

UNITED STATES BANKRUPTCY COURT  
MIDDLE DISTRICT OF NORTH CAROLINA  
DURHAM DIVISION

ENTERED

MAR 07 2001

U.S. Bankruptcy Court  
Greensboro, NC

CPH

IN RE:

Roasters Corporation  
Roasters Franchise  
Corporation,

Debtors.

)  
)  
) Case No. 98-80704C-11D  
) Case No. 98-81049C-11D  
) (Jointly Administered)  
)  
)  
)

MEMORANDUM OPINION

These cases came before the court on February 1, 2001, for hearing upon the Trustee's objection to Claim No. 540 which was filed by Robert Sergei ("Sergei"). John A. Northen and Emily Curto appeared on behalf of the Trustee and Robert Sergei appeared pro se.

JURISDICTION

The court has jurisdiction over the subject matter of this proceeding pursuant to 28 U.S.C. §§ 151, 157 and 1334, and the General Order of Reference entered by the United States District Court for the Middle District of North Carolina on August 15, 1984. This is a core proceeding within the meaning of 28 U.S.C. § 157(b)(2)(B) which this court may hear and determine.

PROCEDURAL BACKGROUND

Sergei's proof of claim was filed on March 15, 1999, and is in the amount of \$500,000.00. The proof of claim states that the debt was incurred on April 24, 1991, and has attached to it a copy of a verified amended complaint which was filed by Sergei in November of 1996 in a civil action which was pending in the Circuit Court of

Broward County, Florida. According to the complaint, Sergei and an associate "collaborated to develop a number of alternative logo designs" for Roasters and made "a presentation of various alternative pictorial and graphic artwork" at meetings which took place on or about April 29, 1991 and/or on or about May 7, 1991. According to the complaint, Roasters thereafter "extensively and prominently utilized and incorporated plaintiff's Artwork in their restaurant logo without authorization from Plaintiffs." Based upon Roasters' alleged utilization of plaintiffs' artwork, the complaint asserts claims for misappropriation of the artwork, conversion of the artwork and unfair competition. On June 30, 1999, the Trustee filed an objection to Sergei's claim asserting that the claim should be denied in its entirety.

#### FACTS

In April of 1991 Roasters was in the process of adopting a logo for use in its restaurant business which was in an early stage of development. The popular entertainer, Kenny Rogers, was involved with Roasters and his name was being used to promote the business. Roasters had decided that Mr. Rogers' name would be used in the logo and that the logo would consist of the words "Kenny Rogers" and "Roasters" presented in a form and style satisfactory to serve as the logo of the company. Some proposed designs for the logo had been developed in-house and some proposals had been submitted by outside professionals and various proposals were under

consideration. On or about April 24, 1991, Ludmilla Wilkerson, an acquaintance and associate of Sergei, met with representatives of Roasters to discuss the possibility of Wilkerson and Sergei submitting logo proposals. Wilkerson was invited to submit proposals. Thereafter, on or about April 29, 1991, and May 7, 1991, Wilkerson and Sergei met with representatives of Roasters and submitted several proposed designs for a Roasters logo. These proposals were submitted with the explicit understanding that Wilkerson and Sergei would be paid only if their designs were used. However, there was no discussion regarding how much Wilkerson and Sergei would be paid if their artwork was used. Copies of the designs were left with Roasters with the understanding that there would be further communications if Roasters decided to use the designs submitted by Wilkerson and Sergei. Although there were no further communications from Roasters, Sergei contends that artwork contained in the designs submitted by Sergei and Wilkerson was used in the logo that was adopted and used by Roasters later in 1991.

#### ANALYSIS

##### A. Preemption by the Copyright Act.

The first issue to be addressed is the effect, if any, of the Copyright Act<sup>1</sup> upon the claims asserted by Sergei. This is necessary because, under § 301 of the Copyright Act, state law claims involving rights equivalent to those protected by the

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<sup>1</sup>17 U.S.C. §§ 101, et seq.

Copyright Act are preempted. Under § 301, a state common law or statutory claim is preempted if: (1) the work is within the scope of the "subject matter of copyright" as specified in 17 U.S.C. §§ 102 and 103; and (2) the rights granted under state law are equivalent to any exclusive rights within the scope of federal copyright as set forth in 17 U.S.C. § 106. Ehat v. Tanner, 780 F.2d 876, 878 (10th Cir. 1985).

The first step in determining whether any of the claims in this case are preempted is to determine whether the "artwork" in question falls within the scope of the Copyright Act. The scope of the Copyright Act is reflected in 17 U.S.C. § 102(a): "Copyright protection subsists . . . in original works of authorship fixed in any tangible medium of expression . . . from which they can be perceived, reproduced, or otherwise communicated. . . ." Works of authorship include pictorial, graphic, and sculptural works. 17 U.S.C. § 102(a)(5). Moreover, a work may fall within the scope of the Copyright Act such that the doctrine of preemption is operable even though the work itself lacks sufficient originality or creative authorship to be copyrighted under the Copyright Act. Stated another way, the test is the type of work involved, not whether the work actually qualifies for copyright. Garrido v. Burger King Corp., 558 So. 2d 79, 81 (Fla. Dist. Ct. App. 1990) ("A work falls into the subject matter covered by the Copyright Act even if the work 'fails to achieve Federal statutory copyright

because it is too minimal or lacking in originality or quality . . . ."); Financial Information, Inc. v. Moody's Investors Service, Inc., 808 F.2d 204, 209 (2d Cir. 1986) (quoting legislative history: "As long as the work fits within one of the general subject matter categories of sections 102 and 103, the bill prevents the States from protecting it even if it fails to achieve Federal statutory copyright because it is too minimal or lacking in originality to qualify, or because it has fallen into the public domain.").

The "artwork" referred to in Sergei's complaint consists of several designs drawn or created by Sergei in which the words "Kenny Rogers" appear in close proximity to the word "Roasters" at varying angles, with the words "Kenny Rogers" and "Roasters" written in several different styles of script and in various combinations of colors. Such work is pictorial or graphic work as described in 17 U.S.C. § 102(5) and is an original work of authorship that is fixed in a tangible medium of expression which can be perceived and communicated. As such the "artwork" is encompassed by the language of 17 U.S.C. § 102 and is within the scope of the Copyright Act.<sup>2</sup>

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<sup>2</sup>In 1994 Sergei attempted to copyright the artwork. However, his application was rejected by the Copyright Office because the artwork lacked creative authorship. In the absence of copyright, even original creations are in the public domain and may be freely copied unless protected by some aspect of state law that is not preempted by the Copyright Act. Durham Industries, Inc. v. Tomy Corp., 630 F.2d 905, 908 (2d Cir. 1980).

The remaining issue in the preemption inquiry is whether the claims asserted by Sergei are equivalent to any of the exclusive rights that arise under the Copyright Act. If so, the claims are preempted and must be dismissed. Ehat v. Tanner, 780 F.2d at 879 (quoting legislative history: "The intention of section 301 is to preempt and abolish any rights under the common law or statutes of a State that are equivalent to copyright and that extend to works coming within the scope of the Federal copyright law.").

In the conversion claim, Sergei alleges conversion in the sense of an unauthorized reproduction and use of his artwork by Roasters. Under 17 U.S.C. § 106, the owner of a copyright has exclusive rights of reproduction, preparation of derivative works and distribution and display of the copyrighted work. A state law claim involving only unauthorized usage of works of authorship is preempted because it has the same elements as a claim under the Copyright Act and overlaps the rights and protection afforded by the Copyright Act. Garrido v. Burger King Corp., 558 So. 2d 79, 82 (Fla. Dist. Ct. App. 1990) ("Plaintiff's claims for conversion and theft of the advertising campaign ideas . . . are preempted under section 301(a) of the act because the elements of those claims are equivalent to those protected and thus preempted by the act."); Ehat v. Tanner, 780 F.2d 876, 878 (10th Cir. 1985) (claim for reproduction and distribution of literary work is preempted because such activity interferes with an intangible literary or artistic

property right equivalent to a copyright). Sergei's conversion claim therefore is preempted and must be dismissed.

The same is true with respect to Sergei's claim for misappropriation. It is clear from the complaint that the alleged "misappropriation" claim involves the same conduct involved in the conversion claim, namely, unauthorized use of Sergei's artwork. Again, such a claim is equivalent to the protected rights that arise under the Copyright Act and hence is preempted. See Balboa Ins. Co. v. Trans Global Equities, 218 Cal. App. 3d 1327, 1353, 267 Cal. Rptr. 787 1990) ("Absent the element of a relationship, a misappropriation claim for unauthorized use or transfer of the software adds nothing to a potential copyright infringement. Accordingly, copyright law preempts such a misappropriation claim.").

There is authority for the proposition that a claim for misappropriation of an idea falls within the exception to preemption that applies when the state law claim contains an element qualitatively different from a copyright infringement claim. Under Florida law, the elements of a cause of action for misappropriation of an idea are: (1) the idea must be novel<sup>3</sup>;

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<sup>3</sup>The test for novelty is a stringent one which requires "genuine novelty and invention and not merely a clever or useful adaption of existing knowledge \* \* \* Improvement of existing technique or quality, the judicious use of existing means, or the mixture of known ingredients in somewhat different proportions-all the variations on a basic theme-partake more of the nature of elaboration and renovation than of innovation." An idea must meet

(2) the disclosure of the idea must be made in confidence; and  
(3) the idea must be adopted and made use of by the defendant.  
Alevizos v. McArthur Foundation, 765 So. 2d 8, 11 (Fla. Dist. Ct.  
App. 1999); Garrido, 558 So.2d at 83; Official Airlines Schedule  
Info. Serv., Inc. v. Eastern Air Lines, Inc., 333 F.2d 672, 673-4  
(5th Cir. 1964). There is no requirement under the Copyright Act  
that a confidential relationship have existed with the defendant in  
order to maintain an action under the Copyright Act. This  
difference led one Florida court to conclude that preemption is not  
applicable to a claim for misappropriation of an idea. Garrido,  
558 So. 2d at 82-83. However, the misappropriation claim in the  
present case does not involve the alleged misappropriation of an  
idea. It involves only artwork and only the type of protection  
which is available for artwork under the Copyright Act, i.e.,  
exclusivity as to rights of reproduction, distribution and display  
of the artwork. There is no allegation [or evidence] of any idea  
being contributed by Sergei. The idea of having a logo and for  
that logo to consist of the words "Kenny Rogers" and "Roasters"  
originated with Roasters and was conceived without any input by  
Sergei. Sergei's misappropriation claim therefore does not fall  
with the exception sometimes recognized for claims involving

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the requirement of novelty before it can be considered property.  
Ideas that are not novel do not belong to anyone and are in the  
public domain and may be freely used by anyone with impunity.  
Alevizos, 764 So. 2d at 12.



misappropriation of an idea and hence is preempted.<sup>4</sup>

The situation arguably is different with the claim for unfair competition because it may fall within the exception to preemption that applies when a state law claim contains an element qualitatively different from a copyright infringement claim.<sup>5</sup> One

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<sup>4</sup>Even if the misappropriation claim were not preempted, the evidence offered by Sergei was insufficient to establish such a claim. Even assuming that the evidence established the first two elements (novelty and confidential disclosure), which is doubtful, the evidence failed to establish by a preponderance that Sergei's artwork was used in the logo that was adopted by Roasters. The evidence of such use consisted primarily of exhibits depicting the artwork alongside the Roasters logo and the alleged similarity between the artwork and the logo. In cases involving claims that copyrighted work has been used or copied, the standard is substantial similarity, and the appropriate test for determining whether substantial similarity is present is whether an average lay observer would recognize the alleged copy as having been appropriated from the copyrighted work. Malden Mills, Inc. v. Regency Mills, Inc., 626 F.2d 1112, 1113 (2d Cir. 1980). A general impression of similarity is not sufficient to make out a case of infringement; however, copying of every detail is not required either. The question to be answered is not whether there are differences in detail between the copyrighted and accused items when subjected to minute scrutiny, but whether the accused item is so similar to the plaintiff's that an ordinary lay observer would conclude that one was copied from the other. Durham Industries, Inc. v. Tomy Corp., 630 F.2d 905, 913-14 (2d Cir. 1980). Even though Sergei's artwork is not copyrighted, the court concludes that the substantial similarity standard is an appropriate standard for determining whether Sergei's artwork was used or copied in the creation of the Roasters logo. Having compared the artwork and the logo according to foregoing standards, the court finds that the logo is not substantially similar to Sergei's artwork and that Roasters did not use or incorporate the artwork in creating its logo.

<sup>5</sup>To the extent that Sergei's unfair competition claim is one seeking only protection against Roasters copying and using his artwork, it, too, may be preempted. See Durham Industries, Inc. v. Tomy Corp., 630 F.2d 905, 919 (2d Cir. 1980) ("To the extent that [the] . . . unfair competition claim seeks protection against. . .

of the requirements of a claim for unfair competition is that the parties be competitors, i.e., injury to a competitor. Practice Management Associates, Inc. v. Old Dominion Ins. Co., 601 So. 2d 587, 588 (Dist. Ct. of App. 1992) ("This is consistent with the Florida case law that requires injury to a competitor as an essential element of any claim of unfair competition."). Since a claim for unfair competition includes an additional element which arguably makes the claim qualitatively different from a copyright claim, the court will not dismiss the unfair competition claim as preempted. This leaves for determination whether Sergei is entitled to recover pursuant to the unfair competition claim.

B. Claim for Unfair Competition.

The burden of proof with respect to claims filed under 11 U.S.C. § 502 rests initially and ultimately with the claimant who "must allege facts sufficient to support their claim." In re Allegheny International, Inc., 954 F.2d 167, 173 (3<sup>rd</sup> Cir. 1992). If the averments in the filed proof of claim meet this standard of sufficiency, it is "'prima facie' valid" pursuant to Rule 3001(f) of the Bankruptcy Rules. Id. (quoting In re Holm, 931 F.2d 620, 623 (9<sup>th</sup> Cir. 1991)). "[A] claim that alleges facts sufficient to support a legal liability to the claimant satisfies the claimant's initial obligation to go forward." Id. If the claimant satisfies

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copying, it is a claim based on a right equivalent to 'exclusive rights within the . . . scope of copyright.' As such, it is defeated by Section 301(a).").

this initial burden, "[t]he burden of going forward then shifts to the objector to produce evidence sufficient to negate the prima facie validity of the filed claim." Id. In order to satisfy this burden, "the objector must produce evidence equal in force to the prima facie case . . . which, if believed would refute at least one of the allegations that is essential to the claim's legal sufficiency." Id. at 173-74. If the objecting party produces such evidence, the burden of going forward reverts to the claimant to prove the validity of its claim by a preponderance of the evidence. Id. at 174. Accord In re Weidel, 208 B.R. 848, 854 (Bankr. M.D.N.C. 1997); In re Waterman S.S. Corp., 200 B.R. 770, 774-75 (Bankr. S.D.N.Y. 1996); In re Custom Concepts, Inc., 150 B.R. 629, 631-32 (Bankr. W.D. Pa. 1993).

In the present case, Sergei's unfair competition claim is based upon the complaint which is attached to his proof of claim. In such a situation the complaint must allege facts that would entitle the claimant to the relief sought in order for the proof of claim and attached complaint to constitute prima facie evidence of the validity of the claim pursuant to Rule 3001 of the Bankruptcy Rules. In re AVN Corp., 248 B.R. 540, 547 (Bankr. W.D. Tenn. 2000) ("In order to enjoy the presumption of validity, a proof of claim must allege facts that would entitle the creditor to recovery."). A claimant who files a proof of claim that fails to set forth the necessary facts loses the benefit of Rule 3001(f) and

is not entitled to have the proof of claim treated as prima facie evidence of the validity and amount of the claim. In re Stoecker, 143 B.R. 879, 883 (N.D. Ill. 1992) (if the proof of claim fails to state necessary facts the court should "refuse to consider the proof of claim prima facie evidence of the claim's validity").

The complaint in the present case fails to allege an essential element of the unfair competition claim because there is no allegation that the plaintiffs and the defendants were competitors. The result is that Sergei's proof of claim does not constitute prima facie evidence of the unfair competition claim. Consequently, Sergei had the burden at the outset of coming forward with evidence sufficient to establish the validity and amount of the unfair competition claim by a preponderance, which Sergei failed to do. No evidence was produced which showed that Sergei and Roasters were competitors. In fact, the undisputed evidence was to the contrary in that it showed that Roasters was in the restaurant business, while Sergei was a commercial artist. In support of the unfair competition claim Sergei also asserted that Roasters made false representations to him that were relied upon to his detriment. These assertions likewise were not supported by the evidence. Since the evidence was insufficient to establish a claim for unfair competition, such claim will be denied.

#### CONCLUSION

Based upon the foregoing, the court has concluded that the

claim filed on behalf of Mr. Sergei should be disallowed without any recovery in these cases. An order so providing will be entered contemporaneously with the filing of this memorandum opinion.

This 7<sup>th</sup> day of March, 2001.

**WILLIAM L. STOCKS**

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WILLIAM L. STOCKS  
United States Bankruptcy Judge

UNITED STATES BANKRUPTCY COURT  
MIDDLE DISTRICT OF NORTH CAROLINA  
DURHAM DIVISION

ENTERED  
MAR 07 2001  
U.S. Bankruptcy Court  
Greensboro, NC  
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IN RE:	)	
	)	
Roasters Corporation	)	Case No. 98-80704C-11D
Roasters Franchise	)	Case No. 98-81049C-11D
Corporation,	)	(Jointly Administered)
	)	
Debtors.	)	
	)	

ORDER

For the reasons stated in the memorandum opinion filed contemporaneously with this order, it is ORDERED, ADJUDGED AND DECREED that Claim No. 540 filed on behalf of Robert Sergei is hereby disallowed without any recovery in these cases.

This 7<sup>th</sup> day of March, 2001.

**WILLIAM L. STOCKS**

WILLIAM L. STOCKS  
United States Bankruptcy Judge