronic rights. Id.; JA 404 ¶ 7; JA 522-523 ¶ 12.

The Rosetta affiants established that, by trade custom and practice, the author retains the “bundle of sticks” that comprise the various property rights in his or her work, and selectively licenses these to publishers and others.¹³ As each right (beyond the initial right to print, publish and sell the work in book form) is granted

¹³Without regard to standing to sue and copyright notice issues, see Nimmer § 10.01[c] and [d], the “principle of divisibility of copyright in our law” has long existed and was first recognized by statute in section 201(d)(2) of the 1976 Copyright Act, 17 U.S.C. § 201(d)(2). See H.R. Rep. No. 94-1476, 94th Cong. 2d. Sess. at 123 (“House Rep.”). This principle “means that any of the exclusive rights that go to make up a copyright, including all of those enumerated in section 106, can be transferred” or exclusively licensed separately. Id. As provided in section 201(d)(2), the author’s ability to license his or her rights is not “limited in time or place,” so that the “copyright owner with respect to any particular right” is the owner of “that particular right” and may license or not license it. See House Rep. at 123, quoting 17 U.S.C. § 201(d)(2).

from author to publisher, it involves specific contractual language, negotiation, and separate royalty structures. See JA 383-386; 395 ¶ 17; 503-04 ¶¶ 10-14; 511-12 ¶¶ 9-10.

In addition to the right to “print, publish and sell the work in book form,” for example, the author and initial copyright owner owns, and selectively grants, as many rights as he or she can license for commercial exploitation (e.g., the rights to use a novel’s contents in audio books and movies), as well as the rights to sublicense such rights (“to do and authorize,” 17 U.S.C. § 106)). Random House concedes that the right to publish audio-books is outside the scope of the right to “print, publish and sell the work in book form.” JA 115 ¶ 6.¹⁴ The same is true with respect to the right to license serialization of the work (i.e., to have the work published in installments). This involves a verbatim printing of the same words as in the book, but appears in serial magazine installments. The right to license soft-cover reprints similarly requires separate contractual language, as do the rights to license “school editions,” book clubs, Readers’ Digest Condensed Books, to make

¹⁴Random House V.P. Richard Sarnoff testified that the grant in a 1995 contract of the license “to publish [and sell] any and all editions and/or formats of said work,” does not, in publishing trade usage, include the right to publish a “book on tape” unless the right to so publish was otherwise expressly set forth in the contract. JA 621 tr. pp. 150-52. This underscores the critical importance of trade usage in construing book publishing contracts.

a special printing of the work. These rights all require a separate grant from the author, separate contractual language, and separate royalties. See declarations cited supra pp. 16-17.

C. The Styron, Vonnegut and Parker Contracts

The district court analyzed the contracts that Random House claimed conveyed electronic rights. 150 F. Supp.2d at 615-617. The contracts exemplify the “bundle of sticks” approach, whereby through a process of negotiation rights were granted to or withheld from Random House. The contracts were negotiated 10 to 30 years before anyone had heard of or contemplated a market for ebooks. The authors’ agents who negotiated the contracts did not contemplate or foresee ebooks, and did not convey electronic rights. Unlike the parties to the contracts in Bartsch and Boosey, the authors’ agents who negotiated the contracts at issue here have testified as to what specific rights they conveyed. JA 335, 344, 382-384. As shown below, each of the authors’ contracts evidences the trade practice of separate negotiation and licensing of enumerated rights.

1. William Styron

William Styron signed a contract with Random House in 1961 to publish The Confessions of Nat Turner. JA 132 and 699. Mr. Styron conveyed to Random House the right to “print, publish and sell the work in book form” in the English language. JA 132 ¶ 1.a.i. Mr. Styron conveyed, by separate language, various additional rights outside the scope of the “book form” clause. This included the right for Random House to license book clubs to publish the work (¶ 1.a.ii.), and the right for Random House to license reprint editions (¶ 1.a.iii.). These various rights all have separate royalties set forth in the contract.

Mr. Styron struck out various portions of Random House’s standard contract for The Confessions of Nat Turner. He withheld foreign language rights as well as the right to publish the work in English in the British Commonwealth.

The Random House form contract set forth many other enumerated rights. Mr. Styron withheld all of the following rights from Random House, and they are crossed out of his contract:

11. The author grants to the Publisher exclusive right, within the territory set forth in Paragraph 1, to act as agent in his behalf in disposing of the following rights, subject to the Author’s consent, and the division of any sums received therefrom shall be ninety per cent (90%) to the Author and ten per cent (10%) to the publisher:

Serialization prior to book publication, dramatic, operatic or musical, radio and television broadcasting rights, reproduction by phonograph records or other mechanical devices, motion picture and allied rights, and adaption for commercial use. JA 701.

In 1969, Mr. Styron contracted with Random House to publish three additional works, two of which were subsequently titled Sophie's Choice and Way of the Warrior. JA 705. Eight years later, in 1977, Mr. Styron contracted with Random House for publication of Sophie's Choice, Way of the Warrior, Lie Down in Darkness, and a collection of non-fiction pieces. JA 709. In both the 1969 and 1977 contracts for Sophie's Choice, Mr. Styron struck out paragraph 11, not granting those rights to Random House. JA 707, 711. (A legible version of this paragraph appears at JA 746.) Mr. Styron reserved the following:

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

Mr. Styron's literary agent, Donald Congdon, who has represented Mr. Styron for nearly 40 years, has confirmed that Mr. Styron did not convey any electronic rights to Random House (Mr. Congdon negotiated the Sophie's Choice contract with Random House). JA 337-345.

2. Kurt Vonnegut

Random House claimed there are only two contractual documents relevant to these works, a 1967 contract for Slaughterhouse Five and Breakfast of Champions, JA 149, and a 1970 contract for Cat's Cradle, Sirens of Titan, and Player Piano, JA 154. However, Random House's contract files also contained other contracts bearing upon these works, including an earlier 1961 contract with Dell for Cat's Cradle. JA 722. In that contract, Mr. Vonnegut struck out the entirety of the "Subsidiary and Performance" rights clause (Paragraph 5), thereby reserving to himself "all of the subsidiary rights in the Work, such as but not limited to rights of abridgement, adaptation, serialization, digest, Book Club distributions, anthologies, visual reproduction, and all the performance rights in the Work such as, but not limited to, rights in motion pictures, theaters, television and radio...." JA 723.¹⁵

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

publication rights outside the U.S., foreign publication and translation rights, pre-book publication in newspapers and periodicals, dramatic, motion picture, radio and/or television rights through the world, all recording rights, all rights to reproduce the work on microfilm, or by any method now or hereafter known or devised, and foreign anthology, selection, abridgement, condensation, digest and second serial rights. JA 726. Mr. Vonnegut struck the same clause in the 1965 Holt, Rinehart contract for Player Piano. JA 730.

In both the 1967 and 1970 Random House contracts, Mr. Vonnegut denied to Dell many rights, including “dramatic, motion picture (silent and sound), radio broadcasting (including mechanical renditions and/or recordings of the text), television.” In the 1967 contract, Mr. Vonnegut denied these rights to Dell by crossing out the word “Dell” and substituting “agent.” JA 152 ¶ 5. In the 1970 contract, he crossed out clause 5 entirely. JA 157. On April 4, 1979, Random House acknowledged that the audio rights resided with Mr. Vonnegut. JA 733.

Mr. Vonnegut’s literary agent, Donald Farber, Esq., who has represented Mr. Vonnegut for many years, has confirmed that Mr. Vonnegut did not grant to Random House any electronic rights to these works. JA 380-389.

3. Robert Parker

Mr. Parker’s 1982 contract with Dell reserved many rights, including dramatic, motion picture (silent and sound), radio broadcasting, television, and mechanical or electronic recording rights. JA 166 ¶ 5. Mr. Parker’s literary agent, Helen Brann, who negotiated this contract, has confirmed that Mr. Parker did not convey any electronic rights to Random House. JA 333-335 ¶¶ 4, 12, 14.

D. Random House's Adoption of an Electronic Rights Clause In the 1990's

Once Random House became aware of the possibility of electronic distribution in the early to mid 1990's, it revised its form agreements to expressly enumerate electronic rights. In so doing, Random House defined electronic rights as a "non-book form," in other words the complete opposite of its position in this lawsuit.

As background, Random House's witnesses testified that neither they, nor anyone in the publishing industry had heard of or considered "e-books" at the time the Random House contracts were negotiated with Messrs. Styron, Vonnegut and Parker between 1961 and 1982. Random House's affiant and long-time employee Ashbel Green also admitted at his deposition that he had not heard the term electronic books throughout the 1960's, 1970's, or 1980's. JA 536 tr. pp. 47-48; 552 tr. pp. 110-112. Mr. Green confirmed that he never heard of, discussed, or contemplated ebooks before the 1990's. JA 552. He further testified:

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

A. I do not.

JA 552 tr. pp. 112-113. Random House's Executive Vice President Richard Sarnoff testified that there was no "commercially viable way" to deliver ebooks until the last several years. JA 615 tr. pp. 126-127. He confirmed that Random House did not sell any ebooks until 1998. Id. tr. p. 127, and JA 1698-1701.

Random House's technological expert, Professor van Dam, testified that Microsoft did not form an ebook group until 1998 or 1999. JA 668 tr. p. 53. He founded one of the first companies to develop ebook software technology, Electronic Book Technologies, in 1989 or 1990. JA 669 tr. p. 55.

Ms. Catherine Fowler was the Associate Publisher in Random House's Reference and Electronic Publishing Division. JA 390-395 ¶¶ 1, 4, 16. In the early 1990's, Fowler and other Random House employees analyzed Random House contracts and determined that, except in rare instances where "all rights" were granted to Random House, Random House had not acquired electronic rights. Random House renegotiated existing contracts with at least two authors, National Audubon Society and William Safire, to add electronic rights. JA 398 ¶¶ 25-26. Mr. Sarnoff admitted Random House did this for a number of other authors as well. JA 629-630 tr. pp. 185-87.

In the early to mid-1990's, Random House re-wrote its standard, form publishing contracts to explicitly include electronic rights to publication. The

manner in which it did so is significant in light of its current legal argument. A March 26, 1992 standard Random House contract is similar to Mr. Styron's 1961 contract. Compare JA 1508 with JA 132. Both contain the same standard grant to Random House in clause 1.a.i. to "print, publish and sell the work in book form." However, Random House included in the 1992 contract a rider to Paragraph 27, which provides as follows:

27. The publisher shall have the right to license publication of the work...through microfilm, information storage and retrieval systems, in machine-readable form and all other non book forms now known or hereafter developed intended to make the work available in visual form for reading.

JA 1517 ¶ 27 (emphasis added).¹⁶ Thus, in 1992 Random House itself identified a "machine-readable form" of a work as a "non-book form."

On March 28, 1994, Random House's President, Alberto Vitale, announced to the publishing industry that Random House was adopting new contract language

¹⁶As reproduced at JA 1517, this paragraph is illegible. The most legible copy as produced by Random House is furnished as an addendum to this brief. We represent that the words are as set forth above, and Random House did not question them below.

to its form contracts. JA 734. Random House included a separate, new grant in Paragraph 1.a.i.(1) and (2). In addition to the grant of right to “print, publish and sell the work in book form,” there was added the additional, separate grant of right for “electronic or machine-readable media or on-line electronic or satellite based data transmission.” JA 735 ¶ 1.a.i.(2). Hence, Random House considered the conveyance of this right to require new and separate grant language: it was not conveyed by the phrase “to print, publish and sell the work in book form,” or else the new language would be surplusage.

A new paragraph 1.a.x. was also added in the Random House form contract. JA 735-736. It further described publication in the “Electronic Device or Medium.” It included “on-line electronic or satellite-based data transmission...,” i.e., the Internet. The contract contrasted and distinguished these electronic rights with publication “in book form.” Id. This paragraph stated that if electronic publication had not been exploited by Random House within five (5) years after publication of the work “in book form,” then those electronic rights reverted to the author.¹⁷ There is thus no question this contract distinguished between “in book

¹⁷Following Random House’s argument to its logical conclusion, authors who expressly grant electronic rights to Random House can reclaim those rights if Random House fails to exploit the rights within five years, but authors who did not expressly grant electronic rights have no reversionary interest even if Random House never exploits those rights.

form,” on the one hand, and electronic distribution on the other, which was not “in book form.”

A 1996 form contract by a Random House division defines “Electronic Books” as a “non-book” form. The contract begins with the standard grant language, “to print, publish and sell the Work in book form.” JA 411 ¶ 4.a.i. In a separate paragraph, 4.a.viii., it contains a separate and additional grant by the author to the publisher for electronic books:

viii. publish, and subject to Author’s approval in each case, license publication of the work (in complete, and subject to the Author’s approval, in adapted, condensed and abridged versions) (a) in microfilm, microfiche, photocopying (herein ‘special reproduction’), and (b) in information storage and retrieval systems, and all other non- book forms of copying, distribution or transmission, whether now or hereafter known or developed, intended to make the text of, and any illustrations or photographs contained in, the work available in visual form for reading (including, but not limited to, electronic or machine-readable media, or on-line electronic or satellite-based data transmission) (herein ‘Electronic Books’).

JA 411-12 (emphasis added). Hence, Electronic Books, the subject of this lawsuit, were expressly described by Random House as “non-book forms.”

E. Electronic Publishing

Electronic publishing, or ebooks, is mischaracterized by Random House in its brief, where it asserts that it is no different from reading a traditional book, with no features different from the ability to make marginal notes or markings by a pen or pencil. (RH 17 and n. 5). In fact, an ebook is a computer file, disseminated across the Internet, or on CD-ROM or other digital media. It is downloaded onto one's computer or hand held electronic reading device. Security prevents the work from being printed, e-mailed, or further disseminated.¹⁸ The work is viewable through speciality software (a special version of Adobe Acrobat and similar software made available by Microsoft, Gemstar, and a few other companies). The digital work is formatted differently from a printed book. JA 347-349 ¶¶ 5-7. It is searchable electronically. JA 210-225. For example, a reader seeking every place a particular word appears does not have to hunt manually through the work; it can be done instantaneously. The reader can change the fonts and size of the fonts; a person who is visually impaired, for example, can scale the font dramatically. Id. The reader can add electronic bookmarks to any section of the work. Id. The reader can click on any word and have the word audibly pronounced. Id. The

¹⁸“Rosetta’s ebooks contain certain security features to prevent users from printing, emailing or otherwise distributing the text. Although it is technologically possible to foil these security features, anyone who does so would be violating the licensing agreement accompanying the software.” Random House, 150 F. Supp.2d at 615.

reader can instantaneously search dictionaries that are hyperlinked to the work. By clicking on any word, the definition appears. Id. The reader will be able to use hyperlinks to access a variety of related visual, sound and text. Id. Judge Stein correctly recognized those features. 150 F. Supp.2d at 615. Indeed, Random House’s expert, Professor Van Dam, confirmed that “the computer is a different medium than a print book.” JA 666 tr. p. 42.

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

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

* * *

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

JA 176.

Describing ebooks of the future, Microsoft states: “In the future, imagine a book that includes links to author bios, author notes, and movie trailers or other

interactive features; uses laser eye tracking so pages turn automatically; and is voice activated.” JA 210-211.

SUMMARY OF ARGUMENT

The denial of Random House’s motion for a preliminary injunction is reviewed for abuse of discretion or material error of law (I.). Following the law of this Circuit, the district court correctly held that the language of the parties’ contracts did not contain a broad grant and was more reasonably read not to cover electronic rights (II. & III.A. & B.). Random House also failed to establish irreparable injury or a balance of the hardships in its favor (III.C.). Further grounds for affirmance include the facts that electronic book rights were not foreseen when the parties’ contracted, that the agreements contain no royalty provision for ebooks and that Random House has changed its legal position on the issue it seeks to litigate (III.D.).

ARGUMENT

I. STANDARD OF REVIEW

Random House asserts that the Court should employ a plenary standard of review for this denial of a preliminary injunction. Random House is incorrect. See Wright v. Giuliani, 230 F.3d 543, 547 (2d Cir. 2000) (“We review the district court's denial of a preliminary injunction for abuse of discretion.”); SG Cowen Securities Corp. v. Messih, 224 F.3d 79, 81 (2d Cir. 2000) (same).

This Court in Zervos v. Verizon New York, Inc., 252 F.3d 163, 167-171 (2d Cir. 2001), conducted an extensive analysis of the appellate standard of review for preliminary injunctions, and concluded that the standard of review is abuse of discretion, even where, as here, the district court heard no live testimony. Id. at 171. Further, a preliminary injunction should be denied when it involves a dispute concerning contract interpretation. Video Trip Corp. v. Lightning Video, Inc., 866 F.2d 50, 52 (2d Cir. 1989).

Random House argues that because Judge Stein examined the Styron, Vonnegut and Parker contracts – which Random House asked Judge Stein to do in moving for a preliminary injunction – and preliminarily concluded that Random House’s interpretation of them was not reasonable, this is a “legal” issue requiring “plenary” review. To the contrary, in other preliminary injunction appeals

involving contract interpretation, this Court has applied an abuse of discretion standard. Zervos, 252 F.3d at 173-174; Gillespie & Co v. Weyerhaeuser Co., 533 F.2d 51, 53 (2d Cir. 1976).

Random House relies upon Hsu v. Roslyn Union Free School Dist. No. 3, 85 F.3d 839 (2d Cir. 1996). The issue there was what the controlling principles of law meant in the context of a separation of church/state issue, and the adjudication was in essence a final legal judgment (the opposing party had moved for judgment on the pleadings, meaning that both sides believed a purely legal determination was ripe). Hsu quoted a Supreme Court decision permitting such an exception to the abuse of discretion standard, where “a district court’s ruling rests solely on a premise as to the applicable rule of law,” and the “facts are established or of no controlling relevance.” 85 F.3d at 852. Here, the factual record is highly important, and Judge Stein’s rulings did not rest solely on a premise as to the applicable rule of law. Wright and Zervos set forth the correct standard of review in this case.

II. OWNERSHIP OF COPYRIGHT

Under copyright law, Messrs. Styron, Vonnegut, and Parker are the original owners of the copyrights at issue. 17 U.S.C. §201 (a) and (d), codifying pre-1978 law. “Initially, these rights vest, as a bundle, in the author.” Patry, I Copyright Law and Practice, “Ownership of Copyrights,” p. 359 (BNA 1994). “Each right or portion of a right may be transferred separately.” Id. at 360; see pp. 17-18 and n.13, supra. An exclusive licensee of that particular right becomes the copyright owner as to that particular right. Id. “‘Copyright owner,’ with respect to any one of the exclusive rights comprised in a copyright, refers to the owner of that particular right.” Id., quoting 17 U.S.C. §101. Hence, Random House’s burden, which it cannot meet, is to show that Messrs. Styron, Vonnegut and Parker conveyed to Random House the right to publish and sell their works in electronic form.

III. THE DISTRICT COURT’S DECISION SHOULD BE AFFIRMED

A. Controlling Legal Principles

The district court correctly identified the legal principles that govern this action, finding that “interpretation of an agreement purporting to grant a copyright license is a matter of state contract law.” 150 F. Supp.2d at 617-618, citing Boosey, Bartsch and other Second Circuit cases. Random House does not challenge this. The court then found that “[a]ll of the agreements state that they ‘shall be interpreted according to the law of the State of New York.’” Id. Random House does not take issue with this statement, either.

1. New York Contract Law

The court articulated New York principles of contract construction, as explained by this Court in recent decisions. Id. at 618. Random House does not claim any error in Judge Stein’s apprehension or articulation of this body of law. The court identified and applied the following settled rules of New York contract construction:

- In New York, a written contract is to be interpreted so as to give effect to the intention of the parties as expressed in the contract’s language.
- The court must consider the entire contract and reconcile all parts, if possible, to avoid an inconsistency.

- Determining whether a contract provision is ambiguous is a question of law to be decided by the court.
- No ambiguity exists when contract language has a definite and precise meaning, unattended by danger of misconception in the purport of the [contract] itself, and concerning which there is no reasonable basis for a difference of opinion.
- If the language of a contract is ambiguous, interpretation of the contract becomes a question of fact for the finder of fact and extrinsic evidence is admissible.

Id. at 618 (citations and quotations omitted).

An additional rule of New York contract construction is that trade usage should be used to explain terms in contracts:

Pursuant to New York law, contract language is ambiguous if it is capable of more than one meaning when viewed objectively by a reasonably intelligent person who has examined the context of the entire integrated agreement and who is cognizant of the customs, practices, usages and terminology as generally understood in the particular trade or business.

Id. at 618, quoting Sayers v. Rochester Telephone Corp., 7 F.3d 1091, 1095 (2d Cir. 1993). New York law permits consideration of trade usage to explain terms in contracts. Trans World Metals, Inc. v. Southwire Co., 769 F.2d 902, 906 (2d Cir. 1985); Seroff v. Simon & Schuster, 6 Misc. 2d 383, 389, 162 N.Y.S.2d 770, 776 (N.Y. Sup. Ct. 1957), aff'd 12 A.D.2d 475, 210 N.Y.S.2d 479 (1st Dep't 1960).¹⁹

¹⁹As Judge Stein points out, although Boosey stated that evidence of

Further, with respect to the breadth of the grant, ambiguous terms of a contract are interpreted against the drafting party, especially where the drafter is a publisher. U.S. Naval Institute v. Charter Communications, 875 F.2d 1044, 1050 (2d Cir. 1989); Nimmer on Copyright § 10.08. Finally, unless an author has given up his or her rights in a clear and unequivocal manner, he or she is deemed to have retained them. Id.; Warner Bros. Pictures, Inc. v. CBS, 216 F.2d 945 (9th Cir. 1954), cert. denied, 348 U.S. 971 (1955); Phillips v. Jerome H. Remick & Co., 145 F. Supp. 756, 758 (S.D.N.Y. 1936).

2. “New Use” Analysis

Next, the court properly recognized that these contract law principles “are in accord with” the approach this Circuit has taken in analyzing “new use problems.” Random House, 150 F. Supp.2d at 618, 623 (citing Boosey and Bartsch).

Grantees may exploit the new use at issue *if* “the words [of the contract] are broad enough to cover the new use,” and *if* the new use was foreseeable in the

industry custom may not help to identify the parties’ intent as to new uses never contemplated, trade usage may be considered “in understanding specific terms of the contract.” 150 F. Supp.2d at 621 n.7. Indeed, Boosey did consider extrinsic evidence for such purpose. Id., citing Boosey, 145 F.3d at 488-89.

industry at the time of the contract (i.e., existence of a “nascent market”). Boosey, 145 F.3d at 486. In addition, the new use must fall within the same medium described in the contract. Id.; Bartsch, 391 F.2d at 155.

Random House argues that Judge Stein erred when he found, using the settled principles of contract construction described above, that it was more reasonable to find that “print, publish and sell the work in book form” did not include electronic rights than to find that it did. (RH 23.) Random House accuses the court of improperly “applying garden-variety tools of contractual interpretation that are ill-suited to new-use issues.” (RH 30.) Random House cites Bartsch for the proposition that, instead, the only relevant inquiry the court should have addressed was whether “it is reasonable to view ebooks as falling within the ambiguous penumbra of ‘in book form.’” (RH 30.)

Random House has mischaracterized the analysis in Bartsch. Nowhere in Bartsch does the court state any rule requiring courts to deviate from state law principles of contract interpretation. Bartsch, 391 F.2d at 153-54. Indeed, Random House’s mischaracterization of Bartsch and Random House’s proposed automatic default rule favoring licensees were expressly rejected by this Court in Boosey, 145 F.3d at 487. In Boosey, the Court noted that some courts and commentators

have misinterpreted Bartsch in the same manner that Random House has here. 145

F.3d at 487 n.3. The court in Boosey explained:

We emphasize that Bartsch favors neither party and announces no special rule of contract interpretation for the new-use context. Rather, it instructs courts to rely on the language of the license contract and basic principles of interpretation.

Id. Thus, the “garden variety tools of contract interpretation” used by Judge Stein were expressly required of him by this Court.

Boosey set forth this Court’s new-use analysis as follows:

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

Id. (footnote omitted).²⁰ As we demonstrate below, Judge Stein correctly applied

New York rules of contract interpretation to his construction of the contracts at issue and concluded that those contracts are more reasonably read to exclude electronic rights.

B. The Court Below Correctly Applied the Facts of Record to the Controlling Law

1. The Grant Language

The district court first found that the phrase “to print, publish and sell the work in book form” on its face distinguishes between “the pure content – i.e., authors’ words, or ‘the work’ – and the format of display – ‘in book form.’” Id. at 620. Random House does not address this important distinction, except to contend ipse dixit that it supposedly licensed the entirety of “the authors’ words.” (RH 8). That is another way of saying it supposedly licensed all manner, modes, formats and media for “the work,” which Random House clearly did not do. The very contractual phrase at issue, by distinguishing between the authors’ “work” (which the author owns) and “in book form” (which was granted to Random House) undercuts this argument, as Judge Stein held. See Dannay, p. 14, supra.

Judge Stein then found that an analysis of the Styron/Vonnegut/Parker contracts demonstrated, first, that rights were selectively conveyed on a specific basis rather than in wholesale fashion, which rendered Random House’s

contractual interpretation unreasonable. 150 F. Supp.2d at 620. The court found that the expressly enumerated contractual grants would all be rendered superfluous under Random House's argument, in contravention of Sayers and New York contract law. Id. See Brooke Group v. JCH Syndicate 488, 87 N.Y.2d 530, 533, 640 N.Y.S.2d 479, 663 N.E.2d 635 (1996) (courts must consider contract "so as to give each part meaning"). Random House does not contend there is any error in this chain of reasoning. Rather, Random House ignores it.

2. The "Style and Manner" Clause

Next, the district court dealt with Random House's argument that the contractual language "to 'publish the work at its own expense and in such style and manner and at such a price as [Random House] deems suitable'" conveyed electronic rights. Random House, 150 F. Supp.2d at 620. The court held Random House had taken this phrase out of context, because it appeared in a portion of the contract that did not involve the granting of rights. "In context, the phrase simply means that Random House has control over the appearance of the formats granted to Random House in the first paragraph; i.e., control over the style of the book." Id.

Random House also does not dispute that this clause is not a part of the grant language. It suggests only that the court failed to appreciate that the clause gave

Random House the “sole discretion to publish the author’s words...by whatever means it deemed appropriate.” (RH 59.) Random House again seeks its contracts to be read as “all rights” grants or, put another way, to equate “in book form” with “in any manner, medium or form.” The court properly found that this “style and manner” clause does not expand the limited grant for which Random House bargained.

3. The Non-Compete Clause

Next, the court addressed Random House’s contention that the “non-compete” language prevented Rosetta from distributing electronic works. *Id.* at 620-21. The district court advanced three reasons, each supported by New York law as to why this argument failed. Random House does not quarrel with the court’s reasons, but instead suggests that the non-compete clauses are relevant to show that the authors conveyed a “broad right to publish the works.” (RH 60.) The court correctly found, however, that the non-compete clauses, under New York law, must be read restrictively and cannot be read to confer grants not otherwise conferred in the grant language itself. 150 F. Supp.2d at 621.

Further, as set forth above, authors retain many rights. The exercise by an author of a retained right cannot be considered to violate the non-compete clause, or else the concept of retained rights would be illusory. For example, the right to

publish audio books is often retained by the author. If an author exercises this retained right, that cannot be considered a violation of the non-compete clause. Here, the authors have retained, and did not grant to Random House, the right to publish the work in an electronic form.

In addition, it is speculative for Random House to claim that electronic publishing will injure hard-back or soft-back sales. (RH 21.) Random House has proffered no empirical evidence of any kind. People in the publishing industry believe that the promotion attendant to the e-publishing of backlist works will stimulate sales of those works in book form. JA 454-456 ¶¶ 11-19.

4. The “Photocopy” Clause

Next, the court addressed Random House’s contention that the “photocopy” clause (“Xerox and other forms of copying, either now in use or hereafter developed”) encompasses ebooks. 150 F. Supp.2d at 621. The district court found the phrase reasonably meant “new developments in xerography,” not the right to electronically publish and sell the work. Otherwise, the “now in use or hereafter developed” phrase would render the other enumerated grant provisions superfluous. If a grant had been given in the photocopy clause for any and all copying ever invented, the first grant “to print, publish and sell the work in book form” would not have even been necessary. The court also relied upon Rosetta’s uncontradicted evidence of trade usage of this photocopying phrase as explained by former Random House procurer of electronic rights Catherine Fowler, JA 393-396, by Donald Congdon, JA 345, and by Georges Borchardt, JA 330-33. Id.²¹

Random House’s only real challenge to the court’s reasoning is that it would be illogical for “photocopying” to be permitted, but not digital scanning. (RH 57-8.) This is a classic strawman argument. Random House may be able to digitally copy as well as photocopy the work in order to “print, publish and sell the work in book form.” Such copying, however, is fundamentally different from a grant to publish and sell a work in electronic form, which Random House did not receive.

5. Trade Usage

The district court then consulted industry custom and trade usage, as Sayers and New York contract law instruct it to do. It found that the Field decision,²² the Lindley treatise (which used an actual Random House contract),²³ the Nimmer treatise,²⁴ and the declarations of Georges Borchardt, Helen Brann, Donald Congdon, Donald Farber, Catherine Fowler, Leon Friedman, Ellen Levine, and Donald Maass²⁵ all established that the phrase as used in the publishing industry is a narrow grant. Id. at 621-22.²⁶

6. Boosey and Bartsch

Judge Stein turned again to Boosey and Bartsch. Id. at 622-23. He found four bases for distinguishing those decisions from this case. Those bases are discussed below, followed by several additional distinctions.

(a) **“The language conveying the rights in *Boosey and Bartsch* was far broader than here.” Id. at 622.**

In Boosey, the issue was whether the grant to use Igor Stravinsky’s “The Rites of Spring” in Disney’s motion picture Fantasia extended to home viewing by videocassette and laser disc, as opposed to just in movie theaters. The grant was very broad:

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

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

145 F.3d at 484 (emphasis added). That was coupled with another broad grant to use the music in the motion picture Fantasia: “said music may be used in whole or in part and may be **adapted, changed, added to or subtracted from**, all as shall appear desirable to the Purchaser **in its uncontrolled discretion.**” Id. (emphasis added). The grant was held to be broad enough to include showing movies at home, not just in movie theaters.

In Bartsch, the issue was whether the motion picture rights to the play “Maytime” included the broadcast of Maytime on television. The grant in Bartsch was also very broad:

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

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

Two clauses have been highlighted in the quote above, the first in bold, the second in italics. This Court found that the language in bold did not encompass the new use because a movie shown on a movie screen and the same movie distributed on a television set were not “analogous.” *Id.* at 153. The Court did, however, find that the second clause, in italics above, used in relation to “motion picture” exhibition rights, permitted the license holder to “exhibit” the movie on television, because the word “exhibit” was not limited in any manner. “‘Exhibit’ means to ‘display’ or ‘to show’ by any method, and nothing in the rest of the grant sufficiently reveals a contrary intention.” *Id.* at 154. “The words of Bartsch’s assignment, as we have shown, were well designed to give the assignee the broadest rights with respect to its copyrighted property, to wit, the photoplay.” *Id.*

In this case, the grant at issue is far narrower than the grants in Bartsch and Boosey. The grant here is a term of art with well-understood industry custom and usage.²⁷ It is not a grant “in any manner, medium or form,” as in Boosey relating to the loosely defined motion picture medium, but rather a grant to print, publish and sell the work only “in book form.”

(b) Different Media

Boosey and Bartsch involved a new use of a work within the “same medium,” i.e., the display of a motion picture on television or its use to accompany the images on a videocassette. Licenses “may properly pursue any uses that may reasonably be said to fall within the medium as described in the license.” Boosey, 145 F.3d at 486; Bartsch, 391 F.2d at 155. Here, the court found that a print book and “electronic digital signals sent over the internet” constitute separate media. Random House, 150 F. Supp.2d at 622. Random House’s technology expert admitted that the print and electronic media are different media. Id., citing JA 662-63 tr. pp. 29-30; JA 664 tr. p. 34; JA 666 tr. p. 42. The medium “as described in the license” to Random House is the print medium, and only the print medium.²⁸

Random House suggests that the court erred by focusing on the medium as the mode of “distribution,” and not the mode of “expression.” (RH 8-9.) Random House suggests that, “In this case, the medium is the author’s words.” (Id.) This is merely a restatement of Random House’s fallacious argument that it owns the words (the “work”) in full rather than only the right to “print, publish, and sell the work in book form.”²⁹

(c) Editorial Discretion

The court further distinguished Boosey and Bartsch on the basis that, in the movie industry, the licensee has actually created a new creative work based on material obtained from the licensor, whereas here, Random House (the licensee) has simply used the authors' (licensors') words. "In the book publishing context, the publishers, although they participate in the editorial process, display the words written by the author, not themselves." Id. at 623. This further buttressed the district court's distinction that the authors' words ("the work") belong to the author. It further undercuts Random House's argument that "the subject of the license is the author's words." (RH 8).

(d) Anti-Progressive Tendencies

Boosey and Bartsch were concerned with “anti-progressive” tendencies if the licensee was denied the right to the “new use.” In other words, finding that the licensor had not conveyed the rights to show a movie on television (Bartsch) or use a musical piece to accompany images on videocassette (Boosey) could be said to hinder technological development. Here, however, Judge Stein found “this policy rationale of encouraging development in new technology is at least as well served by finding that the licensors – e.g., the authors – retain these rights to their works.” Id. at 623. This was well-supported by the record. Random House has admitted it had no intention of distributing the Styron, Vonnegut, or Parker works as “ebooks” at any time in the foreseeable future. JA 653 (“next fall’s list of Random e-books won’t have any novels on it.”) Rather, Random House just wanted to warehouse the rights so that no one else could exploit them. By contracting with Rosetta, the authors were furthering technological progress of electronic distribution, the very policy favored by Bartsch and Boosey.

(e) Additional Bases to Distinguish Boosey and Bartsch

First, as to the phrases contained in the grant language, neither Bartsch nor Boosey involved phrases where evidence was actually proffered as to trade usage and trade custom and practice, in contrast to this case.

Second, in Bartsch and Boosey the actual intent of the parties could not be ascertained because no probative evidence of intent contemporaneous with the signing of the contracts at issue was proffered. Boosey stated that “many years after formation of the contract, it may well be impossible to consult the principals or retrieve documentary evidence to ascertain the parties’ intent,....” 145 F.3d at 488. In Boosey and Bartsch, the lapse of time evidently prevented any direct evidence of contractual intent. Here, in contrast, the persons who negotiated Styron’s Sophie’s Choice and Parker’s The Promised Land have testified that the contracts did not convey electronic rights. JA 332, 337. Mr. Vonnegut’s agent also testified that electronic rights were not conveyed. JA 380. In contrast, Random House did not offer the affidavit of a single person from Random House’s side of the negotiations to state a contrary view. This is despite the fact that Robert Loomis, a Random House editor, was William Styron’s editor, and is still with Random House. JA 530 tr. pp. 22-23.

Third, as discussed below at Section III.D.2. as a further ground of affirmance, the licenses in Boosey and Bartsch make no mention of royalty provisions. Indeed, Boosey involved an upfront fixed payment for a broad license with no continuing royalties. 145 F.3d at 484. In this case, the contracts contain detailed continuing royalty provisions for the various uses granted by the author,

but no royalty provision for any electronic use. Thus, the contracts here would lack an essential term – consideration – if electronic rights were found to be included in the grant.

Fourth, as discussed below at Section III.D.1. as a further ground for affirmance, unlike in Boosey and Bartsch, there was no nascent market for or industry foreseeability of electronic publishing at the time the contracts in issue were signed.

7. The Decision is Supported by New York Law

Judge Stein also addressed New York law substantive law on “new use” cases. 150 F. Supp.2d at 623-624. The “new use” jurisprudence in New York strongly undercuts Random House’s position.³⁰ See Tele-Pac, Inc. v. Grainger, 168 A.D.2d 11, 16, 570 N.Y.S.2d 521 (N.Y. App. Div. 1st Dep’t 1991) (agreement to distribute motion pictures ‘for broadcasting by television or any other similar device now known or hereafter to be made known’ held not to encompass videocassette rights because television and home video cassettes involve different technology); General Mills v. Filmtel International Corp., 195 A.D.2d 251, 599 N.Y.S.2d 820 (N.Y. App. Div. 1st Dep’t 1993) (same); Caldwell v. ABKCO Music & Records, Inc., 269 A.D.2d 206, 703 N.Y.S.2d 97 (N.Y. App. Div. 1st Dep’t 2000) (same); Werbungs Und Commerz Union Austalt v. Collectors Guild, Ltd., 728 F. Supp. 975, 977 (S.D.N.Y. 1989), aff’d in pertinent part, 930 F.2d 1021, 1025-26 (2d Cir. 1991) (dispute as to what type of derivative use of author’s rights were contemplated in a contract that contained the words “all rights, title and interest” and also “two editions” is a question of fact for the jury).³¹

C. Irreparable Harm and Balance of Hardships

Random House is not entitled to a presumption of irreparable injury under the copyright laws because its copyright ownership of the electronic rights at issue turns on its claim of contract interpretation, which is not likely to be successful. See Video Trip Corp. v. Lightning Video, Inc., 866 F.2d 50,52 (2d Cir. 1989); Diversified Mortgage Investors v. U.S. Life Title Ins. Co., 544 F.2d 571,576 (2d Cir. 1976).

In terms of actual harm, it is not disputed that Random House has not sought to exploit the ebook rights at issue and it cannot be disputed that a monetary recovery based on Rosetta's sales would provide complete compensation if it were to prevail. The sales of Rosetta's books are de minimis in relation to Random House's business (JA 1727-1728), and could not possibly threaten the viability of any line of business of Random House. Random House's investment in publishing these authors has, in any event, been recouped long ago from the sales of their works in book form. Random House's claims of injury to goodwill ignore that consumers do not buy books because of the publisher's brand but, rather, select their reading of fiction and nonfiction because of the identity of the author and the quality of the author's works.

In terms of the comparative hardship from the grant or denial of preliminary relief, there is again no dispute that Rosetta has made substantial investments to buy the rights at issue from the authors and then to bring and promote their works to the emerging electronic market. The very existence of Rosetta, a start-up company that has pioneered that market, would be threatened by the grant of a preliminary injunction.

D. Further Grounds For Affirmance

While the decision by the court below is correct and amply supported by the record, the Court may also affirm on any other ground that appears of record. Wright v. Giuliani, 230 F.3d 543, 547 (2d Cir. 2000). Three such grounds each independently supports affirmance.

1. No Foreseeability or Nascent Market

Boosey and Bartsch require that, even when the grant at issue is sufficiently broad on its face to permit the new use, there must also be at the very least a “nascent market” for the new use at the time of grant. 145 F.3d at 486; 391 F.2d at 154. In both Boosey and Bartsch, there was either such a market, or knowledge of the new technology by people in the industry. Boosey, 145 F.3d at 486 (“Disney has proffered unrefuted evidence that a nascent market for home viewing of feature films existed by 1939.”); Bartsch, 391 F.2d at 154 (“During 1930 the future possibilities of television were recognized by knowledgeable people in the entertainment and motion picture industries,....”); accord Bourne, 88 F.3d at 630.

Here, in contrast, in 1961-1982 (the time of the grants at issue), there was no nascent market for “ebooks,” and no industry awareness or knowledge of such. JA 536, 552 (Random House’s affiant Ashbel Green had no knowledge of ebooks until 1990’s, and no author did either); JA 616-617 (Random House V.P. Sarnoff stated there was no commercial viability for ebooks until the late 1990’s); JA 668 (Random House’s technological expert testified that Microsoft, an industry leader, did not form an ebook group until 1998 or 1999).

This Court in Bartsch stated, “New York will not charge a grantor with the duty of expressly saving television rights when he could not know of the

invention's existence,....” 391 F.2d at 154. Messrs. Styron, Vonnegut and Parker should not be so charged here.

2. There is No Royalty Structure for Ebooks

Every enumerated right in the Random House contracts had its own royalty structure: hardback rights; paperback reprints; book club editions; foreign translations. JA 154-156, 164-165. There is no royalty for electronic rights in the contracts at issue. Mr. Green confirmed that every “subsidiary right” is supposed to have its own royalty provision, and that he considered “electronic rights” “subsidiary” rights. JA 548.

Random House's own expert witness, Mr. Miller, testified that Random House should now go back and renegotiate with the authors for a royalty for electronic rights (rights Random House claims it acquired from the authors decades ago). JA 578-579. Random House announced to the district court it had unilaterally set a royalty rate, but Mr. Green testified there was no precedent for Random House doing this. JA 554 tr. p. 121. And, of course, there is no rule requiring the authors to accept Random House's rate.

Courts do not imply consideration terms into contracts, and the fact that there are no royalties for electronic rights means these rights were not conveyed. In Raine v. CBS Inc., 25 F. Supp.2d 434 (S.D.N.Y. 1998), the court rejected the

argument that videocassette rights had been conveyed, because there were no royalties provided. “Even more compelling, however, the Trust Agreements simply do not contemplate royalty payments for videocassettes that are intended for home viewing.” Id. at 445. “At a minimum, the essential terms of a contract include the identification of the parties, a sufficient description of the subject matter, and consideration.” Personalized Media Communications, L.L.C. v. Starsight Telecast, Inc., 2000 U.S. Dist. LEXIS 14185 *9 (S.D.N.Y. Sept. 27, 2000) (citing New York law).

Random House’s position risks the untenable scenario in which the electronic works do not get published at all, because Random House claims a right that it cannot exploit without the author agreeing to a royalty rate, and the author may not agree. This circumstance presents the very scenario Bartsch sought to avoid, “that a deadlock between the grantor and the grantee might prevent the work’s being shown over the new medium at all.” Bartsch, 391 F.2d at 155. If Rosetta prevails, however, the works at issue will continue to be available in the new electronic medium pursuant to clear contractual agreements between the authors and Rosetta, including both rights grants and royalty provisions covering electronic books.

3. Random House Has Changed Its Legal Position

Rosetta presented substantial evidence, not refuted by Random House, that throughout the 1990's, Random House defined electronic rights in its contracts as a “non-book form,” completely contrary to its present legal argument. See pp. 26-28 above. In Viacom International Inc v. Lorimar Productions, Inc., 486 F. Supp. 95 (S.D.N.Y. 1980), a party interpreted its contract in one fashion for five years, and then its new General Counsel suddenly switched to a different position of what a “television movie” and a “mini-series” meant to avoid paying royalties. Judge Weinfeld relied upon the following propositions of federal and New York law:

The practical interpretation of a contract by the parties, manifested by their conduct subsequent to its formation for any considerable length of time before it becomes a subject of controversy, is entitled to great, if not controlling weight in the construction of the contract.

Id. at 98 n. 3 (emphasis supplied; citations omitted).³²

CONCLUSION

For the foregoing reasons, the district court’s decision should be affirmed.

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Certificate of Compliance with Rule 32

I certify pursuant to Fed. R. App. P. 32(a)(7) that the foregoing brief has been prepared using Times New Roman font, 14 point, and that it contains less than 14,000 words (excluding those portions excludable by Rule 32(a)(7)(B)(iii), and more specifically that it contains 13,680 words.

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