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CASES OF INTEREST

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IP/ENTERTAINMENT LAW WEEKLY CASE UPDATE FOR MOTION PICTURE STUDIOS AND TELEVISION NETWORKS

May 5, 2011

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Montz v. Pilgrim Films & Television, Inc., USCA Ninth Circuit, May 4, 2011

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- On *en banc* rehearing, Ninth Circuit vacates earlier decision of three-judge panel and holds that the Copyright Act does not preempt plaintiffs' state law claims for breach of implied contract and breach of confidence, even where the use of an idea is conditioned on the granting of a partnership interest in the proceeds of the production, rather than the payment of money.

Plaintiffs Larry Montz, a parapsychologist, and Daena Smoller, a publicist and producer, pitched an idea for a reality show about "paranormal investigators" to defendants NBC Universal and the Sci-Fi Channel allegedly "for the express purpose of offering to partner . . . in the production, broadcast and distribution of the Concept." The defendants were supposedly not interested in the show. When the defendants later produced and broadcast a show called *Ghost Hunters*, about a team of investigators who travel across the country to study paranormal activity, plaintiffs filed suit.

The complaint included claims for copyright infringement, breach of an implied contract, and breach of confidence. Plaintiffs' complaint alleged that (1) by producing and broadcasting *Ghost Hunters*, the defendants breached an "implied agreement not to disclose, divulge or exploit the Plaintiffs' ideas and concepts without the express consent of the Plaintiffs, and to share with the Plaintiffs . . . the profits and credit for their idea and concepts"; and (2) the defendants breached the plaintiffs' confidence "[b]y taking the Plaintiffs' novel ideas and concepts, exploiting those ideas and concepts, and profiting therefrom to the Plaintiffs' exclusion."



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The defendants moved to dismiss the two state law claims as preempted by the Copyright Act. The district court agreed and dismissed these claims. The plaintiffs appealed and a three-judge panel of the Ninth Circuit affirmed.

After an *en banc* rehearing, the Ninth Circuit, in a 7-4 ruling, vacated the panel's decision. It held that "copyright law does not preempt a contract claim where plaintiff alleges a bilateral expectation that he would be compensated for use of the idea," and discerned "no meaningful difference between the conditioning of use on payment and conditioning use in this case on the granting of a partnership interest in the proceeds of the production."

According to the court, the Copyright Act preempts state claims where the plaintiff's work "come[s] within the subject matter of copyright" and the state law grants "legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright." Recognizing that, for preemption purposes, ideas and concepts that are fixed in a tangible medium fall within the scope of copyright (plaintiffs claimed that their idea was fixed in screenplays, videos and other tangible media presented to defendants), the court focused on the second condition – whether the rights asserted by plaintiffs were "equivalent" to the exclusive rights within the scope of copyright.

To survive preemption, a state law claim must assert rights that are qualitatively different from the rights protected by copyright. The court began by noting that, in *Grosso v. Miramax Films*, the Ninth Circuit held that the state law rights created by the California Supreme Court's decision in *Desny v. Wilder* were "qualitatively different" from the rights protected by federal copyright law and therefore not preempted because a *Desny* claim for breach of implied contract includes an added element – an agreement to pay for use of the disclosed ideas.

The court reaffirmed the rule in *Grosso* and, contrary to the three-judge panel's previous decision, found it applicable to the plaintiffs' case. The court found that the protections afforded by *Desny* were not limited to situations where claimants expected payment in exchange for their ideas, but also to those "who want a piece of the action and [a] contractual agreement on the terms of the defendant's use." The court also disagreed with the defendants' arguments that plaintiffs had failed to properly plead facts sufficient to state a claim for breach of implied contract, noting that the complaint made all of the necessary allegations and closely tracked the elements the court found sufficient in *Grosso*.



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The court also reversed the judgment dismissing the breach of confidence claim under California law, holding that it was likewise not preempted by federal copyright law. The court reasoned that “the claim protects the duty of trust or confidential relationship between the parties, an extra element that makes it qualitatively different from a copyright claim.”

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