RANDOM HOUSE V. ROSETTA BOOKS

By Caryn J. Adams

Technological developments in communications media have created new possibilities for the distribution and enjoyment of creative works, but at the same time have produced difficult problems for courts in construing the scope of preexisting contracts and licensing agreements.[1] Courts have traditionally applied recognized principles of contract law where a "new use" has developed long after the original licensing agreements were signed.[2] The results have been mixed, however, as courts have been split over how broadly to interpret old contracts in light of new technological capabilities.[3] *Random House v. Rosetta Books*,[4] which involves the distribution and publication of electronic books ("eBooks") over electronic networks, such as the Internet, is the most recent in this line of cases.

Part I of this Note discusses the technological developments involved in the *Random House* decision. Part II addresses the factual background of the case, the licensing agreements at issue, and the district court's decision. Part III then analyzes the result in *Random House* using both traditional principles of contract interpretation and the reasonableness analysis developed in the new use line of cases and concludes that the decision reached by the District court in *Random House* was arguably inconsistent with precedent in New York and the Second Circuit.

I. BACKGROUND

In many ways, the eBook represents the most significant innovation in publishing technology to emerge since World War II.[5] An eBook is a digi-

1. *See* MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT, § 10.10[B] (2001).

2. *See, e.g.*, Tele-Pac v. Grainger, 570 N.Y.S.2d 521 (N.Y. App. Div. 1991).

3. *See* NIMMER, *supra* note 1, § 10.10[B].

4. 150 F. Supp. 2d 613 (S.D.N.Y. 2001).

5. As early as 1945, authors imagined libraries capable of being accessed and read electronically:

> Consider a future device for individual use, which is a sort of mechanized private file and library . . . . A memex is a device in which an individual stores all his books, records, and communications, and which is mechanized so that it may be consulted with exceeding speed and flexibility. It is an enlarged intimate supplement to his memory . . . . Any given book of his library can thus be called up and consulted with

tal book, read on a computer screen or other electronic device, which is created by converting digitized text into a format readable by computer software.[6] Like all digital files, it cannot be accessed and read without an enabling device, such as a personal computer, personal digital assistant, or a hand-held reading appliance.[7]

The eBook is physically different from the traditional printed book.[8] Nevertheless, eBooks and traditional books share certain significant characteristics.[9] The paper book, like the eBook, presents the original text or content in its complete, full-length form.[10] Moreover, eBooks are often

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> far greater facility than if it were taken from a shelf. As he has several projection positions, he can leave one item in position while he calls up another. He can add marginal notes and comments, taking advantage of one possible type of dry photography, and it could even be arranged so that he can do this by a stylus scheme . . . .

Vannevar Bush, *As We May Think*, 176 ATLANTIC MONTHLY 101 (1945), *available at* http://www.theatlantic.com/unbound/flashbks/computer/bushf.htm (last visited Feb. 10, 2002).

6. *Random House*, 150 F. Supp. 2d at 615.

7. The Microsoft Reader with ClearType and the Adobe Acrobat eBook Reader are two examples of enabling devices. *See ReaderWorks: ePublishing tools for Microsoft Reader*, *at* http://www.overdrive.com/readerworks/ppc/ (last visited Feb 10, 2002); *eBook Central*, *at* http://www.adobe.com/epaper/ebooks/ (last visited Feb 10, 2002). The enabling device may sometimes itself be referred to as an eBook. For simplicity's sake, this Note refers to the content as the eBook and the enabling device as the enabling device or "reader."

8. For a good general introduction to eBooks, see Jamie Engle, *Reader's E-Book Primer: What's an E-Book*, *at* http://www.ebookconnections.com/ReadersPrimer/what's_an_e-book.htm (last visited Feb. 10, 2002):

> Electronic books, or e-books, are books in computer file format and read on all types of computers, including handheld devices designed specifically for reading e-books. E-Books can be as familiar as their print counterparts or as unique as the electronic medium itself.

Id.

9. *Id.* "On its simplest level, an e-book is a book just like any other book," says Phyllis Rossiter Modeland, former editor of the e-book reader electronic magazine *The RunningRiver Reader*™. "It has 'cover' art, a title page, an ISBN, a copyright notice, an editor and publisher for whom it was a labor of love—and an author who wrote it because she or he had to." *Id.*

10. *Random House*, 150 F. Supp.2d at 615 ("Included in a Rosetta ebook is a book cover, title page, copyright page and 'eforward' all created by Rosetta Books . . . the text of the ebook is exactly the same as the text of the original work."). Of course, the eBook may be enhanced by hyperlinks that supplement the original text with new content, which may be anything from definitions or commentary on the original text to links to audio or

marketed to the general public by online publishers as "books"[11] without the word "electronic" as a modifier immediately preceding the word "book."[12]

The development of eBooks and reading appliances designed to make eBooks more user-friendly realize that goal in several important ways.[13] As with traditional paper books, the reader may skim, turn "pages," and read exactly the same text as he would expect to find in his paperback or hardback version.[14] The eBook user can also highlight or "bookmark" text much as a paper book reader might.[15] Like the virtual book reader, the eBook reader may type or write, with a stylus, electronic notes in the margins to be stored for later use.[16] Unlike traditional books, however, the eBook reader can change the font of the text, use a search function to instantly find a desired passage, use hyperlinks to jump to a specific passage or bookmark, and may request the definition of any word in the text.[17] The addition of hyperlinks is especially significant because creating a book with such embedded links almost always entails the creation of works with far more content than a fixed amount of static text.[18] Depending on the

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video works. *Reader's E-Book Primer: What's an E-Book*, *supra* note 8, *at* http://www.ebookconnections.com/ReadersPrimer/what's_an_e-book.htm.

11. *See, e.g., Discover Modern Library eBooks*, *at* http://www.randomhouse.com/modernlibrary/ebooks.html ("Ebooks allow you to purchase, download, and read books through a specialized ebook device. . . .") (last visited Feb. 10, 2002); *Ballantine Books: Category: eBook*, *at* http://www.randomhouse.com/BB/ebooks.html ("An eBook is a digital version of a print book.") (last visited Feb. 10, 2002).

12. *See, e.g.*, National Writers Union, *Contract Issues Books Published Online*, *available at* http://www.nwu.org//docs/online-p.htm (last modified April 16, 1997) ("We're now at the threshold of another form of book distribution . . . .").

13. Bill N. Schilit et al., *As We May Read: The Reading Appliance Revolution*, COMPUTER, Jan. 1999, at 65, *available at* http://www.fxpal.com/PapersAndAbstracts/abstracts/sch99.htm.

14. *See Reader's E-Book Primer: What's an E-Book*, *supra* note 8, *at* http://www.ebookconnections.com/ReadersPrimer/what's_an_e-book.htm; James Sachs, *SoftbookPress: Marketing a Paperless Reading System*, INSTITUTE FOR CYBERINFORMATION (Summer 1998), *at* http://futureprint.kent.edu/articles/sachs01.htm.

15. *Random House*, 150 F. Supp. 2d at 615

16. *Id.*

17. Hyperlinks are embedded links which, when clicked with a mouse, immediately transport the reader to another part of the work or to other texts, audio, video, or other digital elements which are outside the book itself but accessible through the Internet. *See* National Writers Union, *supra* note 12, *at* http://www.nwu.org//docs/online-p.htm (last modified April 16, 1997).

18. *Id.*

enabling device and software, the eBook can even be read aloud to the user by means of a synthetic speech engine.[19]

Because eBooks are in digital format, they are particularly susceptible to copyright infringement.[20] Some eBooks, such as those sold by defendant Rosetta, incorporate security features designed to prevent copyright infringement.[21] The reader may be prevented from printing, copying, emailing, or otherwise distributing the eBook in whole or in part without first bypassing certain security features.[22] Although bypassing the eBook's security is technologically possible, to do so is a violation of the licensing agreement accompanying the software.[23]

The introduction of eBook technology to the marketplace raises questions regarding who owns the right to license eBooks under existing licensing agreements.[24] This question is especially important to those traditional publishers who have themselves moved into the e-publishing arena.[25] *Random House v. Rosetta Books* is the first case to address these questions.

II. CASE SUMMARY

A. New and Old Licensing Agreements

In 2000 and early 2001, Rosetta Books executed contracts with several authors, including Kurt Vonnegut, William Styron and Robert B. Parker, giving Rosetta the rights to publish their literary works, previously published by Random House in virtual book form, as eBooks.[26] On February 26, 2001, Rosetta Books launched its website, www.rosettabooks.com,

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19. *See, e.g., Microsoft Reader with ClearType*, *at* http://www.Microsoft.com/reader/accessibility.asp (last visited Feb. 10, 2002) (description of Microsoft Reader Text-To-Speech Package 1.0).

20. *See, e.g.*, Kurt Foss, *DEF CON 9'Hacker Fest' Includes Talk on eBook Security*, PLANET EBOOK (July 11, 2001), *at* http://www.planetebook.com/mainpage.asp ("There is one big problem that related with ebooks [sic] .... Information in electronic form could be duplicated and transmitted, and there is no reliable way to take control over that processes."); James Middleton, *eBook Hacker Brought to Book*, vnunet.com (Nov. 11, 2001), *at* http://www.vnunet.com/News/1127096 (discussing the case against Dmitri Sklyarov, the Russian programmer who broke the encryption on Adobe's eBook software).

21. *Random House*, 150 F. Supp. 2d at 615.

22. *Id.*

23. *Id.*

24. *Id.* at 614.

25. Random House is one such publisher. *See* Random House, *DiscoverModern Library eBooks at* http://www.randomhouse.com/modernlibrary/ebooks.html (last visited Feb 10, 2002).

26. *Random House*, 150 F. Supp. 2d at 614.

offering familiar titles such as *The Confessions of Nat Turner* and *Sophie's Choice* by William Styron; *Slaughterhouse-Five*, *Breakfast of Champions*, *The Sirens of Titan*, *Cat's Cradle*, and *Player Piano* by Kurt Vonnegut; and *Promised Land* by Robert B. Parker.[27]

The next day, Random House filed a complaint against Rosetta Books.[28] The complaint alleged copyright infringement and tortious interference with the contracts Random House had with Styron, Vonnegut, and Parker.[29] Random House accordingly requested that the district court grant a preliminary injunction preventing Rosetta Books from infringing Random House's copyrights.[30]

Random House's claims arise from various licensing agreements that it entered into with the three authors, all of which grant Random House the right to "print, publish and sell the work in book form."[31] The licensing agreements between Random House and Styron date back to 1961.[32] Besides granting Random House the right to "print, publish and sell the work[s] in book form," the Styron agreements also gave Random House various related rights, including the rights to license publications of reprint editions, publications of the works in whole or shortened forms in anthologies and school books, publications of the works by book clubs, and publications or broadcasts of selections from the works for publicity purposes.[33] In contrast, Random House was not granted the right to license publications in the British Commonwealth or in foreign languages.[34] Both licensing agreements also contained noncompetition clauses.[35]

Vonnegut entered into two licensing agreements with Random House in 1967 and 1970, which gave Random House similar rights, although Vonnegut specifically reserved for himself in the 1967 contract the "dramatic . . . motion picture (silent and sound) . . . radio broadcasting (including mechanical renditions and/or recordings of the text) . . . [and] televi-

27. *Id.*
28. *Id.*
29. *Id.*
30. *Id.*
31. *Id.* at 615.
32. *Id.*
33. *Id.* at 615-16. Random House also acquired the right to license without charge publication of the work for the physically handicapped (*e.g.* in Braille). *Id.* at 616.
34. *Id.*
35. *Id.*

sion rights."[36] Unlike Styron's agreements and Vonnegut's 1970 contract, Vonnegut's 1967 contract did not contain a noncompetition clause.[37]

Robert B. Parker's contract granting Dell[38] the right to publish *Promised Land* also contains a noncompetition clause which states, in pertinent part, "[t]he Author . . . will not, without the written permission of Dell, publish or permit to be published any material based on the material in the Work, or which is reasonably likely to injure its sale."[39] In other respects, Parker's agreement resembles Vonnegut's 1970 contract with Random House: both grant various rights related to the right to print and publish the book in book form to the publisher, but reserve for the author certain other important rights.[40] In Parker's case, these rights included those related to the licensing of dramatic works, motion pictures, radio broadcasting, television, and mechanical or electronic readings of the text.[41]

B. The District Court's Opinion

The district court denied Random House's motion for a preliminary injunction against Rosetta, holding that Random House "is not the beneficial owner of the right to publish the eight works at issue as eBooks," and was therefore unlikely to succeed at trial on the merits on its claim of copyright infringement.[42] The court reasoned that in order to win its motion for a preliminary injunction, Random House would have to have shown both irreparable harm and either a likelihood of success on the merits or serious questions about the merits.[43] To achieve the latter, generally, the party requesting relief must demonstrate that the dispute over the merits of the case is sufficiently serious to constitute a fair ground for litigation and that the "balance of hardships" tips in its favor.[44] Finally, the moving party, Random House, could have raised a presumption of irreparable harm by establishing a *prima facie* case of copyright infringement.[45]

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36. *Id.* (parentheses and brackets in original). Vonnegut reserved largely the same rights for himself under the 1970 contract. *Id.*

37. *Id.*

38. The Bantam Dell Publishing Group is a subsidiary of Random House, Inc. *Bantam Dell Publishing Group, at* http://www.randomhouse.com/bantamdell/ (last visited Feb 10, 2002).

39. *Random House*, 150 F. Supp. 2d at 617.

40. *Id.* at 616-17.

41. *Id.*

42. *Id.* at 624.

43. *Id.* at 617 (citing Abkco Music v. Stellar Records, 96 F.3d 60, 64 (2d Cir. 1996)).

44. *Id.* at 617.

45. *Id.*

In addressing the merits of the case, the court held that Random House could show neither irreparable harm nor a likelihood of success on the merits based on Random House's failure to establish a *prima facie* case of copyright infringement.[46] The court held with respect to all contracts at issue that Random House failed to prove the ownership of a valid copyright, one of the two elements of a *prima facie* case of infringement, with respect to the digital version of the authors' works.[47] The court further found that since Random House was not the beneficial owner of the right to publish the works as eBooks, it had no standing to institute an action for infringement.[48]

Since the word "eBook" does not appear in any of the contracts at issue, the court reached its conclusion that Random House did not have the right to publish the authors' works as eBooks by applying well established principles of contract interpretation.[49] For example, it held that the interpretation of an agreement purporting to grant a copyright license is a matter of state contract law.[50] New York law dictates that a contract be interpreted to give effect to the intentions of the parties as reasonably revealed by the contract language itself.[51] If the meaning is ambiguous, then interpretation of the contract is a question of fact for the court to determine on the basis of all evidence, including extrinsic evidence.[52]

Applying these principles, the court determined that the right to "print, publish and sell the work in book form" could not be reasonably interpreted to include the right to publish the work as an eBook.[53] First, examining the contract language, the court found that the words "in book form" have a specific meaning.[54] The court defined a book as "sheets of paper fastened or bound together within covers."[55] Moreover, the court determined that it could not be shown that the parties' intended the grant of

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46. *Id.* at 624.

47. Feist Publ'ns v. Rural Tel. Serv. Co., 499 U.S. 340, 361 (1991). The other element of a *prima facie* case is the "copying of constituent elements of the work that are original." *Id.*

48. *Random House*, 150 F. Supp. 2d at 624.

49. *Id.* at 620.

50. *Id.* at 618; *see also* Flack v. Friends of Queen Catherine, 139 F. Supp. 2d. 526, 536 (S.D.N.Y. 2001).

51. *Random House*, 150 F. Supp. 2d at 618 (citing Terwilliger v. Terwilliger, 206 F.3d 240, 245 (2d Cir. 2000)).

52. *Id.* at 618 (citing Seiden Assocs. v. ANC Holdings, 959 F.2d 425, 428 (2d Cir. 1992)).

53. *Id.* at 620.

54. *Id.*

55. *Id.* (citing the RANDOM HOUSE WEBSTER'S UNABRIDGED DICTIONARY (2001)).

rights to publish "in book form" to be all encompassing.[56] For example, specific clauses conveying to the publisher the rights to publish "book club editions, reprint editions, abridged forms, and editions in Braille" imply the exclusion of the right to publish all unmentioned types of print publications.[57]

Second, the court interpreted all the contracts as granting narrow rights to the publisher.[58] In several cases, the authors retained certain rights by drawing a line through portions of the printed contract where additional rights of the publisher were detailed.[59] Additionally, evidence was provided to show that the right to publish a work "in book form" is understood in the publishing industry to be a "limited" grant.[60] According to the court, "the publishing industry generally interprets the phrase 'in book form' as granting the publisher 'the exclusive right to publish a hardcover trade book in English for distribution in North America.'"[61]

The court also found that the presence of noncompetition clauses in some of the agreements did not mean that the authors had granted Random House the right to publish eBooks.[62] Only noncompetition clauses limited in scope are enforceable in New York.[63] Further, even if the noncompetition clauses did prevent the authors from contracting with Rosetta Books, Random House would only be a entitled to bring a breach of contract action against the authors; it would not have sufficient cause to prove a copyright infringement action against Rosetta.[64]

Finally, the court concluded that "[t]he finding that the five licensing agreements at issue do not convey the right to publish the works as eBooks accords with Second Circuit and New York case law," i.e., the prior new use case law in that jurisdiction.[65] New use cases arise where it

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56. *Id.*

57. *Id.*

58. *Id.* at 620-21.

59. *Id.* at 620.

60. *Id.* at 621-22. *See also* Field v. True Comics, 89 F. Supp. 611, 613-14 (S.D.N.Y. 1950); NIMMER ON COPYRIGHT, *supra* note 1, § 10.14[C] (citing *Field*, 89 F. Supp. at 613-14).

61. *Random House*, 150 F. Supp. 2d at 622 (quoting ALEXANDER LINDLEY, 1 LINDLEY ON ENTERTAINMENT, PUBLISHING, AND THE ARTS 1.01-1 (2d ed. 2000)). The court noted, however, that the phrase, "in book form," outside the context of a specific contract, "may include other forms of books such as book club editions, large print editions, leather bound editions, trade and mass market paperbacks." *Random House*, 150 F. Supp. 2d at 622.

62. *Id.* at 621.

63. *Id.*

64. *Id.*

65. *Id.* at 622.

is unclear whether "licensees may exploit licensed works through new marketing channels made possible by technologies developed after the licensing contract."[66] The court distinguished *Random House* from prior new use cases based on the limited scope of the contract language, existence of two separate mediums, nature of the copyrighted work, and absence of anti-progressive incentives.[67]

Characterizing the decision as "neither a victory for the technophiles nor a defeat for Luddites," the court denied plaintiff's motion for a preliminary injunction.[68] On September 13, 2001, Random House appealed the decision of the district court.[69] The Court of Appeals has not yet set a date for oral arguments.[70]

III. DISCUSSION

Random House is typical of new use cases in that it centers around the interpretation of a few words which were probably not ambiguous when the licensing agreement was written, but have become ambiguous in light of technological developments in the communications industry.[71] Specifically at issue in *Random House* is the phrase "in book form," which appears in each of the licensing agreements.[72] Under New York contract law principles, the court could have reasonably interpreted the term "in book form" either strictly, including only traditional paper-based books, as it seems to have done in *Random House*, or broadly, to include new forms of book distribution.

To the extent that the interpretation of "in book form" is an open question under these principles, the developing line of new use cases is especially instructive. Recently, the Second Circuit has tended to interpret con-

66. *Id.* at 618 (citing Boosey & Hawkes Music Publishers v. Walt Disney, 145 F.3d 481, 486 (2d Cir. 1998)).

67. *Random House*, 150 F. Supp. 2d 622-23.

68. *Id.* at 624.

69. The appeal, reply to the appeal, and other court documents can be accessed from Rosetta Books' website *at* http://www.rosettabooks.com/pages/legal.html (last visited Feb. 10, 2002).

70. *Id.*

71. *See, e.g.*, Tele-Pac v. Grainger, 570 N.Y.S.2d 521 (1991) (interpreting "broadcasting television"); Bartsch v. Metro-Goldwyn-Mayer, 391 F.2d 150 (2d Cir. 1968), *cert. denied*, 393 U.S. 826 (1968) (interpreting the word "exhibit"); Bourne v. Walt Disney, 68 F.3d 621 (2d Cir. 1995), *cert. denied*, 517 U.S. 1240 (1996) (disputing the meaning of "motion picture").

72. *Random House*, 150 F. Supp. 2d at 615.

tracts in new use cases broadly.[73] Had the court applied this expansive approach to the facts in *Random House*, the dispute might have been resolved differently.

A. Interpreting "In Book Form"

Contract interpretation is governed by state law even though the subject matter in question may come within the scope of federal copyright law.[74] Under New York law, which governs each of the specific publishing agreements in this case, contract language, such as the phrase "in book form," must be construed in accordance with its plain and ordinary meaning.[75] Further, the written contract should be interpreted in accordance with the contracting parties' intentions as expressed by the language used in the contract itself to the greatest extent possible.[76] Any ambiguity or conflict in the language "must be resolved against the party who drew the contract," in this case Random House.[77]

The plain meaning of the contract language employed in the original licensing agreements does not limit Random House's publication rights to one specific form of book. Therefore, the pertinent question to ask is whether or not an eBook is distributed to readers "in book form." If a book is defined by its traditional physical characteristics, such as paper successively numbered and bound between two covers, then an eBook clearly falls outside this definition. There are several reasons, however, not to construe the phrase "in book form" so narrowly.

First, paper-based books and eBooks are functionally equivalent in that the reader experiences both a virtual book and an eBook in comparable ways.[78] In both cases, text is most usually read in a linear fashion, from the beginning of the story to the end. The reader may also "flip," physically or electronically, to a desired passage, thereby experiencing the book nonlinearly.[79] The reader of both the paper book and the eBook may high-

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73. *See, e.g., Bourne*, 68 F.3d at 630 (interpreting the phrase "motion picture" as including videocassettes).

74. *Bartsch*, 391 F.2d at 153-54.

75. *Tele-Pac*, 570 N.Y.S.2d at 523; *see also* W.W.W. Assoc. v. Giancontiere, 566 N.E.2d 639 (N.Y. 1990).

76. Terwilliger v. Terwilliger, 206 F.3d 240, 245 (2d Cir. 2000).

77. Certified Fence v. Felix Indus., 687 N.Y.S.2d 682, 683 (1999); Chatterjee Fund Mgmt. v. Dimensional Media Assoc., 687 N.Y.S.2d 364, 365 (1999) (any ambiguity in the contract language must be construed against plaintiff as drafter of the document).

78. An analogous situation arises in cases involving movies: the movie viewer at the theater experiences the film in a way comparable to the viewer who watches the film at home on videocassette. *See Bourne*, 68 F.3d at 630.

79. An eBook reader could accomplish this, for example, via embedded hyperlinks.

light certain passages, insert bookmarks, or make notes in the margin.[80] It is possible that as eBook technology develops even further, the differences may be even further diminished.[81]

This is not to say, however, that there are no differences between virtual books and eBooks. For example, a reader of a virtual book would be hard-pressed to find all the instances of a single word in her paperback novel, whereas an eBook reader could use a search function to accomplish this task in very little time.[82] Additionally, consumers can update and download eBooks immediately, granting them access to the most current digital encyclopedias and schoolbooks, for example.[83] However, the significant functional similarities between paper books and Rosetta's eBooks weigh in favor of treating an eBook as simply another kind of "book."

Second, one may argue that popular conceptions about what constitutes "in book form" have already expanded in publishing circles to include both compact discs containing the text and the eBook.[84] Rosetta's own marketing, while making a formal distinction between "physical" books and "virtual" books, goes on to treat both types of book the same.[85] The view that eBooks are books is supported by publishers of eBooks and eBook reading appliances, such as Microsoft Reader and Adobe, both of

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80. Of course, it is vastly easier to rid an electronic text of highlights and margin notes once the reader no longer requires them, returning the eBook to a pristine state.

81. *See, e.g.*, Douglas Boling, *The Book of the Future*, MICROSOFT INTERACTIVE DEVELOPER, Oct. 1998, *at* http://www.microsoft.com/mind/1098/flux/flux1098.htm (discussing the development of electronic books which use electronic ink "sprayed" on flexible pages).

82. This function, however, is not currently part of Rosetta's software and is therefore not offered in connection with the eBooks Rosetta sells.

83. Jamie Engle, *Reader's E-Book Primer: Benefits*, *at* http://www.ebookconnections.com/ReadersPrimer/benefits.htm (last visited Feb 10, 2002).

84. *See, e.g.*, National Writers Union, *supra* note 12 *at* http://www.nwu.org/docs/online-p.htm (last modified April 16, 1997):

> For centuries there was little doubt about what constituted a book . . . . In the past few years the definition has extended to compact discs containing audio, video, and other digital elements along with text . . . .We're now at the threshold of another form of book distribution in which only the words themselves and accompanying material are conveyed—via electronic networks. Online book publishing is still in its infancy . . . .

85. Rosetta Books, *About eBooks*, *at* http://www.rosettabooks.com/pages/about_ebooks.html (last visited Feb. 10, 2002) ("An e-book, or electronic book, is a digital book that you can read on a computer screen or electronic device.").

whom advertise that the eBook displays text in a form nearly identical to the font of a hardcover book.[86]

In contrast to this contemporary treatment of eBooks as books, the district court in *Random House* found that traditional publishing industry practice revealed that a license to print, publish, and distribute a work "in book form" bestowed merely a narrow grant of rights.[87] For example, in *Field v. True Comics*, the court held that "the sole and exclusive right to publish, print and market *in book form*," especially when the author had specifically reserved rights for himself, was "much more limited" than "the sole and exclusive right to publish, print and market the book."[88]

However, the District court's reliance on *Field* is misplaced, since the facts and the scope of the disputed contract in *Field* are significantly different from those in *Random House*. *Field* involved the question of whether the publisher had the right to publish an eight-page comic strip based on, but different from, an original work when his license granted him only the right to publish the work "in book form."[89] However, as has been stated, the content of an eBook is almost identical to the content of its paper-based counterpart.[90] Moreover, the court's narrow interpretation of the disputed contract language in *Field* is consistent with the pub-

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86. *The Microsoft eBooks Story*, *at* http://www.microsoft.com/reader/info.asp (last visited Feb 10, 2002):

> ClearType enhances display resolution by as much as 300 percent by improving letter shapes and character spacing, making them appear more detailed, more finely crafted, and more like printed fonts .... Books need not be confined to the physical qualities of their pages .... [A] book is really a magical thing that disappears when you read it. The book itself, whether it's made of ink on paper or pixels on a screen, seems to evaporate when you become immersed in the act of reading .... That's the kind of experience you can have using Microsoft Reader with ClearType.

See also Adobe Acrobat eBook Reader 2.2, *at* http://www.adobe.com/products/ebookreader/main.html (last visited Feb. 10, 2002) ("Only this reader software displays eBooks with the pictures, graphics, and rich fonts you've come to expect from printed books.").

87. Field v. True Comics, 89 F. Supp. 611, 612 (S.D.N.Y. 1950).

88. *Id.* (emphasis added). According to the district court, "the publishing industry generally interprets the phrase 'in book form' as granting the publisher 'the exclusive right to publish a hardcover trade book in English for distribution in North America.'" *Id.* (quoting LINDLEY, *supra* note 61, at 1.01-1).

89. *See* Random House v. Rosetta Books, 150 F. Supp. 2d 613, 621-22 (S.D.N.Y. 2001).

90. *See id.* at 615; *see also supra* text accompanying notes 11-13.

lisher's limited rights under the contract.[91] On the other hand, Random House's contract rights are comparatively broad.[92]

Finally, traditional analysis of industry practice usually focuses on the time the contract was formed. This analysis is less likely to be illustrative of the parties' intentions when the use in question is a new one, based on technology developed since the contract's execution.[93] For example, was a licensing agreement concerning "motion picture" rights signed in 1928 intended to include within its scope only what was technologically possible at the time, or would new forms of motion picture distribution, such as the videocassette and the DVD, fall within the scope of the contract as the technology developed?[94] If Justice Henry Friendly was right to say that "any effort to reconstruct what the parties actually intended nearly forty years ago is doomed to failure,"[95] then how *are* courts to determine such cases?

B. The New Use Cases

Where the parties' intentions with regards to new uses are not clear, courts have taken one of two approaches to the problem of contract inter-

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91. *See* Random House Reply Brief at 15, *Random House* (No. 01-1728), *available at* http://www.rosettabooks.com/casedocs/Random_House_Reply_Brief.pdf (Feb. 11, 2002):

> [S]everal of the contracts give Random House the right to publish "in such style and manner" as it "deems suitable" (1961 Styron Contract, Sarnoff Aff., Ex. A at ¶ 2; 1979 Styron Contract, Sarnoff Aff., Ex. B at ¶ 6), and several grant the right to publish the Works via forms of copying "either now in use or hereafter developed" (1967 Vonnegut Contract, Sarnoff Aff., Ex. C at ¶ 1.d; 1970 Vonnegut Contract, Sarnoff Aff., Ex. D at ¶ 1.d; Parker Contract, Sarnoff Aff., Ex. E at ¶ 1.d). Others prevent the authors from "publish[ing] or permit[ting] to be published any material in book or pamphlet form, based on material in the work" (1961 Styron Contract, Sarnoff Aff., Ex. A at ¶ 8; Parker Contract, Sarnoff Aff., Ex. E at ¶ 18).

92. *Id.*

93. *See* Boosey & Hawkes Music Publishers v. Walt Disney, 145 F.3d 481, 488 (2d Cir. 1998) ("[I]ndustry custom [is not] likely to illuminate the intent of the parties, because the use in question was, by hypothesis, new, and could not have been the subject of prior negotiations or established practice.").

94. The Second Circuit held in *Bourne v. Disney*, a recently new use case, that the phrase "motion pictures" extends to videocassettes, even if videocassette technology did not exist at the time of the contract. *See* Gayley Rosen, *The Rights to Future Technologies: Should Bourne v. Disney Change the Rules?*, 24 FORDHAM URB. L.J. 617, 618 (Spring 1997).

95. Bartsch v. Metro-Goldwyn-Mayer, 391 F.2d 150, 155 (2d Cir. 1968), *cert. denied*, 393 U.S. 826 (1968).

pretation.[96] Courts applying the first, narrow approach generally hold that a license of rights in a given medium (i.e., "motion picture rights") includes only such uses as fall within the unambiguous core meaning of the term (e.g., exhibition of motion picture film in motion picture theaters) and excludes any uses that lie within the ambiguous penumbra (e.g., exhibition of motion picture film on television or on videocassettes).[97] Thus, if the grant of rights is not expressly granted in the contract, the author retains the rights. The First and Ninth Circuits have adopted this standard.[98] To courts applying this approach, a right to publish "in book form" would most certainly include only the right to publish the work as a virtual book and not as an electronic book.

Under the alternative, dominant approach, the court would determine whether the contract language, read as to admit any reasonable interpretation, is broad enough to authorize the new use.[99] This is the approach taken by the Second Circuit in its leading new use cases, *Bartsch v. Metro-Goldwyn-Mayer, Inc.*, *Boosey & Hawkes Music Publishers, Ltd v. Walt Disney Co.*, and *Bourne v. Walt Disney Co.*[100] Further, in interpreting contracts in the light of new technology, the actual language used in the contract, not extrinsic evidence of the intent of the contracting parties at the time, is controlling.[101]

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96. As has been previously stated, new use cases, like *Random House*, involve disputes about whether licensees may exploit licensed works through new marketing channels made possible by technologies developed after the licensing contract. *See Boosey*, 145 F.3d at 486.

97. NIMMER, *supra* note 1, § 10.10[B].

98. Rosen, *supra* note 94, at 622 (citing Cohen v. Paramount Pictures, 845 F.2d 851 (9th Cir. 1988), and Rey v. Lafferty, 990 F.2d 1379 (1st Cir. 1993), as examples).

99. NIMMER, *supra* note 1, § 10.10[B]:

> [T]he licensee may properly pursue any uses that may reasonably be said to fall within the medium as described in the license. This would include uses within the ambiguous penumbra because if whether or not a given use falls within the description of the medium is ambiguous, it must, by definition, mean that it is within the medium in a reasonable sense (albeit this is not the only reasonable sense). "In other words, the question before the court is not whether he [the licensee] gave the words the right meaning, but whether or not the words authorized the meaning he gives them."

(quoting CURTIS, A BETTER THEORY OF LEGAL INTERPRETATIONS: JURISPRUDENCE IN ACTION 135, 157 (1953)).

100. *Boosey*, 145 F.3d 481; *Bartsch*, 391 F.2d 150; Bourne v. Walt Disney, 68 F.3d 621 (2d Cir. 1995), *cert. denied*, 517 U.S. 1240 (1996). The *Random House* court focused its analysis on *Boosey* and *Bartsch*. Random House v. Rosetta Books, 150 F. Supp. 2d 613, 618-19 (S.D.N.Y. 2001).

101. *Boosey*, 145 F.3d at 481.

The dispute in *Bartsch* turned on the meaning of the phrases "exhibition" and "motion picture," and specifically whether or not the right to exhibit motion pictures included the right to distribute the work as a television broadcast.[102] In 1930, the author of the play "Maytime" granted Harry Bartsch worldwide motion picture rights to the play, including the right to copyright, vend, license, exhibit, and transmit or otherwise reproduce such motion picture photoplays by the art of cinematography "or any process analogous thereto."[103] These rights were eventually assigned to Metro Goldwyn-Mayer, "MGM," which licensed its motion picture "Maytime" for television viewing in 1958.[104] Bartsch sued, claiming the right to distribute the play as a television broadcast was not within those rights granted to MGM.[105]

The *Bartsch* court found that since the contract was designed to give MGM a broad grant of motion picture rights, the clause granting the licensee the right to "exhibit" the work should also be broadly interpreted.[106] The court observed that if Bartsch or his assignors had wanted to limit their grant of rights to traditional exhibition of the play as a motion picture in a movie theater, they could have done so.[107]

The agreement at issue in *Boosey* gave the licensee the right "to record in any manner, medium or form, and to license the performance of, the musical composition [for use] in a motion picture."[108] The plaintiff, who was the assignee of Igor Stravinsky's copyrights in the musical composition "The Rite of Spring," argued that the agreement authorized the use of the musical work in the motion picture "Fantasia," but not the right to use the Stravinsky work in video format.[109] The court held, however, that the language of the grant was broad enough to authorize Disney's use of the work in video format, even though the original grant did not contemplate such a use.[110]

The court in *Bourne* addressed the role of the parties' intent at the time the contract was signed.[111] This new use case involved a dispute over

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102. *See Bartsch*, 391 F. 2d at 151.
103. *Id.* at 150, 153.
104. *Id.* at 152.
105. *See id.*
106. *Id.* at 155.
107. *Id.*
108. Boosey & Hawkes Music Publishers v. Walt Disney, 145 F.3d 481, 484 (2d Cir. 1998).
109. *Id.* at 483-84.
110. For a succinct summary of *Boosey*, see Random House v. Rosetta Books, 150 F. Supp. 2d 613, 619 (S.D.N.Y. 2001).
111. *See generally* Rosen, *supra* note 94.

whether two copyright agreements between Disney and songwriter Irving Berlin included the rights to use Berlin's music on videocassettes.[112] *Bourne* seems to hold that the parties are not required to contemplate or be aware of the possible new use at the time of original contract.[113] In fact, *Bourne* seems to indicate that the Second Circuit will read all contracts as broadly as the plain language reasonably allows *at the time of interpretation*, taking into account technological advances not in existence at the time the contract was written.[114] Moreover, broad grant language, which facilitated the courts' expansive interpretations of the *Bartsch* and *Boosey* licenses, is absent from the *Bourne* contract.[115] Therefore, the court in *Random House* could have found that, at the time the case came before the court, the publishing industry considered eBooks to be like a virtual book and interpreted the grant of rights to Random House accordingly.

Despite these precedents, the court in *Random House* distinguished the case from the Second Circuit's line of new use cases on four grounds.[116] First, the court argued that the conveying language in the *Boosey* and *Bartsch* licensing agreements was "far broader" than that in *Random House*.[117] Second, the new use in *Boosey* and *Bartsch* fell within the same medium as the original grant.[118] Third, whereas *Boosey* and *Bartsch* involved the creation of new works—where the right to display the new work is derivative of the right to create that work—the publishers in *Random House* merely displayed the words written by the author.[119] Fourth, reserving the rights to license eBooks for the authors did not implicate any anti-progressive incentives.[120]

None of these four grounds are persuasive. First, the key question in *Random House* should not involve the breadth of the granting language in the abstract, but should inquire specifically into whether the contract language used is broad enough to encompass the digital form of the work. This approach would be consistent not only with *Bartsch* and *Boosey*, but also with *Bourne*. The question of whether the phrase "in book form" is broad enough to include the publication of eBooks over the Internet turns on whether or not an eBook is a book or something else altogether. Given

112. Bourne v. Walt Disney, 68 F.3d 621, 623-24 (2d Cir. 1995), *cert. denied*, 517 U.S. 1240 (1996).

113. *See* Rosen, *supra* note 94, at 628-29.

114. *Id.* at 628 (citing *Bourne*, 68 F.3d at 630).

115. *Id.* at 630.

116. Random House v. Rosetta Books, 150 F. Supp. 2d 613, 622-23 (S.D.N.Y. 2001).

117. *Id.* at 622.

118. *Id.* at 622-23.

119. *Id.* at 623.

120. *Id.*

the functional and conceptual similarities between digital and paper books, as discussed above, a court interpreting the phrase "in book form" could reasonably include eBooks within the ambit of the contracts' language.

Second, the reasonableness of the broad interpretation should depend not on formal distinctions such as whether print books and eBooks belong to the same medium,[121] but rather on their functions and the ways in which the readers experience the works. Few will dispute that traditional print technology is vastly different from digital technology, just as few dispute that the technology involved in projecting a film reel onto a screen is different from the technology involved in viewing the same film on one's VCR. In both cases, whether a new distribution mechanism falls within the scope of the license at issue in the Second Circuit depends on "whether the 'fundamental characteristic' of the intellectual property involved—here, a faithful presentation of the author's text—remains unaltered . . . . If so, 'the physical form in which the work is fixed—film, tape, discs, and so forth—is irrelevant.'"[122]

The third prong of the court's test for distinguishing *Random House* from other Second Circuit new use cases asks whether the new use creates a new work, distinct from the original.[123] This was significant to the court because the right to display the new work is derivative of the right to create that work, as opposed to the right of the publisher to display the author's work.[124] However, the inquiry into whether a new work has been created has nothing to do with the crucial question of whether the contract language reasonably accommodates the use. Indeed, the court's preference for the creation of new works seems counter-intuitive in the new use context. It seems more logical that the *closer* the new use is in form to the original use, the more likely it will be that the contract language will be broad enough to cover the new use.

Finally, contrary to the assumptions made by the district court in *Random House*, there are no anti-progressive incentives involved in giving eBook publishing rights to Random House and similarly situated publishers. Allocating the rights in such a fashion undoubtedly raises questions

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121. Dictionary.com defines "medium" as "[a]n intervening substance through which something else is transmitted or carried on; an agency by which something is accomplished, conveyed, or transferred." *See* dictionary.com, *at* http://www.dictionary.com (last visited Feb. 10, 2002).

122. Random House Reply Brief, *supra* note 91, at 4 (quoting Bourne v. Walt Disney, 68 F.3d 621, 630 (2d Cir. 1995), *cert. denied*, 517 U.S. 1240 (1996)). *Accord* L.C. Page & Co. v. Fox Film Corp., 83 F.2d 196, 199 (2d Cir. 1936).

123. *Random House*, 150 F. Supp. 2d at 623.

124. *Id.*

concerning the fairness of the distribution, which should be answered by the reasonableness analysis already discussed. It does not, however, inherently hinder the progression of technological development. To the contrary, if electronic publishing becomes lucrative, and if traditional publishers are assigned the rights, then it seems likely that traditional publishers will be become e-publishers. In fact, Random House currently sells eBooks through Ballantine, the Modern Library, and books@Random, three of its divisions.[125] Moreover, eBook publishers are free to sign contracts for new works with authors.

IV. CONCLUSION

With the exception of *Random House*, courts have not yet widely tested the new use line of cases.[126] However, litigation in this area is likely in the near future, especially because courts remain split on the proper approach to new use issues.[127] Adoption of the Second Circuit's broad approach, which looks to the reasonableness of a particular interpretation of contract language at the time the suit is brought rather than at the time the contract was signed, would provide both courts and contracting parties with greater flexibility when addressing uses made possible by rapidly developing technology. This reasonableness analysis should take into account the important functional similarities between the proposed new use and the use covered in the contract from the perspective of the end user or consumer. Finally, the reasonableness of a given interpretation should be informed by the perception and treatment of the new use by the general public and industry members.

125. *See, e.g.*, *The ModernLibrary: Discover ModernLibrary eBooks*, *at* http://www.randomhouse.com/modernlibrary/ebooks.html (last visited Feb 10, 2002). *But see eBooks news-briefs*, *at* http://www.artmedia.com.au/news.htm (last visited Feb 10, 2002) ("In another blow for the fledgling electronic book market, Time Warner Books announced Tuesday it was shutting down its e-publishing division, iPublish.com.").

126. Christine Lepera, *Litigating in Cyberspace*, 662 PLI/PAT 773, 794 (2001).

127. *Id.*