

New York Law Journal



Web address: <http://www.nylj.com>

VOLUME 232—NO. 19

WEDNESDAY, JULY 28, 2004

SECOND CIRCUIT REVIEW

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Complete Preemption of State Law Claims Under the Copyright Act

In this month's column, we report on a recent decision in which the U.S. Court of Appeals for the Second Circuit clarified the circumstances under which state law claims are preempted by the Copyright Act and extended federal jurisdiction to such claims.

In *Briarpatch Limited, L.P. v. Phoenix Pictures, Inc.*, the Second Circuit affirmed the district court's order denying plaintiffs' motion to remand the action to state court.¹ In lieu of relying upon diversity jurisdiction, which had formed the basis of the district court's holding, the court grounded its decision on federal copyright jurisdiction.

The court's decision, authored by Judge Richard J. Cardamone and joined by Judges Sonia Sotomayor and Robert A. Katzman, is noteworthy because a defendant generally cannot remove a state law claim simply on the basis of a federal statute's preemptive effect, unless Congress manifested its intent to create removal jurisdiction under the statute. Although plaintiffs' complaint in *Briarpatch* made no mention of federal law or copyright law, the Second Circuit, relying on a recently articulated Supreme Court standard for complete preemption of state law claims, ruled that certain state law claims preempted



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by the Copyright Act are subject to federal jurisdiction.

Background

Briarpatch involved a dispute over the rights to, and proceeds from, the motion picture "The Thin Red Line" and other projects. Terrence Malick adapted the screenplay for the motion picture from James Jones's 1962 novel "The Thin Red Line." Phoenix Pictures, Inc. purchased the screenplay and motion picture rights to "The Thin Red Line" and oversaw the project's completion. In 1998, Phoenix released the film, which earned a substantial profit and garnered seven Academy Award nominations.

The two plaintiffs in this action are Briarpatch Limited, L.P. and Gerard F. Rubin, Briarpatch's sole limited and winding up partner. Defendants are Geisler Roberdeau, Inc., a dissolved New York corporation controlled by non-defendants Robert Geisler and John Roberdeau; Phoenix, a producer of motion pictures; Morris Medavoy, Phoenix's founder and chairman; and Malick, a writer and director of films.

Although plaintiff Rubin was the sole limited partner of Briarpatch, five

corporations were general partners. Under the partnership agreement, the general partners had complete, exclusive control over all aspects of Briarpatch's business. Geisler and Roberdeau owned and controlled the five corporations, and thus controlled Briarpatch. Rubin claimed he personally contributed over \$6 million to Briarpatch's entertainment projects, and expected to reap partnership distributions from the projects' subsequent successes.

Aided by Rubin's financial backing, Briarpatch acquired the motion picture rights to the novel, "The Thin Red Line," and paid defendant Malick to adapt it into a screenplay. Prior to the project's completion, Geisler and Roberdeau sold the screenplay and motion picture rights to Phoenix and allegedly kept the proceeds of the sale in their own corporation, Geisler Roberdeau, Inc., and failed to distribute the proceeds to plaintiffs.

In 1998, plaintiffs sued Geisler and Roberdeau individually in New York State Supreme Court, claiming that they misappropriated proceeds from Briarpatch's entertainment projects and manipulated their control over Briarpatch to hoard the proceeds of "The Thin Red Line" and other productions. After a trial, the state court ruled that the plaintiff partnership was the exclusive owner of "The Thin Red Line" and certain other projects. It awarded plaintiffs a \$1.5 million judgment for the proceeds that Geisler and Roberdeau received from Phoenix and a permanent injunction requiring an accounting and

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the return of Briarpatch's property. Defendants appealed from the state court judgment. As of today, the appellate court has not yet resolved the appeal.

The Current Action

In 1999, plaintiffs commenced an action in New York State Supreme Court against defendants Geisler Roberdeau, Inc., Phoenix, Medavoy, and Malick. Under a theory of unjust enrichment, plaintiffs asserted that defendants conspired in, and aided and abetted, Geisler's and Roberdeau's breach of fiduciary duty. Seeking total damages of over \$4 million, plaintiffs also brought claims for trover and conversion against Geisler Roberdeau, Inc., for breach of contract against defendant Malick, and a declaration of rights against Phoenix.

Defendants removed the case to the U.S. District Court for the Southern District of New York, and plaintiffs subsequently moved to remand the action to state court. District Judge Robert Sweet found that the prior state court judgment, which was entered against Geisler and Roberdeau and their "affiliates," satisfied plaintiffs' claims against Geisler Roberdeau, Inc. and ruled that plaintiffs were collaterally estopped from litigating those particular claims in state court.² Judge Sweet dismissed plaintiffs' claims against Geisler Roberdeau, Inc., finding that the company was fraudulently joined. Inasmuch as Geisler Roberdeau, Inc. was the only non-diverse party, the district court denied plaintiffs' remand motion.

The parties subsequently settled the claims against Malick. Finally, on Oct. 30, 2002, Judge Sweet granted summary judgment in favor of the only remaining defendants, Phoenix and Medavoy, and later dismissed the action in its entirety. Plaintiffs appealed to the Second Circuit on two grounds: (1) the denial of their motion for remand of the case, and (2) the grant of summary judgment. The Second Circuit's ruling on the remand

issue is of the most significance.

Second Circuit Decision

Inasmuch as the claims against Geisler Roberdeau, Inc. were not adjudicated in the prior state court action, the Second Circuit initially concluded that the district court should not have dismissed those claims. The Court also found there existed insufficient proof of plaintiffs' fraudulent joinder of Geisler Roberdeau, Inc. Thus, Geisler Roberdeau, Inc.'s revival as a defendant in the case destroyed diversity jurisdiction. Rather

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than reverse the district court's denial of remand, however, the Second Circuit looked to recent Supreme Court precedent regarding federal preemption. The court concluded that the Copyright Act was intended to create federal jurisdiction in this particular context.

Complete Preemption

In the absence of the parties' complete diversity of citizenship, a party may not remove an action to federal court unless plaintiff's "well-pleaded" complaint establishes that the claim "arises under" federal law.³ In other words, the complaint must allege a federal cause of action. The potential existence of federal defenses, such as statutory preemption, is insufficient to confer federal jurisdiction.⁴ Nevertheless, Congress has created exceptions to that rule in limited instances by expressly manifesting its

intent to create federal jurisdiction. In such cases, state law claims may be completely preempted and federal jurisdiction conferred. The Supreme Court has applied the complete preemption doctrine to a fairly limited number of statutes, including the Price-Anderson Act, §301 of the Labor Management Relations Act, and the Employee Retirement Income Security Act (ERISA).

Until *Briarpatch*, it was unclear whether the Copyright Act could create exclusive federal jurisdiction over claims asserted under state law. Although Congress' 1976 amendments to the Copyright Act provided that state law claims interrelated with copyright claims are preempted, it was not clear that such preemption was sufficient to confer federal jurisdiction. Relying heavily upon the Supreme Court's 2003 decision in *Beneficial National Life v. Anderson*, the Second Circuit has now clarified that federal courts have jurisdiction where state law claims fall within the ambit of the Copyright Act's preemptive effect.⁵

The Supreme Court in *Anderson* found that where a federal statute "wholly displaces the state-law cause of action through complete preemption," removal to federal court is proper. Although the complaint in *Anderson* made no mention of federal law, the Supreme Court found that the action was properly removed because the National Bank Act superseded the substance and remedies of state law governing excessive interest charges.

In *Briarpatch*, the Second Circuit noted that complete preemption can be found only where the federal statute's preemptive effect is so "extraordinary" as to transform a state common-law complaint into one pleading a federal cause of action.⁶ The Second Circuit interpreted *Anderson* "to extend the preemption doctrine to any federal statute that both preempts state law and substitutes a federal remedy for that law, thereby creating an exclusive federal cause of action."⁷ The Court ruled that the Copyright Act

does exactly that by laying out the elements, statute of limitations, and remedies for copyright infringement.⁸

Preemptive Effect

The Copyright Act exclusively governs a claim if: (1) the work at issue fits into the category of works that the Copyright Act protects under 17 USC §§102 and 103 (the so-called "subject matter requirement"); and (2) the claim asserts rights that are equivalent to exclusive rights already protected by copyright law under 17 U.S.C. §106 (the "general scope requirement").⁹ Finally, as the court explained in *Briarpatch*, the state law claim must not include any extra elements that turn it into a claim qualitatively different from copyright infringement claims. Where a state law claim involves the extra elements of awareness or intent, such a claim still falls within the scope of a copyright infringement claim.

In *Briarpatch*, the works at issue comprised screenplay and motion picture rights to the novel "The Thin Red Line." The court first concluded that because the unjust enrichment claims involve "works of authorship fixed in a tangible medium of expression," they fall within the category of copyrightable derivative works protected under 17 USC §103.¹² Although the entertainment projects at issue also included non-copyrightable material, the court maintained that the action still fell within the broad scope of copyright subject matter.

Second, with regard to the general scope requirement, the court found that plaintiffs' unjust enrichment claim sought to protect plaintiffs' interests in proceeds from the sale of screenplay and motion picture rights. From this, the court concluded that the claim involved the right of adaptation and thus the right to prepare a derivative work under 17 USC §106(2). Unlike the elements required for copyright infringement claims, New York unjust enrichment

claims require proof that defendant was enriched. Nonetheless, the court held that this distinction does not render the two claims qualitatively different. Thus, the court found the state law unjust enrichment claims to be completely preempted and subject to federal jurisdiction.

Furthermore, the court found that the declaratory judgment claim, seeking a ruling that Phoenix has no rights to "The Thin Red Line," is preempted by the Copyright Act. The claims for breach of fiduciary duty, however, are not preempted, according to the court. Such claims involve duties owed to a partnership by those in control, which is qualitatively different from copyright infringement. With regard to the remaining non-preempted claims, the court instructed that the district court will have the discretion to exercise supplemental jurisdiction.

Dismissal of Claims

Once a district court finds that a state law claim is completely preempted, and asserts jurisdiction over it, "the court must then dismiss the claim for failing to state a cause of action," noted the Second Circuit. The court corrected the district court's rationale for dismissing the unjust enrichment and declaratory judgment claims against Phoenix, stating that the lower court should not have proceeded to analyze the sufficiency of plaintiffs' evidence on those claims under the Copyright Act. Instead, it should have dismissed them as a result of preemption. While complete preemption provides the court with jurisdiction, it does not allow a federal court to decide claims that have not actually been pleaded."

Conclusion

On remand, the district court will need to determine whether federal copyright jurisdiction extends to the claims against Greisler Roberdeau, Inc., which

were revived by the Second Circuit. The district court will also need to decide whether supplemental jurisdiction should be exercised over the remaining non-preempted claims in the litigation. Finally, the district court must reevaluate its summary judgment ruling on the breach of fiduciary duty claims remaining against Phoenix and Medavoy.

Prior to *Anderson*, the Second Circuit had ruled that the complete preemption doctrine applied only in a very narrow range of cases where Congress expressly manifested its intent to create federal jurisdiction. Although the Fourth Circuit had previously extended complete preemption to §301(a) of the Copyright Act,¹⁰ it was unclear whether the doctrine fully applied to the copyright field. With *Briarpatch*, the Second Circuit has emphasized that the Copyright Act provides the exclusive remedy for claims falling within its subject matter and general scope.



1. No. 03-7015, 2004 WL 1418115 (2d Cir. June 25, 2004).

2. *Briarpatch Ltd., L.P. v. Geisler Roberdeau, Inc.*, No. 99 Civ. 9623, 2000 WL 235284, at *3-4 (SDNY March 1, 2000).

3. See, e.g., *Metropolitan Life v. Taylor*, 481 US 58, 62 (1987); *Merrell Dow Pharm. Inc. v. Thompson*, 478 US 804, 808 (1986); 28 USC §1331.

4. *Franchise Tax Bd. of Cal. v. Constr. Laborers Vacation Trust for S. Cal.*, 463 US 1 (1983).

5. See, e.g., *Metropolitan Life v. Taylor*, 481 US 58, 62 (1987); *Merrell Dow Pharm. Inc. v. Thompson*, 478 US 804, 808 (1986); 28 USC §1331.

6. See, e.g., *Metropolitan Life v. Taylor*, 481 US 58, 62 (1987); *Merrell Dow Pharm. Inc. v. Thompson*, 478 US 804, 808 (1986); 28 USC §1331.

7. 2004 WL 1418115 at *7.

8. *Id.* (citing 17 USC §§501-513 (2000)).

9. *Id.* (citing 17 USC §301(a); *National Basketball Ass'n v. Motorola, Inc.*, 105 F3d 841, 848 (2d Cir. 1997)).

10. *Rosciszewski v. Arete Assocs., Inc.*, 1 F3d 225 (4th Cir. 1993).

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