

Litigation Alert

Federal Copyright Law Preempts State Law Breach of Confidence and Implied Contract Claims for Unauthorized Use of Works

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On June 3, 2010, the Ninth Circuit Court of Appeals held that federal copyright law preempts common law breach of confidence and implied contract claims in situations where plaintiffs attempt to retain rights to share profits and credit in the underlying works. *Montz v. Pilgrim Films, Inc.*, No. 08-56954, 2010 WL 2197421 (9th Cir. June 3, 2010). The *Pilgrim Films* decision appears to narrow the basis upon which plaintiffs may bring state law claims for protection of ideas. Where plaintiff attempts to retain control over his or her work by seeking a partnership or similar ongoing arrangement with defendants involving the sharing of profits and credit, then the rights asserted are equivalent to the rights of copyrights owners and are preempted. The case was specifically decided within the context of “screenplays, videos, and other materials necessary in production of a cable television show.” However, application of the decision should extend to other subject matter covered under sections 102 and 103 of the Federal Copyright Act.

Facts & Background

According to the complaint, Plaintiffs Larry Montz and Daena Smoller conceived of the concept for a new reality television program featuring a team of “paranormal investigators” in 1981. Between 1996 and 2003, Plaintiffs presented screenplays, videos, and other materials relating to their proposed reality show to representatives of NBC Universal for the express purpose of offering to partner in the production of this television concept. Subsequently, NBC Universal partnered with Pilgrim Films & Television, Inc., to the exclusion of Plaintiffs to produce a series on the Sci-Fi Channel called *Ghost Hunters*.

In November 2006, Plaintiffs filed suit in U.S. District Court for the Central District of California asserting copyright infringement as well as state law claims alleging (1) breach of an implied agreement not to disclose, divulge, or exploit the Plaintiffs’ ideas and concepts without Plaintiffs’ express consent, and (2)

breach of confidence by taking Plaintiffs’ novel ideas and concepts and profiting to Plaintiffs’ exclusion.

In April 2007, Defendants moved to dismiss for failure to state a claim. The district court concluded that the complaint alleged facts sufficient to state a federal copyright claim, but dismissed the state law claims under preemption analysis. After amending the copyright complaint to add another defendant, the parties subsequently stipulated to a voluntary dismissal with prejudice, allowing Plaintiffs to appeal the dismissal of the common law claims.

Basis for Decision

The Ninth Circuit’s decision was centered on the issue of preemption of the state law claims. Section 301(a) of the Copyright Act sets forth two conditions for federal preemption: (1) the right asserted must be a work of authorship fixed in a tangible medium of expression and come within the subject matter of copyright as specified by Sections 102 and 103; (2) the right asserted under state law must be equivalent to the exclusive rights of copyright owners specified under copyright law. Since the parties did not contest that both claims meet the first condition, the analysis was focused on whether the rights protected by breach of confidence and breach of implied contract were equivalent to asserted rights under Section 106. Generally speaking, contract claims for protection of ideas are not preempted because they “allege an ‘extra element’ that changes the nature of the action.” *Grosso v. Miramax Film Corp.*, 383 F.3d 965, 968 (9th Cir. 2004) (no federal preemption of implied-in-fact contract claim for sale of idea embodied in script; summary judgment reversed).

Plaintiffs contended that under the earlier Ninth Circuit decision, *Grosso v. Miramax Film Corp.*, 383 F.3d 965, they could assert a *Desny* claim for protection of ideas embodied in copyrighted works. A *Desny* claim under California law requires the plaintiff to plead that he or she (1) prepared the work, (2) disclosed the work to the offeree for sale,

and (3) did so under circumstances from which it could be concluded that the offeree voluntarily accepted the disclosure knowing the conditions on which it was tendered and the reasonable value of the work. *Desny v. Wilder*, 46 Cal. 2d 715, 733 (1956). The “extra element” transforming the action from a copyright claim to a common law contract suit is the implied agreement between the parties to pay for the use of plaintiff’s ideas. *Grosso*, 383 F.3d at 968.

Plaintiffs also pursued a separate cause of action for breach of confidence. Under California law, a breach of confidence claim arises when (1) an idea, whether or not protectable, is offered to another in confidence, (2) is voluntarily received in confidence with the understanding that it is not to be disclosed, and (3) is not to be used by the receiving party beyond the limits of the confidence without express permission provided. *Faris v. Enberg*, 97 Cal.App.3d 309, 323 (1979).

In *Pilgrim Films*, the Ninth Circuit clarified its earlier *Grosso* opinion and narrowed state law claims for implied contract and breach of confidence. Here, the key distinguishing fact for the Court was Plaintiffs’ desire to *retain control* over the television script and concept through offers to partner and share in the profits on any future production, as opposed to simply selling outright the script and ideas for the television program. Plaintiffs’ attempts to retain control over the use, profits and credits attributed to their works rendered the state law claims indistinguishable from the federal copyright claim. The rights allegedly violated are Plaintiffs’ exclusive right to use and authorize use of their work, which is within the exclusive province of copyright law. In contrast, the Ninth Circuit explained the claim in *Grosso* was based on the plaintiff’s implied agreement to disclose his script in exchange for payment of the ideas and themes underlying the work. The right of “payment on sale” distinguished the rights to share profits and credit, which were at issue in *Pilgrim Films*.

With respect to the breach of confidence, the Ninth Circuit viewed the claim as essentially the same as the implied-in-fact contract claim and affirmed the lower court’s decision to dismiss under federal preemption analysis based on the same reasoning. The core allegations of breach of confidence stem from Plaintiffs’ exclusive right to use and authorize use of the underlying works, which are the very rights contained within Section 106 of the Copyright Act.

The decision in *Pilgrim Films* is useful in providing a clear limitation to state law theories, which are often intertwined with copyright claims, and in combating efforts to expand the scope of litigation by splintering a single copyright claim into multiple claims for relief.

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