Important Recent Entertainment Decisions

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Theft of Ideas Cases

Montz v. Pilgrim Films & Television, Inc., et al, 2011 U.S. App. LEXIS 9099 (9th Cir. May 4, 2011)

On June 3, 2010, a three judge panel on the Ninth Circuit Court of Appeals ruled that some forms of breach of implied contract and confidentiality claims are preempted by federal copyright laws. This case was reheard en banc on May 4, 2011 and the judgment reversed.

In the case, parapsychologist Larry Montz and publicist Daena Smoller, claimed that NBC Universal, Pilgrim Films and Television, and several others had breached implied contract and confidentiality by producing the successful television show *Ghost Hunters*. The plaintiffs alleged that following the conception of the idea in the 1981, they presented a series of screenplays, videos, and other materials to NBC executives for the "for the express purpose of offering to partner…in the production, broadcast and distribution of the Concept." Despite these meetings, NBC Universal proceeded to produce the television program without properly notifying or compensating the plaintiffs. As a result, the plaintiffs sued NBC Universal for copyright infringement, breach of implied contract, as well as breach of confidentiality. According to the district court's opinion which was later affirmed by the Ninth Circuit, Montz and Smoller's claims for breach of implied contract and breach of confidentiality were preempted by the Copyright Act, 17 U.SC. § 301(a).

The Ninth Circuit later reheard the case, upholding that it was common practice in the entertainment industry to submit copyrighted material to producers with the expectation that the writer of the works be compensated should the works be used. Relying on a Supreme Court ruling in *Desny v. Wilde*, the court maintained that there was an "implied contractual right to compensation when a writer submits material to a producer," and that this contractual claim was not preempted by federal copyright law. More specifically, the courts stated that what separated "Desny" claims from federal copyright law was that such claims stemmed from a different set of agreements and understandings than those under monopoly protection of copyright law. That is to say that "a copyright is a right against the world. Contracts, by contrast, generally affect only their parties; strangers may do as they please, so contracts do not create exclusive rights." The courts also overturned the ruling on the breach of confidentiality claim, upholding that the plaintiffs had "confidential and novel information."

Mattel, Inc. v. MGA Entertainment, Inc. 616 F. 3d 904 (9th Circ. 2010)

Carter Bryant conceived of the idea for Bratz dolls while working at Mattel, the famous producer of Barbie dolls. In August of 2000, while still employed with Mattel, Bryant pitched the idea of Bratz dolls to MGA Entertainment. Soon enough, Mattel discovered the Bratz project and sued MGA for copyright violation, arguing that they had rightful ownership of the Bratz trademark and that MGA had improperly acquired the ideas for the names of the trademark and doll characters. In response, the district courts ruled in favor of Mattel, awarding them with 10 million dollars for copyright violation, issuing a constructive trust on all Bratz trademarks, and issuing an injunction prohibiting MGA from both marketing and producing the Bratz dolls.

Upon review, the Ninth Circuit took serious issue with the constructive trust imposed as in their belief MGA had only misappropriated the names of the Bratz dolls. MGA then undertook their own resources to substantially develop the trademark beyond the names by creating the characters, and heavily investing in the production and marketing of the dolls. For this reason, transferring the entire trademark portfolio to Mattel seemed inequitable. The Ninth Circuit also clarified that the aim of the courts in such cases was to "identify the profits and to recapture them without capturing the fruits of the defendant's own labors or legitimate efforts." In this way, the connective trust gave too much to Mattel given the substantial work that MGA had committed to the Bratz dolls. In addition, the Ninth Circuit also questioned whether Mattel actually owned the sketches and sculpts as implied by its copyright claim. Upon closer reading of Bryant's employment contract, it became clear that inventions created "at any time during employment" was rather ambiguous standard and made it unclear whether work outside of the office was also included. Moreover, many of the similarities in the dolls between Bryant's original sketches and what was actually produced were elements that were deemed unprotectable by copyright law, and thereby vacated the copyright injunction.

In early 2011, the case entered a new phase of litigation with the opening of a retrial in order to determine whether Mattel had any rights to the doll line. The federal jury eventually ruled that Mattel had no rights to the Bratz dolls, and in a stunning turnabout, required Mattel to pay $88.5 million dollars in damages for stealing trade secrets from MGA. Since the ruling, MGA has filed an order requesting that the judge essentially triple their $88 million in damages and to award them with attorney fees and costs. More specifically, MGA is seeking $177 million in punitive damages, $129.7 million in attorney fees, and $32.4 million in costs. Mattel has responded to the order urging the judge not to award the increased fees given that their copyright infringement claims were "objectively reasonable." The judge has yet to make his final determination.

Digital Downloads

F.B.T. Productions, LLC v. Aftermath Records, 621 F.3d 958 (9th Circ. 2010)

The Ninth Circuit reversed the district court's ruling in favor of Aftermath, to one which upheld F.B.T.'s claim that permanent downloads and mastertones fall unambiguously under the "Masters License" provision of Eminem's recording contract. This decision not only required increased compensation to Eminem of up to 50% of the price the record label paid for the license but also the removed attorney's fees awarded to Aftermath Records.

This decision is significant because it made all digital downloads equivalent to a license. Unlike the "Records Sold" provision of F.B.T.'s agreement, which would require F.B.T. to receive between 12% and 20% of the adjusted retail price for all record sales, the "Masters License" provision entitles F.B.T. to 50% of Aftermath's net receipts. According to the Ninth Circuit, permanent downloads and mastertones constitute a Masters License because the F.B.T. contract explicitly defines a "master" as a "recording of sound . . . which is used or useful in the recording, production or manufacture of records." Given that Aftermath permitted third parties to use these masters in the production or manufacture of records, it is appropriate to require 50% compensation. Several cases have arisen since the F.B.T. decision including a class action by the Estate of Rick James, all of which seek increased compensation for digital downloads.

Class Action Waivers

AT&T Mobility LLC v . Concepcion et ux. 131 S.Ct. 1740 (2011)

Although cellular phone contracts with AT&T permitted arbitration for any and all disputes, it did not permit class wide arbitration. Despite this provision, when the Concepcions noticed that they had been charged sales tax on "free" phones, they sued with a class action, alleging that AT&T had engaged in false advertising and fraud. Relying on the *Discover Bank* decision, the district court denied AT&T's motion to compel the Concepcions to arbitration since the class action waiver was deemed unconscionable. The standards for rending the waiver unconscionable were especially applicable to this case as the dispute involved small amounts of damages, and the party with inferior bargaining power, the Concepcions, alleged a deliberate scheme to defraud. As a result, not only was the class action waiver denied but the courts also ruled that the Federal Arbitration Act did not pre-empt such a decision.

The U.S. Supreme Court however struck down on the lower court's ruling, arguing instead that the Federal Arbitration Act must preempt California state contract law in order to ensure that it does not interfere with the objectives of Congress. They furthered that class arbitration imposes serious harms to the process of arbitration by making it "slower, more costly, and more likely to generate procedural morass than final judgment." In addition, as the U.S. Supreme Court noted, the risk of error in these rulings becomes "unacceptable" when damages are aggregated to thousands of individuals at once. As a result, the Supreme Court reversed the decision of the Ninth Circuit and effectively enabled corporations to bar individuals from filing class action lawsuits or undergoing group arbitration regardless of the harm they commit.

Net Profits Cases

Alan Ladd, Jr. v. Warner Bros Entertainment Inc. (2010) 184 Cal.App.4th 1298

Throughout the 1980's, Alan Ladd Jr. produced a number of films in conjunction Warner Bros including *Blade Runner, Chariots of Fire*, and the *Police Academy* franchise. The studio giant later packaged and sold these films along with many others to television and cable networks, endowing each movie with same share of a licensing fee. This practice known as "straight lining" was the gravamen of Ladd's suit against Warner Bros. He argued that such a practice disregarded the true value of the films and thereby deprived him of a "fair allocation of the licensing fees" to which he was duly entitled. The jury agreed with Ladd and following testimony suggesting that Ladd's films had been undervalued by approximately $97 million dollars, decided to award him with roughly $3 million dollars in compensatory damages. In response to the jury verdict, Warner Bros sought JNOV which was later denied by the court of appeals. The appeals court further noted that Warner Bros had an obligation under the implied covenant of good faith and fair dealing to "fairly and accurately allocate license fees to each of the films based on their comparative value as part of a package." Given that straight lining does not allow for individual valuation, this constituted a breached of the implied covenant.

The courts also responded to Warner Bros' statute of limitations defense, however upheld that Ladd was entitled to all damages awarded. As the court explained, "Warner's failure to present damage segregation evidence constituted a failure of proof on an affirmative defense, entitling Ladd to recover all of his proved damages."

The courts also ruled on issues of fraud, finding that the trial courts had erred in granting nonsuit to Ladd's Blade Runner fraud claims. The courts found significant evidence of fraud in this case as Warner's false representation of Blade Runner's lack of profitability led Ladd to believe there was no need to conduct an audit as to his profit participation in the film. Warner's misrepresentations became immediately clear when Ladd discovered that Warner was paying profit participation to Empress for the exact same film. As a result, the court ruled that the fraud claim must be resolved by the trier of fact. The case has since settled.

Don Johnson Productions Inc. v. Rysher Entertainment Inc. WL 1615982 (C.D.Cal.2009)

Don Johnson Productions, solely owned by Don Johnson, entered into a contract with Rysher Entertainment from 1996 to 2001 to produce 122 episodes of the television show, *Nash Bridges*. According to their agreement, Don Johnson was to receive 50% ownership interest in the copyright and as a result of the number of episodes produced; the show was to be syndicated as well. In the lawsuit, Don Johnson Productions claimed that since 1999, Rysher Entertainment had been profiting from the syndication of the show without providing him with the 50% share of the profits due to him by their contract. As a result, Don Johnson took action and sued Rysher Entertainment in state court for breach of contract, conversion, unjust enrichment and an accounting of profits.

Rysher Entertainment immediately attempted to remove the case to federal court, arguing that the essence of Don Johnson's legal action fell within the jurisdiction of the federal Copyright law. When this failed, Rysher moved to argue that that an accounting of profits claim was based on a federal common law doctrine of unjust enrichment and therefore necessitated federal court. This too however failed, and the courts sided with Don Johnson agreeing that the accounting of profits issue arose from a contractual agreement and thus remained within the jurisdiction of state law. In support of this ruling, the courts cited First and Ninth Circuit precedent which specifically relegated the accounting of profits issues to the state. In addition, the courts also ruled that Don Johnson's claims of unjust enrichment were not pre-empted by the federal Copyright Act because the rights that Don Johnson was asserting were different from those protected by the Act. Rather than vindicating the right to prevent infringement, Don Johnson was simply pointing out the violation of his state law rights as a co-owner.

Celador International Ltd. v. Walt Disney Co. 347 F. Supp. 2d 846 (C.D. Cal. 2004)

Celador International Ltd. was awarded $269.4 million dollars in damages following a unanimous decision that Disney subsidiaries had breached the implied covenant of good faith and fair dealing with Celador. The lawsuit arose in 2004 after it became apparent that the television show "Who Wants to be a Millionaire?" had become wildly successful and propelled ABC networks to the number one spot among audience ratings. Although Celador's contract specified that they would receive 50% of the profits from the program, it was clear that fair payments were not being made following the program's success. The plaintiff alleged that this problem was related to a decision by ABC to assign production duties to another Disney subsidiary, Valleycrest Productions. As Celador explained, these entities orally agreed to pay a licensing fee equal to the per episode cost of production, effectively preventing the show from ever making a profit once production costs and other fees were deducted from gross receipts. This was also problematic because as Celador argued, it was customary in the entertainment industry to renegotiate higher licensing fees for television programs once they had become successful. ABC's failure to renegotiate the licensing fees in light of the show's success then represented a strategic move on behalf of Disney to retain increased profits to Disney affiliates.

In 2010, the courts ultimately ruled in favor of Celador acknowledging that there was a clear breach of the covenant of good faith and fair dealing. Basing their decision on the third exception to the breach of contract term, the courts acknowledged that "the defendant [had] acted in bad faith to frustrate the contract's benefits." Given the applicability of this exception to the case, the judge denied the defendant's motion to dismiss the claim for the breach of covenant and further denied motions to dismiss for breach of fiduciary duty, claim for constructive`e fraud, and Smith for lack of standing.