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THE ROAD LESS TRAVELED: STATE COURT RESOLUTION OF  
PATENT, TRADEMARK, OR COPYRIGHT DISPUTES

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# THE ROAD LESS TRAVELED: STATE COURT RESOLUTION OF PATENT, TRADEMARK, OR COPYRIGHT DISPUTES

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## I. INTRODUCTION

*Two roads diverged in a wood, and I —  
I took the one less traveled by.  
And that has made all the difference.*<sup>1</sup>

Lawyers who do any amount of business practice are likely to encounter disputes involving patents, copyrights, or federally registered trademarks. If these disputes must be resolved with litigation, it is easy for a lawyer unfamiliar with patent, copyright, or trademark law to presume that the suit belongs in federal court and not state court.

In fact, even a passing knowledge of patent, copyright, or trademark law might discourage most lawyers from attempting state court litigation. Subject matter jurisdiction and federal law preemption are two areas likely to cause immediate concern. Subject matter jurisdiction of the federal district courts over patent, copyright, and trademark cases is conferred by 28 U.S.C. § 1338, which makes federal jurisdiction exclusive of state court jurisdiction in patent and copyright cases.<sup>2</sup> Preemption by federal patent and copyright laws limits the selection of available state law causes of action. Having these concerns in mind, lawyers tend automatically to view patent, copyright, and trademark disputes as being federal questions for federal courts. In this sense, federal court litigation of disputes involving patent, copyright, and trademark issues is the "well traveled" road.

Yet, resolving these disputes in state court rather than federal court could be advantageous to the client, both in terms of success and cost. State court litigation has a higher success rate—plaintiffs prevail more frequently in state court than federal court.<sup>3</sup> State court litigation has a higher yield—the ratio of recovery to fees is greater in state court than in federal court.<sup>4</sup> Finally, state court litigation costs less—lawyers are required to spend less time to litigate a case in state court than a similar case in federal court.<sup>5</sup>

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1. ROBERT FROST, *THE ROAD NOT TAKEN*.

2. See 28 U.S.C. § 1338 (1982); 1 J. MOORE, J. LUCAS, H. FINK, D. WECKSTEIN & J. WICKER, *MOORE'S FEDERAL PRACTICE* ¶ 0.62[6] (2d ed. 1986); 13B C. WRIGHT, A. MILLER & E. COOPER, *FEDERAL PRACTICE & PROCEDURE* § 3582 (2d ed. 1986).

3. See Trubek, Sarat, Felstiner, Kritzer & Grossman, *The Costs of Ordinary Litigation*, 31 *UCLA L. REV.* 72, 118 (1983)(conservative statistical figures suggest defendants more successful in federal court than in state court).

4. See *id.* at 111-12 (statistics show plaintiffs with hourly paid lawyers recover more in state court than in federal court; contingency paid lawyers recovery about equal).

5. See Kritzer, Grossman, McNichol, Trubek & Sarat, *Courts And Litigation Investment:*

It may be surprising to learn that many disputes involving patents, copyrights, or federally registered trademarks can be successfully resolved in state court litigation. Following this "less traveled" road can save the client's money, win the client's case, and "make all the difference."

Supposing that state court litigation is an attractive option and that diversity jurisdiction can be avoided, this paper identifies available state court suits and the federal law issues that may arise within them. More specifically, Part II discusses the plaintiff's statement of the case, which must avoid jurisdiction and preemption problems to develop as a state court suit. Once such a state court suit exists, specific issues of patent, copyright, or trademark law are assertible within the case, whether as part of the plaintiff's case or defensively. Part III deals with some ramifications of the fact that these federal law issues are triable in a state court suit. Finally, Part IV illustrates all these concepts, using typical fact scenarios while emphasizing Texas law.

## II. STATE COURT SUITS INVOLVING PATENTS, COPYRIGHTS, OR TRADEMARKS

### A. *General Rules for Avoiding Removal and Preemption*

Jurisdictional and preemptive obstacles prompt the question: "How can a state court suit involving patent, copyright, or federal trademark issues be pleaded?" The first step is to recognize that, as do most potential lawsuits, disputes involving patents, copyrights, or trademarks can give rise to many different causes of action, both federal and state. From these, the state actions can be selected and pleaded as a state court suit. A carefully prepared petition can avoid federal subject matter jurisdiction, and if there is no diversity, there will be no grounds for removal.

For patent, copyright, and trademark suits, the federal subject matter jurisdiction test of 28 U.S.C. § 1338 is whether the suit is one "arising under" the federal patent, copyright or trademark laws. The "arising under" language in 28 U.S.C. § 1338 is the same as the "arising under" language in the general federal question jurisdiction stat-

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*Why Do Lawyers Spend More Time On Federal Cases?*, 9 JUST. SYS. J. 7, 8 (1984)(hourly fee lawyers spend more time on federal court cases than on state court cases); Trubek, Grossman, Felstiner, Kritzer & Sarat, *Civil Litigation Research Project Final Report*, II-58, II-59, II-138 (1983).

ute, 28 U.S.C. § 1331. Accordingly, some well settled general rules governing federal jurisdiction also govern patent, copyright, and trademark jurisdiction. The federal courts strictly construe jurisdiction and removal statutes to restrict their jurisdiction.<sup>6</sup> The plaintiff's statement of the case determines whether the suit arises under federal law. It is immaterial that the plaintiff's petition anticipates a defense based on federal law, or that the plaintiff could have elected to proceed on federal grounds.<sup>7</sup>

Because the party who brings a suit may choose what law to rely upon, the doctrine of so limiting federal jurisdiction is known as the "well-pleaded complaint rule."<sup>8</sup> The plaintiff's choice prevails, provided the factual substance of its allegations are consistent with its selected cause of action.<sup>9</sup>

As a result of the well-pleaded complaint rule, if a state cause of action is well-pleaded and no federal cause of action is also pleaded, a plaintiff can choose state court jurisdiction. In the absence of diversity, if the defendant removes the case to federal court, the plaintiff can have it remanded as not arising under federal law.<sup>10</sup>

In addition to selecting jurisdiction, a carefully pleaded statement of the case also will avoid problems of preemption by federal law. In patent, copyright, or trademark disputes, when state court litigation is desired, preemption sometimes limits available state court claims. In a state court suit, preemption can be raised defensively, and, although

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6. See *Powers v. Southern Cent. United Food & Commercial Workers Unions and Employers Health & Welfare Trust*, 719 F.2d 760, 762 (5th Cir. 1983)(strict construction to restrict federal courts' jurisdiction on removal).

7. *Pan American Petroleum Corp. v. Superior Court*, 366 U.S. 656, 662 (1961); *Gully v. First Nat'l Bank*, 299 U.S. 109, 113 (1936); *Louisville and Nashville R.R. v. Mottley*, 211 U.S. 149, 153-54 (1908); see also *Powers*, 719 F.2d at 763-64 (citing numerous authorities for same proposition).

8. *Franchise Tax Bd. v. Construction Laborers Vacation Trust*, 463 U.S. 1, 7-12 (1983)(defendant may not remove case to federal court unless plaintiff's complaint establishes federal court jurisdiction).

9. See *Superior Testers v. Damco Testers*, 309 F. Supp. 661, 663-64 (E.D. La. 1970)(federal jurisdiction determined by complaint unless federal jurisdiction claim is immaterial or invoked fraudulently).

10. See *Deats v. Joseph Swantak, Inc.*, 619 F. Supp. 973, 982, 226 U.S.P.Q. 764, 770-71 (N.D.N.Y. 1985)(improper removal remanded if state court has subject matter jurisdiction); see also 1A J. MOORE, B. RINGLE & J. WICKER, *MOORE'S FEDERAL PRACTICE* ¶ 0.160[3.3] (2d ed. 1987); 13B C. WRIGHT, A. MILLER & E. COOPER, *supra* note 2, at § 3566. In 1985, 28 U.S.C. § 1441(e) was enacted to cure the dilemma created when a plaintiff improperly sued in state court; previously, the federal court, its jurisdiction being derivative, could not take jurisdiction even if removal were proper.

the defense does not confer federal question jurisdiction, it can cause dismissal.<sup>11</sup> This is avoidable by pleading nonpreempted claims arising from the given facts.

In sum, in the absence of diversity, careful pleading of a state court suit assures state court jurisdiction. The pleading should omit any claim arising from federal law rights and remedies; such claims cause federal question jurisdiction. Furthermore, the pleading should omit any preempted state law claims; such claims will either be treated as federal law claims or be dismissed.

### B. *State Court Suits Involving Patents*

The well-pleaded complaint rule is the starting point for cases specifically deciding jurisdiction of suits involving patents.<sup>12</sup> These cases include a trio of early United States Supreme Court opinions written by Justice Holmes, which provide the following analysis for evaluating a pleading: whether a suit arises under federal patent law within the meaning of 28 U.S.C. § 1338 depends on the case pleaded and the relief demanded by the plaintiff; a suit arises under the law that creates the cause of action.<sup>13</sup> Neither anticipation of patent law defenses in the plaintiff's pleadings nor the allegation of such defenses in the answer confer federal jurisdiction.<sup>14</sup> Also, the relative "seriousness" of state law claims and federal patent law defenses is not a factor in determining jurisdiction.<sup>15</sup>

Uniformity of patent law was one goal of the recent creation of the Court of Appeals for the Federal Circuit (CAFC) in 1982.<sup>16</sup> The CAFC has applied the well-pleaded complaint rule to decide subject matter jurisdiction of the federal district courts as well as its own ap-

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11. See *Franchise Tax Bd.*, 463 U.S. at 13-14 (case may not be removed to federal court based on federal defense, including preemption); *Powers*, 719 F.2d at 764 (defense of federal preemption will not invoke federal jurisdiction).

12. See generally 5 D. CHISUM, PATENTS § 21.02[1] (1987); Chisum, *The Allocation of Jurisdiction Between State and Federal Courts in Patent Litigation*, 46 WASH. L. REV. 633 (1971); Annotation, *Jurisdiction of State Court Over Actions Involving Patents*, 167 A.L.R. 1114 (1947).

13. *American Well Works Co. v. Layne & Bowler Co.*, 241 U.S. 257, 260 (1916).

14. *The Fair v. Kohler Die & Specialty Co.*, 228 U.S. 22, 25 (1913).

15. See *Healy v. Sea Gull Specialty Co.*, 237 U.S. 479, 480 (1915)(jurisdiction derived from complaint regardless of subsequently plead more serious disputes).

16. *C.R. Bard, Inc. v. Schwartz*, 716 F.2d 874, 878, 219 U.S.P.Q. 197, 200 (Fed. Cir. 1983).

pellate jurisdiction.<sup>17</sup> Its decisions carry forward the analytical test discussed above.<sup>18</sup>

There are no "bright line" categories for particular suits, and if the pleadings in a suit allege more than one cause of action, each must be considered. Nevertheless, jurisdiction of many causes of action is predictable from case law.<sup>19</sup> Because 28 U.S.C. § 1338 makes jurisdiction exclusive, a holding that either a federal or a state court does or does not have jurisdiction implies that the opposite is true of the other court. Suits to enforce a patent, whether or not literally asserted as infringement claims, arise under federal law.<sup>20</sup> Generally, a declaratory judgment suit to decide whether a patent is valid or infringed arises under federal law.<sup>21</sup> However, if a declaratory claim is only a

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17. The CAFC's appellate jurisdiction is derived from patent cases "based in whole or in part" on 28 U.S.C. § 1338 (1982). CAFC's appellate jurisdiction has been based on the same "arising under" test as is used for federal question jurisdiction in the district courts. See *Christianson v. Colt Indus. Operating Corp.*, 822 F.2d 1544, 1553-56, 3 U.S.P.Q.2d 1241, 1245-52 (Fed. Cir. 1987)(Congress in creating CAFC intended traditional "arising under" test to apply). Other decisions, however, seem to use a broader test. See *Xeta, Inc. v. Atex, Inc.*, 825 F.2d 604, 606-07 (1st Cir. 1987)(patent infringement counterclaim that is not immaterial, inferential, frivolous, or mere joinder will confer appellate jurisdiction in Federal Circuit); *In re Innotron Diagnostics*, 800 F.2d 1077, 1080, 231 U.S.P.Q. 178, 180 (Fed. Cir. 1986)(action "in part" in section 1338(a) subjects entire case to exclusive federal appellate jurisdiction); *Schwarzkopf Dev. Corp. v. Ti-Coating, Inc.*, 800 F.2d 240, 244, 231 U.S.P.Q. 47, 49-50 (Fed. Cir. 1986)(action involving contract claim and patent counterclaim properly in federal district court appealed to CAFC).

18. See *Air Prods. & Chems. v. Reichhold Chems.*, 755 F.2d 1559, 1562-63 (Fed. Cir.)(court applying well-pleaded complaint rule reviews district court case regarding patents), *cert. denied*, 473 U.S. 929 (1985); *In re Oximetrix, Inc.*, 748 F.2d 637, 641-42, 223 U.S.P.Q. 1068, 1071-72 (Fed. Cir. 1984)(complaint alleging contract claims only not removable to federal court); *Beghin-Say Int'l v. Ole-Bendt Rasmussen*, 733 F.2d 1568, 1570-72, 221 U.S.P.Q. 1121, 1123-24 (Fed. Cir. 1984)(CAFC lacks subject matter jurisdiction where action based exclusively on contract law).

19. See generally Annotation, *Jurisdiction of State Court Over Actions Involving Patents*, 167 A.L.R. 1114, 1116-64 (1947)(collection of cases dealing with state court jurisdiction).

20. See *Healy v. Sea Gull Specialty Co.*, 237 U.S. 479, 480-81 (1915) (suit involving patent infringement invokes federal court jurisdiction even where phrased as a contract dispute); *The Fair v. Kohler Die & Specialty Co.*, 228 U.S. 22, 25 (1913) (general claim of patent infringement and specific claim of contract violation invokes federal jurisdiction); cf. *In re Snap-On Tools Corp.*, 720 F.2d 654, 655, 220 U.S.P.Q. 8, 9 (Fed. Cir.)(plaintiff intending to allege common law cause of action but instead alleging patent infringement invokes federal court jurisdiction), *modified*, 735 F.2d 476 (1983). "Infringement" in patent law means violation of the rights secured by patent. Any person who, without legal permission, makes, uses, or sells a patented item is an infringer, liable for damages and subject to injunctive relief. Persons who contribute to or induce such acts are also infringers. See 35 U.S.C. § 271 (1982).

21. See *Lear Siegler, Inc. v. Adkins*, 330 F.2d 595, 599, 141 U.S.P.Q. 327, 329-30 (9th Cir. 1964)(discussing remedy afforded by Federal Declaratory Judgment Act); *Enka B.V. v.*

part of a state law suit, federal jurisdiction is not necessarily conferred.<sup>22</sup> Also, if a declaratory suit is brought in federal court by a nonpatentee to prove invalidity or noninfringement merely as a defense to a related state court action, the federal court is likely to refuse jurisdiction.<sup>23</sup>

Actions to resolve patent ownership do not usually arise under federal law.<sup>24</sup> For example, a claim for shop rights is a state law claim.<sup>25</sup> Ownership claims are often essentially contract suits, which are for

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E.I. DuPont De Nemours & Co., 519 F. Supp. 356, 360-61 (D. Del. 1981)(court stating three part test for declaratory judgment jurisdiction requires (1) arising under, (2) live adversity, and (3) valid claim of impending collision with defendant's patent).

22. See *Koratron Co. v. Deering Milliken, Inc.*, 418 F.2d 1314, 1317-18, 164 U.S.P.Q. 6, 8-9 (9th Cir. 1969), *cert. denied*, 398 U.S. 909 (1970)(patent's validity claim included in patentee's state court suit does not make suit one arising under the patent laws); *Lansing Research Corp. v. Sybron Corp.*, 514 F. Supp. 543, 544-45, 213 U.S.P.Q. 421, 422 (N.D.N.Y. 1981)(declaratory judgment action lies only if basis for federal jurisdiction exists in a coercive action between two parties). *But see* 3 D. CHISUM, PATENTS § 11.06[3] (1987)(criticizing *Koratron*).

23. See *Milprint, Inc. v. Curwood, Inc.*, 562 F.2d 418, 420, 196 U.S.P.Q. 147, 148 (7th Cir. 1977)(court holds no exclusive federal jurisdiction if mere question under patent law raised); *Thiokol Chem. Corp. v. Burlington Indus.*, 448 F.2d 1328, 1330, 171 U.S.P.Q. 193, 194 (3d Cir. 1971)(jurisdictional finding based on character of threatened action, not assertion of defense), *cert. denied*, 404 U.S. 1019 (1972); *Product Eng'g and Mfg. v. Barnes*, 424 F.2d 42, 44, 165 U.S.P.Q. 229, 229 (10th Cir. 1970)(federal court dismisses declaratory judgment suit since issue of patent's invalidity or infringement merely defense to state court action); *Poles, Inc. v. Estate of William H.A. Beeker*, 475 F. Supp. 23, 24-25, 205 U.S.P.Q. 1179, 1180 (E.D. Pa. 1979)(declaratory judgment action by licensee lacking diversity merely to avoid license obligations does not state claim arising under patent laws). Older decisions were less deferential. See Comment, *A Licensee's Claim of Invalidity or Noninfringement of the Licensor's Patent Should Invoke Federal Question Jurisdiction*, 51 TEX. L. REV. 163, 164-69 (1972); *cf.* *C.R. Bard, Inc. v. Schwartz*, 716 F.2d 874, 880-82, 219 U.S.P.Q. 197, 202-04 (Fed. Cir. 1983)(federal court jurisdiction on declaratory judgment suit declaring patent subject to license while license still in effect).

24. See, e.g., *Mead Corp. v. United States*, 652 F.2d 1050, 1052-53 (D.C. Cir. 1981)(court acquires no jurisdiction to adjudicate patent's title from jurisdictional statutes general federal question, mandamus, or declaratory judgment); *D.L. Auld Co. v. Murfin, Inc.*, 208 U.S.P.Q. 508, 512 (S.D. Ohio 1980)(action determining patent's title does not arise under congressional acts); *Heath v. Zenklich*, 437 N.E.2d 675, 678-79, 221 U.S.P.Q. 78, 81 (Ill. App. Ct. 1982)(state court proper forum to litigate ownership of invention); *Hold Stitch Fabric Mach. Co. v. May Hosiery Mills*, 195 S.W.2d 18, 21, 71 U.S.P.Q. 17, 19 (Tenn.)(federal courts without jurisdiction to determine patent's title), *cert. denied*, 329 U.S. 759 (1946).

25. See *Lion Mfg. Corp. v. Chicago Flexible Shaft Co.*, 106 F.2d 930, 932-33, 43 U.S.P.Q. 1, 3 (7th Cir. 1939)(employer's alleged equitable ownership of employee's patent invokes no federal court jurisdiction); *Mix v. Newland*, 541 P.2d 136, 137, 196 U.S.P.Q. 506, 507 (Or. 1975)(state court jurisdiction over protection of existing property ownership not preempted by federal patent law); *Aetna-Standard Eng'g Co. v. Rowland*, 493 A.2d 1375, 1377, 228 U.S.P.Q. 292, 293 (Pa. Super. Ct. 1985)(incidental and collateral property right's issues, like shop rights, may be adjudicated in state court).



state courts to decide. Thus, a contract claim does not arise under federal law merely because it may require an issue of who is the true inventor.<sup>26</sup> A declaratory judgment action for reversion of title to patent rights does not arise under federal law,<sup>27</sup> nor does a suit for specific performance of a contract to assign a patent.<sup>28</sup> A claim to determine whether a contract is a patent assignment<sup>29</sup> or how to interpret an assignment is a state court claim.<sup>30</sup> On the other hand, there may be suits in which a federal statute, although not creating an action or remedy, is critical to an ownership claim, thereby inducing federal jurisdiction.<sup>31</sup>

Another general rule is that a claim to enforce or revoke a contract is a state court claim, even though a patent is the subject of the contract.<sup>32</sup> Contractual claims within state jurisdiction run the full gamut, including claims for damages or specific performance or for the forfeiture of a license or assignment.<sup>33</sup>

Patent holders often bring a contract suit for nonpayment of royalties, as an alternative to a suit for infringement. These contract suits are consistently held to be state court suits,<sup>34</sup> and it is immaterial that the defendant raises issues of invalidity and noninfringement.<sup>35</sup> On

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26. See *Consolidated World Housewares v. Finkle*, 831 F.2d 261, 265, 4 U.S.P.Q.2d 1565, 1568 (Fed. Cir. 1987)(contract action involving determination of true inventor confers no federal court jurisdiction); cf. *Miller v. Lucas*, 124 Cal. Rptr. 500, 502-03, 191 U.S.P.Q. 166, 168 (Ct. App. 1975)(no state court jurisdiction of claim to determine priority of invention).

27. See *Luckett v. Delpark, Inc.*, 270 U.S. 496, 503-04 (1926)(suit to obtain reconveyance of assigned patent not actionable in federal court).

28. See *New Marshall Engine Co. v. Marshall Engine Co.*, 223 U.S. 473, 478-79 (1912).

29. See *Beghin-Say Int'l v. Ole-Bendt Rasmussen*, 733 F.2d 1568, 1570-71, 221 U.S.P.Q. 1121, 1123 (Fed. Cir. 1984).

30. See *Combs v. Plough, Inc.*, 681 F.2d 469, 470-71 (6th Cir. 1982)(action to enforce, set aside, annul, or assign a contract arises out of contract, not patent laws); *Lang v. Patent Tile Co.*, 216 F.2d 254, 255-56, 103 U.S.P.Q. 287, 288 (5th Cir. 1954)(suit based upon assignment of patent not arising under patent laws).

31. See *Crown Die & Tool Co. v. Nye Tool & Mach. Works*, 261 U.S. 24, 33 (1926)(validity of patent assignment requiring interpretation of patent statutes confers federal court jurisdiction).

32. *Combs*, 681 F.2d at 470; *Ausherman v. Stump*, 643 F.2d 715, 718 (10th Cir. 1981); *Tycom Corp. v. Redactron Corp.*, 421 F. Supp. 460, 462 (D. Del. 1976); *Tjaarda v. Briggs Mfg. Co.*, 121 F. Supp. 189, 191 (E.D. Mich. 1954).

33. *Luckett v. Delpark, Inc.*, 270 U.S. 496, 502 (1926).

34. See *id.*; *Burke v. Pittway Corp.*, 380 N.E.2d 1, 3, 201 U.S.P.Q. 619, 620 (Ill. App. Ct.), cert. denied, 441 U.S. 908 (1979); *Wham-O Mfg. Co. v. All-American Yo-Yo Corp.*, 377 F. Supp. 993, 994-95, 181 U.S.P.Q. 320, 321 (E.D.N.Y. 1973).

35. *Kysor Indus. Corp. v. Pet, Inc.*, 459 F.2d 1010, 1012, 173 U.S.P.Q. 642, 643 (6th

the other hand, if a patent holder elects to sue for infringement rather than under the contract, the suit is within the exclusive jurisdiction of the federal courts.<sup>36</sup>

Parties other than patent holders can plead state law contract suits. Thus, a licensee can sue in state court for breach of contract. A state court suit for rescission or fraudulent inducement of a contract may be available.<sup>37</sup>

Contract claims venting from contractual agreements to not infringe are hybrids, thereby requiring special scrutiny to determine jurisdiction. The CAFC has held that a suit to enforce a licensee's agreement not to include the licensor's features and designs is not preempted by federal law, which indicates that it is a claim that may be brought in state court.<sup>38</sup> Yet, a suit brought in state court for breach of a contract to refrain from infringing a patent has been held to arise under federal law.<sup>39</sup>

Business torts, such as interference with business relations<sup>40</sup> or breach of a confidential relation,<sup>41</sup> may be pleaded as state causes of

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Cir.), *cert. denied*, 409 U.S. 980 (1972); *Wham-O Mfg. Co.*, 377 F. Supp. at 995, 181 U.S.P.Q. at 321.

36. *Henry v. A.B. Dick Co.*, 224 U.S. 1, 14-15 (1912); *Deats v. Joseph Swantak, Inc.*, 619 F. Supp. 973, 981, 226 U.S.P.Q. 764, 770 (N.D.N.Y. 1985).

37. *See Lear Siegler, Inc. v. Adkins*, 330 F.2d 595, 599-602, 141 U.S.P.Q. 327, 330-32 (9th Cir. 1964)(suit to enforce or revoke patent licensing agreement not maintainable in federal court); *Chicago Fittings Corp. v. Howe*, 309 F. Supp. 625, 626, 164 U.S.P.Q. 658, 659 (N.D. Ill. 1970)(failure of consideration and fraudulent inducement are contract matters properly resolved in state court).

38. *See Universal Gym Equip. Inc. v. ERWA Exercise Equip. Ltd.*, 4 U.S.P.Q.2d 1035, 1039-41 (Fed. Cir. 1987)(patent law does not preclude application of state law to award damages for licensee's breach of contract not to include licensor's features in licensee's products after license expired).

39. *See Schachel v. Closet Concepts*, 405 So. 2d 487, 488, 217 U.S.P.Q. 502, 503-04 (Fla. Dist. Ct. App. 1981). If a lawsuit is founded on a breach of a right created by the patent laws, even if that right is confirmed in a separate agreement, the case arises under the patent laws, and a state court lacks subject matter jurisdiction. Thus, a suit for breach of contract where the only way to breach the contract is to infringe the patent is a suit arising under the patent laws. *See id.*

40. *See, e.g., American Well Works Co. v. Layne and Bowler Co.*, 241 U.S. 257, 259-60 (1916)(suit of unfair competition based upon alleged false charges of patent infringement not suit arising under patent law); *American Harley Corp. v. Irvin Indus.*, 263 N.E.2d 552, 554-55, 167 U.S.P.Q. 553, 554-55 (N.Y. 1970)(state court proper court for suit based upon tortious interference with contract), *cert. denied*, 401 U.S. 976 (1971); *Koratron Co. v. Deering Milliken, Inc.*, 418 F.2d 1314, 1317, 164 U.S.P.Q. 6, 9 (9th Cir. 1969)(interference with contract and interference with prospective economic advantage are state court actions), *cert. denied*, 398 U.S. 909 (1970).

41. *See Becher v. Contoure Laboratories, Inc.*, 279 U.S. 388, 391 (1929)(wrongful disre-

action even if patent law issues are generated. In one often cited decision, a plaintiff sued in state court alleging trade slander. This was a state law claim even though the defense of justification for the defendant's conduct might involve a patent infringement issue.<sup>42</sup>

Because of preemption by the patent laws, however, some patent holders' claims may necessarily be federal claims. This is especially likely with tort and quasi-contract claims, such as conversion and misappropriation, unjust enrichment, and unfair competition. Thus, a claim for conversion of patent rights is equivalent to a patent infringement claim, over which a state court has no jurisdiction.<sup>43</sup> Similarly, if enrichment is unjust because of the plaintiff's ownership of a patent and the defendant's use of the patented invention without payment, the claim is in substance, a claim for patent infringement.<sup>44</sup> Likewise, if the main purpose of an unfair competition claim is to enjoin or recover damages for infringement, it is preempted by federal law and falls within the exclusive jurisdiction of the federal courts.<sup>45</sup>

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gard of confidential relations not suit arising under patent laws); *Cummings v. Moore*, 202 F.2d 145, 147 (10th Cir. 1953)(absent diversity, federal court lacks jurisdiction over suit alleging breach of confidential relation).

42. *American Well Works Co.*, 241 U.S. at 258-60. The alleged unfair competition arose when the defendant informed plaintiff's customers that the plaintiff was infringing the defendant's patent and that the defendant would sue both the seller and buyers of the plaintiff's product. Whether the defendant was justified in alleging patent infringement had no impact on the proper jurisdiction for the plaintiff's suit alleging trade slander. See *id.* *Contra Ostow & Jacobs, Inc. v. Morgan-Jones, Inc.*, 189 F. Supp. 697, 698-99, 128 U.S.P.Q. 107, 108 (S.D.N.Y. 1960). In *Ostow & Jacobs, Inc.*, the plaintiff alleged that the plaintiff's goods had been disparaged by the defendant's assertions that the goods infringed his patent. The district court held that it had jurisdiction since the plaintiff had to prove the statements were false and could only do so by proving that the defendant's patent was invalid or un infringed. See *id.*

43. See *Miracle Boot Puller Co. v. Plastray Corp.*, 269 N.W.2d 496, 498 (Mich. Ct. App. 1978)(conversion of patent rights cause of action based upon patent law, thus, state court lacks jurisdiction).

44. See *Deats v. Joseph Swantak, Inc.*, 619 F. Supp. 973, 981-82, 226 U.S.P.Q. 764, 769-71 (N.D.N.Y. 1985)(plaintiff's allegation of unjust enrichment held to be for patent infringement where plaintiff also sought redress for infringement during period following termination of royalty agreement). *But see Parissi v. General Elec. Co.*, 97 F. Supp. 333, 334-35, 89 U.S.P.Q. 135, 135 (N.D.N.Y. 1951)(plaintiff's allegation of common-law unjust enrichment resulting from misappropriation of idea while under confidential relationship invokes no federal court jurisdiction since patentability not element of action).

45. See *In re Snap-On Tools Corp.*, 720 F.2d 654, 655, 220 U.S.P.Q. 8, 9 (Fed. Cir. 1983)(despite plaintiff's assertion of common law actions, plaintiff's allegation of patent infringement set forth underlying wrong, thus, removed to federal court); *Chapman Performance Prods. v. Producers Sales*, 306 N.E.2d 615, 616-17, 181 U.S.P.Q. 101, 102-03 (Ill. App. Ct. 1973)(suit alleging unfair competition and requesting injunction covering defendant's manufacturing and selling of product fell within exclusive jurisdiction of federal court).

Yet, not all such claims are preempted. For example, an unfair competition claim alleging a defendant's "passing off" nonpatented features of products similar to the plaintiff's may be a state law action, even though the plaintiff's product is patented.<sup>46</sup>

When trade secrets have been misappropriated, there is a potential preemption problem, but various state courts, dealing with their own trade secrets laws, have held them not to be preempted.<sup>47</sup> Trade secrets can exist in connection with a patented product, although features disclosed in a patent cannot be protected as trade secrets.<sup>48</sup> If a patent holder's trade secrets have been misappropriated, a state law trade secret claim is available.<sup>49</sup>

### C. State Court Suits Involving Copyrights

As discussed above, 28 U.S.C. § 1338 makes federal subject matter jurisdiction of copyright cases exclusive if the case arises under federal law. Pleadings alleging copyright related claims are analyzed according to the well-pleaded complaint rule.<sup>50</sup> Thus, if the plaintiff pleads only state causes of action in state court and the defendant removes to federal court, the case is remandable.<sup>51</sup> Consistent with general rules

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46. See *Nated Corp. v. F.W. Woolworth Corp.*, 234 N.Y.S.2d 770, 771-73 (Sup. Ct. 1962)(suit alleged unfair competition due to defendant selling candle trimmers embodying the nonfunctional design and appearance of plaintiff's patented candle trimmer).

47. See *Van Prods. Co. v. General Welding and Fabricating Co.*, 213 A.2d 769, 772-73, 147 U.S.P.Q. 221, 223-24 (Pa. 1965)(state courts have power to enjoin use of trade secret if patent laws are only incidentally involved); *Hyde Corp. v. Huffines*, 158 Tex. 566, 577-78, 314 S.W.2d 763, 770-71 (trade secrets subject to equitable jurisdiction of state courts), *cert. denied*, 358 U.S. 898 (1958); see also *Kewanee Oil Co. v. Bicon Corp.*, 416 U.S. 470, 474, 181 U.S.P.Q. 673, 676 (1973)(states' law of trade secrets not preempted by United States patent laws). See generally 4 D. CHISUM, PATENT LAW PERSPECTIVES § 16.02 (1987).

48. See *Van Prods. Co.*, 213 A.2d at 778-79, 147 U.S.P.Q. at 228 (patent publication destroys any trade secret disclosed therein).

49. See *Ogontz Controls Co. v. Pirkle*, 499 A.2d 593, 595 (Pa. Super. Ct. 1985)(employment contract breach by misappropriating patented trade secrets gives rise to state law cause of action).

50. See *Effects Assocs. v. Cohen*, 817 F.2d 72, 73, 2 U.S.P.Q.2d 1718, 1719 (9th Cir. 1987)(complaint alleging copyright infringement and single paragraph alluding to fraud and deceit in oral promise did not divest federal court of jurisdiction); *Keith v. Scruggs*, 507 F. Supp. 968, 970, 212 U.S.P.Q. 683, 683 (S.D.N.Y. 1981)(court looks at essence of plaintiff's claim to determine if claim arises under copyright laws); see also 1 J. MOORE, J. LUCAS, H. FINK, D. WECKSTEIN & J. WICKER, *supra* note 2; 13B C. WRIGHT, A. MILLER & E. COOPER, *supra* note 2. A leading copyright law treatise cites numerous cases dealing with this subject. See generally 3 M. NIMMER & D. NIMMER, NIMMER ON COPYRIGHT § 12.01[A] (1987).

51. See *Pottstown Daily News Publishing Co. v. Pottstown Broadcasting Co.*, 247 F. Supp. 578, 582-83 (E.D. Pa. 1965) (federal court has exclusive jurisdiction over copyright

governing subject matter jurisdiction, the underlying factual allegations must be consistent with the stated cause of action.<sup>52</sup>

Suits arise under copyright law as a result of variety of rights and remedies that are creatures of statute. Three conditional tests determine whether a suit arises under the Copyright Act: if the complaint is for a remedy expressly granted by the Act, if it asserts a claim requiring construction of the Act, or if it presents a case over which the policy of the Act requires federal law to control.<sup>53</sup> As indicated below, the first test, the nature of the remedy sought, has relatively certain results, but the other two tests are less predictable.

Consistent with the first test, claims to enforce statutory copyrights arise under federal law. Thus, a claim for statutory copyright infringement invokes federal jurisdiction.<sup>54</sup> Also, the Copyright Act prescribes statutory royalties for some types of works, and suits to recover them are federal court suits.<sup>55</sup>

Most claims to determine copyright ownership are state court claims because contract rights control.<sup>56</sup> For example, a suit whose outcome is controlled by the validity of a copyright assignment is a state court suit.<sup>57</sup> In comparison, a claim to determine ownership is generally a federal court claim when the interpretation of a copyright statute controls.<sup>58</sup> For example, the statute defines such things as co-

claim and pendent jurisdiction over related state claims of unfair competition and invasion of property rights).

52. See *Berger v. Simon & Schuster*, 631 F. Supp. 915, 918-19 (S.D.N.Y. 1986)(court must look to essence of plaintiff's claim).

53. *T.B. Harms Co. v. Eliscu*, 339 F.2d 823, 828, 144 U.S.P.Q. 46, 50 (2d Cir. 1964), *cert. denied*, 381 U.S. 915 (1965); see also 3 M. NIMMER & D. NIMMER, *supra* note 50, at 12-10.2 to 10.4.

54. See, e.g., *Topolos v. Caldeway*, 698 F.2d 991, 993, 217 U.S.P.Q. 715, 716 (9th Cir. 1983); *Kamakazi Music Corp. v. Robbins Music Corp.*, 684 F.2d 228, 230 (2d Cir. 1982); *Stone v. Hutchison*, 272 S.W.2d 424, 425 (Tex. Civ. App.—Dallas 1954, no writ).

55. See *Shapiro, Bernstein & Co. v. Gabor*, 266 F. Supp. 613, 614 (S.D.N.Y. 1966)(non-payment of statutory royalty considered act of infringement); cf. *Golden West Melodies, Inc. v. Capital Records, Inc.*, 79 Cal. Rptr. 442, 445-46, 163 U.S.P.Q. 429, 432 (Ct. App. 1969)(state court action to recover contractual copyright royalties).

56. See *Royal v. Leading Edge Prods.*, 833 F.2d 1, 4 (1st Cir. 1987)(breach of royalty agreement not exception to work for hire doctrine); *Franklin v. Cannon Films*, 654 F. Supp. 133, 135 (C.D. Cal. 1987)(court considers copyright claim as issue if case involves comparison or construction of copyrighted works or if there exists need to interpret copyright act).

57. See *Dolch v. United Cal. Bank*, 702 F.2d 178, 180, 218 U.S.P.Q. 116, 118 (9th Cir. 1983)(conditions for valid assignment of rights not federal question).

58. See *Topolos*, 698 F.2d at 994, 217 U.S.P.Q. at 717 (threshold question of copyright ownership establishes federal jurisdiction though case involves contract interpretation).

authorship and works for hire, thus suits whose purpose is to decide these matters are federal court suits.<sup>59</sup> It is not always clear, however, whether contract rights or statutory interpretation controls; ownership suits can be state court suits even though an ingredient of the suit is a federal law issue.<sup>60</sup>

Generally, suits on contracts do not engender federal jurisdiction merely because they involve copyrights; claims whose main purpose is to enforce or to invalidate a contract are state court suits.<sup>61</sup> Neither the fact that infringement might follow from findings on contract issues,<sup>62</sup> nor the need to determine the effect of copyright statutes necessarily convert the suit to one arising under federal law.<sup>63</sup> As in patent suits, a copyright holder may choose to sue for royalties in state court rather than for infringement in federal court,<sup>64</sup> except when the royalties are statutorily prescribed.<sup>65</sup>

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59. See *Goodman v. Lee*, 815 F.2d 1030, 1031-32, 2 U.S.P.Q.2d 1724, 1725 (5th Cir. 1987)(interpreting co-authorship); *Lieberman v. Estate of Chayefsky*, 535 F. Supp. 90, 91, 215 U.S.P.Q. 741, 742 (S.D.N.Y. 1982)(defining co-authorship); *Royalty Control Corp. v. Sanco, Inc.*, 175 U.S.P.Q. 641, 643 (N.D. Cal. 1972)(defining phrase work-for-hire).

60. See *T.B. Harms Co. v. Eliscu*, 339 F.2d 823, 828, 144 U.S.P.Q. 46, 50 (2d Cir. 1964)(action merely derived from copyright act not sufficient to invoke federal jurisdiction); *Peay v. Morton*, 571 F. Supp. 108, 112-13, 222 U.S.P.Q. 64, 67 (M.D. Tenn. 1983)(state courts have jurisdiction to establish title to statutorily copyrighted works); *Keith v. Scruggs*, 507 F. Supp. 968, 970, 212 U.S.P.Q. 683, 683-84 (S.D.N.Y. 1981)(suit to declare copyright co-ownership not arising under copyright laws).

61. See *Berger v. Simon & Schuster*, 631 F. Supp. 915, 918-19 (S.D.N.Y. 1986)(complaint alleging copyright infringement seeking to break contract dismissed for lack of federal court jurisdiction); *Edison v. Viva Int'l*, 209 U.S.P.Q. 345, 346 (N.Y. App. Div. 1979)(alteration of plaintiff's article by publisher results in state court breach of contract suit); *Condon v. Associated Hosp. Servs.*, 52 U.S.P.Q. 637, 638-39 (N.Y. App. Div. 1942).

62. See *Berger*, 631 F. Supp. at 917 (state court's finding on contract issues resulting in determination of infringement or noninfringement does not oust state court of jurisdiction).

63. See *Bankers Capital Corp. v. Brummet*, 218 U.S.P.Q. 176, 180 (Mo. Ct. App. 1982)(state court's interpretation of effect of copyright registration requirements in breach of contract suit does not oust state court's jurisdiction).

64. See, e.g., *Wolfe v. United Artists Corp.*, 583 F. Supp. 52, 55-56, 223 U.S.P.Q. 274, 276 (E.D. Pa. 1983)(nonpayment of royalties results in state court breach of contract suit); *Trophy Prods., Inc. v. Telebrity, Inc.*, 185 U.S.P.Q. 830, 831 (N.Y. App. Div. 1975)(suit alleging breach of copyright's contract license or tort of inducing breach of such contract actionable in state court); *Bevan v. Columbia Broadcasting Sys.*, 293 F. Supp. 1366, 1369 (S.D.N.Y. 1968)(suit alleging breach of royalty contract without federal claim of copyright infringement lacking federal court subject matter jurisdiction); cf. *Golden West Melodies, Inc. v. Capital Records, Inc.* 79 Cal. Rptr. 442, 445-46, 163 U.S.P.Q. 429, 432 (Ct. App. 1969) (state court jurisdiction to set aside, specifically enforce, or recover royalties under patent or copyright license contract).

65. See note 34 and accompanying text.

Tort and quasi-contract claims must be considered in terms of both jurisdiction and preemption. A claim for interference with a copyright contract is within state court jurisdiction.<sup>66</sup> On the other hand, a claim for misrepresenting noninfringement is within federal jurisdiction.<sup>67</sup> Other common law claims also will be preempted if the claim is for rights equivalent to the exclusive rights protected by the Copyright Act, and the materials in question are within the subject matter of the Act.<sup>68</sup> Under this test, unjust enrichment and unfair competition claims are often preempted.<sup>69</sup> Even so, a number of cases hold there is no preemption of unjust enrichment claims, with most of these falling into two categories: those requiring the plaintiff to prove the defendant was unjustly enriched by use of items beyond copyright protection,<sup>70</sup> and those emphasizing the quasi-contract basis of unjust enrichment with its implication of a promise to pay.<sup>71</sup> Reaching a similar result, a court might distinguish between "misappropriation" from "passing off" claims, and hold that the latter are not preempted.<sup>72</sup>

Not all incursions upon copyrighted works are infringements

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66. See *Trophy Prods., Inc.*, 185 U.S.P.Q. at 831 (state court jurisdiction to adjudicate tort claim of inducing breach of contract licensing copyright, even though valid copyright prerequisite to successful suit).

67. See *Christopher v. Cavallo*, 662 F.2d 1082, 1083, 218 U.S.P.Q. 396, 397 (4th Cir. 1981)(federal court has exclusive jurisdiction to interpret copyright laws).

68. 17 U.S.C. § 301 (1982); see also 1 M. NIMMER & D. NIMMER, *supra* note 50, § 1.01[B].

69. See *Del Madera Properties v. Rhodes and Gardner*, 820 F.2d 973, 977, 3 U.S.P.Q.2d 1283, 1286 (9th Cir. 1987)(unjust enrichment claim preempted); *Universal City Studios v. Nintendo Co.*, 615 F. Supp. 838, 856-57, 227 U.S.P.Q. 96, 109 (S.D.N.Y. 1985)(state court unjust enrichment claim preempted under copyright laws), *aff'd*, 797 F.2d 70, 230 U.S.P.Q. 409 (2d Cir.), *cert. denied*, 107 S. Ct. 578 (1986); *Schuchart & Assocs. v. Solo Serve Corp.*, 540 F. Supp. 928, 946, 217 U.S.P.Q. 1227, 1241 (W.D. Tex. 1982)(state unfair competition laws cannot surpass federal laws); *Durham Indus. v. Tomy Corp.*, 630 F.2d 905, 918-19, 208 U.S.P.Q. 10, 22-23 (2d Cir. 1980)(state unfair competition claim defeated by equivalent exclusive right of section 301(a) of Copyright Act).

70. See *Selmon v. Hasbro Bradley, Inc.*, 669 F. Supp. 1267, 1273 (S.D.N.Y. 1987)(unjust enrichment claim not preempted if plaintiff proves unjust enrichment by material beyond copyright protection).

71. See *Schuchart & Assocs.*, 540 F. Supp. at 945, 217 U.S.P.Q. at 1240 (Texas action for unjust enrichment or quantum meruit based on recovery upon implied promise to pay for beneficial services rendered and knowingly accepted); *Werlin v. Reader's Digest Ass'n*, 528 F. Supp. 451, 467, 213 U.S.P.Q. 1041, 1053 (S.D.N.Y. 1981)(quasi-contract protects implied contract to pay and rights qualitatively different from those rights protected by federal copyright laws).

72. See *Warner Bros. v. American Broadcasting Co.*, 720 F.2d 231, 247, 222 U.S.P.Q. 101, 114 (2d Cir. 1983)(state unfair competition claim based on misappropriation preempted,

within the Copyright Act. For example, in one case, a plaintiff's allegations of a contractual relation with the defendant who failed to credit the plaintiff as author, did not allege an infringement governed by federal law.<sup>73</sup> Additionally, the subject matter in question may not be subject matter within the Copyright Act. For example, at least one court recognizes common law protection for a work's title or concept, which are not copyrightable.<sup>74</sup>

A claim for misappropriation of trade secrets is usually a state law claim and is not preempted, even if the information is also within the subject matter of the Copyright Act, and even if a copyright is registered. This is because the nature of the rights protected by trade secret law differs from that of copyright law—trade secrets need some relationship, an element not required for copyrights.<sup>75</sup>

#### D. *State Court Suits Involving Federally Registered Trademarks*

Unlike the exclusive jurisdiction of cases arising under patent and copyright laws, under 28 U.S.C. § 1338, federal court jurisdiction of cases arising under trademark law is concurrent with state courts.<sup>76</sup> Thus, suits for violations of federal trademark laws, which are in the Lanham Trademark Act,<sup>77</sup> may be brought in either federal or state

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but state unfair competition claim alleging tort of "passing off" not preempted since asserting right not equivalent to copyright).

73. *See Wolfe v. United Artists Corp.*, 583 F. Supp. 53, 56, 223 U.S.P.Q. 274, 276-77 (E.D. Pa. 1983)(failure to credit plaintiff as book's author not valid copyright infringement claim).

74. *See Capital Films Corp. v. Charles Fries Prods.*, 628 F.2d 387, 394-95 (5th Cir. 1980)(Texas common law doctrine of reverse confusion applicable to unfair competition case involving movie title).

75. *Technicon Medical Information Sys. Corp. v. Green Bay Packaging Inc.*, 687 F.2d 1032, 1038, 215 U.S.P.Q. 1001, 1006-07 (7th Cir. 1982)(Copyright Act protects form of work while trade secret law protects contents or ideas in a work), *cert. denied*, 459 U.S. 1106 (1983); *BPI Sys., Inc. v. Leith*, 532 F. Supp. 208, 210-11 (W.D. Tex. 1981)(injunction against use of wrongfully appropriated trade secrets not preempted by Copyright Act since information not copyrighted); *Boeing Co. v. Sierracin Corp.*, 4 U.S.P.Q.2d 1417, 1421 (Wash. 1987)(ideas not protected by copyright, whereas ideas protected by trade secret law if moved, undisclosed, or disclosed only on basis of confidentiality). *Contra Avco Corp. v. Precision Air Parts*, 210 U.S.P.Q. 894, 897-98 (M.D. Ala. 1980)(common law action for misappropriation of trade secrets preempted by Copyright Revision Act of 1976), *aff'd*, 676 F.2d 494, 216 U.S.P.Q. 1086 (11th Cir. 1982). *See generally* 3 M. NIMMER & D. NIMMER, *supra* note 49, § 1.10[B] n.48.1.

76. 28 U.S.C. § 1338(a) (1982); *see also* R. CALLMAN, *THE LAW OF UNFAIR COMPETITION, TRADEMARKS, AND MONOPOLIES* § 23.04 (4th ed. 1983); 3 J. MCCARTHY, *TRADEMARKS & UNFAIR COMPETITION* § 32.1 (2d ed. 1984).

77. 15 U.S.C. §§ 1051-1127 (1982 & Supp. 1986).



court.<sup>78</sup>

Nevertheless, if a plaintiff prefers to sue in state court to resolve a trademark dispute, the well-pleaded complaint rule applies.<sup>79</sup> The plaintiff should plead only common law trademark rights or rights available under state statutes in order to avoid federal jurisdiction.<sup>80</sup> Specifically, the plaintiff should not plead federal trademark law claims, such as for infringement, false registration of a federally registered trademark, or unfair competition under the Lanham Act.<sup>81</sup> If the plaintiff's pleadings include such a claim in a state court suit, the suit is properly removable to federal court.<sup>82</sup> On the other hand, a pleading having only state court claims and no federal ones defeats removal.<sup>83</sup>

If a suit is properly pleaded as a state court suit, the mere mention of a federally registered trademark does not impart federal jurisdiction.<sup>84</sup> Trademark ownership claims are generally state law suits because a federal registration does not create ownership not already

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78. See *Entex Indus. v. Warner Communications*, 487 F. Supp. 46, 48, 209 U.S.P.Q. 826, 828 (C.D. Cal. 1980)(federal court has concurrent jurisdiction over federal trademark actions); *Jud Plumbing Shop on Wheels v. Jud Plumbing and Heating Co.*, 695 S.W.2d 75, 78-81 (Tex. App.—San Antonio 1985, no writ)(state court grants temporary injunction over use of trademark).

79. See *Deats v. Joseph Swantak, Inc.*, 619 F. Supp. 973, 982, 226 U.S.P.Q. 764, 770-71 (N.D.N.Y. 1985)(state court suit alleging patent infringement and trademark violation removed to federal court which dismissed patent claim, then remanded trademark claim to state court); *La Chemise Lacoste v. Alligator Co.*, 506 F.2d 339, 343-46, 184 U.S.P.Q. 321, 323-25 (3d Cir. 1974)(removal to federal court improper where complaint fails to allege federal question over trademarks), *cert. denied*, 421 U.S. 937 (1975); see also 1 J. GILSON, TRADEMARK PROTECTION & PRACTICE § 8.02 (1984).

80. See *Vitarroz Corp. v. Borden, Inc.*, 644 F.2d 960, 964, 209 U.S.P.Q. 969, 972-73 (2d Cir. 1981)(plaintiff's failure to expressly plead state law claim of trademark infringement and failure to promptly resist removal results in federal court jurisdiction); *Fry v. Layne-Western Co.*, 282 F.2d 97, 99, 126 U.S.P.Q. 30, 31 (8th Cir. 1960)(action for infringement of common-law trademark not arising under act of Congress, therefore, parties given leave to amend pleadings to show jurisdiction).

81. 3 J. MCCARTHY, *supra* note 76, at p. 21, § 32.2.

82. See *Hazel Bishop, Inc. v. Perfemme, Inc.*, 314 F.2d 399, 402-03, 137 U.S.P.Q. 4, 7-8 (2d Cir. 1963)(removed complaint paraphrased Lanham Act); *Ulichny v. General Elec. Co.*, 309 F. Supp. 437, 440 (N.D.N.Y. 1970)(court removes case based on complaint's integral issue being a federally registered trademark).

83. See *Fischer v. Holiday Inn*, 375 F. Supp. 1351, 1353-54, 180 U.S.P.Q. 458, 459 (W.D. Wis. 1973)(state action alleging state trademark statute violation not removable even though allegations could support federal trademark claim); *J.H. Smith Co. v. Jordan Marsh Co.*, 161 F. Supp. 659, 660, 117 U.S.P.Q. 256, 257 (D. Mass. 1958)(case remanded for not asserting any rights under federal law).

84. See *Deats v. Joseph Swantak, Inc.*, 619 F. Supp. 973, 977-78, 226 U.S.P.Q. 764, 766-

existing under common law.<sup>85</sup> Suits that primarily assert contract rights are state court suits.<sup>86</sup>

Tort and quasi-contract claims can be pleaded as state law claims even if a federally registered mark is implicated. The fact that a party has or could have a federally registered trademark does not prevent it from suing or being sued on the basis of common law or state statutory rights.<sup>87</sup> Thus, common law or state statutory infringement claims are state law claims and are not preempted.<sup>88</sup> State law unfair competition can be pleaded instead of federal unfair competition for a state court suit.<sup>89</sup>

### III. ISSUES OF PATENT, COPYRIGHT, OR TRADEMARK LAW IN STATE COURT SUITS

It follows from 28 U.S.C. § 1338 that the exclusive federal court jurisdiction is of suits arising under federal law, and not of specific issues within them. Accordingly, when a suit arises under state law, a federal law issue of patent, copyright, or trademark law might prop-

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67 (N.D.N.Y. 1985)(removal jurisdiction lacking for mere allegation that federally registered trademark infringed, absent allegation trademark used "in commerce").

85. See *La Chemise Lacoste v. Alligator Co.*, 506 F.2d 339, 345, 184 U.S.P.Q. 321, 324 (3d Cir. 1974)(court rejecting *Ulichny*, holding suit for declarations of ownership of federally registered trademark lacks federal court jurisdiction).

86. See *Postal Instant Press v. Clark*, 741 F.2d 256, 257, 223 U.S.P.Q. 281, 281 (9th Cir. 1984)(incidental involvement of Lanham Trademark Act in suit to enforce covenant not to compete in franchise agreement licensing trade name not sufficient to oust state court jurisdiction); *Silverstar Enters. v. Aday*, 537 F. Supp. 236, 239-41 (S.D.N.Y. 1982)(trademark license attempting to enforce own rights under license agreement was state court action under contract theory); *Plum Tree, Inc. v. Seligson*, 342 F. Supp. 1084, 1087 (E.D. Pa. 1972)(state court breach of contract actions where complaint alleged material breaches of license agreement and no infringement of service mark).

87. See *H. Burger Corp. v. Benson Corbee Enters.*, 160 U.S.P.Q. 630, 631 (S.D.N.Y. 1968)(state suit for infringement, dilution, and unfair competition); *M. & D. Simon Co. v. R.H. Macy & Co.*, 152 F. Supp. 212, 214-15, 113 U.S.P.Q. 214, 216 (S.D.N.Y. 1957)(federally registered trademark involved in state court suit alleging common-law trademark protection).

88. See *Fischer v. Holiday Inn*, 375 F. Supp. 1351, 1354, 180 U.S.P.Q. 458, 459 (W.D. Wis. 1973)(trademark violation claim based on state statutory law); *Flagship Real Estate Corp. v. Flagship Banks*, 374 So. 2d 1020, 1021, 204 U.S.P.Q. 227, 228 (Fla. Dist. Ct. App. 1979)(state court jurisdiction in suit alleging state trademark infringement of federally registered trademark).

89. See *La Chemise Lacoste*, 506 F.2d at 345-46, 184 U.S.P.Q. at 324 (plaintiff can bring state law unfair competition suit, state common law trademark infringement suit, or federal trademark infringement suit); *Rossi, Turecamo & Co. v. Best Resume Serv.*, 497 F. Supp. 437, 438-39, 211 U.S.P.Q. 885, 885-86 (S.D. Fla. 1980)(plaintiff elected common law cause of action versus federal remedy for unfair competition).

erly be raised and decided in the state court suit. Section A of this part discusses how state courts deal with these issues, which may arise either as part of the plaintiff's case or the defense. Section B of this part discusses how, when these issues are available to be asserted defensively, the defendant might endeavor to avoid them in state court.

#### A. *Issues Asserted in State Court Suits*

Patent cases specifically hold that the exclusive jurisdiction of the federal courts does not deprive state courts of the power to determine questions arising under the patent laws, but only of assuming jurisdiction of suits arising under those laws.<sup>90</sup> Thus, once a state court properly has subject matter jurisdiction of a state court suit, it can decide issues affected by federal law, such as ownership,<sup>91</sup> and the meaning, scope, validity, or infringement of a patent.<sup>92</sup> In deciding these issues, the state courts rely on federal precedent.<sup>93</sup>

In patent-related contract cases pending in state court, noninfringement, invalidity, and misuse often are asserted by a nonpatentee as defenses or declaratory judgment counterclaims. Accordingly, the state court may decide whether royalties are owed on a patent license or assignment when it transfers rights to an allegedly invalid patent,<sup>94</sup>

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90. See *Pratt v. Paris Gas Light & Coke Co.*, 168 U.S. 255, 257 (1897)(state court in contract suit has power to admit evidence showing patent was infringed upon by prior patent without assuming jurisdiction over patent case); *In re Lefkowitz*, 362 F. Supp. 922, 925, 179 U.S.P.Q. 282, 284 (S.D.N.Y.1973)(distinguishing between federal court patent law case and state court patent law question involved in contract or royalty suit); see also 5 D. CHISUM, *supra* note 12, at 7; Annotation, *supra* note 12, at 7 (citing numerous state court decisions).

91. See *Olds v. Ray-Dio-Ray Corp.*, 294 P. 579, 580-81, 8 U.S.P.Q. 93, 94 (Wash. 1930)(state court determining ownership of deceased inventor's patents).

92. See, e.g., *Lansing Research Corp. v. Sybron Corp.*, 514 F. Supp. 543, 544-45, 213 U.S.P.Q. 421, 422-23 (N.D.N.Y. 1981)(state court may decide validity of royalty contract); *Milton Roy Co. v. Bausch & Lomb, Inc.*, 418 F. Supp. 975, 980, 191 U.S.P.Q. 432, 437 n.8 (D. Del. 1976)(state court may decide validity and infringement of patents); *American Harley Corp. v. Irving Indus., Inc.*, 263 N.E.2d 552, 554-55, 167 U.S.P.Q. 553, 554-55 (N.Y. 1970)(state court jurisdiction over licensee's suit alleging tortious interference with licensing contract even though licensee could also allege patent infringement). *But see* *Superior Clay Corp. v. Clay Sewer Pipe Ass'n*, 215 N.E.2d 437, 440 (Ohio Ct. Common Pleas 1963)(dismissing counterclaim to declare patent infringed as raising federal question).

93. See *Consolidated Kinetics Corp. v. Marshall, Neil & Pauley, Inc.*, 521 P.2d 1209, 1213-14, 182 U.S.P.Q. 434, 435-37 (Wash. Ct. App. 1974)(state court analyzing patentability uses federal statutory law and federal case law); *American Photocopy Equip. Co. v. AMPTO*, 198 A.2d 469, 475 (N.J. Super. Ct. App. Div.)(court in construing patent uses federal law), *cert. denied*, 379 U.S. 842 (1964).

94. See *Consolidated Kinetics Corp.*, 521 P.2d at 1212, 182 U.S.P.Q. at 435 (state court jurisdiction to consider patent validity as defense to breach of contract); *Keladiro, Inc. v.*

or when the defendant's product allegedly does not come within the patent.<sup>95</sup>

As in state court suits involving patents, federal copyright law issues may arise in a state court suit. This does not disturb state court jurisdiction when the suit itself does not arise under federal law. State courts have decided issues of contractual ownership rights and in doing so have dealt with the effect of copyright statutes.<sup>96</sup> Similarly, state court suits to enforce contract rights may involve copyright statutes.<sup>97</sup>

As in patent suits, suits to recover contractual copyright royalties may be brought in state court as an alternative to a federal suit for infringement. Once taking jurisdiction of these royalty cases, state courts seem willing to decide validity issues.<sup>98</sup> State court findings on infringement issues are more difficult to synthesize because many of these state court royalty cases were decided on the basis of common law copyright, which was preempted by the 1976 Copyright Act.<sup>99</sup>

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Valve and Primer Corp., 177 U.S.P.Q. 796, 799 (Cal. Super. Ct. 1973)(counterclaims for declaratory judgment of invalidity and noninfringement within state court jurisdiction). Before 1969, a doctrine of licensee estoppel prevented a licensee from challenging the validity of the patent. The abolition of the doctrine in 1969 allows licensees to raise a patent invalidity defense when sued on a contract to recover patent royalties. See *Lear, Inc. v. Adkins*, 395 U.S. 653, 670, 162 U.S.P.Q. 7, 8 (1969).

95. See *Blumenfeld v. Arneson Prods.*, 172 U.S.P.Q. 76, 78 (Cal. Ct. App. 1971)(state court guided by controlling federal law to determine if appellant's device did not infringe patent in action to recover royalties), *cert. denied*, 405 U.S. 1017 (1972); *Osgood Panel & Veneer Co. v. Osgood*, 6 P.2d 661, 662-64 (Wash. 1932)(court determination of no patent infringement due to one missing element of combination patent in alleged infringing product).

96. See *Bucuzzo v. American Broadcasting Cos.*, 231 U.S.P.Q. 707, 714-15 (Cal. Ct. App. 1986)(court interpreting effect of copyright statute on date Act preempts common law copyright infringement actions); *Richcar Music Co. v. Towns*, 201 U.S.P.Q. 252, 252-54 (N.Y. App. Div. 1976)(court determining no obligation to register copyright assignment but party must file notice of use to collect future recording royalties); *Stowe v. Croy*, 130 N.Y.S.2d 848, 850, 101 U.S.P.Q. 500, 501 (App. Div. 1954)(registration of copyright evidence of intent of parties); *Benelli v. Hopkins*, 95 N.Y.S.2d 668, 671, 84 U.S.P.Q. 258, 259-60 (Sup. Ct. 1950)(court holding that author's common law right of literary property ends when copyright obtained).

97. See *Golden West Melodies, Inc. v. Capital Records, Inc.*, 79 Cal. Rptr. 442, 445-46, 163 U.S.P.Q. 429, 431-32 (Ct. App. 1969)(suit to enforce contract to copyrighted production arises out of contract not under copyright statute); *Edison v. Viva Int'l*, 209 U.S.P.Q. 345, 347 (N.Y. App. Div. 1979)(author's "moral right" not mentioned in Copyright Act, controlled by contract law where publication contract exists).

98. See *Golden West Melodies*, 79 Cal. Rptr. at 445-47, 163 U.S.P.Q. at 431-33. The same decision that ended patent licensee estoppel has been held to end copyright licensee estoppel. See *id.*

99. 17 U.S.C. § 301 (1982).

Nevertheless, some cases indicate that infringement issues might be litigated in state court.<sup>100</sup>

State court cases dealing with trademarks may decide the validity of federally registered marks.<sup>101</sup> Often, state court cases determine whether a federally registered trademark is infringed. In infringement claims, the fact that the mark is federally registered does not affect the common law elements of proof.<sup>102</sup>

These state court decisions and findings result in *res judicata* and collateral estoppel. If an issue has actually been litigated or if a subsequent suit is for the same cause of action, there seems to be nothing to inhibit a preclusive effect of state court judgments and findings in the subsequent state or federal court suits.<sup>103</sup>

### B. *Defensive Alternatives*

In a suit properly brought in state court, some defensive patent, copyright, and trademark issues can also be the basis of an independent cause of action. Such actions are commonly in the form of a motion for declaratory judgment asserting issues of noninfringement, invalidity, and patent-type antitrust. Although the defendant could raise these issues in the state court suit, it might rather not have them decided there. An especially litigious defendant might file a declaratory judgment suit in federal court.<sup>104</sup> Alternatively, the defendant

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100. *See, e.g.,* Mann v. Columbia Pictures, 217 U.S.P.Q. 468, 477-478 (Cal. Ct. App. 1982)(suit alleging movie infringed on screenplay outline litigated in state court); Stamps v. Mills Music, 92 N.Y.S.2d 79, 82, 83 U.S.P.Q. 171, 172 (Sup. Ct. 1949)(state court has jurisdiction for breach of warranty of non-infringement).

101. *See* Dell Publishing Co. v. Stanley Publications, 211 N.Y.S.2d 393, 398, 128 U.S.P.Q. 493, 497-98 (Ct. App. 1961)(state court jurisdiction to determine validity of federal trademark registration under federal law); Brown & Bigelow v. Remembrance Advertising Prods., 110 N.Y.S.2d 441, 443, 92 U.S.P.Q. 443, 444 (App. Div. 1952)(state court jurisdiction in case involving statutory trademark), *aff'd*, 110 N.E.2d 736, 96 U.S.P.Q. 426 (N.Y. 1953).

102. *See* College Watercolor Group v. William H. Newbauer, Inc., 360 A.2d 200, 205-06, 195 U.S.P.Q. 82, 84-85 (Pa. 1976).

103. *See* Becher v. Contoure Laboratories, 279 U.S. 388, 391-92 (1929)(collateral estoppel barred relitigating state court finding, effect of which made patent invalid); MGA v. General Motors Corp., 827 F.2d 729, 732-33, 3 U.S.P.Q.2d 1762, 1764-65 (Fed. Cir. 1987)(collateral estoppel barred litigation of whether accused devices infringed patent). *See generally* Comment, *Exclusive Federal Court Jurisdiction and State Judgment Finality—The Dilemma Facing the Federal Courts*, 10 SETON HALL L. REV. 848 (1980).

104. Although there is contrary authority, the rule seems to be that the patent holder's termination of the license is not a necessary prerequisite for a suit to declare the patent invalid. *See C.F. Bard, Inc.*, 716 F.2d at 880, 219 U.S.P.Q. at 203.

might decide to simply not raise these issues at all, hoping to avoid *res judicata* and collateral estoppel.

### 1. Parallel Federal Court Suits

Even if the plaintiff has properly pleaded a state court suit and there is no diversity, the defendant might attempt to carve out a federal law issue and take it to federal court as a declaratory judgment suit. Yet, when a defendant attempts this type of parallel litigation, it confronts the general policy that related controversies should be tried in one proceeding and not fragmented between state and federal courts.<sup>105</sup> Accordingly, when parallel suits develop, the courts discourage needless litigation. Typical procedures to determine which suit is to proceed are stays, dismissals, and injunctions.<sup>106</sup>

Most often, parallel federal and state court litigation prompts the defendant in one court to present a motion to stay the proceeding in the other court. As a general rule, when determining which proceeding will be stayed, one factor is regarded as especially significant: which suit was first filed.<sup>107</sup>

In the context of a declaratory judgment suit for invalidity or non-infringement, subsequently filed by a party who is defendant in a state court suit, the first-to-file factor favors the state court suit.<sup>108</sup> Thus, it is likely that both courts will agree that the state court suit should proceed. Hence, the state court should deny a motion to stay its own proceedings,<sup>109</sup> and the federal court should grant a motion to stay its

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105. See *Kerotest Mfg. Co. v. C-O-Two Fire Equip. Co.*, 342 U.S. 180, 183-86 (1952)(affirming dismissal of federal suit where same suit being litigated in state court).

106. See 3 D. DUNNER, J. GAMBRELL, M. ADELMAN & C. LIPSEY, *PATENT LAW PERSPECTIVES* § 6.5[5] (2d ed. 1987); 5 D. CHISUM, *PATENTS* § 21.02[4] (1987).

107. See 5 D. CHISUM, *PATENTS* § 21.02[4], at 21-118 (1987).

108. See *Product Eng'g and Mfg. Co. v. Barnes*, 424 F.2d 42, 44-45, 165 U.S.P.Q. 229, 230 (10th Cir. 1970)(first-to-file, not service of process, determines proper jurisdiction in parallel patent suit); *Thompson v. Ashner*, 601 F. Supp. 471, 473-74, 226 U.S.P.Q. 251, 253-54 (N.D. Ill. 1985)(court using abstention doctrine to avoid duplicative litigation where same case awaiting retrial in state court); see also 3 J. MCCARTHY, *TRADEMARKS AND UNFAIR COMPETITION* § 32.16 (2d ed. 1984).

109. See *Creative Mfg. v. Unik, Inc.*, 726 S.W.2d 207, 209 (Tex. App.—Fort Worth 1987, writ ref'd n.r.e.)(no abuse of trial court discretion in refusing to stay state court proceeding pending outcome of subsequently initiated federal court patent infringement); *Lear Siegler, Inc. v. Sargent Indus.*, 374 A.2d 273, 274-77, 200 U.S.P.Q. 828, 828-30 (Del. Super. Ct. 1977)(court refusing to stay action on contract suit involving patent's validity); cf. *Kollmorgen Corp. v. Shipley Corp.*, 184 U.S.P.Q. 500, 500-01 (N.Y. Sup. Ct. 1974)(state suit for royalties filed two years after federal claim to declare patents invalid stayed).

proceedings pending the outcome of the state suit.<sup>110</sup>

Even so, there are many factors to consider other than who was first to file. The decision whether to stay is discretionary, and it is not always a matter of winning a race to the courthouse.<sup>111</sup> For example, if a nonpatentee "jumps the gun" and first files a declaratory judgment suit, the federal court may abstain in favor of a state court suit filed forthwith.<sup>112</sup>

As an alternative to a motion to stay, a state court plaintiff who is maneuvered into a countersuit in federal court may move to dismiss it. In the context of a subsequently filed federal suit to declare invalidity or noninfringement, such a motion is apt to be granted. One reason is that jurisdiction to entertain declaratory judgment suits is discretionary.<sup>113</sup> Another reason is that, as discussed in Part II above, when a licensee brings a federal suit to declare invalidity or noninfringement when these claims are defenses to a pending state court suit, federal courts are reluctant to take jurisdiction.<sup>114</sup>

Another tactic of a state court defendant who files parallel federal court litigation is to seek an injunction against the state court suit. Discouraging this tactic, the CAFC has refused to enjoin a state court contract suit seeking royalties merely because patent validity could be

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110. See *Intermedics Infusaid v. University of Minn.*, 804 F.2d 129, 134-35, 231 U.S.P.Q. 653, 657-58 (Fed. Cir. 1986)(no abuse of district court's discretion in staying federal patent declaratory judgment action in light of well advanced state court suit); *Geni-Chlor Int'l v. Multisonics Dev. Corp.*, 580 F.2d 981, 984-85, 200 U.S.P.Q. 67, 70-71 (9th Cir. 1978)(court staying proceeding to avoid uncoordinated and unnecessarily disruptive adjudication of dispute involving state and federal issues); see also 3 D. DUNNER, J. GAMBRELL, M. ADELMAN & C. LIPSEY, *PATENT LAW PERSPECTIVES* § 6.5[5] (2d ed. 1987)(citing cases). *Contra* *Telechron, Inc. v. Parissi*, 197 F.2d 757, 762, 93 U.S.P.Q. 492, 493 (2d Cir. 1952)(determining case priorities based on filing date not applied in mechanical manner regardless of other considerations); *Universal Gym Equip. v. Mazman*, 195 U.S.P.Q. 631, 632 (E.D. Cal. 1977)(federal court declines stay due to federal nature of patent law and desirability of uniform adjudication).

111. See *Intermedics Infusaid*, 804 F.2d at 135, 231 U.S.P.Q. at 657 (events creating bar to litigating patent validity may occur before race to courthouse).

112. *Entex Indus. v. Warner Communications*, 487 F. Supp. 46, 47-49, 209 U.S.P.Q. 826, 827-28 (C.D. Cal. 1980)(federal action filed before defendant's state action dismissed since defendant had notified plaintiff of his intent to file state court action before plaintiff filed federal action).

113. *McGraw-Edison Co. v. Preformed Line Prods. Co.*, 362 F.2d 339, 342-43, 150 U.S.P.Q. 88, 91 (9th Cir. 1966)(declaratory judgment refused where serving no useful purpose). See generally 5 D. CHISUM, *PATENTS* § 21.02[4] (1987).

114. See *supra* note 38 and accompanying text.

determined there.<sup>115</sup>

In contexts other than a federal declaratory judgment suit filed in retaliation to a royalty suit, administration of parallel suits is less predictable. The extent to which the issues coincide is a factor—if a state suit must be litigated regardless of how the federal suit is decided, the state suit should proceed. For example, a state court unfair competition suit alleging wrongful acts in addition to the sale of infringing products, may obviate the need for a stay during a parallel infringement suit.<sup>116</sup> In trademark disputes, abstention is particularly appropriate because jurisdiction is concurrent and state and federal unfair competition involve the same issues.<sup>117</sup>

## 2. Nonassertion of Federal Law Issues

When a defendant has defenses or counterclaims, such as noninfringement, invalidity, or patent-type antitrust, a third alternative to raising them in state court, or attempting parallel litigation, is simply not asserting them at all. Before making this choice, however, the defendant must carefully consider *res judicata* and the rule barring subsequent litigation of a compulsory counterclaim.<sup>118</sup> The result of these rules is that the defendant risks losing these claims after the state court judgment is final.

Infringement issues are precluded if “necessarily determined” in a prior suit, even if not explicitly raised. This will often be the case if the state court suit was for royalties, and royalties were awarded. To award royalties, the state court must have found that the product being sold is covered by the license agreement, and typical patent licenses include all items covered by the patent claims. If so, the state court’s finding encompasses a finding of infringement. Thus, a state court defendant would be barred, in a later suit, from seeking a decla-

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115. See *Intermedics Infusaid*, 804 F.2d at 135, 231 U.S.P.Q. at 658.

116. *Nated Corp. v. F.W. Woolworth Corp.*, 234 N.Y.S.2d 770, 772-73 (Sup. Ct. 1962).

117. *Entex Indus. v. Warner Communications*, 487 F. Supp. 46, 48-49, 209 U.S.P.Q. 826, 828 (C.D. Cal. 1980)(federal and state suits related to same controversy); *Mars, Inc. v. Standard Brands, Inc.*, 386 F. Supp. 1201, 1205-06, 181 U.S.P.Q. 590, 592 (S.D.N.Y. 1974)(broader federal trademark infringement action stayed due to concurrent narrower action); see also 2 J. MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 32.16 (2d ed. 1984).

118. Several circuits have held that state law governs the preclusion effect in federal court of failure to raise a compulsory counterclaim in an earlier state court action. See, e.g., *Carnation Co. v. T.U. Parks Constr. Co.*, 816 F.2d 1099, 1104 (6th Cir. 1987); *Cleckner v. Republic Van & Storage Co.*, 556 F.2d 766, 768-69 (5th Cir. 1977).



ration of noninfringement.<sup>119</sup>

Trademark infringement counterclaims, asserting that the plaintiff's mark creates a likelihood of confusion with the defendant's, are often a mirror image of the plaintiff's infringement claim. Such counterclaims should be considered compulsory.<sup>120</sup>

Validity, unlike infringement, is not necessarily determined in a state court royalty suit and whether invalidity must be raised in a royalty suit is less clear. The essential question is whether invalidity is a compulsory counterclaim, and therefore barred from litigation after the state court judgment is final.<sup>121</sup> Patent cases do not provide a clear rule as to whether a suit to declare a patent invalid is a compulsory counterclaim to an infringement suit.<sup>122</sup> Similarly, there is no clear rule with respect to invalidity counterclaims in trademark cases.<sup>123</sup> In any event, the requirement that the facts of each claim be transactionally related indicates that invalidity counterclaims are not

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119. See *Vanderveer v. Erie Malleable Iron Co.*, 238 F.2d 510, 514-16, 111 U.S.P.Q. 292, 296 (3d Cir. 1956)(doctrine of res judicata applicable in finding of patent infringement), *cert. denied*, 353 U.S. 937 (1957); see also Note, *Judgments—Res Judicata—Effect of State Court Determination of Patent Infringement as Collateral Estoppel*, 11 VAND. L. REV. 240 (1957).

120. See *Speed Prods. Co. v. Tinnerman Prods.*, 222 F.2d 61, 68, 105 U.S.P.Q. 173, 177 (2d Cir. 1955)(defendant's counterclaim alleging trademark infringement results in plaintiff's compulsory counterclaim of plaintiff's trademark being infringed by defendant); *United Fruit Co. v. Standard Fruit and S.S. Co.*, 282 F. Supp. 338, 340, 159 U.S.P.Q. 90, 91 (D. Mass. 1968)(defendant's claim of trademark infringement compulsory counterclaim since all claims arose out of same transaction).

121. See *Intermedics Infusaid v. University of Minn.*, 804 F.2d 129, 133-35, 231 U.S.P.Q. 653, 656-58 (Fed. Cir. 1986) (patent invalidity as compulsory counterclaim discussed but not decided).

122. See *ACF Indus. v. Guinn*, 384 F.2d 15, 18 n.6, 155 U.S.P.Q. 113, 114 n.6 (5th Cir. 1967)(invalidity not compulsory counterclaim), *cert. denied*, 390 U.S. 949 (1968); *USM Corp. v. SPS Technologies*, 102 F.R.D. 167, 170, 225 U.S.P.Q. 715, 717-18 (N.D. Ill. 1984) (fraudulent procurement compulsory counterclaim); *Uniroyal, Inc. v. Sperberg*, 63 F.R.D. 55, 59, 181 U.S.P.Q. 89, 91 (S.D.N.Y. 1973)("serious question" whether invalidity is compulsory counterclaim). The bar is effective only if there was an opportunity to file the counterclaim in the prior action and the prior action has reached a final judgment. See *Dow Chem. Co. v. Metlon Corp.*, 281 F.2d 292, 297, 126 U.S.P.Q. 158, 162 (4th Cir. 1960)(no opportunity to file in prior dismissed action).

At least one case specifically held that patent invalidity was a compulsory counterclaim in a prior suit for royalties. See *Irrigation and Power Equip. v. Machinery Specialties Pty.*, 202 U.S.P.Q. 12, 15 (D. Colo. 1977); see also *Blumenfeld v. Arneson Prods.*, 172 U.S.P.Q. 76, 81 (Cal. Ct. App. 1971) (invalidity claim precluded at later trial between same parties).

123. See *Speed Prods. Co.*, 222 F.2d at 68, 105 U.S.P.Q. at 177 (logical relation between claim for infringement of plaintiff's mark and counterclaim for validity of defendant's mark).

compulsory and may be later asserted.<sup>124</sup>

Generally, patent-type antitrust claims are permissive and not compulsory counterclaims in an infringement suit.<sup>125</sup> Presumably, the same is true in a state court contract suit, and subsequent claims would not be barred.

#### IV. TYPICAL DISPUTES INVOLVING PATENTS, COPYRIGHTS, OR TRADEMARKS THAT MAY BE RESOLVED IN STATE COURT

##### A. *Typical Patent Related Disputes*

Texas cases deciding jurisdiction and preemption of disputes involving patents are generally consistent with decisions of the federal courts and of the other states. Likewise, in suits that arise under Texas law, Texas courts recognize that they may decide incidental and collateral patent law questions that develop in them.

Patent disputes are provoked in Texas state court suits most frequently when a breach of contract occurs, such as a breach of a patent license agreement. An early anecdotal case is *Brown v. Texas Cactus Hedge Co.*<sup>126</sup> Texas Cactus Hedge Co. traded its patent to make cactus hedges for a stock of groceries. Mr. Brown won an attachment suit to levy on the same stock of groceries. Texas Cactus Hedge Co. brought a wrongful attachment suit, with Brown's defense being that Texas Cactus Hedge Co. was not a purchaser for value. Specifically, Brown alleged patent invalidity because cactus hedges had been used for many years. The court held that the state courts could decide patent law questions arising incidentally or collaterally in a state court suit.<sup>127</sup>

To illustrate using the well-pleaded complaint rule to resolve a patent dispute in state court, assume the following typical facts:

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124. See 1 J. MOORE, J. LUCAS, H. FINK, D. WECKSTEIN & J. WICKER, MOORE'S FEDERAL PRACTICE § 13.13 (2d ed. 1986).

125. *Mercoid Corp. v. Mid-Continent Co.*, 320 U.S. 661, 671, 60 U.S.P.Q. 21, 26-27 (1944); *Agrashell, Inc. v. Hammons Prods. Co.*, 479 F.2d 269, 287, 177 U.S.P.Q. 501, 513 (8th Cir.), cert. denied, 414 U.S. 1022, 1032 (1973). But see *Lewis Mfg. Co. v. Chisholm-Ryder Co.*, 82 F.R.D. 745, 750, 210 U.S.P.Q. 514, 518 (W.D. Penn. 1979)(counterclaim compulsory because it alleged that infringement suit itself was antitrust violation); see also 2A J. MOORE, J. LUCAS & G. GROTHEER, JR., MOORE'S FEDERAL PRACTICE § 13.13 n.23 (2d ed. 1978)(criticizing *Mercoid*).

126. 64 Tex. 396 (1885).

127. See *id.* at 398.

Mr. Ball invented a way of making bowling balls from plastic rather than the traditional hard rubber. Mr. Ball obtained a patent having claims directed to the method of manufacturing the new bowling ball as well as to its composition. Subsequently, Mr. Ball and some investors established Roundball Corporation to manufacture and sell the bowling balls. Mr. Ball's contribution to the corporation was a license for the patented invention, for which he received a royalty.

As time passed, Roundball Corporation became successful and began making a second generation of bowling balls, which the corporation contended were not covered by Mr. Ball's patent. Mr. Ball contended the opposite. The corporation discovered publications that predated the filing of Mr. Ball's patent and could invalidate it. Because of the validity and infringement questions and because of a deteriorating relationship with Mr. Ball, the corporation refused to pay Mr. Ball a royalty on the second generation bowling ball.

After Roundball Corporation's refusal to pay royalties on the second generation of bowling balls, Mr. Ball started negotiating with Johnny-Come-Lately Corporation to manufacture his original bowling ball, which was no longer being manufactured by Roundball Corporation. When Roundball Corporation discovered this activity, it threatened to sue Johnny-Come-Lately Corporation if it manufactured or sold the original bowling ball.

Mr. Ball now wants an evaluation of any legal action he might have against Roundball Corporation. Mr. Ball, Roundball Corporation, and Johnny-Come-Lately Corporation are all located in the state of Texas.

There are a number of causes of action Mr. Ball could assert, including, but not limited to: patent infringement, breach of the license contract, and tortious interference with business relations. Among Roundball Corporation's defenses are at least two patent law issues. First, Roundball Corporation might plead that the second generation bowling ball was not covered by the claims of the patent and, hence, was not under the license agreement. Second, it might plead that the license agreement is unenforceable because the patent is invalid.<sup>128</sup>

If Mr. Ball chooses to litigate the dispute in state court, he should plead only breach of the license contract and tortious interference with business relations. Because of 28 U.S.C. § 1338, if he were to

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128. Patent invalidity could be framed as a defense or a counterclaim for declaratory judgment. *See Keladuro, Inc. v. Valve and Primer Corp.*, 177 U.S.P.Q. 796, 799 (Cal. Super. Ct. 1973)(state court jurisdiction over declaratory judgment counterclaim of patent invalidity in state court action); *Rialto Prods. v. Rayex Corp.*, 166 U.S.P.Q. 222, 222 (N.Y. Sup. Ct. 1970)(affirmative defense of failure of consideration due to alleged invalidity of patent).

plead a claim for patent infringement in state court, the suit could be properly removed.<sup>129</sup> If he pleaded a state law claim equivalent to patent infringement, it would be preempted.

Mr. Ball's state court claim under the license contract does not arise under federal law even if Roundball Corporation pleads defenses such as patent invalidity and noninfringement.<sup>130</sup> Invalidity issues can be resolved in state court.<sup>131</sup> In similar suits, Texas courts have determined infringement in terms of whether the manufactured product and the licensed patent are "equivalent."<sup>132</sup> Similarly, Mr. Ball's claim for interference with business relations is a state cause of action although the subject of the relation interfered with is a patent and patent law questions may arise.<sup>133</sup> If Roundball Corporation attempts removal, because patent law issues were raised only as defenses or counterclaims, Mr. Ball could win a motion to remand.

Different typical scenarios might give rise to other state causes of action. To illustrate, suppose that, in addition to the facts given above, the following subsequent events occur:

Mr. Ball and Roundball Corporation compromised and agreed that Roundball Corporation would pay royalties on the original generation and second generation bowling balls. Roundball Corporation hired Mr. Squarehead as an engineer to work in its manufacturing and production department. Mr. Squarehead signed an employment agreement to maintain confidentiality and to assign intellectual property rights to the corporation.

While working for Roundball Corporation, Mr. Squarehead developed a third generation bowling ball that significantly improved the first and second generation bowling balls. Roundball Corporation decided not to file a patent application on the third generation bowling ball be-

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129. See *Egan v. Stitt*, 297 S.W. 290, 292 (Tex. Civ. App.—Fort Worth 1927, no writ)(infringement and its various forms of relief constitutes federal court case).

130. See *Pratt v. Paris Gas Light & Coke Co.*, 168 U.S. 255, 258 (1897)(invalidity defense does not confer federal jurisdiction); *Creative Mfg. v. Unik, Inc.*, 726 S.W.2d 207, 209 (Tex. App.—Fort Worth 1987, writ ref'd n.r.e.)(patent question in federal court did not abate state court proceeding).

131. See *Gulbenkian v. Penn*, 151 Tex. 412, 414, 252 S.W.2d 929, 930 (Tex. 1952)(defendant plead invalidity under Sherman Anti-Trust Act and Texas Anti-Trust Act).

132. *Crutcher-Rolfs-Cummings, Inc. v. Ballard*, 540 S.W.2d 380, 389 (Tex. Civ. App.—Corpus Christi 1976, writ ref'd n.r.e.), *cert. denied*, 433 U.S. 910 (1977); *Free-Flow Muffler Co. v. Kliever*, 283 S.W.2d 778, 790 (Tex. Civ. App.—Texarkana 1955, writ ref'd n.r.e.).

133. See *Koratron Co. v. Deering Milliken, Inc.*, 418 F.2d 1314, 1317-18, 164 U.S.P.Q. 6, 9 (9th Cir. 1969) (patent questions do not make interference with prospective economic advantage federal claim), *cert. denied*, 398 U.S. 909 (1970).

cause of questions about its patentability, and a belief that trade secret protection might more adequately protect it.

Mr. Squarehead subsequently left Roundball Corporation. He began to do business with Very Big Corporation, who also made and sold bowling balls. Soon thereafter, Very Big Corporation began to manufacture and sell the original, second, and third generation bowling balls. Mr. Squarehead and Very Big Corporation persuade Roundball Corporation's buyers to cease doing business with Roundball Corporation and to purchase Very Big Corporation's balls.

Now, Roundball Corporation wants an evaluation of any causes of action against Mr. Squarehead and Very Big Corporation. Again, there is no diversity of citizenship.

Roundball Corporation's possible causes of action are: patent infringement, theft of trade secrets, and breach of contract. Of these, if Roundball Corporation prefers state court litigation, it should plead theft of trade secrets and breach of contract, but not infringement.

Proper pleading of the trade secrets action will avoid preemption problems. Roundball Corporation can assert a state cause of action for theft of trade secrets for the unpatented ball,<sup>134</sup> and even for trade secrets in connection with a patented ball.<sup>135</sup> Numerous cases indicate that trade secrets are protectable even when a patent is involved.<sup>136</sup> Thus, information not disclosed in a patent can be protected as a trade secret.<sup>137</sup>

Breach of Roundball Corporation's contract with Mr. Squarehead is a state court claim.<sup>138</sup> Even if there had been no confidentiality

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134. See *Furr's, Inc. v. United Specialty Advertising Co.*, 385 S.W.2d 456, 459 (Tex. Civ. App.—El Paso 1964, writ ref'd n.r.e.) (disclosure in confidence protects trade secret and places other under duty to keep secret), *cert. denied*, 382 U.S. 824 (1965).

135. See, e.g., *K & G Oil Tool & Serv. Co. v. G & G Fishing Tool Serv.*, 158 Tex. 594, 605, 314 S.W.2d 782, 789 (trade secret may be anticipated extension or improvement on patented device or process), *cert. denied*, 358 U.S. 898 (1958); *Hyde Corp. v. Huffines*, 158 Tex. 566, 586-87, 314 S.W.2d 763, 777 (receiving details of construction in confidence, if their exploit attempted, gives rise to action), *cert. denied*, 358 U.S. 898 (1958).

136. See, e.g., *K & G Oil Tool & Serv. Co.*, 158 Tex. at 606, 314 S.W.2d at 790 (trade secret protection objective of equity); *J.C. Kinley Co. v. Haynie Wire Line Serv.*, 705 S.W.2d 193, 198 (Tex. App.—Houston [1st Dist.] 1985, no writ) (unpublished confidential information and fraudulent concealment defense allow protection of trade secrets); *Atlas Bradford Co. v. Tuboscope Co.*, 378 S.W.2d 147, 149 (Tex. Civ. App.—Waco 1964, no writ) (use of patent denied when prior knowledge obtained by confidential relationship).

137. See *Thermotics, Inc. v. Bat-Jac Tool Co.*, 541 S.W.2d 255, 261 (Tex. Civ. App.—Houston [1st Dist.] 1976, no writ); *Atlas Bradford Co.*, 378 S.W.2d at 149.

138. See, e.g., *J.C. Kinley Co.*, 705 S.W.2d at 190 (breach of contract action brought when manufacture continued after expiration of agreement); *Crutcher-Rolfs-Cummings, Inc. v. Bal-*

agreement, upon proof of a confidential relationship, an action for violation of that relationship could be brought.<sup>139</sup>

The same scenario may be discovered to have additional facts giving rise to additional state law claims. For example, under appropriate circumstances, Roundball Corporation may have an action for conspiracy,<sup>140</sup> or for interference with contract.<sup>141</sup>

In patent related suits such as those illustrated above, Texas state courts have decided a number of patent law issues. In addition to invalidity and infringement, Texas courts have determined whether an employer has a shop right in an invention conceptualized while in the scope of employment,<sup>142</sup> and have determined issues of patent misuse<sup>143</sup> and licensee estoppel.<sup>144</sup>

### B. *Typical Copyright Related Disputes*

Many Texas cases decided before the 1976 Copyright Act were based on the existence of common law copyrights,<sup>145</sup> now preempted

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lard, 540 S.W.2d 380, 389 (Tex. Civ. App.—Corpus Christi 1976, writ ref'd n.r.e.)(seeking to protect rights arising under contract); *Brown v. Fowler*, 316 S.W.2d 111, 114 (Tex. Civ. App.—Fort Worth 1958, writ ref'd n.r.e.)(suit based on alleged breach of contract); *Brown & Root, Inc. v. Jaques*, 98 S.W.2d 257, 259 (Tex. Civ. App.—Austin 1936, no writ)(appellee had ample remedy for damages under contract).

139. *See Furr's, Inc. v. United Specialty Advertising Co.*, 385 S.W.2d 456, 460 (Tex. Civ. App.—El Paso 1964, writ ref'd n.r.e.)(even without express agreement, confidential relationship may be established by acts or entire scope of relationship) *cert. denied*, 382 U.S. 824 (1965).

140. *See Barbier v. Barry*, 345 S.W.2d 557, 565 (Tex. Civ. App.—Dallas 1961, no writ)(claimed liability based on alleged conspiracy).

141. *See South Cent. Livestock Dealers v. Security State Bank*, 551 F.2d 1346, 1347 (5th Cir. 1977)(cattle investors brought tortious interference with contractual relations claim), *modified*, 614 F.2d 1056 (5th Cir. 1980).

142. *See Lone Star Steel Co. v. Wahl*, 636 S.W.2d 217, 220 (Tex. App.—Texarkana 1982, no writ); *North v. Atlas Brick Co.*, 281 S.W. 608, 615 (Tex. Civ. App.—El Paso), *modified*, 288 S.W. 146 (Tex. Comm'n App. 1926, holding approved).

143. *See Reich v. Reed Tool Co.*, 582 S.W.2d 549, 551-53 (Tex. Civ. App.—Dallas 1979, writ ref'd n.r.e.)(citing examples of what constitutes patent misuse), *cert. denied*, 446 U.S. 946 (1980).

144. *See Gulbenkian v. Penn*, 151 Tex. 412, 414, 252 S.W.2d 929, 932 (Tex. 1952)(court discussion of licensee estoppel elements).

Table I in the Appendix illustrates that Texas state courts have resolved many patent related disputes. Table I includes such cases after 1950 and the most often cited Texas cases before 1950. Interestingly, most of the cases were contract suits, with the next most common way that patents have been involved in Texas state court cases being trade secrets and confidential relationship suits.

145. *See, e.g., Stone v. Hutchison*, 272 S.W.2d 424, 425 (Tex. Civ. App.—Dallas 1954, no writ)(court finding common law copyright waived by plea founded on statutory copyright);

under the current Copyright Act. Other pre-Act cases, based on a finding that the material in question was not copyrightable in the first place, still stand for the rule that copying of such material is actionable in state court.<sup>146</sup>

Texas cases involving copyrights have applied the "almost universal rule" that a plaintiff may plead a contract case rather than infringement and maintain the case in state court.<sup>147</sup> In fact, most Texas decisions involving copyrights arise from a breach of contract. For example, contract disputes may involve ownership of copyrights.<sup>148</sup> In one case, an ex-employee's use of copyrighted information fell short of violation of the copyright, but was actionable as a breach of contract.<sup>149</sup>

Apart from contract and ownership claims, there are various tort claims that can be asserted as state law claims. The following scenario illustrates a typical copyright related dispute:

During regular working hours while Mr. Squarehead was employed by Roundball Corporation, he wrote a computer program that automated the process of manufacturing bowling balls. No copies of the computer program were distributed outside Roundball Corporation.

To aid in the marketing of its bowling balls, Roundball Corporation gave a Distributor's Manual to its distributors, who agreed to keep the Distributor's Manual in confidence and not allow access or copying by others. Further, the Distributor's Manual had a copyright notice on the title page and its copyright was registered in the United States Copyright Office.

After Mr. Squarehead went to work for Very Big Corporation, information available to Roundball Corporation led them to believe that

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Vernon Abstract Co. v. Waggoner Title Co., 49 Tex. Civ. App. 144, 147, 107 S.W. 919, 920-21 (1908)(common law copyright protection independent of copyright statutes).

146. See, e.g., *Loeb v. Turner*, 257 S.W.2d 800, 802-03 (Tex. Civ. App.—Dallas 1953, no writ)(finding news published through broadcast not copyrighted); *Gilmore v. Sammons*, 269 S.W. 861, 862 (Tex. Civ. App.—Dallas 1925, writ ref'd n.r.e.)(republished news may be subject of wrongful appropriation but not copyright violation).

147. See *Cozby v. Tuttle*, 505 S.W.2d 397, 398-99 (Tex. Civ. App.—Fort Worth 1974, writ ref'd n.r.e.)(state court has jurisdiction to hear case involving injunction, accounting and partition of partnership assets through pleadings referencing copyright laws).

148. See *id.* at 399; see also *Melody v. Texas Soc'y of Professional Eng'rs*, 421 S.W.2d 693, 696 (Tex. Civ. App.—Dallas 1967, no writ)(publication contract does not bestow literary property ownership upon contract termination).

149. See *Grace v. Orkin Exterminating Co.*, 255 S.W.2d 279, 290 (Tex. Civ. App.—Beaumont 1953, writ ref'd n.r.e.)(former employee's use of copyrighted material merited injunction due to secret nature of information).

Very Big Corporation was using its computer program. A copy of the computer program and Distributor's Manual were missing after Mr. Squarehead left. Copies of a substantially similar distributorship manual began to appear in the hands of Very Big Corporation's distributors.

Roundball Corporation could consider the following causes of action: copyright infringement, theft of trade secrets, unjust enrichment, unfair competition, breach of confidential relationship, and breach of contract. If Roundball Corporation pleads only the state causes of action and not copyright infringement, its suit could be tried in state court.

There seem to be good state law claims against both Mr. Squarehead and Very Big Corporation for theft of trade secrets for copying the computer program because Roundball Corporation has preserved secrecy.<sup>150</sup> Against Mr. Squarehead, there are also claims for breach of confidential relationship and breach of the agreement to keep the manual in confidence.

Because the materials in question are copyrightable under the Copyright Act and Very Big Corporation's conduct is within the Act's definition of infringement, common law misappropriation is preempted.<sup>151</sup> Any such claim would have to be pleaded as a claim for federal copyright infringement and would subject the suit to removal. Unfair competition is preempted because of the absence of other conduct, such as passing off, which is beyond the scope of the Copyright Act.<sup>152</sup> In the absence of a quasi-contractual relationship, unjust enrichment is also preempted.<sup>153</sup> Interestingly, copyright infringement issues arise in a number of other ways in state court litiga-

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150. See *Data Gen. Corp. v. Digital Computer Controls, Inc.*, 297 A.2d 433 (Del. Ch. 1971), *aff'd*, 297 A.2d 437 (Del. 1972). The *Data General* court held that a plaintiff seeking a trade secret founded injunction must demonstrate:

(1) the existence of a trade secret and that the corporate defendant has either (2) received the information within the confines of a confidential relationship and proposes to misuse the information in violation of such relationship, or (3) that the corporate defendant improperly received the information in question in such a manner that its confidential nature should have been known to it and that it nonetheless proposes to misuse such information. *Id.* at 435; see also *Warrington Assocs. v. Real-Time Eng'g Sys.*, 522 F. Supp. 367, 369, 216 U.S.P.Q. 1024, 1026 (N.D. Ill. 1981)(trade secret protection is state law method of protection extending beyond copyright). *Contra Videotronics v. Bend Elecs.*, 564 F. Supp. 1471, 1476-77, 223 U.S.P.Q. 296, 299-300 (D. Nev. 1983)(property subject to federal patent or copyright law not protected under state law of unfair competition or misappropriation law).

151. See *supra* note 68 and accompanying text.

152. See *supra* note 69 and accompanying text.

153. See *id.*



tion, such as in a civil rights suit in which the plaintiffs alleged that copyright law enforcement violated their right to free speech.<sup>154</sup>

### C. *Typical Trademark Related Disputes*

To illustrate the use of the well-pleaded complaint rule and techniques for maintaining a trademark dispute in state court, the following fact pattern is typical:

The dispute between Roundball Corporation and Very Big Corporation was resolved and years went by. Roundball Corporation opened bowling alleys in major Texas cities under the name ROUND-A-BOWL. Because of the success of the bowling alleys, some of the bowling balls manufactured by Roundball Corporation were marked with the notation ROUND-A-BOWL. Roundball Corporation obtained state and federal service mark and trademark registrations for the mark ROUND-A-BOWL.

Before the federal registrations became incontestable, Very Big Corporation, which had a nationwide marketing program, began marketing a bowling ball under the mark BOWL-O-ROUND. The packaging in which Very Big Corporation sells its BOWL-O-ROUND bowling balls is almost identical to the packaging that Roundball Corporation uses for its ROUND-A-BOWL bowling balls. Further, Very Big Corporation began opening bowling alleys across the nation under the name BOWL-O-ROUND.

Roundball Corporation might assert against Very Big Corporation the following causes of action: federal trademark infringement, federal unfair competition, common law unfair competition, and state statutory or common law trademark infringement. By pleading only the state causes of action, Roundball Corporation can pursue its case in state court.<sup>155</sup>

Federally registered trademarks are often involved in state court contract suits.<sup>156</sup> When the owner of a federally registered mark is

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154. See *Mitcham v. Board of Regents*, 670 S.W.2d 371, 372-73 (Tex. Civ. App.—Texarkana 1984, no writ)(students' free speech not deprived since not prohibited from conveying their ideas, only newspaper's copyrighted expression of them). Table II of the Appendix summarizes Texas cases involving copyrights.

155. See *supra* notes 76-78 and accompanying text.

156. See, e.g., *Church's Fried Chicken v. Jim Dandy Fast Foods*, 608 S.W.2d 242, 243 (Tex. Civ. App.—Houston [14th Dist.] 1980, writ ref'd n.r.e.)(exclusive right contract to use trade name and trademark); *Aero Servs., Inc. v. Aero Servs. Corp.*, 538 S.W.2d 226, 227 (Tex. Civ. App.—Houston [14th Dist.] 1976, no writ)(defendant asserted trademark ownership by registration while plaintiff alleged acquisition through contract); *Rich v. Con-Stan Indus.*, 449

sued in state court on state causes of action of state trademark infringement and state unfair competition, the defendant will probably have to assert the federal registration in defense.<sup>157</sup> Consistent with the well-pleaded complaint rule, this should not subject the suit to removal.<sup>158</sup>

#### D. *Typical Counter Litigation Tactics*

To illustrate tactics that a defendant might use to avoid state court litigation of defensive federal law issues, assume the following facts:

Roundball Corporation enters into a license agreement with Very Big Corporation licensing its original bowling ball patent and its trademark ROUND-A-BOWL. After a period of time, a dispute arises and Very Big Corporation stops paying royalties. Roundball Corporation sues Very Big Corporation in state court for breach of the license agreement, pleading only state causes of action.

Immediately after being served, Very Big Corporation files a declaratory judgment suit in federal court for invalidity and noninfringement of the patent and of the trademark. Roundball Corporation files a motion to stay in federal court and Very Big Corporation files a motion to stay in state court.

Because Roundball Corporation did not allege a federal cause of action such as infringement and there is no diversity, the suit is not subject to removal. Although Very Big Corporation could have asserted noninfringement and invalidity in the state court suit, it filed a declaratory judgment action in federal court. This type of tactic is frowned upon by the federal courts, who are likely to refuse jurisdiction or grant a stay.<sup>159</sup>

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S.W.2d 323, 324 (Tex. Civ. App.—Tyler 1969, writ ref'd n.r.e.)(appellee offered signed contracts along with brochure containing alleged trademark).

157. See *Aero Servs., Inc.*, 538 S.W.2d at 227.

158. See, e.g., *Pram Laboratories, Inc. v. Pram Laboratories—South*, 445 S.W.2d 533, 536 (Tex. Civ. App.—Dallas 1969, no writ)(contract undertook to grant exclusive distributorship); *Sizzler Family Steak Houses v. Nuss*, 444 S.W.2d 843, 844 (Tex. Civ. App.—Houston [14th Dist.] 1969, no writ)(suit for breach of contract, relating to franchised restaurants and area franchise representation, along with trademark and tradename infringement); *Brady v. Servisoft, Inc.*, 338 S.W.2d 189, 191 (Tex. Civ. App.—San Antonio 1960, writ ref'd n.r.e.)(registered trademark sold outright to dealers and representatives).

Table III of the Appendix summarizes miscellaneous Texas cases involving federally registered trademarks. As illustrated, disputes involving federally registered marks frequently arise from franchise or distributorship agreements.

159. See *supra* notes 104 & 114 and accompanying text; see also *Creative Mfg. v. Unik*,

What if Very Big Corporation had not filed the federal suit, or the federal suit is dismissed, and Very Big Corporation fails to assert invalidity and noninfringement in the state court suit? For illustration, assume the following extension of the facts:

Very Big Corporation files only a general denial in the state court action. The state court suit is tried with Very Big Corporation losing and the court ordering it to pay royalties under the contract. This judgment becomes final.

Very Big Corporation files a second suit to declare the patent and trademark not infringed and invalid. In answer, Roundball Corporation files a motion for summary judgment on the ground of *res judicata*. In reply, Very Big Corporation contends that because the issues were not tried in state court they are not precluded.

Under the given facts, the patent license was for the patented items, thus the finding that royalties were owed encompasses a finding of infringement. In retrospect, Very Big Corporation should have explicitly raised its noninfringement claim in the state court suit.<sup>160</sup> For similar reasons, any claim by Very Big Corporation that it is not infringing the trademark is now lost.<sup>161</sup>

It may be possible, however, for Very Big Corporation to now litigate patent or trademark invalidity.<sup>162</sup> Under the given facts, issues that would have the effect of proving the patent or the trademark invalid were not necessarily decided. Although federal cases disagree whether patent invalidity claims were compulsory counterclaims in a prior infringement suit, the Fifth Circuit rule is that they are not.<sup>163</sup> This rule would probably permit a subsequent invalidity suit after a state court suit for royalties.

## V. CONCLUSION

*Before I built a wall I'd ask to know  
What was I walling in or walling out?*<sup>164</sup>

When a dispute involving a patent, copyright, or trademark arises,

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Inc., 726 S.W.2d 207, 209 (Tex. App.—Fort Worth 1987, writ ref'd n.r.e.) (state court refused stay pending federal court suit to declare patent invalid and not infringed).

160. See *supra* note 119 and accompanying text.

161. See *supra* note 120 and accompanying text.

162. See *supra* notes 121-125 and accompanying text.

163. See *supra* note 122 and accompanying text.

164. ROBERT FROST, MENDING WALL.

and litigation is needed, a federal court mind-set should be avoided until two important questions are considered. First, are there facts in the potential suit that could be pleaded as state claims in state court? Second, are the relative odds of winning better, and the expense of litigating less, in state court?

Disputes involving patents and copyrights can properly be resolved as state court suits if the facts will prove state causes of action. Generally, there must have been some contact between the parties, such as a contract, employment relationship, or confidential relationship—otherwise, there may not be a viable state suit. In copyright cases, a federal law ingredient conferring federal jurisdiction may be unavoidable. Disputes involving trademarks can almost always be resolved in state court with a properly worded petition alleging only state causes of action, even if one of the parties owns a federal registration of the mark in question.

State court suits often invite issues of federal patent, copyright, or trademark law to be decided. Yet, the ability of state courts to decide such federal issues is not affected by the exclusive jurisdiction of the federal courts over federal law cases. The state courts are ready, able, and willing to decide them. Don't be too quick to "wall out" our state courts.

TABLE I  
REPRESENTATIVE TEXAS CASES INVOLVING PATENTS

<u>CAUSES OF ACTION</u>	<u>CAUSES OF ACTION</u>	<u>SUIT BROUGHT BY</u>	<u>PATENT INVOLVEMENT</u>	<u>RESULT</u>
<i>Creative Mfg., Inc. v. Unik, Inc.</i> , 726 S.W.2d 207 (Tex. App.—Fort Worth 1987, writ ref'd n.r.e.).	Contract	Inventor	Suit claiming breach of license agreement on underlying patent.	License agreement upheld; no finding of duress; validity of underlying patent not ruled on.
<i>J.C. Kinley Co. v. Haynie Wire Line Serv., Inc.</i> , 705 S.W.2d 193 (Tex. App.—Houston [1st Dist.] 1985, writ ref'd n.r.e.).	Confidential Relationship	Licensors	Suit against former licensee of expired patent.	No confidential relationship between licensor/licensee of expired patent in absence of agreement.
<i>Daily Int'l Sales v. Eastman Whipstock, Inc.</i> , 662 S.W.2d 60 (Tex. App.—Houston [1st Dist.] 1983, no writ).	Trade Secret	Licensors	Suit claiming wrongful appropriation of trade secret by licensee where there was an underlying patent on the device.	Subject matter of trade secret same as that protected by patent; injunction denied; harm curable by award of damages.
<i>Lone Star Steel Co. v. Wahl</i> , 636 S.W.2d 217 (Tex. App.—Texasarkana 1982, no writ).	Contract	Inventor	Suit by former employee claiming refusal to sign a patent clause in employment contract precluded shop right in subsequent invention.	No "shop right" or termination of inventor's patent rights in absence of agreement.
<i>Reich v. Reed Tool Co.</i> , 582 S.W.2d 549 (Tex. Civ. App.—Dallas 1979, writ ref'd n.r.e.), cert. denied, 446 U.S. 946 (1980).	Contract	Assignor	Suit for commissions on contract for sale of invention; assignee raised misuse of the patent as a defense.	Defense of patent misuse is available even though inventor had no patent when he sold invention and patent rights; patent misuse established.
<i>Vapor Corp. v. Welker</i> , 582 S.W.2d 858 (Tex. Civ. App.—Beaumont 1979, no writ).	Contract	Licensee	Suit to determine whether device was an improvement upon a patented device that was subject to license agreement.	Device not an improvement on patented device. Device not subject to license agreement.

Table I (continued)

CAUSES OF ACTION	CAUSES OF ACTION	SUIT BROUGHT BY	PATENT INVOLVEMENT	RESULT
<i>Mini-Tape, Inc. v. Fields</i> , 566 S.W.2d 119 (Tex. Civ. App.—Houston [14th Dist.] 1978, no writ).	Contract	Licensor	Suit to determine the exclusiveness of a licensing agreement on a patented device.	Licensee not enjoined from exercising <i>non-exclusive</i> license; licensee temporarily enjoined from representing it had exclusive license on patented device.
<i>M.I.I. v. E.F.I., Inc.</i> , 550 S.W.2d 401 (Tex. Civ. App.—Houston [14th Dist.] 1977, writ ref'd n.r.e.), cert. denied, 435 U.S. 1008 (1978).	Contract	Assignor	Suit determining whether a patentee could impose restrictions on one who bought already manufactured article.	Patentee could impose restrictions upon assignee of patent, but not on one who bought already manufactured article.
<i>Crutcher-Rolfs-Cummings, Inc. v. Ballard</i> , 540 S.W.2d 380 (Tex. Civ. App.—Corpus Christi 1976, writ ref'd n.r.e.), cert. denied, 433 U.S. 910 (1977).	Contract; Confidential Relationship	Licensor	Suit for royalties against licensee of patent who transferred production of device to a subsidiary corporation that produced a device similar to the patented device.	Licensor entitled to royalties on business done by subsidiary that would have been done by licensee; fiduciary relationship exists between patent licensor and licensee.
<i>Petroleum Anchor Equip., Inc. v. Tyra</i> , 419 S.W.2d 829 (Tex. 1967).	Other	Assignee	Suit to cancel unauthorized reassignment of patent rights where patent allegedly held in trust to avoid creditors.	Assignee entitled to cancellation of assignment.
<i>Featherlax Corp. v. Chandler</i> , 412 S.W.2d 783 (Tex. Civ. App.—Corpus Christi 1967, writ ref'd n.r.e.).	Contract; Common Law Fraud	Assignee	Suit to cancel earlier partial assignment of patent rights on basis of fraud where exclusive rights were subsequently assigned.	Assignee waived right of rescission by continuing to receive benefits under patent assignment.
<i>Friedman v. Cohen</i> , 404 S.W.2d 372 (Tex. Civ. App.—Houston 1966, no writ).	Contract	Assignee	Suit to enforce partial assignment of patent rights in exchange for payment of expenses in obtaining the patent.	Cause of action stated; remanded for determination.

Table I (continued)

CAUSES OF ACTION	CAUSES OF ACTION	SUIT BROUGHT BY	PATENT INVOLVEMENT	RESULT
<i>Henry v. McConnell</i> , 400 S.W.2d 344 (Tex. Civ. App.—Waco 1966, no writ).	Contract; Common Law Fraud	Licensor	Suit to enforce license agreement where validity of underlying patents was raised as a defense.	Patents were not obtained on 5 of the 6 devices claimed to be patented; fraud in inducement is a valid defense in suit to enforce patent license agreement.
<i>Furr's, Inc. v. United Specialty Advertising Co.</i> , 385 S.W.2d 456 (Tex. Civ. App.—El Paso 1964, writ ref'd n.r.e.), cert. denied, 328 U.S. 824 (1965).	Trade Secret	Other	Suit to enjoin use of "trade secret" where no patent existed.	In absence of a patent or some agreement of confidentiality, a disclosure is not protected; no protectable trade secret existed.
<i>Atlas Bradford Co. v. Tuboscope Co.</i> , 378 S.W.2d 147 (Tex. Civ. App.—Waco 1964, no writ).	Trade Secret	Inventor	Suit to enjoin disclosure of trade secrets which were subsequently made the subject of a patent by the inventor.	Trade secret is no longer secret after the issuance of a patent and is not protectable; it is an abuse of confidence to disclose a trade secret even if it is the subject of a patent.
<i>Luccous v. J.C. Kinley Co.</i> , 376 S.W.2d 336 (Tex. 1964).	Contract; Confidential Relationship	Inventor	Suit to enjoin stockholders of former licensee of expired patent from using, renting or leasing devices similar to those that had been the subject of the patent.	No breach of contract or confidence; knowledge was acquired after trade secret became patented and was used only after patent expired.
<i>Curtis v. Pipelife Corp.</i> , 370 S.W.2d 764 (Tex. Civ. App.—Eastland 1963, no writ).	Contract	Assignee	Suit to determine validity of license agreement on patent; validity of underlying patent not in issue.	License agreement held in valid because it was not authorized by licensor. Acceptance of royalty checks did not constitute ratification.

Table I (continued)

CAUSES OF ACTION	CAUSES OF ACTION	SUIT BROUGHT BY	PATENT INVOLVEMENT	RESULT
<i>Major v. Lord</i> , 357 S.W.2d 820 (Tex. Civ. App.—Waco 1962, writ ref'd n.r.e.).	Contract	Licensee	Suit to determine whether licensee of patent could require sublicensee to pay a minimum royalty where licensee only had option to terminate for failure to meet production requirement.	Licensor/licensee agreement is separate from agreement with sublicensee; sublicensee obligated on own contract.
<i>Barbier v. Barry</i> , 345 S.W.2d 557 (Tex. Civ. App.—Dallas 1961, no writ).	Contract; Conspiracy	Assignee	Suit alleging conspiracy in wrongfully cancelling license agreement to market patented products where no orders sold.	Cancellation was pursuant to agreement.
<i>American Mfg. Co. v. Witter</i> , 343 S.W.2d 943 (Tex. Civ. App.—Fort Worth 1961, no writ).	Contract	Assignee	Suit by assignees of exclusive licensee of patent for royalties.	Assignability of patent rights is presumed in absence of agreement.
<i>Johnson Mfg. Co. v. Edwards</i> , 344 S.W.2d 506 (Tex. Civ. App.—Amarillo 1961, writ ref'd n.r.e.).	Contract	Licensor	Suit to determine whether licensor could claim royalties under license agreement on patent that became void within 30 days after failure to pay royalties. Earlier suit in federal court on patent infringement dismissed.	License terminated pursuant to contract provisions.
<i>Hall v. Hall</i> , 326 S.W.2d 594 (Tex. Civ. App.—Dallas 1959, writ ref'd n.r.e.).	Contract	Licensor	Suit for accounting where license agreement had been induced on misrepresentation that patent had been obtained.	Licensor entitled to accounting and royalty payments received upon cancellation of licensing agreement.
<i>Brown v. Fowler</i> , 316 S.W.2d 111 (Tex. Civ. App.—Fort Worth 1958, writ ref'd n.r.e.).	Trade Secret	Inventor	Suit for royalties and to enjoin licensee from using trade secrets on a device where a patent had been rejected.	Injunction granted; breach of confidence to use trade secrets disclosed in license agreement negotiations where patent on device was later rejected.



Table I (continued)

<u>CAUSES OF ACTION</u>	<u>CAUSES OF ACTION</u>	<u>SUIT BROUGHT BY</u>	<u>PATENT INVOLVEMENT</u>	<u>RESULT</u>
<i>K &amp; G Oil Tool &amp; Serv. Co. v. G &amp; G Fishing Tool Serv.</i> , 158 Tex. 594, 314 S.W.2d 782, cert. denied, 358 U.S. 898 (1958).	Trade Secret	Licensee	Suit touching on the definition of "trade secret" and the distinction between a trade secret and a patent.	Device involved was protectable as a trade secret; device not so simple that its construction was ascertainable at a glance; novelty and invention are not requisite for a trade secret as they are for patentability.
<i>Hyde Corp. v. Huffines</i> , 158 Tex. 566, 314 S.W.2d 763, cert. denied, 358 U.S. 898 (1958).	Trade Secret	Licensor	Suit to restrain licensee from manufacturing device made substantially in accordance with mechanism described in licensor's patent application and in patent subsequently issued.	Licensor entitled to injunction; use of trade secrets wrongfully obtained from licensor is a breach of confidence despite subsequent issuance of patent.
<i>Ladner v. Reliance</i> , 156 Tex. 158, 293 S.W.2d 758 (1956).	Trade Secret	Licensee	Suit determining what rights the owner of an unpatented secret formula has in protecting the formula.	Unpatented secret formula is not property; owner or inventor of formula has qualified property right to extent that he is entitled to maintain secrecy of invention and prevent disclosure through fraud or breach of contract.
<i>Free-Flow Muffler v. Kliewer</i> , 283 S.W.2d 778 (Tex. Civ. App.—Texarkana 1955, writ ref'd n.r.e.).	Contract	Licensor	Suit determining whether manufactured product and patent are equivalent so as to require payment of royalties under licensing agreement on patent.	Licensor entitled to royalties; manufactured product and patent are equivalent regardless of whether the muffler was technically within coverage of patentee's patent and research.

Table I (continued)

<u>CAUSES OF ACTION</u>	<u>CAUSES OF ACTION</u>	<u>SUIT BROUGHT BY</u>	<u>PATENT INVOLVEMENT</u>	<u>RESULT</u>
<i>Gulbenkian v. Penn</i> , 276 S.W.2d 939 (Tex. Civ. App.—Amarillo 1953, writ ref'd n.r.e.).	Contract	Licensor	Suit determining the termination of a licensing agreement where expiration was fixed at the time the patent expired, but where there were conflicting general provisions fixing a later date.	By terms of agreement, license terminated at expiration of patent.
<i>Gulbenkian v. Penn</i> , 151 Tex. 412, 252 S.W.2d 929 (1952).	Contract	Licensor	Suit for royalties on license of patent where licensee defended that there was failure of consideration for the license in that patented formula was worthless.	Licensee entitled to trial on questions of fact regarding validity of patent and promissory estoppel.
<i>Vann v. Toby</i> , 260 S.W.2d 114 (Tex. Civ. App.—Dallas 1953, writ ref'd n.r.e.).	Contract	Licensor	Suit for damages to determine licensor's rights in an unpatented process against licensee in breach of contract and confidence.	Licensor has interest in secret process, regardless of whether it is patentable against one in breach of contract or confidence; license held void in violation of antitrust statute.
<i>Patrizi v. McAninch</i> , 153 Tex. 389, 269 S.W.2d 343 (1954).	Contract	Assignor	Suit for royalty payments on contract of sale of patented device where the contract violated antitrust laws.	Contract provisions restricting competition and provisions for payment of royalty were inseparable so as to vitiate the whole contract.
<i>Wissman v. Boucher</i> , 150 Tex. 326, 240 S.W.2d 278 (1951).	Trade Secret	Inventor	Suit to enjoin manufacture of device alleged to be a trade secret where marketing of the device resulted in full public disclosure of the device.	Product so simple and obvious that it could easily be imitated; no trade secret.

Table I (continued)

CAUSES OF ACTION	CAUSES OF ACTION	SUIT BROUGHT BY	PATENT INVOLVEMENT	RESULT
<i>Jackson v. Cloer</i> , 98 S.W.2d 358 (Tex. Civ. App.—Fort Worth 1936, no writ).	Contract	Assignor	Suit where patentee assigned patent in exchange for stock in a corporation that did not become operational; assignor claims interest in patent through stock ownership.	Ownership of stock in corporation did not give patentee interest in assigned patent because assets of corporation were not partitionable or divisible.
<i>Brown &amp; Root, Inc. v. Jaques</i> , 98 S.W.2d 257 (Tex. Civ. App.—Austin 1936, no writ).	Confidential Relationship	Inventor	Suit determining the protectability of a device prior to the issuance of a patent.	Up until the time patent is granted, invention protectable as a trade secret; if invention is sold to public and secret is disclosed as result, secret is no longer protectable unless breach of contract.
<i>Egan v. Stitt</i> , 297 S.W. 290 (Tex. Civ. App.—Fort Worth 1927, no writ).	Other	Inventor	Suit brought in state court alleging patent infringement.	Main cause of action asserted by plaintiff was one arising under patent laws; state court does not have jurisdiction.
<i>North v. Atlas Brick Co.</i> , 281 S.W. 608 (Tex. Civ. App.—El Paso), modified, 288 S.W. 146 (Tex. Comm'n App. 1926, holding approved).	Other	Other	Suit by employee to determine rights to invention conceptualized while in scope of employment.	Mere fact that inventor is in another's service at time of concept does not give employer an interest in the invention; if employee is employed to devise or perfect invention, he cannot later claim title against employer; remanded to determine if "shop right" existed.

Table I (continued)

CAUSES OF ACTION	CAUSES OF ACTION	SUIT BROUGHT BY	PATENT INVOLVEMENT	RESULT
<i>Brown v. Texas Cactus Hedge Co.</i> , 64 Tex. 396 (1885).	Other	Other	Suit for wrongful seizure and sale of stock of groceries; defense raised failure of consideration in that consideration was a pretend patent on cactus hedges. Plaintiff claimed validity of patent could not be collaterally attacked in state court.	Where patent questions arise incidentally or collaterally in suits pending in state courts, state courts have power and authority to adjudicate and determine the incidental issue.
<i>Southland Sweet Potato Curing &amp; Storage Ass'n v. Beck</i> , 221 S.W. 656 (Tex. Civ. App.—Dallas 1920, no writ).	Contract	Licensee	Suit by licensee for injunctive relief to enforce territorial agreement restricting co-licensee's use of patent rights; jurisdiction challenged.	Jurisdiction in state court proper because cause did not arise under patent laws; petition alleges breach of contract and not infringement.
<i>Clark v. Cyclone Woven-Wire Fence Co.</i> , 54 S.W. 392 (Tex. Civ. App. 1899, no writ).	Contract	Licensee	Suit for rescission of a note claiming licensee's failure to sell a patented article under a license agreement was result of infringement and fraud.	Licensee can recover value of time and labor from licensor who represented that he had a patent on the articles and agreed to protect the licensee from infringement.
<i>Ingram v. Jacobs</i> , 34 S.W. 181 (Tex. Civ. App. 1896, no writ).	Action to Cancel Debts	Assignee	Suit to cancel deeds and to recover other consideration paid for rights to device represented to be patented.	There was sufficient evidence to support a finding that no patent was issued; burden was on patentee to produce patent.
<i>Holliday v. Brosig</i> , 30 S.W. 841 (Tex. Civ. App. 1895, no writ).	Contract	Inventor	Suit against assignee of one half of patent rights for breach of contract to pay costs of procuring patent and to manufacture invention.	Assignee not liable for full value of invention or for profits the inventor would have realized from sales of the machine had it been manufactured and patented.

TABLE II  
TEXAS CASES INVOLVING COPYRIGHT ISSUES

<u>STYLE OF CASE</u>	<u>CAUSES OF ACTION</u>	<u>COPYRIGHT INVOLVEMENT</u>	<u>RESULT</u>
<i>Mitcham v. Board of Regents, Univ. of Tex.</i> , 670 S.W.2d 371 (Tex. App.—Texarkana 1984, no writ).	Libel; violation of § 1983 civil rights	Suit alleging libel against student newspaper that made claims of copyright infringement against two students.	No libel; students admitted knowingly distributing copyrighted material; "fair use" doctrine not a defense; wholesale verbatim copying is not fair use regardless of intention.
<i>Broyles v. State</i> , 552 S.W.2d 144 (Tex. Crim. App. 1977).	Sale of a sound recording without owner's consent in violation of state criminal laws	Challenge to the constitutionality of the state statute alleging conflict with commerce clause; copyright not an express issue.	State legislature not precluded by commerce clause from exercising police power of state in prohibiting record piracy.
<i>Cozby v. Tuttle</i> , 505 S.W.2d 397 (Tex. Civ. App.—Fort Worth 1974, writ ref'd n.r.e.).	Injunctive relief sought to prohibit selling, disposing or encumbering of partnership assets	Challenge to state court jurisdiction based on pleadings making reference to copyright infringement.	State court had jurisdiction; suit primarily sought injunction, partition and accounting; court analogized to jurisdiction in patent cases.
<i>E.F.L. Inc. v. Marketers Int'l, Inc.</i> , 492 S.W.2d 302 (Tex. Civ. App.—Houston [1st Dist.] 1973, writ ref'd n.r.e.), cert. denied, 435 U.S. 1008 (1978). [See also 506 S.W.2d 579; 550 S.W.2d 401, for later disposition of case.]	Contract; breach of guarantee	Suit by manufacturer with exclusive rights to article against distributor; inferred article protected under patent, trademark or copyright laws; defense that contract violated Texas antitrust laws.	Remanded to determine whether contract subject to state antitrust laws; protected article was already in interstate commerce.
<i>Smith v. Waite</i> , 424 S.W.2d 691 (Tex. Civ. App.—Waco 1968, writ ref'd n.r.e.).	Contract	Suit for breach of franchise agreement involving materials protected under patent, trademark and copyright laws; defense contract violated state antitrust laws.	No violation of antitrust laws; owner of patent, copyright or trademark may franchise out by contract the use of the patent, copyright or trademark.

Table II (continued)

<u>STYLE OF CASE</u>	<u>CAUSES OF ACTION</u>	<u>COPYRIGHT INVOLVEMENT</u>	<u>RESULT</u>
<i>Melody v. Texas Soc'y of Professional Eng'rs</i> , 421 S.W.2d 693 (Tex. Civ. App.—Dallas 1967, no writ).	Contract	Suit by publisher alleging ownership of magazine and wrongful cancellation of publishing agreement by society that contracted for the magazine's publication.	Not a joint venture under contract; publisher not owner of magazine.
<i>Stone v. Hutchison</i> , 272 S.W.2d 424 (Tex. Civ. App.—Dallas 1954, no writ).	Conversion	Action against Hank Williams for damages resulting from alleged conversion of copyright interest in a musical composition; jurisdiction issue on appeal.	Dismissed; federal courts have exclusive jurisdiction of suits for damages for infringement of statutory copyright; once statutory copyright obtained, cannot assert rights under common law copyright.
<i>Loeb v. Turner</i> , 257 S.W.2d 800 (Tex. Civ. App.—Dallas 1953, no writ).	Injunctive relief sought to restrain radio broadcast	Suit to enjoin alleged "rebroadcast" of sports program by another station.	Injunction denied; no rebroadcast of program but a recreation of the event; once program broadcast, information is available to everyone because it is uncopied; no unfair competition.
<i>Grace v. Orkin Exterminating Co.</i> , 255 S.W.2d 279 (Tex. Civ. App.—Beaumont 1953, writ ref'd n.r.e.).	Injunctive relief; contract	Suit to restrain violation of restrictive covenants in employment contract that required secrecy in connection with operating methods and systems.	Injunction granted; confidential information furnished defendant was copyrighted; although no infringement, plaintiff entitled to injunction to restrain violation of covenant.
<i>Leslie Lowry &amp; Co. v. KTRM, Inc.</i> , 239 S.W.2d 898 (Tex. Civ. App.—Beaumont 1951, no writ).	Contract	Suit to cancel contract that provided for transcripts of radio broadcast to be made; copyright not an express issue.	Contract ambiguous; construed against party that wrote it; typewritten provisions control.

Table II (continued)

<u>STYLE OF CASE</u>	<u>CAUSES OF ACTION</u>	<u>COPYRIGHT INVOLVEMENT</u>	<u>RESULT</u>
<i>Simmons v. Sikes</i> , 56 S.W.2d 193 (Tex. Civ. App.—Texarkana 1932, writ dism'd).	Trespass to try title; injunction to bar sale	Husband gave copyrights to wife; wife sold the rights; husband's creditors seek to levy on proceeds from sale of copyright.	Proceeds from sale of copyright community property which could be used to pay community debts contracted by husband; copyright is a legal estate, as other movable property.
<i>Gilmore v. Sammons</i> , 269 S.W. 861 (Tex. Civ. App.—Dallas 1925, no writ).	Injunctive relief sought to restrain "republishing" of news items	Publisher of construction news periodicals sued publisher of similar periodicals to restrain "republishing" of information without permission; suit alleges unfair competition.	News items involved not within copyright act; republication was unfair and illegal interference with business depriving the original publisher of profits; common law copyright not basis of ruling.
<i>Coca-Cola Co. v. State</i> , 225 S.W. 791 (Tex. Civ. App.—Austin 1920, no writ).	Contract; antitrust	Suit by state claiming protective contracts with local bottling companies violated state antitrust laws.	Court treated patent, trademark and copyright similarly in holding that they are property rights and not articles of commerce; monopolies may be created to protect patents, trademarks and copyrights; copyright is distinguished as applying exclusively to works of art or literature.
<i>Vernon Abstract Co. v. Waggoner Title Co.</i> , 107 S.W. 919 (Tex. Civ. App. 1908, no writ).	Injunctive relief sought	Suit to enjoin title company from using deed records in compiling abstracts where plaintiff claimed an exclusive right to the deed records under a common law copyright.	Dismissed; common law right to exclusive use exists before publication; after publication right ceases.

TABLE III  
REPRESENTATIVE TEXAS CASES INVOLVING FEDERAL TRADEMARKS

<u>STYLE OF CASE</u>	<u>CAUSES OF ACTION</u>	<u>TRADEMARK REGISTRATION</u>	<u>TRADEMARK INVOLVEMENT</u>	<u>RESULT</u>
<i>Jud Plumbing Shop On Wheels, Inc., v. Jud Plumbing &amp; Heating Co.</i> , 695 S.W.2d 75 (Tex. App.—San Antonio 1985, no writ).	Lanham Act; Unfair Competition	Federal; state	Suit alleging unfair use of a similar tradename; trial court granted temporary injunction.	No abuse of discretion in granting temporary injunction; sufficient evidence to show likelihood of confusion resulting in irreparable harm and damage to business reputation and good will.
<i>Ergon, Inc. v. Dean</i> , 649 S.W.2d 772 (Tex. App.—Austin 1983, no writ).	Lanham Act; State Corporate Name Availability Statute (Tex. Bus. Corp. Act Ann. art. 2.05 (1980))	Federal; state	Suit seeking injunctive relief based on defendant corporation's use of a word in its name also found in plaintiff's corporation name; affirmative defense of fair use raised.	Defendant's use not descriptive of, and fairly used in good faith solely to describe his goods or their geographic origin as required by Lanham Act §§ 1-45; sufficient evidence to support finding that use resulted in likelihood of confusion.
<i>Church's Fried Chicken, Inc. v. Jim Dandy Fast Foods, Inc.</i> , 608 S.W.2d 242 (Tex. Civ. App.—Houston 1980, writ ref'd n.r.e.).	Contract	Federal	Suit to interpret term of contract giving exclusive right to use trade name and trademark in geographic area; no infringement issue.	Contract ambiguous; issue properly submitted to jury.
<i>Church's Fried Chicken, Inc. v. Jim Dandy Fast Foods, Inc.</i> , 574 S.W.2d 600 (Tex. Civ. App.—Houston [14th Dist.] 1978, writ ref'd n.r.e.).	Contract	Federal	Suit to interpret contract giving exclusive right to use trade and trademark; plea of privilege denied; no infringement issue.	Venue proper where contract to be performed.
<i>Aero Services, Inc. v. Aero Services Corp.</i> , 538 S.W.2d 226 (Tex. Civ. App.—Houston [14th Dist.] 1976, no writ).	Infringement	Federal; state	Suit seeking to enjoin use of a similar trade name; counterclaim that name sought to be enjoined was protected by federal and state registration.	Appellant's "actual, peaceable, and non-contested" use of its name for 13 years should not be equitably interrupted when there is a showing of little, if any, harm to either party.



Table III (continued)

<u>STYLE OF CASE</u>	<u>CAUSES OF ACTION</u>	<u>TRADEMARK REGISTRATION</u>	<u>TRADEMARK INVOLVEMENT</u>	<u>RESULT</u>
<i>Glenn v. Gidel</i> , 496 S.W.2d 692 (Tex. Civ. App.—Amarillo 1973, no writ)	Contract; Slander Against Franchisor	Federal	Suit for damages alleging interference with a franchising contract that included among other provisions the right to use a registered trade name; no infringement issue.	No interference with contract. No actionable slander.
<i>Rich v. Con-Stan Indus.</i> , 449 S.W.2d 323 (Tex. Civ. App.—Tyler 1969, no writ).	Infringement; Enforcement of Judgment of Another State	Federal	Suit to enjoin unauthorized use of 2 registered trademarks and to give full faith and credit to California judgment granting injunctive relief.	Earlier injunction decree entitled to full faith and credit.
<i>PRAM Laboratories, Inc. v. PRAM Laboratories—South</i> , 445 S.W.2d 533 (Tex. Civ. App.—Dallas 1969, no writ).	Verified Account; Contract; Antitrust	Federal	Suit on verified account; defense raised that agreement between manufacturer and independent distributor violated state antitrust laws; no infringement issue. Corporate name involved subject to registered trademark.	Contract within application of Texas antitrust laws.
<i>Sizzler Family Steak Houses v. Nuss</i> , 444 S.W.2d 843 (Tex. Civ. App.—Houston [14th Dist.] 1969, no writ).	Infringement; Contract	Federal	Suit for breach of covenant in franchising contract and tradename/trademark infringement.	Suit dismissed without prejudice so California corporation could file proof of authority to do business in Texas.

Table III (continued)

<u>STYLE OF CASE</u>	<u>CAUSES OF ACTION</u>	<u>TRADEMARK REGISTRATION</u>	<u>TRADEMARK INVOLVEMENT</u>	<u>RESULT</u>
<i>Brady v. Servisoft, Inc.</i> , 338 S.W.2d 189 (Tex. Civ. App.—San Antonio 1960, writ ref'd n.r.e.).	Infringement	Federal	Suit to enjoin unauthorized use of registered trademark by former representative of corporation.	Temporary injunction granted; to avoid injunction for infringement junior user must show that in good faith and without notice of the use by the senior user, expended money and effort to build up business in a territory not occupied by senior user's business and that the senior user unreasonably delayed in asserting its rights.
<i>Gracia v. Beck</i> , 286 S.W.2d 234 (Tex. Civ. App.—Austin 1955, no writ).	Infringement; Unfair Competition	Federal; state	Suit for damages and to enjoin unauthorized use of registered trademark and resulting unfair competition; plea of privilege filed.	Case ordered transferred; test for infringement is whether similarity of names or devices as used by parties is such as to mislead customers and to warrant court action; this is a fact question.
<i>Shaddock v. Grapette Co.</i> , 259 S.W.2d 231 (Tex. Civ. App.—Waco 1953, no writ).	Contract; Antitrust	Federal	Suit by seller on contract and note for sale of bottling equipment for soft drink that was subject to a registered trademark; no infringement issue.	Owner of trademark, having exclusive right to manufacture and sell the articles protected by the trademark, may impose upon an assignee certain restrictions including price, quality of ingredients, and territory in which the article may be sold.
<i>Smith v. Houlis</i> , 228 S.W.2d 900 (Tex. Civ. App.—Waco 1950, no writ).	Infringement	Federal	Suit to enjoin unauthorized use of trade name by licensee after license terminated; cross-action by licensor for some relief.	Licensee enjoined; licensor showed irreparable injury would result from licensee's continued use. Court determined licensor's ownership of the trademark.

Table III (continued)

STYLE OF CASE	CAUSES OF ACTION	TRADEMARK REGISTRATION	TRADEMARK INVOLVEMENT	RESULT
<i>Norton v. Humble Oil &amp; Refining Co.</i> , 227 S.W.2d 860 (Tex. Civ. App.—Dallas 1950, no writ).	Infringement	Federal; state	Suit to enjoin defendant from simulating appearance of registered trademark used in connection with gas stations; defendant claimed prior suit between parties on different facts was res judicata on the issue of infringement.	Defendant enjoined; res judicata not applicable on other facts; unauthorized use constituted infringement remediable by injunction.
<i>Coca-Cola Co. v. State</i> , 225 S.W. 791 (Tex. Civ. App.—Austin 1920, no writ).	Antitrust	Federal	Suit by state to enjoin Coca-Cola from executing contracts with local bottlers in violation of state antitrust laws; no infringement issue.	Article need not be manufactured by owner of trademark to be protectable; sale of trademark is nothing more than a license from the owner to the licensee; licensor has right to impose restrictions on license; injunction denied.
<i>Caffarelli Bros. v. Western Grocer Co.</i> , 102 Tex. 104, 127 S.W. 1018 (1908).	Infringement	Federal	Suit by buyer to enjoin seller's use of trademark where business and trademark had been sold. The use in question varied slightly from the trademark that was subject of the sale. Trial court granted injunction.	No injunction for infringement unless "the form of the printed words, the words themselves, and the figures, lines, and devices are so similar that any person with such reasonable care and observation as the public are generally capable of using and may be expected to exercise would mistake the one for the other.