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July 2011: Trademark and Copyright Litigation Update

Logos, Emblems, and Characters Find Trademark Protection Tenuous in Wake of Ninth Circuit Decision:

On February 23, 2011, the Ninth Circuit affirmed the grant of summary judgment against Fleischer Studios, which claimed ownership and infringement of the Betty Boop character under both copyright and trademark theories. *Fleischer Studios v. A.V.E.L.A., Inc.*, 636 F.3d 1115 (9th Cir. 2011). While the copyright ruling is unlikely to have a broad impact beyond this case, the trademark ruling substantially restricts the scope of trademark protection, especially as to copyrightable works of authorship.

Max Fleischer first developed the Betty Boop cartoon character in 1930. The plaintiff, Fleischer Studios, claimed ownership of the copyright to the Betty Boop character through a chain of assignments. The district court found that a break in the chain of title meant that Fleischer Studios did not own the character and had no standing to sue for infringement of it. The Ninth Circuit affirmed, disposing of Fleischer's copyright infringement claim.

It is for the trademark infringement analysis, however, that *Fleischer* is most significant. There the court looked to two cases, neither cited by the parties, to conclude that "functional aesthetic" works, like the Betty Boop character, receive no trademark protection and that copyrightable works, like the character, likewise cannot receive trademark protection where the copyright is in the public domain. 636 F.3d at 1124-25 (citing *Int'l Order of Job's Daughters v. Lindeburg & Co.*, 633 F.2d 912 (9th Cir. 1980) and *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23 (2003)).

The "functional aesthetic" doctrine revived by the court distinguishes between the use of a plaintiff's mark in a manner that causes consumer confusion as to "the maker, sponsor, or endorser of the product" and the use of a mark by its wearer to "publicly express her allegiance to [an] organization." 636 F.3d at 1123. Only the former is actionable; the latter is permitted. As the *Fleischer Studios* court explained, *Job's Daughters* held that where the defendant's use of the plaintiff's emblem (on jewelry) was a "prominent feature of each item so as to be visible to others when worn," "never designated the merchandise as 'official' merchandise or otherwise affirmatively indicated sponsorship," and "did not show a single instance in which a customer was misled about the origin, sponsorship, or endorsement [] nor that it received any complaints about [the challenged products]. there was no infringement." 636 F.3d at 1124. The emblem was "functional[ly] aesthetic," and unprotected from such alleged infringement. *Job's Daughters*, 633 F.3d at 920. Applying the same analysis led the *Fleischer Studios* court to the same result: the images of Betty Boop, as used in the defendant's dolls, t-shirts and handbags, were functionally aesthetic – the character was "a prominent feature of each item so as to be visible to others when worn," and it was not used to indicate Fleischer's sponsorship; it was "functional and aesthetic." 636 F.3d at 1124-25.

The panel also applied the Supreme Court's 2003 decision in *Dastar*. In that case, the Supreme Court held that where a copyright is in the public domain, a party may not assert a trademark infringement action against an alleged infringer if that action is essentially a substitute for a copyright infringement action. The *Fleischer Studios* court ruled, *sua sponte*, that this precluded a finding of trademark protection for Betty Boop since the plaintiff's claim for copyright protection failed. To hold otherwise, the court reasoned, would allow trademark holders perpetual rights to exploit their creative works, which conflicts with the principles of copyright.

Ninth Circuit Limits Scope of Copyright Preemption: In our July 2010 Newsletter, we noted a significant new Ninth Circuit decision, *Montz v. Pilgrim Films & Television, Inc., et al.*, 2010 WL 2197421 (9th Cir. June 3, 2010), which appeared to substantially enhance the force and effect of copyright preemption in the implied-in-fact contract context. In *Montz*, the plaintiffs sued a studio and others, claiming they had conceived and pitched the idea for a reality television series investigating paranormal activity with the assistance of high-tech equipment. The studio later aired a show, "Ghost Hunters," allegedly based on plaintiffs' pitch but without credit or compensation, leading to claims for copyright infringement, breach of implied-in-fact contract, and breach of confidence. The Ninth Circuit at first affirmed dismissal of the non-copyright causes of action, holding they were

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preempted by the Copyright Act, 17 U.S.C. § 301(a), *et seq.*, because there was no “extra element” to distinguish those claims from the copyright infringement claim. As we reported last year, that was a significant addition to Ninth Circuit jurisprudence on copyright preemption, and limited the court’s prior decision in *Grosso v. Miramax Film Corp.*, 383 F.3d 965 (9th Cir. 2004).

The Ninth Circuit then decided to rehear the matter *en banc*, and in May it reversed course, holding in a 7-4 decision that neither the breach of implied contract nor the breach of confidence claim was preempted. *Montz v. Pilgrim Films & Television, Inc.*, 2011 WL 1663119 (9th Cir. May 4, 2011). The court reaffirmed, as it had ruled in *Grosso*, that a bilateral expectation of payment, at least in the context of an idea pitch, is an “extra element” that “transforms a claim from one asserting a right exclusively protected by federal copyright law, to a contractual claim that is not preempted by copyright law.” 2011 WL 1663,119 at *1. An implied agreement to “pay for use of the disclosed ideas” is, unlike the “monopoly protection of copyright law,” a “personal” relationship between the parties which yields the required extra element to avoid preemption. *Id.* at *4-5. Like “[c]ontract claims generally,” which survive preemption because they require proof of such an extra element, a claim for breach of an “implied agreement of payment for use of a concept” is not preempted. *Id.* at *4. Moreover, the breach of confidence claim “protects the duty of trust or confidential relationship between the parties, an extra element that makes it qualitatively different from a copyright claim.” *Id.* at *6.

The *en banc Montz* decision, which is of clear benefit to plaintiffs, imposes important limits on copyright preemption in the Ninth Circuit. The *en banc* court not only vacated the prior panel’s opinion, but, notably, also cited a longstanding Ninth Circuit precedent relied on by defendants urging preemption – *Del Madera Props. v. Rhodes & Gardner, Inc.*, 820 F.2d 973 (9th Cir. 1986). *Del Madera*, discussed at length by the dissent in *Montz*, held a claim for unjust enrichment based on an implied promise to be preempted by copyright. *Del Madera Properties v. Rhodes and Gardner, Inc.*, 820 F.2d 973, 977 (9th Cir. 1987) (“The foundation of Del Madera’s unjust enrichment claim is its contention that the defendants violated an implied promise, based on the parties’ relationship, not to use the Tentative Map and supporting documents. But an implied promise not to use or copy materials within the subject matter of copyright is equivalent to the protection provided by section 106 of the Copyright Act. Therefore, this portion of Del Madera’s unjust enrichment claim is also preempted.”). See *Montz*, 2011 WL 1663119 at *10 (dissent) (“a breach of a relationship of trust does not, by itself, transform the nature of an action”) (citing *Del Madera*). While it does not do so expressly, the majority’s opinion, which cites but does not follow this precedent, arguably overrules it.

State law causes of action for idea theft, which harken back at least to *Desny v. Wilder*, 299 P.2d 257 (Cal. 1956), are alive and well in the Ninth Circuit following *Montz*. “Since an idea cannot be copyrighted, a concept for a film or television show cannot be protected by a copyright. 17 U.S.C. § 102. But the concept can still be stolen if the studio violates an implied contract to pay the writer for using it.” *Montz*, 2011 WL 1663119 at *3.