

# Contract Issues Relating to Electronic Rights in Publishing

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## Introduction

With the emergence of eBooks as a viable product in the marketplace, the publishing ecosystem has undergone—and continues to undergo—significant change. Inevitably, this change has resulted in new contractual issues between authors and publishers, particularly regarding the exploitation of the authors' content in electronic format.

This article will first provide some basic, sample definitions of the different types of electronic rights that typically arise in new publishing agreements, some key issues that arise with regard to each of these rights, and a brief summary of other options that are available to authors if negotiations break down between the parties.

The article will not address the status of older publishing agreements, where there might be a lack of clarity as to whether electronic rights were granted, but recommend familiarity with *Random House, Inc. v. Rosetta Books LLC*,<sup>1</sup> as well as recent news coverage and litigation on this issue as it relates to such titles as *Julie of the Wolves* by Jean Craighead George and *Portnoy's Complaint* by Philip Roth.<sup>2</sup>

Finally, it should be noted that as author advocates, this article skews in favor of writers and the protection of their copyright interests.

## Sample Definitions

There is no uniform definition of electronic rights among publishers in their various publishing agreements, but for the ease of analysis, below are three sample definitions. Please note that some publishers lump all three types of electronic rights described below into a single definition, while others combine two of the rights while providing a separate definition for the third. Further, keep in mind that the actual title (e.g., "electronic book," "electronic text," or "digital version") of the right described varies among publishers as well, even when the description of the right is the same.

**"Electronic Book Rights"** shall mean the exclusive right to publish, and to authorize others to publish, the verbatim text of the Work in whole or in part (such as abridgements and condensations subject to Author's prior approval, not to be unreasonably withheld or delayed), in visual form for reading, by any electronic, electromagnetic or other means of storage, retrieval, distribution or transmission now known or hereafter devised, but without any additions or changes, such as additional text, sounds, images, enhancements, animation, or interactivity.

This definition describes the eBook most commonly created and read today—meaning that the eBook is a verbatim rendering of the printed version of the book. It provides for the author's approval over changes to the text, which is a point that is negotiated into most agreements by authors' agents and attorneys.

**"Enhanced E-Book Rights"** shall mean the exclusive right to adapt and publish, and to authorize others to adapt and publish, the Work or any portion thereof for one or more "enhanced E-Books." As used herein, an "enhanced E-Book" shall mean an adaptation of the Work incorporating elements from sources other than the text of the Work including still photographs and illustrations, non-dramatic, light animation of the existing elements of the Work, sound and other text, for publication by any electronic, electromagnetic or other means of storage, retrieval, distribution or transmission now known or hereafter devised, provided, however, that if Motion Picture and Television Rights are not also granted to the Publisher by this Agreement, Enhanced E-Book Rights do not include the right to create and use dramatic versions of the Work in electronic media.

With the introduction of the iPad and other tablets, as well as continued refinement of eBook readers such as the Kindle and Nook, publishers are now able to add content (such as video, audio clips, hyperlinks) to a Work published in eBook form. While the line between an enhanced eBook and an "App" (defined below) is often difficult to determine, typically (at least as of the date of this writing) enhanced eBooks are sold in Apple's iBookstore, whereas Apps are sold through iTunes. In addition, enhanced eBooks usually have a lower degree of interactivity, animation, and overall sophistication than Apps do, and most often are less expensive to create.

Please note two points often negotiated between agents and publishers regarding this exploitation: approval over the changes/additions made to the work, and language protecting dramatic rights to the Work (see below, under Multimedia/App Factors). Examples of enhanced eBooks include *Alice in Wonderland for the iPad*, created by Atomic Antelope; *Flipped* by Wendelin van Draanen; or *Jacqueline Kennedy: Historic Conversations on Life with John F. Kennedy*.

**"Multimedia/App Rights"** shall mean the exclusive right to adapt and publish, and to authorize others to adapt and

publish the Work or any portion thereof for one or more “apps.” As used herein, an “app” shall mean an adaptation of the Work and shall include the right to create, and to incorporate into those works, text, dialogue, sounds, music, artwork, video, animation, moving images, interactive elements, and other matter whether or not taken or derived from the Work or from the plot elements, characters, fanciful places, situations, facts, ideas and events portrayed in the Work, provided, however, that if Motion Picture and Television Rights are not also granted to the Publisher by this Agreement, Multimedia/App Rights do not include the right to create and use dramatic versions of the Work in electronic media.

As noted above, an App typically involves a higher level of sophistication than what is seen in eBooks and enhanced eBooks. Apps usually have a higher level of interactivity and animation and are sold in iTunes or Android App stores. In addition, an App runs as a stand-alone program on top of an operating system, while an eBook or enhanced eBook requires another program to operate (such as the Kindle Reader). A good example of an early App is Mark Bittman’s *How to Cook Everything*, which takes the recipes of a cookbook and adds a variety of interactive elements, like timers, shopping lists, and customization to the basic recipe.

### Some Key Contract Issues

Keep in mind that the electronic world is constantly evolving, so the issues discussed below are both shifting and a continued source of controversy among authors, agents, and publishers.

**The Royalty Rate.** At present, the most common royalty rate among the “Big Six” major trade publishers (Random House, Simon & Schuster, HarperCollins, Penguin Group, Hachette, and Macmillan) is 25% of the net amount that the publisher receives. While there is general disagreement over what the appropriate royalty rate for authors should be, in the context of contract negotiations, a more contentious point is how and when—or whether—this rate may be renegotiated in the future. Given how rapidly the digital landscape is evolving, flexibility should be a hallmark of any contract in this area. Below is standard language often found in publishing contracts, with some variation:

- On sales of eBook editions of the Work, the royalty shall be 25% of the net amount actually received from such sales. However, should marketplace conditions change such that said royalty rate is below prevailing market rates, Publisher agrees to renegotiate the royalty rate at Author’s request at any time following three years after first publication of the eBook edition.

As different models of electronic royalty rates emerge, there is some debate as to the proper calculation of these royalty rates. The definition above is used for individual sales of individual eBooks, but when books are bundled together for sale (e.g., under a subscription model), other language has been developed to account for this possibility:

- If any amount received by the Publisher is attributable to the use in electronic media of the Work and any other works, the Publisher will determine the portion of such amount that is attributable to the Work as follows: (1) if the Publisher receives from a third party an allocation of the amount it receives among the works used, the Publisher will utilize such allocation; and (2) in the absence of any such third-party allocation, the Publisher may utilize a determination of end user access to or unique page views of the Work (in each case including an estimate determined by sampling) or the ratio of the list price of the Work to the total of the list prices of all of the works to which the amount is attributable or, if none of the foregoing methods is applicable, the Publisher may utilize any other method of allocation it determines in good faith to be equitable. The net proceeds received by Publisher from the sale or license of such rights shall be divided between Author and Publisher equally.

Of course, all of the variables listed above—such as having the author and publisher equally split the received proceeds—may be a source of future discussion and disagreement. It should be noted that in general, the Author’s contribution to the final consumer product remains virtually unchanged from what it was 10 (or even 100) years ago. However, the publisher’s contribution has changed significantly, as has the publisher’s cost structure, resulting in publishers receiving a higher share of the proceeds than in years past, despite the lack of change in royalty rates and price points for the product. As a result, it is not unreasonable for publishers to expect continued pressure from author advocates to increase the royalty rates and other terms so that the authors’ share reverts to the average amount historically received.

**Competitive Works.** Apart from royalty rates, several other contractual issues regularly present issues in publishing contracts. One of the most problematic becomes in what territories the eBook can be published, since publication on the Internet without fairly sophisticated technological restrictions is by definition a worldwide distribution.

The following language is relatively standard; it is important that all parties make an effort to keep to the “Exclusive Territory” defined in the agreement, because on a practical level many situations have arisen where a publisher (or an author) exceeded the boundaries of its license by distributing to territories outside the scope of the contract:

The Author will not authorize or arrange for the publication, distribution or sale in the Exclusive Territory, otherwise than by the Publisher, of any work by the Author (or anyone who receives an author's credit on the Work) that will directly compete with the Work or clearly diminish the value of any rights granted to the Publisher by this Agreement where such publication, distribution or sale will take place at any time during the term of this Agreement.

**Use of Content with Reserved Rights.** Another problem that frequently occurs is when an author wants to create an App and there is already a potentially competitive eBook available. For instance, the text of the author's cookbook is uploaded as "The eBook Grill Cookbook"—it contains the verbatim text, with perhaps the photos of the print book now available on a Kindle or Nook, for \$2.99. The author wants to create an App—"The Grilling App"—utilizing the same recipes, but now reorganizing the content, providing interactive features like video (to show the vegetables sizzling) or timers, for, say, \$3.99. A publisher may be worried that an App, with many more features than the eBook, will undercut sales of the eBook, so many publishers resort to the following kind of language to account for this possibility:

- In connection with Author's reserved Multimedia/App Rights, no App may contain text of the Work that exceeds in the aggregate 7,500 words in length or ten percent (10%) of the Work, whichever is less.

Author advocates try to not have this kind of language in the contract, or at least limit it, in order to allow the author the greatest flexibility in the future.

### Multimedia/App Factors

Unlike print books, Apps may have many different types of intellectual property folded into them. Some have been listed above, but there are hundreds more—interactive GPS or other location-based services, social networking components, and so forth. Though the author has created the basic text, such text often serves as a roadmap to determine what other assets should logically be folded in, the question soon arises: who pays to create those assets and update the assets as necessary? Authors may not have the funds to do so, so a variety of models have been developed to deal with the different scenarios that arise. What follows here is an overview of points to keep in mind while working through a negotiation for multimedia/App rights.

**Revenue Share.** In most cases, Apps are created by App developers as some form of a license. Revenues are shared between the App developer, the author (and potentially the book/eBook publisher, if the publisher controls these rights). The economics between the author

and App developer can vary, and often an App developer's costs will need to be recouped before the author receives any proceeds. If the App is developed in-house by the licensee of print rights, any royalty accruing to the Author should be mutually agreed upon when such multimedia product is contemplated, as the market is still evolving, and coming to agreement in the context of an initial contract negotiation is likely to be difficult, if not impossible.

**Who Provides/Creates Additional Content.** If the author provides additional material/content, then payment for such added content should be negotiated between the parties at the time the product or service is contemplated. In addition, if the author and publisher of the print book (or a third party) jointly prepare the additional content, payment for such work by the author should be negotiated between the parties at the time the product or service is contemplated.

**Who Provides/Creates Updated Content.** Apps are often and regularly updated with new features, new compatibilities, new promotional options, and so forth. It is important to be sure that any agreement addresses this possibility. At a minimum, the software developer should promise to update all technological issues on a very timely basis, but it is also important to determine what happens when the author wants to make an update—add new grilling recipes, in the above example, or perhaps create a special "Grilling for the 4th of July" module. It is essential to determine at the time the parties contract who will create, and pay for, each of the kind of update contemplated by the parties.

**Who Owns the Content.** Unless such additional content is provided solely by a third party on a licensed basis, the Author should own such content and be able to use it for other uses. What will often happen, however, is that each party owns the content that party provided—the author owns the text; the videographer, the video footage; the software developer, the underlying software and potentially the App's organization; and so on.

**Approval over New Content.** The author should have approval over new content provided by the publisher or any third party, not to be unreasonably withheld.

**Liability for Content.** The author should not be liable for any new content not provided by the author.

**Limitation on Grant of Rights.** The grant should be clearly limited to ensure that it does not include other derivative works, such as video games. In addition, the granting of this right must specifically not include dramatic/film rights. All parties should work in good faith to resolve any conflicts that might arise between the author and film/TV producers with regard to the sale of dramatic/film rights. Of key importance: if no accommodation can be reached, the licensor (for example, the publisher or the App developer) should revert Multimedia/App Rights to the author.

## eBook Options

It is also important to mention other viable options for authors for the exploitation of the electronic rights to their works besides with traditional publishers. eBooks (at least those published by traditional print publishers) are usually available via retailers (such as Amazon, B&N, Sony, and a variety of eBook websites). Today authors can bypass traditional publishers and place their works with digital retailers via one of the following three options:

**Self-Publishing.** Some eBook authors want full control of the publishing process—the marketing, the book's look (including cover), as well as the all-important pricing, which some authors want to change very frequently. Authors can now go directly to the biggest retailers (Amazon, B&N, and Apple) and in a few moments upload their book and take full control of their publishing experience. Many authors, however, find that their books are lost among the thousands of other self-published books, and others are not willing to take the time for the marketing commitment that this type of self-publishing needs.

**Digital Distributors.** Distributors make sure that retailers put the eBook up for sale in a reasonable time frame, at the price point the author desires. They may also aggregate the sales data from all retailers, so the author can review a single dashboard, and make a single change that is reflected among all the retailers (as opposed to logging into Amazon, making the change, logging into Apple, making the change, and so forth). A few examples include Argo Navis, INscribe, MintRight, and BookBaby.

**ePublishers.** These publishers are a new breed that create only eBooks, and may also market and publicize the eBook like traditional publishers. They may have more generous eBook royalty splits than traditional publishers, as well as online-specific expertise that may allow

the eBook to reach a wider audience than an author can achieve on his or her own. A few examples include Open Road, Untreed Reads, and Astor+Blue.

## Conclusion

The eBook world is a brave new frontier, with options abound, and of course complications as well. As the landscape shifts, it will be essential to carefully and thoroughly address the exploitation of electronic rights contractually, and in a manner that provides flexibility in order to respond to market and technological changes.

## Endnotes

1. *Random House, Inc. v. Rosetta Books LLC*, 283 F.3d 490 (2002).
2. For *Portnoy's Complaint*: Julie Bosman, *Amazon E-Book Venture Stirs Fuss in Publishing*, N.Y. Times (Jul. 22, 2010), [http://www.nytimes.com/2010/07/23/business/media/23author.html?\\_r=2](http://www.nytimes.com/2010/07/23/business/media/23author.html?_r=2) and Peter Ginna, *Andrew Wylie vs Random House: The Thrilla in Manila (Folders)*, HuffPost Books (Aug. 27, 2010, 01:43 PM), [http://www.huffingtonpost.com/peter-ginna/andrew-wylie-vs-random-ho\\_b\\_695110.html](http://www.huffingtonpost.com/peter-ginna/andrew-wylie-vs-random-ho_b_695110.html). For *Julie of the Wolves: HarperCollins Publishers LLC v. Open Road Integrated Media, LLP*, No. 11 Civ. 9499 (S.D.N.Y. Dec. 23, 2011), and *HarperCollins Publishers LLC v. Open Road Integrated Media, LLP*, No. 11 Civ. 9499 (NRB) (S.D.N.Y. Feb. 16, 2012) (Answer and Affirmative Defenses to Complaint).

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