

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



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

Attorneys for Defendants

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

RANDOM HOUSE, INC.,

Plaintiff,

v.

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

Defendants.

:
:
:
: 01 Civ. 1728 (SHS)
:
:
:
:
:
:
:
:
:
:
:
:

**DEFENDANTS' SUR-REPLY BRIEF IN OPPOSITION TO
PLAINTIFF'S MOTION FOR PRELIMINARY INJUNCTION**

TABLE OF CONTENTS

	<u>Page</u>
A. To Print, Publish and Sell The Work in Book Form.....	1
B. Third Party Witnesses	3
(1) Catherine Fowler.....	3
(2) Ellen Levine	5
C. The Publishers’ Amicus Brief.....	7
D. Random House’s Contract Expansion	8
E. Cases Cited By Random House	9
F. The Legal Standard for Preliminary Injunctive Relief	12
CONCLUSION	14

TABLE OF AUTHORITIES

	<u>Page</u>
<u>Bartsch v. Metropolitan-Goldwyn-Mayer</u> , 391 F.2d 150 (2d Cir.), <u>cert. denied</u> , 393 U.S. 826 (1968)	9
<u>Bihari v. Gross</u> , 119 F. Supp.2d 309 (S.D.N.Y. 2000).....	12
<u>Boosey & Hawkes v. Walt Disney Co.</u> , 145 F.3d 481 (2d Cir. 1998).....	9
<u>Bourne v. The Walt Disney Company</u> , 68 F.3d 621 (2d Cir. 1995).....	11
<u>Diversified Mortgage Investors v. U.S. Life Title Ins.</u> , 544 F.2d 571 (2d Cir. 1976).....	12, 13
<u>Dolch v. Garrard Publishing Co.</u> , 289 F. Supp. 687 (S.D.N.Y. 1968).....	10
<u>Dresser v. William Morrow & Co.</u> , 278 A.D. 931, 105 N.Y.S. 2d 706 (1 st Dep't 1951)	10
<u>Harlequin Enterprises Ltd. v. Warner Books, Inc.</u> , 639 F. Supp. 1081 (S.D.N.Y. 1986).....	11
<u>L.C. Page & Co. v. Fox Film Corp.</u> , 83 F.2d 196 (2d Cir. 1936).....	9, 10
<u>Viacom Intern. Inc. v. Lorimar Productions</u> , 486 F. Supp. 95 (S.D.N.Y. 1980).....	2
<u>Video Trip Corp v. Lightning Video Inc.</u> , 866 F.2d 50 (2d Cir. 1989).....	12,13

A. To Print, Publish and Sell The Work in Book Form

The legal issue is whether the contracts at issue, which include the phrase “to print, publish and sell the work in book form,” do or do not comprehend books published electronically.

Of critical probative weight is how Random House has itself, prior to the litigation, treated the same phrase “to print, publish and sell the work in book form,” in contracts that contemplated electronic publishing. Random House fails to provide any evidence whatever to refute Catherine Fowler’s testimony that in the early 1990’s no one at Random House considered the language “in book form” to include electronic rights. Fowler Decl. ¶¶ 20-21, Ex. 31 hereto. That is because Random House has made up, for purposes of this litigation, a construction of the phrase “print, publish and sell the work in book form” that flatly contradicts actual Random House contracts that define “Electronic Books” as “non-books.”

One such Random House contract was only produced to Rosetta on April 26, 2001. See Ex. 35 hereto. The contract, dated March 26, 1992, is similar in form to the Random House contracts sub judice. Compare this 1992 contract with Mr. Styron’s 1961 contract (Ex. A to Mr. Sarnoff’s declaration). 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 new 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.

Ex. 33, bates page 31237 (emphasis supplied). Thus, in 1992 Random House itself identified a “machine-readable form” of a work as a “non-book form” of that work. It is troubling that Random House ignores this crucial piece of evidence, which was produced from its files just six days before it submitted its reply brief.

Equally as compelling is that, in a 1996 contract, Random House actually defines “Electronic Books” as a “non-book” form. This 1996 contract, which Rosetta attached to its opposition papers at Tab 9, Ex. A, states:

vii. 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’).

Ex. 9, Ex. A at 2-3 (emphasis supplied).

Random House thus seeks to have the Court rule that the phrase “print, publish and sell the work in book form” in Random House’s contracts means the opposite of what Random House itself said the phrase meant in actual Random House contracts.

In attempting to distinguish Judge Weinfeld’s decision in Viacom Intern. Inc. v. Lorimar Productions, 486 F. Supp. 95 (S.D.N.Y. 1980), Random House argues weakly that “it never disclaimed electronic rights under its pre-1994 contracts.” Reply Brief at 21-22. This misses the

point. The point is that, during the 1990's, once it became aware of electronic publishing, Random House defined electronic publishing as a “nonbook form” because Random House itself fully understood the true trade meaning of the phrase “to print, publish and sell the work in book form,” and knew that electronic publishing was excluded from that phrase.¹

B. Third Party Witnesses

Twelve third-party witnesses submitted declarations on behalf of Rosetta. Random House chose to depose two, Ms. Fowler and Ms. Levine. In its reply brief, Random House has mischaracterized their testimony and included only scattered pages of their transcripts.

(1) Catherine Fowler

¹Random House makes the semantic argument that, because the phrases “eBook” and “electronic books” both include the word “book,” they must be covered by the contractual phrase “in book form.” To that end, Random House cites the testimony of Mr. Klebanoff and a Rosetta document frequently for the proposition that Rosetta concedes by its own “words” that an electronic book is a “book.” See Reply Brief at 1-2. However, Random House ignores Mr. Klebanoff’s clear and unequivocal testimony that the phrase “print, publish and sell the work in book form,” as used in the U.S. publishing industry, does not include electronic publication of the author’s work. Klebanoff dep. at ____, Ex. 32; accord deposition of Ellen Levine at ____, Ex. 33. Further, plaintiff’s assertion is legally meritless. The phrase “audiobook” also includes the word “book,” but by Random House’s own admission an “audiobook” is not covered by the phrase “in book form,” despite the linguistic similarity.

Catherine Fowler, who Random House inaccurately calls a “mid-level” employee, states in her deposition that the grant to “print, publish and sell the work in book form” was not considered at Random House to include the grant of electronic rights, and that the language “xerox and other forms of copying, either now or in use or hereafter developed,” although discussed at Random House, was concluded to not include electronic rights. Fowler Decl. ¶ 20. No one at Random House has come forward to refute this under oath. Also unrefuted is Ms. Fowler’s testimony that “the clause ‘in book form’ was not considered ‘gray area’ language, and no one at Random House, to my knowledge, considered that language to include electronic rights.” Fowler declaration ¶ 21.

Instead of proffering evidence in response to Ms. Fowler’s testimony, Random House instead distorts her testimony and attacks Ms. Fowler. Random House states, “illustrative of the hyperbolic nature of Ms. Fowler’s testimony is her declaration’s reference to a document,” which is then described by Random House as “an undated, hastily-crafted, one-and-one-quarter-page ‘cut-and-paste job,’ not on Random House letterhead, with no attribution of authorship.” Plaintiffs’ Reply Brief at 22. While criticizing the appearance of the document – which Ms. Fowler explained was for internal use and not intended to be sent outside the company – Random House does not introduce any evidence to challenge a single statement contained in the document.

Random House also asserts that Ms. Fowler could not specifically identify a single senior-level business or legal executive “who subscribed to her stated views.” However, Random House ignores the following testimony by Ms. Fowler:

A. I believe Diana Frost (Random House in-house counsel) agreed with me.

Q. What was the basis for that recollection?

A. Because I talked to her every day, and that was a clause we considered and probably talked about several times when - can I quote Diana Frost saying I agree with you about that clause? No.

Random House further distorts Ms. Fowler's testimony when it states that Ms. Fowler's "views explicitly conflict with Random House's stated position that it held electronic rights under the Audubon Society publishing contract she singles out." Random House cites a February 1993 letter signed by Random House and Chanticleer Press, the proprietor (owner) of the rights to the Audubon Society series in which the parties agreed to disagree on who owns the electronic rights to that series. Plaintiff's Reply Brief at ___.

What Random House does not put into the record is the actual Random House electronic publishing contract with Chanticleer Press, entered into more than one year later, on April 4, 1994, in which Random House concedes, "WHEREAS, Proprietor owns or controls electronic publishing rights with respect to all National Audubon Society books that have been prepared by the Proprietor...." See Fowler Dep. Ex. 7 at 1, Ex. ___ hereto; see also Fowler dep. tr. at 127-135.

(2) Ellen Levine

Ellen Levine is a distinguished literary agent, with 35 years experience in the U.S. publishing industry. Ms. Levine is extraordinarily well versed in trade usage, having worked for Harper & Row, having negotiated hundreds of book publishing contracts as head of her literary agency, currently serving on the contracts committee of the Association of Authors' Representatives, and having negotiated both book and movie contracts for Michael Ondaatje's

The English Patient and Russell Bank's The Sweet Hereafter. Ex. 33 at 83-84. She defined electronic publishing rights clearly and succinctly:

- A. To me it's the transformation of written work into digital form to be disseminated to consumers through technological products such as computers, dedicated readers or personal digital gadgets.

Ex. 33 at 27. She testified that these rights were understood in the industry to be outside the scope of the 1961-1982 Styron/Vonnegut/Parker Random House contracts at issue. Id. at 28-30.

- Q. So an E book of the type that one can purchase from Rosetta Book is not a book?
- A. No, it's an E book. (Ex. 33, p. 40).

At p. 9 of its reply brief, Random House mischaracterizes Ms. Levine's testimony concerning royalty rates, by claiming she stated "it is common practice in the publishing industry to defer negotiation of certain royalty terms..." At the cited pages, however (Ex. 33, pp. 75-78), she testified that both the "grant" clause and the royalty rate clause were integral features of a contract, to determine what rights had been granted in the contract:

- Q. When one interprets a publishing agreement for purposes of what rights have been granted I take it one looks at the grant language of the agreements?
- A. Yes.
- Q. As opposed to the royalty agreements of the provisions?
- A. One looks at the whole agreement,
- Q. From whence flows the grant of right, the grant clauses or royalty?
- A. I think the contract has to be read as a whole.

Ex. 33, p. 75 (emphasis supplied). Contrary to Random House’s characterization, she testified that the only occasion where royalty rates are deferred is where the existence of that grant was specifically enumerated, but the exact amount was left to be negotiated:

Q. How often have you determined that practice and that deferral is appropriate in terms of electronic rights?

A. In a contract where electronic rights were first coming to the fore and it was too soon to negotiate an appropriate royalty, and that would have been a case where I specifically granted the publisher electronic publication rights in the grant but would have left what royalty would be to some future date.

Ex. 33, p. 77 (emphasis supplied).

Random House claims at p. 8 of its reply brief that Ms. Levine “found herself in the absurd position” by “arguing” that an “electronic book” is not a physical book, but that bound pages of a hard copy book were a book. To the contrary, she testified that an electronic book and a bound physical book are in fundamentally different media. If anything, it was Random House that insisted on posing absurd questions to her. Here is one sample “question,” asked verbatim as follows:

Q. On which rather than through the process by which books in paper format are today printed there appears the identical text but that text occurs and happens through an electronic process by which that text is made to appear on the vinyl sheets so that the reader is reading the identical text by reading a series of these plastic sheets on which the text appears electronically in terms of how it physically comes to appear on the material, that printer in the sky, okay. Would that product that I described if it were commercially available constitute a book?

- A. I have trouble envisioning the product so I'm not sure I can answer this question without understanding the product.

(Ex. 33, p. 42). Who exactly is calling whom “absurd?”

C. The Publishers' Amicus Brief

The publishers' amicus brief was filed to tell the Court that other major publishers, who would also like to improperly exploit electronic rights not contractually bargained for, agree with the position that “in book form” includes “electronic rights.” The amici's position, however, is belied by the actual conduct of amicus Time Warner Trade Publishing. At the same time it asserts Rosetta is infringing Random House's copyright, Time Warner signed an electronic publishing contract with an author who contracted with Random House to “print, publish and sell the [same] work in book form.” See Declaration of James Gleick, Ex. 36 hereto. Thus, one of the amici disingenuously supports a position that, if applied against itself, would place it in exactly the same shoes as Rosetta.

Random House's and the amici publishers' own practices and contracts are in diametric opposition to the position they take in this litigation. Their conduct alone warrants denial of the preliminary injunction.²

D. Random House's Contract Expansion

²The amici publishers, and Random House, label Rosetta as a “free rider,” but do not challenge the substance of the Declarations of Arthur Klebanoff and Dorothy Kauffman. Those declarations amply demonstrate the falsity of such characterization. See Klebanoff Decl. ¶¶ 6-12 (Ex. 10 to Rosetta's opposition brief); Klebanoff Decl. ¶¶ 10, 14-16, 21 (Ex. 11 thereto). Among other things, Rosetta pay advances to its authors for electronic rights (something Random House seeks to avoid), adds content on its web site and actively promotes backlist works.

The publishers' amicus brief correctly set forth the controlling law on contract interpretation, including the axioms that "contracts should be interpreted as a whole, and every part of the contract should be interpreted with reference to the whole." Amicus brief at 11 (citing cases). The Court here can not read the Random House contracts at issue to include electronic rights without rewriting those contracts, i.e. interpreting them in a manner inconsistent with key provisions.

First, Random House admits that the contracts at issue do not include a royalty rate for electronic books, and asserts at pp. 9-10 of its reply brief that "Random House has not exploited and will not exploit its eBook rights in a work unless and until royalty terms are established."

By admitting that the royalty rate is essential to its right to "exploit" its supposed "ebook rights," Random House admits that an essential term is missing from the contracts, and that the Court must supply this term, which makes it unreasonable to construe the contracts at issue as covering electronic books. Random House's position also risks the scenario in which the electronic books at issue do not get published at all, because Random House has a right that it cannot exploit without the author agreeing to a royalty rate, and an author who may not so agree.

This circumstance presents the risk that the Court in Bartsch v. Metropolitan-Goldwyn-Mayer, 391 F.2d 150 (2d Cir.), cert. denied, 393 U.S. 826 (1968) 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 the Court rules for Rosetta, in contrast, the works at issue will continue to be available in the new electronic medium pursuant to clear contractual agreements between the respective

authors and Rosetta, including both rights grants and royalty provisions covering electronic books.

Second, as Mr. Winick's declaration pointed out, if Random House's new construction of its contracts prevailed, the effect would be to drastically alter (and expand in Random House's favor) the termination provision of Random House's contracts. Winick declaration, Ex. 15 ¶ 9. Rosetta brief, p. 47. Random House did not respond to this very serious concern.

E. Cases Cited By Random House

Random House criticizes defendants for not discussing the 1936 case L.C. Page & Co. v. Fox Film Corp., 83 F.2d 196 (2d Cir. 1936). Defendants did not discuss it because Boosey & Hawkes v. Walt Disney Co., 145 F.3d 481 (2d Cir. 1998) and Bartsch are more recent pronouncements by the Second Circuit on the issues in dispute, and because Page is so clearly distinguishable from the instant case. In Page, the Second Circuit held that a license for "exclusive moving picture rights" included both silent and talking moving pictures. Id. at 198-99. The Court stated in Page that talking pictures were "nothing more than a forward step in the same art. Essentially the form and area of exploitation were the same." Id. at 199. This is not true in the instant case, where Random House's expert has admitted that computer-based books are a different medium than print books.

Other cases, some newly-cited by Random House in its reply brief, are similarly distinguishable. In Dresser v. William Morrow & Co., 278 A.D. 931, 105 N.Y.S. 2d 706 (1st Dep't 1951), the Appellate Division held that the "contract between the parties, while perhaps at variance with the usual pattern of contracts between author and publisher, is a complete and unconditional grant by the plaintiff to the defendant of the right to publish the plaintiff's literary

works in book form, in such style and manner as the defendant shall deem expedient at such time or times as it shall see fit, in consideration for an outright fixed payment, with the specific provision that no further money shall be payable or paid to the plaintiff on earnings on such works in volume form in America or Canada.” Suffice it to say that such “all rights” language and facts are not at issue in the instant case.

In Dolch v. Garrard Publishing Co., 289 F. Supp. 687 (S.D.N.Y. 1968), plaintiffs granted to the defendant “the exclusive right of publication of the books.” Plaintiffs sought a declaration that this grant was limited to hardcover and not paperback copies of the books based on two other provisions in the contract. The Court considered these two provisions and held that the “provisions referred to cannot reasonably be construed as withholding the right of paperback publication.” Id. at 693. (Neither provision at issue made any mention of the words hardback or paperback.) The Court noted in ruling against the plaintiffs that: “It should be noted that the plaintiffs make no claim of mistake and they do not rely on any trade custom or usage in connection with the meanings of any of the words involved.” Id. at 695 (emphasis supplied). Clearly, herein, defendant Rosetta does rely on trade custom and usage.

In Harlequin Enterprises Ltd. v. Warner Books, Inc., 639 F. Supp. 1081 (S.D.N.Y. 1986) a non-compete clause was at issue that had been specifically tailored to the fiction written by the author. Unlike the boilerplate provisions in the contracts at issue in the instant case, the non-compete clause in Harlequin expressly provided that the “[the author] reserves the right to create and/or write works for others, other than works which would compete with the sale of the action adventure series contemplated in this Agreement....” Id. at 1084.

The holding of the Second Circuit in Bourne v. The Walt Disney Company, 68 F.3d 621 (2d Cir. 1995), turned, not surprisingly, on the complex facts at issue. It is noteworthy, however, that the Second Circuit stated that it must read the contract “as a whole,” id. at 627; that it was appropriate in construing the agreement to consider the “parties’ conduct subsequent to the agreement,” id. at 628; that it was appropriate to consider the course of dealings between the parties in interpreting the contract at issue, id. at 627-28; and that it was appropriate to consider the intent of the contracting parties with respect to the provisions in issue, id. at 628. Further, with respect to the new-use in issue (videocassettes), Disney had presented evidence in Bourne that the possibility it could “market its motion pictures for home viewing was recognized by persons knowledgeable in the entertainment and motion picture industries.” Id. at 630. Random House has produced no comparable evidence herein.

F. The Legal Standard for Preliminary Injunctive Relief

Random House’s reply brief does not address the controlling legal standard for a preliminary injunction, Video Trip Corp v. Lightning Video Inc., 866 F.2d 50, 52 (2d Cir. 1989), (set forth in Rosetta’s response brief at p. 20), namely that where, as here, a copyright infringement action involves disputed and conflicting issues of contractual interpretation as to who owns the rights, a preliminary injunction should not be granted.

“Because of the great potential for harm which may occur from the issuance of a preliminary injunction, the party seeking the injunction must sustain a heavy burden.” Bihari v. Gross, 119 F. Supp.2d 309, 315 (S.D.N.Y. 2000). “It is well settled that a preliminary injunction is an extraordinary remedy that should not be granted except upon a clear showing that there is a

likelihood of success and irreparable injury....” Diversified Mortgage Investors v. U.S. Life Title Ins., 544 F.2d 571, 576 (2d Cir. 1976) (emphasis supplied). Further:

It should not be used as a device for creating a new contract between the parties or deciding questions of contract breach, properly determinable after trial.

Id., p. 576 (emphasis supplied; citations omitted).

Under the governing legal standard, the motion for preliminary injunction must be denied. Random House’s reply brief has acknowledged that the issue at hand is one of contract construction, namely deciding the meaning of the phrase “print, publish and sell the work in book form” as found in Random House contracts. (Random House reply brief, p. 5.) Ashbel Green and Edward Miller submitted affidavits claiming this phrase of trade usage conveyed a “broad” grant from the authors to Random House, which encompassed electronic publication, or “e books.” Conversely, George Borchardt, Helen Brann, Donald Congdon, Donald Farber, Catherine Fowler (who negotiated publishing contracts for Random House), Professor Leon Friedman, Ellen Levine, Donald Maass, and Eugene Winick have all testified that the phrase, in the custom and usage of the publishing industry, conveyed narrower rights from the authors to Random House, which did not encompass electronic publishing rights. While Rosetta believes that its evidence is far stronger and more compelling than Random House’s, at a minimum this conflict in the meaning of contractual terms and trade usage makes a preliminary injunction inappropriate under Video Trip Corp. and Diversified Mortgage Investors.

The impropriety Random House’s request for a preliminary injunction is even more apparent when one realizes that Random House has not (even in response to Rosetta’s

submission), offered the affidavit of a single current or former rights employee or any other employee at Random House to challenge the critical testimony of Catherine Fowler, a senior-level Random House rights negotiator in the 1990's, whose testimony undermines Random House's position. Her affidavit is un rebutted. Her full deposition transcript (which Random House very selectively excerpted) is Ex. 31 hereto.

Random House cannot meet the very high legal standard for preliminary injunctive relief on this record.

CONCLUSION

For the foregoing reasons, and those set forth in Rosetta's prior brief and exhibits, Random House's motion for preliminary injunction should be denied.

Dated: May 3, 2001

Respectfully submitted,

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

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

Attorneys for Defendants