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COPYRIGHT AND CONTRACTS: THE SUBJECT MATTER JURISDICTION OF FEDERAL COURTS UNDER 28 U.S.C. § 1338(A)

Daniel E. Wanat*

I. INTRODUCTION

A. The Problem

The subject matter jurisdiction of federal courts under the United States Copyright Act is said to present one of the “knottiest procedural problems in copyright jurisprudence.” That problem may be stated as follows: when does a copyright claim or issue under the Copyright Act which is factually related to a state law contract claim or issue constitute a “civil action arising under any Act of Congress relating to ... copyrights” sufficient to invoke exclusive federal court jurisdiction? This problem serves as the

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2 See MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT, § 12.01[A], at 12-4 (Matthew Bender & Co. ed., 2000). The problem concerns the division of jurisdiction between the federal courts and state courts.

3 28 U.S.C. § 1338(a) (1993 & Supp. 2001). This grant of subject matter jurisdiction provides, in part, that: “[t]he district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to ... copyrights ... Such jurisdiction shall be exclusive of the courts of the states in ... copyright cases.”

If the answer to the question of whether the factually related copyright and contract claims result in a “civil action arising under” the Copyright Act is in the affirmative, a United States district court has jurisdiction to adjudicate the copyright claim. Should the plaintiff to the copyright claim join the contract claim, a second jurisdictional question arises, namely, does the federal court
foundation for this article.

Since it is helpful to bring the problem into relief, the facts of a case decided recently in the United States Court of Appeals for the Second Circuit, *Bassett v. Mashantucket Pequot Tribe*, are offered for consideration as are the holdings of the district court and court of appeals.4

**B. The Problem Illustrated**

Debra Bassett operated a television and film production company, Bassett Productions.5 In 1995 that company entered into an agreement with the Mashantucket Pequot Tribe ("Tribe") under which the company was to develop and produce a film depicting the "Pequot War of 1636-38."6

Debra Bassett prepared a script for the film, which she delivered to the Tribe.7 Subsequently, the Tribe wrote to Bassett terminating...
its agreement with Bassett Productions.\textsuperscript{8} The Tribe, sans Bassett or Bassett Productions, continued with the film’s development and completed the motion picture in October 1996.\textsuperscript{9} The Tribe intended to screen the picture at its Museum.\textsuperscript{10}

In September 1996, Debra Bassett sued the Tribe in the District of Connecticut.\textsuperscript{11} Bassett’s complaint alleged that the Tribe used her copyrighted script to make its movie without Bassett’s license or consent.\textsuperscript{12} Bassett sought various copyright remedies including an injunction.\textsuperscript{13} The complaint further alleged that the Tribe was in breach of its 1995 agreement with Bassett’s company and that it committed state law torts which injured Ms. Bassett.\textsuperscript{14}

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\item \textsuperscript{8} \textit{Id.} The Tribe notified Bassett that it was terminating the agreement because of nonperformance of the contract.
\item \textsuperscript{9} \textit{Bassett}, 204 F.3d at 346.
\item \textsuperscript{10} \textit{Id.}
\item \textsuperscript{11} \textit{Id.} The district court’s jurisdiction was sought under § 1338(a) as the plaintiff claimed the action arose under the Copyright Act. It appears that in this case as well as others a plaintiff may be able to assert that the United States district court has subject matter jurisdiction under 28 U.S.C. § 1331. This provision within the Judiciary Act provides: “The district court shall have original jurisdiction of all civil actions arising under the Constitution, laws, or treaties of the United States.” 28 U.S.C. § 1331 (1993 & Supp. 2001).
\item \textsuperscript{12} \textit{Id.}
\item \textsuperscript{13} \textit{Id.} The Museum, which was to exhibit the film, was also named as a defendant against whom copyright remedies were sought. \textit{Id.} Although not discussed within the opinion, it appears that the plaintiff was claiming an infringement of her copyright under Section 501 of the Copyright Act of 1976. 17 U.S.C. § 501 (1996 & Supp. 2001). This section provides, in part, that “anyone who violates any of the exclusive rights of the copyright owner . . . is an infringer of the copyright.” \textit{Id.} at (a). The “exclusive rights of the owner” are found in Section 106 of the Copyright Act and include a reproduction right and a right of public performance. 17 U.S.C. § 106 (1), (4) (1996 & Supp. 2001). Both rights may have been violated by the \textit{Bassett} defendants. Once such rights are violated the “owner of an exclusive right . . . is entitled . . . to institute an action for infringement.” 17 U.S.C. § 501 (b) (1996 & Supp. 2001). One of the many remedies provided for by the Copyright Act is an injunction. \textit{Id.} at § 502.
\item \textsuperscript{14} \textit{Bassett}, 204 F.3d at 346. The complaint further alleged that representatives of the Tribe committed infringement of copyrights in violation of federal law as well as claims actionable under state law.
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The Tribe moved to dismiss the complaint.\textsuperscript{15} It argued, in part, that the court lacked federal question jurisdiction because Bassett's copyright infringement claim was ""incidental to"" her contract claims, and therefore, did not 'arise under' federal law."\textsuperscript{16}

The district court accepted this "incidental to" approach and granted the motion to dismiss.\textsuperscript{17} On appeal, the Court of Appeals for the Second Circuit concluded that in cases where copyright infringement claims arise from, or are ""in the context of,"" an alleged breach of contract claim, federal jurisdiction under \textsection 1338(a) exists ""when the complaint alleges a claim or seeks a remedy under the Copyright Act."\textsuperscript{18}

\textbf{C. An Overview of the Problem Analyzed}

In Part III, this article will address the two divergent approaches that are reflected in the holdings of the district court and court of

\textsuperscript{15} \textit{Id.}
\textsuperscript{16} \textit{Id.} It appears that the plaintiff asserted the subject matter jurisdiction of the district court based solely on 28 U.S.C. \textsection 1338(a). \textit{Id.} at 347.
\textsuperscript{17} \textit{Id.} In doing so, the court applied a test for deciding the \textsection 1338(a) jurisdictional issue announced in Schoenberg v. Shapolsky Publishers, Inc., 971 F.2d 926 (2d Cir. 1992). Under that test, if the copyright infringement claim is ""incidental"" to the breach of contract claim, the copyright claim does not ""arise under the federal copyright laws"" for the purpose of \textsection 1338(a) jurisdiction. \textit{Id.} at 932-33. Schoenberg will be discussed more fully later in this article. \textit{See infra} notes 146-155 and accompanying text.
\textsuperscript{18} \textit{Bassett}, 204 F.3d at 346. The approach taken by the court of appeals was one which it first announced in T.B. Harms Co. v. Eliscu, 339 F.2d 823 (2d Cir. 1964). \textit{See infra} notes 71-80 and accompanying text (T.B. Harms analyzed). The \textit{Bassett} court also made clear that it was rejecting the test applicable in Schoenberg v. Shapolsky Publishers, Inc. 971 F.2d 926 (2d Cir. 1992). \textit{See infra} notes 150-153 and accompanying text (The Schoenberg "text"). Finally, in a footnote, the \textit{Bassett} court stated: ""This portion of the opinion has been circulated among all the active judges of the court, and all have expressed agreement."\textit{ Bassett}, 204 F.3d at 355 n.13. Although decided by a three-judge panel, the jurisdictional rule announced in \textit{Bassett} appears to have been unanimously agreed to by all the judges within the Second Circuit. The process used in arriving at this consensus is curious to say the least.
appeals in \textit{Bassett}.\footnote{The two approaches have each emanated from the rule in \textit{T.B. Harms} applicable to a complaint which not only states a copyright infringement claim or raises a copyright issue but also arises from or "in the context of a breach of contract." \textit{See infra} notes 71-80 and accompanying text.} In general, Part III will consider decisions of lower federal courts and the reasons why some of those courts focus on whether the copyright claim or issue is one "incidental" to the breach of contract claim while others focus on whether a copyright claim or issue appears from the face of the plaintiff's complaint.\footnote{\textit{See generally} Baptiste v. Khoury, 910 F. Supp. 277 (W.D. La. 1996). \textit{See infra} notes 83-118 and accompanying text.} In particular, Part III will analyze the district court and court of appeals decisions within the Second Circuit. Not only was this circuit the birthplace of the two jurisdictional approaches, but it was also one in which the trial and appellate court judges have disagreed on which approach is preferable to the other.\footnote{\textit{See generally} Felix Cinematografica v. Penthouse Int'l, 671 F. Supp. 313 (S.D.N.Y. 1987); Daniel Wilson Prods., Inc. v. Time-Life Films, Inc., 736 F. Supp. 40 (S.D.N.Y. 1990). \textit{See infra} notes 119-186 and accompanying text.}

Following the examination of the approaches which lower federal courts have taken when resolving the § 1338(a) copyright/contracts jurisdictional issue, the author will offer his comments concerning each approach in Part IV of this article.\footnote{\textit{See generally} Baptiste v. Khoury, 910 F. Supp. 277, 278 (W.D. La. 1996). \textit{See also infra} notes 197-203 and accompanying text.} The author's conclusions and suggestions for harmonizing the different approaches will be offered at this time.

Before viewing the approaches in Part III or offering commentary and conclusions, the part of this article to follow takes a historical view of the approaches. In this regard, Part II will review three decisions of the United States Supreme Court which were instrumental to the holding of the United States Court of Appeals for the Second Circuit in \textit{T.B. Harms v. Eliscu}, the leading § 1338(a) case in the copyright/contracts jurisdiction area.\footnote{\textit{See generally} Wilson v. Sandford, 51 U.S. 99 (1850). \textit{See also infra} notes 25-68 and accompanying text.} Part II will conclude with an analysis of the \textit{Eliscu} opinion.\footnote{\textit{See generally} T.B. Harms Co. v. Eliscu 339 F.2d 823 (2d Cir. 1968). \textit{See also infra} notes 71-80 and accompanying text.}
II. BACKGROUND

A. The Patent/Contract Subject Matter Jurisdictional Issue:

Three opinions of the United States Supreme Court have laid the foundation for the approaches that federal courts today take when analyzing the copyright/contract jurisdictional issue. On the merits all three concerned the relationship between “arising under” jurisdiction as provided for by statute and a United States Patent Statute. In the first, Wilson v. Sandford, the plaintiff held a United States patent. In Wilson, the defendants acquired the authority to use the patented machine through a license. The consideration for the license was, in part, paid in cash with the balance secured by notes to be paid over a fixed time period. The license contained the following provision: “And if said notes, ... be not punctually paid ... then all and singular rights hereby granted shall revert to the [patentee], who shall be reinvested in the same manner as if this license had not been made.”

Following the defendants’ default in paying the notes, plaintiff-licensor brought an action in a District of Louisiana Court. The object of the suit was to set aside the license and to secure an

25 It is not unusual for decisions reached by the United States Supreme Court in patent/contract jurisdiction cases to form the basis for cases concerning copyright/contracts jurisdictional issues. The United States Constitution at Article 1, Section 8, Clause 8 grants to Congress the authority to enact both patent and copyright legislation when it provides, in pertinent part: “the Congress shall have the Power ... [t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” U.S. Const. art. I, § 8, cl. 8. At present a single jurisdiction statute applies to both patents and copyrights. 26 Wilson, 51 U.S. at 99.
26 Id.
27 Id. at 99-100.
29 Id. at 100.
30 Id.
injunction prohibiting defendants from further using the machine on the ground that "it was an infringement of . . . patent rights."31

On the issue of whether the federal court had jurisdiction to hear plaintiff's appeal from the dismissal of the suit, the interpretation to be given to the last clause of the 17th section of the jurisdictional statute was critical. That clause granted jurisdiction to the United States Supreme Court in "all actions, suits, controversies on cases arising under any law of the United States, granting or confirming to inventors the exclusive right in their inventions or discoveries."32 When the Wilson Court applied this language to the facts before it, the Court found that the case did not arise under any act of Congress.33 Rather, the Court reasoned that the plaintiff's complaint sought to set aside a contract and requested a forfeiture of defendants' rights under it.34 According to the Court, the injunction that was sought followed from the forfeiture of defendants' rights under the contract.35 Neither the plaintiff's action nor the remedy sought, therefore, depended upon the parties' patent rights.36 As a result, the Court dismissed the appeal for lack of jurisdiction.37

From Wilson, it follows that an action, such as a patent act, does not arise under an act of Congress if the action is solely one based

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31 Wilson, 51 U.S. at 101.
32 Id. (emphasis added). The statute at issue in Wilson is comparable to the statute under consideration in this article. For the United States Supreme Court to have jurisdiction in Wilson the "arising under" language was a pivotal feature of the 1836 statute just as is the comparable language in § 1338(a) in the present statute. In addition, the 1836 statute was directed to a specific class of cases: "patent" cases. Similarly, § 1338(a) is directed to a specific class of cases, most notably "copyright and patent" actions. See supra note 3 and accompanying text. Finally, it is worth noting that the Wilson court concluded that jurisdiction was given to the class of cases by the 1836 statute in order "to secure uniformity of decision in the construction of the act of Congress in relation to patents." Id. (emphasis added). That purpose also appears fulfilled by the present jurisdictional statute not only as to patents but also to copyrights as well.
33 Id.
34 Id.
35 Id.
36 Wilson, 51 U.S. at 101.
37 Id.
on state common law or equitable principles. The second decision in this Supreme Court trilogy affirmed *Wilson*. In addition, the decision suggested the grounds on which a plaintiff’s complaint may be found to arise under an act of Congress such as a patent act or a copyright act.

In *New Marshall Engine Co. v. Marshall Engine Co.*, the United States Supreme Court was again confronted with a jurisdictional issue within the patent context. More particularly, the question of whether the federal courts alone had jurisdiction to hear the case arose during a suit brought before a state court in Massachusetts. In that action, the plaintiff sought specific performance to compel defendant to assign to plaintiff an improvement on a patent. The plaintiff would be entitled to that remedy, if the improvement at issue were included under the terms of a contract. Defendants moved to dismiss the action because: “it presents questions involving an inquiry as to the construction and scope of the patents therein mentioned, of which questions the Federal courts have exclusive jurisdiction.”

The issue in *Marshall* came before the United States Supreme Court on writ of error from the Massachusetts Supreme Judicial Court. The *Marshall* court first recognized that in viewing the exclusive jurisdiction of federal courts over patents it was necessary to make a distinction. Distinguished from those cases which arise under the patent laws are those “in which the patent may be the subject matter of the controversy.”

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39 *Id.*
40 *Id.* at 479.
41 *Id.* The inventor had originally assigned the patent and “all improvements thereon” to a company that he had organized. *Id.* at 474. That assignment contained a clause assuring that the inventor would assign “all improvements.” *Id.* After this assignment was executed, the inventor executed another instrument in which he transferred the same patent and “all further improvements thereon . . . .”
42 *Id.* at 474.
44 *Id.*
45 *Id.* at 478.
Court, the latter class of cases includes title questions and contracts relating to patents. As to these cases the Court concluded that state courts had jurisdiction.

The Marshall opinion is instructive for the distinction the Court drew between a patent case which comes within the exclusive jurisdiction of the federal courts and a case which does not, i.e., the case in which title is at issue or one which raises issues of contracts alone. Marshall also suggests that when defendant asserts that state courts have jurisdiction, the plaintiff's complaint must show the federal court's exclusive jurisdiction.

When the Marshall defendants then claimed that the state courts lacked jurisdiction to enter the specific performance decree because the plaintiff also sought an injunction against defendants as a result of patent infringement, the United States Supreme Court considered the allegations of plaintiff's complaint. Upon examination, the Court found that absent from the complaint were allegations involving "any construction of the meaning or effect of patent," or, allegations that the actions of "defendants would be infringement of the patent." As to the injunction which the plaintiff sought, the complaint did not allege appropriate grounds other than a contract or title basis. The injunction, therefore, was not a remedy sought as a result of patent infringement.

The last of the three decisions of the United States Supreme Court which form the foundation for the approaches followed by federal courts presently when adjudging the § 1338(a) issue is

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46 Id.
47 Id.
49 Id. at 479.
50 Id
51 Id. at 479-80.
52 Id. As the court explained, the allegations in plaintiff's complaint were to be considered seeking to "enforce the specific execution of the contract referred to and not . . . to protect . . . the exclusive enjoyment of the patent right." Id. at 480.
53 New Marshall Engine Co., 223 U.S. at 480. As the Court stated, "[t]he injunction was asked for only as an incident of a finding that the title was vested in the plaintiff."
American Well Works Co. v. Layne & Bowler Co.\(^54\) In this case, as with the two earlier cases, the Supreme Court was asked to determine if the plaintiff’s claim was resting within the exclusive jurisdiction of the federal courts because it arose under the patent laws.\(^55\)

As to the plaintiff’s complaint, it alleged that the plaintiff owned a certain pump which defendants “falsely and maliciously libeled and slandered . . . by stating that the pump and certain parts thereof are infringements upon the defendant’s pump . . . .”\(^56\) The plaintiff’s complaint further alleged that the defendants sued some users of plaintiff’s pump and have threatened suits against others claiming that the users of plaintiff’s pump infringed upon defendants’ patent.\(^57\)

When American Well Works was considered by the United States Supreme Court, the Court stated the rule that “[a] suit arises under the law that creates the cause of action.”\(^58\) In applying this rule to the plaintiff’s suit, the court reasoned that plaintiff’s suit was one for damages to its business which resulted from defendants’ suits and threatened suits under the patent.\(^59\) Defendants’ suits and threats were the acts that injured plaintiff’s business.\(^60\) According to the Court’s majority, defendant’s actions were “wrongs” because they caused plaintiff a business injury.\(^61\) Further reaching this result depended “upon the law of the State where the act is done, not upon the patent law . . . .”\(^62\) “[T]herefore the suit ar[ose] under the law of the State” to the

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\(^{55}\) Id. at 258. Plaintiff in this case brought the action against defendant in a state court. Following its removal, the plaintiff motion to remand was dismissed. The district court held that because “the cause of action arose under the patent laws of the United States,” the state court had no jurisdiction, and therefore neither did the court where the case was removed.

\(^{56}\) Id.

\(^{57}\) Id. at 259

\(^{58}\) Id. at 260.

\(^{59}\) Am. Well Works Co., 241 U.S. at 260.

\(^{60}\) Id.

\(^{61}\) Id.

\(^{62}\) Id.
exclusion of the patent laws.\textsuperscript{63} As such, the United States District Court lacked exclusive jurisdiction to hear the case.\textsuperscript{64}

\textsuperscript{63} \textit{Id.} In reaching this conclusion, the Court made it clear that important to the outcome of the jurisdictional issue are those circumstances which make up the plaintiff's case versus those which defendant may raise in justification or defense. \textit{Id.} at 259. As to the latter, they are not a part of plaintiff's case. The Court also made it clear that when plaintiff claimed defendant damaged its business, it did not matter if that business was built upon patents or not. In proving the damage, foreign to the proof would be evidence of plaintiff's own patents. Also, the court was of the opinion that "anything concerning the defendants' patent" was not part of plaintiff's case. In the words of the Court: "The fact that the justification may involve the validity and infringement of a patent is no more material to the question under what law the suit is brought than it would be in an action of contract." \textit{Id.} at 260.

It may be important to distinguish between the "arising under" jurisdiction specific to a patent case such as \textit{American Well Works} from a general grant of statutory original jurisdiction to United States district courts which is found today in 28 U.S.C. § 1331. \textit{See} 28 U.S.C. § 1331 (1993 & Supp. 2001). In this regard the Supreme Court, in \textit{Smith v. Kansas City Title & Trust Co.}, 255 U.S. 180 (1921), concluded that the district court's jurisdiction was not solely dependent upon whether the plaintiff's cause of action arose under federal law or state law. Rather, the Court adopted a principle more inclusive than the "cause of action" test.

Under the \textit{Smith} principle, the district courts have jurisdiction "where it appears from the bill or statement of the plaintiff that the right to relief depends upon the construction or application of the Constitution or laws of the United States, and that such federal claim is not merely colorable, and rests upon a reasonable foundation..." \textit{Id.} at 199. As made clear by Justice Holmes dissenting in \textit{Smith}, the Court's principle when applied would allow the district court to secure jurisdiction in a case where the cause of action did not arise under any law of the United States but wholly under state law. \textit{Id.} at 214. For example, if state law imposed a duty on a defendant and state law authorized that duty to be determined under the United States Constitution or an Act of Congress, the \textit{Smith} principle would apply and the district court would have jurisdiction to hear the plaintiff's claim. This result follows even though "[t]he whole foundation of the duty is [state] law, which at its sole will incorporate the [United States] law as it might incorporate a document." \textit{Id.} According to Justice Holmes, when the relevance and effect of United States law depends "not on its own force but upon the law that took it up," the United States district courts should not have jurisdiction because the "cause of action arises wholly from the law of the [state]." \textit{Id.}

\textsuperscript{64} \textit{Am. Well Works Co.}, 241 U.S. at 260. The Supreme Court reversed the lower federal court's judgment dismissing the suit for want of jurisdiction. \textit{Id.}
Collectively, Wilson, Marshall, and American Well Works establish that for a suit to arise under the patent laws of the United States sufficiently to enable a United States district court to exercise exclusive statutory jurisdiction, the plaintiff must show the following: 1) that the action is one which is not based solely upon state common law or equitable principles; 65 2) that the United States patent law is more than merely the subject of the controversy, i.e., title to a patent or patent contract is not solely at issue; 66 3) that the remedy sought is one resulting from a duty imposed by the patent law; 67 and, 4) that the patent law "creates the cause of action" underlying the suit. 68 Although these criteria have not been considered by the United States Supreme Court, to date when the suit concerns both a United States Copyright Act and the contract law of a state, one decision of the United States Court of Appeals is recognized as the "paradigm" to follow. This is the case of T. B. Harms Co. v. Eliscu. 69

B. The "Paradigm" Analyzed: T. B. Harms v. Eliscu

In T.B. Harms, plaintiff, T.B. Harms Company, brought an action against defendant, Edward Eliscu, in a United States district court. 70 Plaintiff sought declaratory and equitable relief. 71 On the judgment was based on the ground that the state court from which the case had been removed was without jurisdiction. Id. at 258. From the Court’s analysis and the conclusion it reached on the facts, the state court did have jurisdiction and so reversal appeared the proper disposition of the appeal. Presumably, there were further proceedings before the district court in this case in which a motion to remand to the state court would be granted on the ground that this court had the jurisdiction which the district court lacked.

Mr. Justice McKenna wrote a cursory dissent. In his opinion, "the case involves a direct and substantial controversy under the patent laws." Id. at 260.

65 Wilson, 51 U.S. at 101. See also supra notes 34-37 and accompanying text.

66 New Marshall Engine, 223 U.S. at 479. See also supra notes 45-47 and accompanying text.

67 Am. Well Works, 241 U.S. at 260. See also supra note 58 and accompanying text.

68 Id. See also supra notes 58-64 and accompanying text.

69 339 F.2d 823 (2d Cir. 1968).

70 Id.
substance, T.B. Harms claimed that under a contract between it and Eliscu, Harms acquired ownership of renewal copyrights in songs Eliscu co-authored.\(^{72}\) Eliscu denied that he had transferred ownership to Harms by contract.\(^{73}\)

Upon Eliscu’s motion, the district court dismissed T.B. Harms’ complaint holding that the court did not have jurisdiction of the subject matter under 28 U.S.C. § 1338(a).\(^{74}\) In reaching this conclusion, the court reasoned that it lacked jurisdiction because Harms’ complaint did not allege “any act or threat of copyright infringement.”\(^{75}\)

On plaintiff’s appeal to the Second Circuit, the court of appeals agreed with the district court that the complaint did not allege a copyright infringement.\(^{76}\) The court of appeals, however, was of the opinion that “the jurisdictional statute does not speak in terms of infringement, and the undoubted truth that a claim for infringement ‘arises under’ the Copyright Act does not establish that nothing else can.”\(^{77}\)

As to those circumstances that may otherwise give rise to federal jurisdiction under § 1338(a), the T.B. Harms court, in general, concluded that there were three: 1) an action seeking a remedy provided by the Copyright Act other than infringement;\(^{78}\) 2) an action “requiring construction” of the Copyright Act;\(^{79}\) and, 3) an

\(^{71}\) Id. at 825.

\(^{72}\) Id.

\(^{73}\) Id. at 824.

\(^{74}\) T.B. Harms Co., 339 F.2d at 825.

\(^{75}\) Id.

\(^{76}\) Id.

\(^{77}\) Id. The court of appeals in T.B. Harms, nevertheless, affirmed the district court. History and “good sense” lead it to the conclusion “that an action to determine who owns a copyright does not arise under the Copyright Act, which creates the federal copyright with an implied right to license and an explicit right to assign.”

\(^{78}\) Id. at 828. The court gave the example of an action for “statutory royalties for record reproduction.” Id. Under the present Copyright Act that remedy is provided for in section 115 albeit by implication. See 17 U.S.C. § 115(C)(1996 & Supp. 2001).

\(^{79}\) T.B. Harms, 339 F.2d at 825. According to the court, in such an action the complaint must reveal that the “suit requires an interpretation of the Copyright
action "where a distinctive policy of the Act requires that federal principles control the disposition of the claim."\textsuperscript{80}

In \textit{T.B. Harms}, the court of appeals set limits to the proper exercise of subject matter jurisdiction under § 1338(a).\textsuperscript{81} As the next section of this article indicates, federal courts since \textit{T.B. Harms} have differed in their approaches to applying those limits. In particular, one question repeatedly arises within the case law since \textit{T.B. Harms}: when does the action contain a claim or raise an issue under the Copyright Act sufficient to come within the scope of § 1338(a)’s grant of jurisdiction?\textsuperscript{82}

\textsuperscript{80} Illustrative of the application of this principle, albeit in a non-judicial jurisdictional context, is \textit{De Sylva v. Ballentine}, 351 U.S. 570 (1956). In that case, the issue arose whether an illegitimate child was within the term “children” created by the 1909 Copyright Act, and whether they were entitled to share in a renewal copyright. \textit{Id.} at 571-72.

In addressing this issue the United States Supreme Court recognized that although the issue of who children are under the Copyright Act gives rise to a federal question, that question may “be determined by state rather than federal law.” \textit{Id.} at 580. The Court added that “[t]his is especially true where a statute deals with a familiar relationship; there is no federal law of domestic relations, which is primarily a matter of state concern.” \textit{Id.} Thereafter, the \textit{De Sylva} Court concluded that the Copyright Act’s term “children” was to be defined under state law. \textit{Id.}

Although state law may be controlling in defining the term “children,” the suit brought by a child claiming a copyright interest under the Act of Congress as required an interpretation of the Act. As such, a district court under \textit{Eliscu} would have jurisdiction to hear the suit.

\textsuperscript{81} \textit{T.B. Harms Co.}, 339 F.2d at 828. Here, the court did not make clear when “federal common law” would apply to what otherwise would be a “state law” case. The court indicated, however, that it may be better for the federal court to base its jurisdiction “on 28 U.S.C. § 1331 rather than on § 1338.” \textit{Id.}

\textsuperscript{82} See \textit{infra}, notes 83-84 and accompanying text.
III. Analysis

A. The Approaches to Applying the T.B. Harms Limits

1. In General

a. The "Essence of the Dispute" Approach

Lower federal courts have recognized that T.B.Harms Co. is the leading case interpreting § 1338(a) "in actions pertaining to both state law of contracts and federal copyright law." When a plaintiff's complaint alleges a claim which raises both state contract issues and issues of copyright infringement, the courts, however, have reached contradictory results on the issue of their jurisdiction. In this regard, some federal courts have concluded that a complaint which states a cause of action for copyright infringement and seeks remedies under the Copyright Act, may nevertheless not be within the jurisdiction of the federal courts under § 1338(a). This is because the action is not the "essence of the dispute" between plaintiff and defendant. The case of Baptiste v. Khoury illustrates the application of the "essence of the dispute" approach.

In Baptiste, the plaintiff claimed to have authored and registered a claim of copyright in a song. In addition, he claimed that in a contract assigning his rights in the song to a music publishing

84 Id. at 279 (citing Amy B. Cohen, Arising Under Jurisdiction and the Copyright Laws, 44 HASTINGS L.J. 337, 362-63 (1993)).
85 See, e.g., Baptiste, 910 F. Supp. at 277.
86 Baptiste, 910 F. Supp. at 277.
87 Id.
company, the defendant’s name was added as co-author, surreptitiously, and without the plaintiff’s consent or knowledge.\textsuperscript{88}

Based on those claims, the plaintiff brought an action for damages, accounting, and an injunction against the defendant.\textsuperscript{89}

Following the defendant’s motion to dismiss for lack of jurisdiction under 28 U.S.C. § 1338(a), the District Court for the Western District of Louisiana concerning the jurisdictional issue stated: “Whether or not jurisdiction over an action ‘has been conferred on the federal courts by Congress must be determined from its nature and foundation and does not depend on the remote possibility that during its future course some question under the copyright laws may incidentally arise.’”\textsuperscript{90} For the court then, it was only when the infringement issue commanded a “separate and substantial inquiry” that it had jurisdiction.\textsuperscript{91} On the other hand, if the copyright question was resolved by the answer to the state law matter, or was “merely incidental” to that question, the court lacked jurisdiction.\textsuperscript{92}

When the district court applied its “separate and substantial” or “merely incidental” approach to the facts, it found that the “state contract fraud issue [was] principal and controlling in [the] case.”\textsuperscript{93} The courts reasoning on the facts is illuminating. If, as alleged, the defendant fraudulently added his name to the contract, the plaintiff would be entitled to damages and royalties as matter of state law.\textsuperscript{94} On the other hand, even if the defendant was the co-author and signed the contract with the plaintiff’s consent, royalties under the contract would still be a matter of state law.\textsuperscript{95} In either case, the Copyright Act is foreign to the issues in the

\textsuperscript{88} Id. at 278.
\textsuperscript{89} Id. In addition, plaintiff sought to enjoin defendant from collecting royalties and claiming co-authorship of the song, “Sea of Love.” He also sought recovery of all royalties paid to defendant as purported co-author of that song.
\textsuperscript{90} Id. at 279 (emphasis added) (quoting Cresci v. Music Publishers Holding Corp. 210 F. Supp. 253, 260 (S.D.N.Y. 1962)).
\textsuperscript{91} Baptiste, 910 F. Supp. at 277.
\textsuperscript{92} Id.
\textsuperscript{93} Id.
\textsuperscript{94} Id.
\textsuperscript{95} Id.
case. A second case illustrating the application of the "essence of the dispute" approach to answering the § 1338(a) jurisdictional problem is worth examining. In Royal v. Leading Edge Products, Inc., the plaintiff entered into a contract with the defendant, his employer, under which the plaintiff was to create software for the defendant in exchange for royalties. Following the plaintiff's creation of the software, the defendant terminated the plaintiff's employment, and failed thereafter to pay him royalties.

In the action against the defendant filed in district court, the plaintiff sought a declaratory judgment that it was the "co-owner of the copyright in the software" as well as an accounting from the date the plaintiff was terminated from employment. Plaintiff invoked the court's jurisdiction under § 1338(a), asserting that its claim was "rooted in federal copyright law." Specifically, the plaintiff argued that its claim implicated the "work-made-for-hire doctrine," codified in the Copyright Act. In this regard, the plaintiff contended that the defendant was not an employer-author under the statute and therefore sole owner of the copyright because the statutory declaration of copyright ownership was altered by the

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96 Baptiste, 910 F. Supp. at 277. The result in the case would, in all likelihood, have been the same had the court not sought to divide the "principal and controlling issues" in the case. It appears from the opinion that plaintiff's complaint did not allege copyright infringement, nor did the plaintiff seek remedies under the Copyright Act. In addition, the construction of the Act was not called into question nor was a policy of the Copyright Act at stake. See T.B. Harms Co., 339 F.2d at 828.

97 Royal v. Leading Edge Prods., Inc., 833 F.2d 1 (1st Cir. 1987). According to the court of appeals the software, when completed, was an original work of authorship and so the subject matter of copyright under the United States Copyright Act. Id. at 2.

98 Id.

99 Id. at 2.

100 Id. at 2. Initially, the court responded to plaintiff's assertion by stating: "But, that is a ketchup bottle of an argument: it looks full at first glance, but it is surpassingly difficult to get anything out of it."

101 Id. at 3. The Copyright Act, in pertinent part, provides: A "work for hire" is (1) a work prepared by an employee within the scope of his or her employment. ... 17 U.S.C. § 101 (1993 & Supp. 2001).
royalty agreement. Under the plaintiff’s proffered construction of both the Copyright Act’s “work-for-hire” provision and the royalty agreement with the defendant, plaintiff was a co-owner with the defendant of the copyright in the software.

In its response to this argument, the court of appeals concluded that the Copyright Act was only “tangentially implicated” in plaintiff’s complaint. First, should the royalty agreement stand, “plaintiff’s sole remedy for the breach of [the agreement] would be money damages—and the Copyright Act need not be construed.” Second, if the agreement was rescinded as a result of defendant’s breach, the defendant, as employer under the Copyright Act, would be the statutory author and sole owner of the copyright in the software. In either case, the court thought the plaintiff was in a “no-win” situation, in other words, it had no ownership rights based on the Copyright Act.

In addition to the court of appeals’ response to this argument, the court saw the “crowning blow” to the jurisdiction issue in its “generic obligation” to “decide whether a case arises under the copyright laws by focusing on the nature of the principal claim asserted by plaintiff.” As such, when it examined the plaintiff’s principle claim, the court of appeals found its “essence” was “one for breach of contract.” According to the court, the plaintiff’s case depended on the following: 1) “Whether or not

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102 Royal, 833 F.2d at 3.
103 Id. It appears that in its request for declaratory relief, the plaintiff was asking the court to interpret the language of both the “work-for-hire” provision in the Copyright Act and also sought the court to construe the royalty agreement of the parties.
104 Id. at 4.
105 Id.
106 Id. See 17 U.S.C. § 201(b) which provides: In the case of a work made for hire, the employer or other person from whom the work was prepared is considered the author for purposes of this title, and, unless the parties have expressly agreed otherwise in a written instrument signed by them, owns all of the rights comprised in the copyright. 17 U.S.C. § 201(b)(1993 & Supp. 2001).
107 Royal, 833 F.2d at 4.
108 Id. at 4 (emphasis added) (quoting Topolos v. Caldewey, 698 F.2d 991, 993 (9th Cir. 1983)).
109 Id.
there had been compliance with the terms of the royalty agreement” and, if defendant had not complied; 2) “What should be the effect of that noncompliance as a contractual matter.”\textsuperscript{110} As to plaintiff’s position that the claim implicated the copyright laws, the court found that the plaintiff had asserted “no colorable claim of right.”\textsuperscript{111}

Both the Baptiste and Royal cases illustrate that some federal courts will take jurisdiction of a contracts/copyright dispute under § 1338(a) only after considering whether the copyright issues may be characterized as “separate and substantial” or whether the “essence” of the plaintiff’s claim is or is not one for breach of contract. Not all federal courts, however, have read T.B. Harms as calling for such an approach to the § 1338(a) issue. Illustrative of this fact is the Ninth Circuit’s opinion in Vestron, Inc. v. Home Box Office.\textsuperscript{112}

\textbf{b. The Face of the Complaint Rule: Vestron v. Home Box Office}

In Vestron, the plaintiff’s complaint alleged ownership of the exclusive rights to reproduce and distribute two motion pictures in the form of videocassettes.\textsuperscript{113} The plaintiff’s complaint also alleged that the defendant’s acts constituted copyright infringement and sought relief under the Copyright Act.\textsuperscript{114}

With these allegations before it, the court of appeals had little difficulty in concluding that it had jurisdiction. In this regard, the court applied the “well pleaded complaint rule.”\textsuperscript{115} Under the rule, whether the plaintiff’s case arose under the Copyright Act for purposes of determining the court’s jurisdiction was decided when the court found that plaintiff’s complaint stated a “bona fide

\begin{itemize}
  \item \textsuperscript{110} \textit{Id.}
  \item \textsuperscript{111} \textit{Id.} Since the subject matter of the royalty agreement was copyrightable material, perhaps it, not the remediation for breach which plaintiff sought, was the “essence” of the dispute. The Royal court, of course, by implication at least, refused to follow such reasoning.
  \item \textsuperscript{112} Vestron, Inc. v. Home Box Office, 839 F.2d 1380 (9th Cir 1988).
  \item \textsuperscript{113} \textit{Id.}
  \item \textsuperscript{114} \textit{Id.} at 1382.
  \item \textsuperscript{115} \textit{Id.}
\end{itemize}
infringement claim."\textsuperscript{116}

After concluding that its jurisdiction was founded properly on the plaintiff’s complaint, the \textit{Vestron} court also made it clear that “contested contract” issues to be decided as a matter of state law would not undo that jurisdiction.\textsuperscript{117} Indeed the court indicated that should “affidavits or other materials reveal the infringement claim to be spurious, . . . the proper avenue is dismissal for failure to state a claim under federal copyright law.”\textsuperscript{118}

With \textit{Vestron}, and the “face of the complaint” approach to § 1338(a), the second of the two jurisdictional approaches which, in general, federal courts follow, has been examined. This approach, as well as the “essence of the dispute,” have been the subjects of considerable debate in the Second Circuit. This article will next examine the case law within that circuit.

\section*{2. In Particular—The Experience of the Courts within the Second Circuit}

\section*{a. The Southern District of New York}

Although the \textit{T.B. Harms} opinion was authored by the United States Court of Appeals for the Second Circuit, the subsequent history of that decision reflects division within that circuit when applying the case law. Illustrative of this point are two district court opinions: \textit{Felix Cinematografica v. Penthouse International}\textsuperscript{119} and \textit{Daniel Wilson Productions, Inc. v. Time-Life Films, Inc.}\textsuperscript{120}

\begin{itemize}
\item \textsuperscript{116} \textit{Id.} at 1381. In addition the court made it clear that jurisdiction is not defeated by defendant’s assertion of defenses or plaintiff’s anticipation of those defenses in the complaint.
\item \textsuperscript{117} \textit{Vestron, Inc.}, 839 F.2d at 1381. Contract issues such as those of copyright ownership would not undermine the court’s jurisdiction.
\item \textsuperscript{118} \textit{Id.} at 1382. By implication the court must have jurisdiction under the well-pleaded complaint approach to dismiss the infringement claim on the merits.
\item \textsuperscript{120} \textit{Daniel Wilson Prods., Inc. v. Time-Life Films, Inc.}, 736 F. Supp. 40 (S.D.N.Y. 1990).
\end{itemize}
In *Felix*, the plaintiff alleged in its complaint that it owned a copyright in a motion picture which the defendants infringed "by distributing videocassettes of the film."\(^{121}\) In addition, the plaintiff sought an injunction and damages.\(^{122}\) The *Felix* defendants denied that the plaintiff owned the copyright.\(^{123}\) They also asserted that they were the copyright owners of the movie under an agreement with the plaintiff.\(^{124}\)

When the district court considered whether it had jurisdiction under § 1338(a), it found that the plaintiff’s complaint was "framed entirely in terms of infringement."\(^{125}\) Nevertheless, the court concluded that § 1338(a) did not grant it the power to hear the claim because the "essence" of the action was one in contract. The plaintiff sought a declaration that the agreement with the defendants "did not transfer the rights of videocassette distribution to the defendants."\(^{126}\)

For the *Felix* court, whether it had jurisdiction depended on its interpretation or characterization of the "essence" of the action rather than whether the complaint stated a claim under the Copyright Act and sought remedies provided for in that Act.\(^{127}\) The court may dismiss the claim on jurisdictional grounds when the defendant’s response discloses that "it was in reality a contract claim."\(^{128}\)

\(^{121}\) *Felix Cinematografica*, 671 F. Supp. at 314.

\(^{122}\) Id. at 314. The injunction, if granted, would have prohibited the defendants from distributing videocassettes of the motion picture.

\(^{123}\) Id.

\(^{124}\) Id.

\(^{125}\) Id. at 315.


\(^{127}\) See *Felix Cinematografica*, 671 F. Supp. at 313.

\(^{128}\) Id. Because the court dismissed the suit on jurisdictional grounds, it did not adjudicate the issue of whether the plaintiff had a legitimate claim against the
Not all judges sitting within the Southern District of New York have agreed with the line of cases holding that the "essence" of the controversy test is the one to be used to determine subject matter jurisdiction. In Daniel Wilson Productions, Inc. v. Time-Life, Inc., for example, the plaintiff's complaint alleged three causes of action.\textsuperscript{129}

First, the plaintiff claimed to be the copyright owner of two films and further alleged that, although it had licensed certain ownership rights to the defendant, Time-Life, it did not license home videocassette rights.\textsuperscript{130} In its complaint, the plaintiff also alleged that the defendant purported to license those home videocassette rights to other defendants who distributed and sold home videocassettes.\textsuperscript{131} Finally, as to the first cause of action, plaintiff alleged that because it, and not Time-Life, owned the

defendant. By concluding, however, that it did not have jurisdiction under § 1338(a) to hear a suit arising under the copyright laws of the United States has not the court, however, by implication concluded that whatever the plaintiff claim is, it cannot be an infringement claim under the copyright laws of the United States in which both the statutory remedies of an injunction and of damages are available to the plaintiff? See 17 U.S.C. §§ 501-02 (1996 & Supp. 2001). For example, in Felix the district court, although dismissing the plaintiff's copyright claim for lack of subject matter jurisdiction stated: "Plaintiff may have a legitimate claim, albeit one which must be brought in another forum." Felix Cinematografica, 671 F. Supp. at 315. The "other forum" of which the court wrote must, of necessity, be a state forum. In turn, since § 1338(a) vests jurisdiction over suits arising under the copyright laws exclusively in United States District Courts, the legitimate claim of which the court wrote must be a state law claim. The question has been raised, therefore, of whether the "essence" rule applied in Felix and similar cases at once purports not to adjudicate the plaintiff's copyright suit and copyright remedies, yet has the effect of precluding the plaintiff from having that claim adjudicated by taking away the federal forum. Should a rule be tolerated which reaches such a result? See infra note 118 and accompanying text (The rule should not be tolerated).

\textsuperscript{129} Daniel Wilson Prods., Inc., 736 F. Supp at 41.

\textsuperscript{130} Id. at 40. From these allegations, it appears clear that the plaintiff's action involves a contract with the defendant, Time-Life. Under that agreement, plaintiff, as the copyright owner, allegedly granted certain rights it owned under the Copyright Act to this defendant, but reserved other rights such as the distribution of videocassettes for home viewing.

\textsuperscript{131} Id.
home videocassette rights, Time-Life could not transfer them to the other defendants.\textsuperscript{132} Therefore, by distributing and selling the videos for home use, the defendants violated plaintiff's rights as copyright owner.\textsuperscript{133}

The plaintiff's third cause of action was for breach of contract against Time-Life.\textsuperscript{134} Here, the plaintiff alleged that Time-Life failed to discharge its obligations under the license, which was involved in the first cause of action pleaded.\textsuperscript{135} In regard to that cause of action, the plaintiff sought the remedies of injunction, impoundment of the infringing videocassettes, accounting, and damages.\textsuperscript{136} In addition, plaintiff sought costs and attorney fees.\textsuperscript{137} As to plaintiff's third cause of action, it sought damages of one million dollars.\textsuperscript{138}

In response to plaintiff's first cause of action, the defendants contended that it was in essence a contracts claim which raised state law issues with respect to the "interpretation of . . . and performance" of a license between plaintiff and defendant, Time-

\textsuperscript{132} \textit{Id.}
\textsuperscript{133} \textit{Id.} Under the present copyright act, among the rights which the act grants to copyright owners is the right "to distribute copies . . . of the copyrighted work to the public by sale . . . ." 17 U.S.C. § 106(3) (1996 & Supp. 2001).
\textsuperscript{134} Plaintiff's second cause of action differed from the first in that it claimed a copyright infringement of the second of the two films at issue in the case. The allegations concerning plaintiff's copyright ownership, its contractual relationship with Time-Life, and the conduct of other defendants in the case were in other respects the same. \textit{Daniel Wilson Prods., Inc.}, 736 F. Supp. at 41.
\textsuperscript{135} \textit{Id.} Daniel Wilson Prods., Inc., 736 F. Supp at 41.
\textsuperscript{136} \textit{Id.} In particular, plaintiff alleged that defendant Time-Life's efforts at marketing the two films that were part of the license was inadequate and that plaintiff had received far less revenue than contemplated by the agreement.
\textsuperscript{137} \textit{Id.} Each of the remedies which plaintiff sought is provided for by the Copyright Act. 17 U.S.C. §§ 502-05 (1996 & Supp. 2001). It appears that because the plaintiff's first cause of action was one it alleged to arise under Copyright Act that the remedies sought were also alleged to be available under that act.
\textsuperscript{138} \textit{Daniel Wilson Prods., Inc.}, 736 F. Supp. at 40. Since the third cause of action was an allegation of breach of contract, the remedy sought appears to be available as a matter of state law only.
Life. Near the outset of its analysis of the allegations within plaintiff’s complaint and defendants’ response, the Daniel court recognized that the case was analogous to a “number of decisions over the years” raising the question of whether the case arose under federal jurisdictional statutes applicable to the copyright laws or was merely a contract action under state law. In those decisions, such as the Felix case, the District Court for the Southern District of New York applied the “essence test.”

The Daniel court, however, rejected the Felix court approach. After doing so the court stated:

Where a complaint alleges a federally conferred right, such as a copyright... then alleges violations of that right and requests remedies provided by federal statute, this should be enough to confer federal jurisdiction. The fact that such a claim arises in the context of a disruption of contractual arrangements and presents certain contract issues should not remove it from that jurisdiction.

Before reaching these conclusions, the court was persuaded that the “essence test” should be rejected because requiring the court to decide what is “fundamental” to or at the “heart” of a controversy creates “undue uncertainty and complication... in administering a test of federal jurisdiction...”

139 Id. at 41. Defendant’s response was identical with respect to plaintiff’s second cause of action. As to plaintiff’s third cause of action, defendants raised the jurisdictional issue once again. It appears that this cause of action was admittedly one under state law since plaintiff sought to invoke the pendent jurisdiction of the district court.
140 Daniel Wilson Prods., Inc., 736 F. Supp at 41.
141 Felix Cinematografica, 671 F. Supp. at 314. See also supra notes 121-128 and accompanying text.
142 Id. at 43.
143 Id. at 43. In reaching these conclusions the court relied heavily on a trademark case decided in the Southern District of New York. Foxrun Workshop, Ltd. v. Klone Mfg., Inc., 686 F.Supp. 86 (S.D.N.Y. 1988). In an opinion written by Judge Leval, the court believed that the jurisdictional issue should turn on the allegations of the plaintiff’s complaint rather than to decide if
When the court applied its jurisdictional approach to the facts in *Daniel,* the court found that "causes of action were properly pleaded under the federal copyright law." Having concluded that the actions under the copyright law were sufficiently pleaded, the court held: "even though certain questions of contract interpretation are presented, nevertheless the . . . causes of action plead claims for copyright infringement arising under the Copyright Act within the meaning of 28 U.S.C. § 1338(a)."

b. *The United States Court of Appeals for the Second Circuit*

Not only have the district court judges within the Second Circuit differed in the approaches taken to answering the § 1338(a) jurisdictional issue, but also the appellate judges of the Second Circuit have done so as well. What follows is an examination of the opposing views taken by the courts' members. *Schoenberg v. Shapolsky Publishers Inc.* illustrates one approach that the Second Circuit judges have taken when considering whether the action comes within the scope of the

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the case is primarily one of breach of contract. *Id.* at 90. Judge Leval also indicated that although the controversy may focus on the contract issue, the complaint, under the federal statute, will probably raise issues of federal statutory interpretation, for example, questions regarding possible remedies available.

In addition, the *Daniel* court quoted with approval the position taken in the Nimmer treatise on this issue: "Notwithstanding the existence of a contractual relationship between the parties, if the defendant's conduct is alleged to be without authority under such contract and to further constitute an act of statutory copyright infringement, then federal jurisdiction will be invoked." *Daniel Wilson Prods., Inc.*, 736 F. Supp at 43 (citing 3 NIMMER ON COPYRIGHT, § 12.01 [A] at 12-8 (1989)).

*144 Daniel Wilson Prods., Inc.*, 736 F. Supp at 43.

*145 Id.* It is important to note that on the face of the plaintiff's complaint appeared not only the allegations of copyright ownership and infringement, but also allegations that certain exclusive rights of the copyright owner-plaintiff were transferred to defendant, Time-Life, while others were retained by plaintiff. *Id.* The former allegations arise under the copyright law and so may sustain federal court jurisdiction. The latter allegations may raise issues of contract, of rights transferred or reserved, and therefore questions the state law. As to these, federal jurisdiction is not supported by § 1338(a).
court's § 1338 jurisdiction because it seeks a remedy provided by the Copyright Act. In Schoenberg, plaintiff, the owner of a copyright in a literary work, claimed that the defendants, book publishers, broke their licensing contract with him and thereafter infringed his copyright "by publishing and offering for sale his work." On appeal from a judgment holding him in contempt, one of the defendant's former attorneys took the position that because the copyright infringement action was a contracts claim "disguised" as one of infringement, the court lacked jurisdiction over that dispute, and as a result, erred in holding him in contempt.

When it considered the appellant's argument, the court of appeals expressed the jurisdictional issue as "whether a claim asserting infringement as a result of a breach of contract . . . arises under the Copyright Act." The Schoenberg court required courts to "undertake a three-part test." In addition, the Schoenberg court concluded that "in practice," the three parts would merge into one. The test that emerged in the case was one that ultimately found the court asking the following: whether a plaintiff's copyright infringement claim is "incidental" to the contract claim. If the court finds that the copyright claim is incidental to the contract claim, subject matter jurisdiction is lacking under § 1338.

In addition to announcing the "incidental to" approach to the jurisdictional issue, the Schoenberg court made it clear that in resolving the issue a court may "refer to evidence outside of the pleading . . . ." For example, the court may also conduct a

147 Id. at 931.
148 Id. at 930.
149 Id. at 931.
150 Id. at 932. The court indicated that its test was suggested in part by the T.B. Harms case.
151 Schoenberg, 971 F.2d at 932.
152 Id.
153 Id. at 933.
154 Id. Affidavits on the issue of whether the copyright claim is "incidental" may be considered. Id. In Vestron, Inc., for example, the court indicated that an
hearing on the jurisdictional issue. As such, a plaintiff’s complaint may plead a claim for breach of contract, but it would not necessarily preclude a court from finding that the copyright infringement claim is one not incidental to the contracts claim.\footnote{155} Subsequent to Schoenberg, the United States Court of Appeals for the Second Circuit has approached the § 1338 issue differently.\footnote{156} In Bassett v. Mashantucket Pequot Tribe, the court of appeals characterized the Schoenberg approach as “unworkable.”\footnote{157} First, the Bassett court reasoned that the person who is denied “a federal forum on the theory that his copyright claims are incidental to a contract dispute is thereby denied the benefit of copyright remedies.”\footnote{158} Second, the court found that the affidavit may disclose that the copyright claim is “spurious.” Vestron, Inc., 839 F.2d at 1382. As such the claim would be found “incidental” to a contracts claim. \textit{Id.} Note, however, the Vestron court in allowing evidence to be introduced was concerned with the merits of the copyright claim and not on the grounds that the court lacked jurisdiction. See supra notes 117-118 and accompanying text.

\footnote{155} Schoenberg, 971 F.2d at 932. According to Schoenberg, when the copyright infringement stems from a breach of contract a court is to decide if the breach is to a covenant in or a condition of the agreement. \textit{Id.} The court would have jurisdiction when the breach is of a condition of the agreement. \textit{Id.} If, however, the breach was of a covenant, jurisdiction would lie only when the breach was so material that it created a right of rescission. \textit{Id.} (citing Costello Publishing Co. v. Rotelle 670 F.2d 1035, 1045 (D.C. Cir. 1981) (citing 3 NIMMER ON COPYRIGHT, § 10.15 [10-108 to 1110](1980))).

\footnote{156} Bassett v. Mashantucket Pequot Tribe, 204 F.3d 343 (2d Cir. 2000). The court described the Schoenberg court’s approach to the jurisdictional issue as dictum and “a digression that had no bearing on the resolution of any issue decided by the appeal.” \textit{Id.} at 351 n.6.

\footnote{157} \textit{Id.} at 352. The court also noted that “[t]he test has been severely criticized in the copyright scholarship” (citing 2 William F. Patry, COPYRIGHT LAW AND PRACTICE 1073 (1994); and Amy B. Cohen, \textit{Arising Under Jurisdiction and the Copyright Laws}, 44 HASTINGS L.J. 337, 364-65, 374 (1993)). \textit{Id.} at 353 n.8.

\footnote{158} Bassett, 209 F.3d at 352. The most important action the Copyright Act affords the copyright owner against others is infringement. See 17 U.S.C. § 504(a) (1996 & Supp. 2001). Since the federal court is the exclusive forum before which this action can be adjudicated, a finding that the court lacks jurisdiction precludes adjudication in any other judicial forum. Accordingly, the Bassett court was of the opinion that “[s]uch a denial of copyright remedies
Schoenberg test was vague. 159

Open to question under the facts of each case is whether the copyright claim is "incidental" to the contracts claim. 160 As a result some district courts have applied the test in a variety of ways. 161 For example, one district court has indicated that where the contracts' remedy adequately remedies the infringement, the copyright claim is "incidental to" the contracts claim. 162 Another district court has focused on whether the decision on the copyright infringement claim is "only a necessary consequence" of the decision on the contracts claim. 163 Yet a third district court, although accepting the Schoenberg decision, concluded that the approach is "a task easier said than done." 164

The Bassett court also recognized that the Schoenberg "test" was a difficult one to apply for a number of reasons. First, under the Schoenberg test the plaintiff may not be able to predict whether the federal court has jurisdiction over the action. 165 In this regard, the contract between the defendant and the plaintiff may likely be raised, if at all, by way of a defense to a copyright claim. The jurisdictional issue of whether that claim is "incidental" to the breach of contract claim is then controlled by the defendant. 166

undermines the Act's capacity to protect copyright interests." Bassett, 209 F.3d at 352.

159 Bassett, 209 F.3d at 353.
160 The Schoenberg court appeared to recognize this when it suggested that the test focused on a plaintiff's motives. If the plaintiff is concerned with copyright infringement, the court has jurisdiction. Id. at 353. If, however, the plaintiff's concern is with contract claims of the defendant, the court lacks jurisdiction. Id. It may be asked how Schoenberg would approach the case in which the plaintiff is equally concerned with the copyright and contracts claim.

161 Id.
162 Id.
163 Living Music Records v. Moss Music Group, 827 F. Supp. 974, 980 (S.D.N.Y. 1993). When the determination of the infringement claim is a "necessary incident" only, that claim is to be found as "incidental" to the breach of contracts claim. Id.
165 Bassett, 204 F.3d at 353.
166 Id. It appears that the court in Schoenberg, then, has chosen not to apply the principle that a plaintiff is the "master" of his lawsuit without stating its
The *Bassett* court also questioned the soundness of *Schoenberg* on a second ground. The court noted that because the plaintiff's complaint may be grounded in copyright infringement, a federal court has no reason to question an assertion of jurisdiction under § 1338(a).\(^{167}\) The face of the complaint, therefore, raises no issue of whether the copyright infringement claim is incident to a contract claim.\(^{168}\) In answer to the plaintiff's copyright infringement claim, the "defendant, like the plaintiff, may think it desirable to have them\(^{169}\) adjudicated in federal court."\(^{170}\) As a result, the defendant's answer may not raise the dominance of the contracts issues at the pleading stage.\(^{171}\) At that point, the federal court cannot even rely on the defendant to raise the "incidental" nature of the copyright issues at the pleading stage of the proceeding.\(^{172}\)

In raising a third difficulty with *Schoenberg*, the court of appeals in *Bassett* explained that *Schoenberg* "requires the court to make complex factual determinations relating to the merits at the outset of the litigation--before the court has any familiarity with the case."\(^{173}\) In turn, these factual determinations, such as the "plaintiff's principal motives in bringing suit, and what issues will loom largest in the case, may well require extensive hearings . . .

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reasoning. As a result of its approach, certain plaintiffs, namely, those against whom no contract defense is raised, will have only the forum available for the copyright infringement claim. Others, however, because the defendant chose to assert a contract defense, will have that forum taken away.

\(^{167}\) Id.

\(^{168}\) Id. at 354.

\(^{169}\) Referring to the copyright issues.

\(^{170}\) Id. at 354.

\(^{171}\) Bassett, 204 F.3d at 354.

\(^{172}\) Id. The *Bassett* court made it clear that the defendant may want the action in the federal court because of that court's experience with the Copyright Act. It also explained that, post-pleading, the court may discover its supposed lack of jurisdiction. Indeed, it may enable the plaintiff to escape from a "bad result" at trial by choosing to raise the issue on post-trial motion or even on appeal. The *Schoenberg* rule opens the door to the difficulty of a federal court discovering the jurisdictional issue late in the litigation or on appeal, and the injustice and inefficiency that may result should a judgment on the merits be overturned by a finding of a lack of jurisdiction.

\(^{173}\) Id.
Without saying as much, the Bassett court appeared concerned with the feasibility of resolving the subject matter jurisdictional issue near the beginning of the suit, as well as the inability to decide that issue without an adjudication of the copyright infringement and breach of contract claims.

Any doubt as to the basis for the Bassett court's concerns with Schoenberg were erased by the court when it reaffirmed T.B. Harms and the principles which governed the rule in that case. Those principles may be stated as follows: 1) The "suit arises under the law that creates the cause of action;" and, 2) jurisdiction is to be decided based upon the allegations of the plaintiff's complaint. Ultimately, the Bassett court concluded that "[w]hen a complaint alleges a claim or seeks a remedy provided by the Copyright Act, federal jurisdiction is properly invoked."

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174 Id. In addition to an examination into the incidental nature of the copyright claim, the Bassett court was concerned about the ability of a federal court to answer questions at the outset of the litigation, such as whether the contract breach was of a covenant or a condition, and if of a covenant, the importance and seriousness of the alleged breach.

175 T.B. Harms, Co., 339 F.2d at 828. See also supra notes 78-80 and accompanying text.


177 Bassett, 204 F.3d at 355 (citing Taylor v. Anderson, 234 U.S. 74, 75 (1914)(a federal court must determine from the face of plaintiff's complaint whether it has jurisdiction under a jurisdictional statute); The Fair v. Kohler Die & Specialty Co., 228 U.S. 22, 25 (1913)("[T]he party who brings a suit is master to decide what law he will rely upon, and therefore does determine whether he will bring a 'suit arising under' the patent or other law of the United States by his declaration or bill.").

178 Bassett, 204 F.3d at 355 (citing T.B. Harms, 339 F.2d at 828). It is not material that the complaint or defendant's response raise the prospect that the infringement claim arose from an alleged contractual breach or within the context of such breach. See supra note 177 and accompanying text.

In an unpublished opinion issued subsequent to Bassett, the United States Court of Appeals for the Second Circuit wrote of the contrast between the T.B. Harms and Schoenberg tests: "The T.B. Harms test differed significantly from the essence-of-the-dispute or merely-incidental test [used in Schoenberg]. The analysis under T.B. Harms turns on what is alleged on the face of the complaint, while the essence-of-the-dispute or merely-incidental test looks rather at what defense will be proffered." Parachute Press, Inc. v. Scholastic, Inc., 225 F.3d
When the Bassett court applied T.B. Harms to the facts before it, the plaintiff’s allegation of the Copyright Act violation was important. In other words, the defendants used the plaintiff’s copyrighted script without her authorization to produce and exhibit a motion picture film. The fact that the plaintiff sought injunctive relief under the Copyright Act was equally as significant.

Finally, the court of appeals in Bassett saw on the facts of the case “an excellent example of the shortcomings of the Schoenberg test.” In this regard, the plaintiff sought an injunction under the provisions of the Copyright Act. Under Schoenberg, should the court find the plaintiff’s copyright infringement claim “incidental to” a contracts dispute and dismiss the copyright claim on jurisdictional grounds, the plaintiff would be foreclosed from further pursuing the claim and the injunctive remedy provided in the Copyright Act. Finally, the Bassett court decried that a federal court is “ill-equipped to make the judgments called for by the Schoenberg test at the early stage of the litigation . . .”

In vacating the judgment of the district court, which had dismissed the plaintiff’s complaint on the grounds that the court lacked jurisdiction under 28 U.S.C. § 1338, the Parachute Press court held that Bassett reaffirmed the T.B. Harms test and so the district court had subject matter jurisdiction of the case because the plaintiff’s second amended complaint “alleged copyright infringement and it sought relief granted by the Copyright Act.” Id.
Bassett, 204 F.3d at 356.
Id. at 343. See also supra notes 6-18 and accompanying text (elaborating on the facts in Bassett).
Id. at 356.
Id. at 356 n.14.
Bassett, 204 F.3d at 356.
Id. at 356 n.14. In concluding its analysis of the shortcomings of Schoenberg, the Bassett court summarized the issue that a federal court may be unable to resolve early in the lawsuit. These are “whether the copyright concerns are in fact incidental; whether contractual understandings were breached; whether these breaches were of conditions or covenants; if the latter, whether the breaches were of sufficient importance to justify rescission or forfeiture; and whether the claim requires construction of the [Copyright] Act.”
Although it appears that T.B. Harms, as reaffirmed in Bassett, marks a trend among United States Courts of Appeal when approaching the “arising under” issue in § 1338(a), it remains unclear among those courts to what cases the rule should apply.\textsuperscript{186} This lack of clarity has been lessened somewhat by the United States District Court for the District of Columbia’s opinion in \textit{Scandinavian Satellite System, AS, v. Prime TV Limited}.\textsuperscript{187}

c. Limits to the Bassett Approach

In \textit{Prime TV Limited}, the plaintiff’s complaint alleged a copyright infringement claim and sought remedies authorized under the Copyright Act.\textsuperscript{188} The complaint also asserted a contract claim and remedy, specifically, that a Joint Venture Agreement be rescinded as a result of one of the defendants’ wrongful conduct.\textsuperscript{189}

On these facts, the district court dismissed the plaintiff’s action holding that it did “not ‘arise under’ the federal copyright law [ ].”\textsuperscript{190} Therefore, the court lacked jurisdiction.\textsuperscript{191} In reaching this result, the court found that the Bassett approach was inapplicable.\textsuperscript{192} Unlike the Bassett plaintiff’s complaint, the plaintiff in \textit{Prime TV} was not alleging a contract breach which led to copyright infringement. Rather, the \textit{Prime TV} plaintiff was alleging that duress voided a contract as a result of which plaintiff was entitled to the remedy of rescission.\textsuperscript{193} Under no circumstances, then, would the \textit{Prime TV} plaintiff have a claim for


\textsuperscript{188} \textit{Id.} at 15. It is interesting to note that the defendants did not challenge plaintiff’s characterization of the case as a suit that “arises under” the Copyright Act. Rather they filed a motion to dismiss on the grounds of “lack of personal jurisdiction, international comity, and the existence of a forum selection clause in the contracts . . .” which were involved in the case. \textit{Id.} at 12.

\textsuperscript{189} \textit{Id.} at 16.

\textsuperscript{190} \textit{Id.} at 18.

\textsuperscript{191} \textit{Id.} at 13-14.

\textsuperscript{192} \textit{Scandinavian Satellite Sys.}, 146 F. Supp.2d at 13.

\textsuperscript{193} \textit{Id.}
copyright infringement.194

The reasoning and conclusion reached by the Prime TV Limited court suggest that there are limits to Bassett. Prime TV appears limited to copyright owners who license their rights to others who, in turn, forfeit their license by a breach of its terms. As a result, further use of the copyrighted materials is without the authority of the copyright owner and so causes copyright infringement.195 When, however, the resolution of the contract issue under no circumstances results in copyright infringement, the federal court lacks “arising under” subject matter jurisdiction.196

IV. SOME CONCLUSIONS AND COMMENTS

There are two approaches lower federal courts have used when resolving the § 1338(a) subject matter jurisdictional issue in copyright and contract cases. Under the first, the court determines which claim or issue, contract or copyright, is the “essence of the dispute.”197 When making this determination, the court looks not only to the face of the plaintiff’s complaint, but also to the defendant’s pleading or response and supporting documents that may aid in deciding the “essence” issue.198 Under the second approach, the court resolves the jurisdictional issue by examining the face of the plaintiff’s complaint only.199 A copyright claim or

194 Id. at 18. The Prime TV court recognized that the situation before was unique. According to the court the plaintiff, if prevailing on the contracts claim would have the contracts remedy available to it only because once the contract was rescinded plaintiff would become the parent company of the alleged copyright infringer. The rule would then apply that the parent cannot sue its wholly owned subsidiary for infringement.

195 Id. at 16.

196 Id.

197 See generally Baptiste, 910 F. Supp. at 277. See supra notes 83-112 and accompanying text.

198 See generally Baptiste, 910 F. Supp. at 277. See supra notes 83-112 and accompanying text.

199 See generally Vestron, Inc., 839 F.2d at 1380. See supra notes 114-118 and accompanying text.
issue stated gives the court § 1338(a) jurisdiction.\textsuperscript{200} Each approach has certain positive characteristics. The “essence of the dispute,” once resolved, ensures that the court has before it a copyright claim or issue of sufficient significance to the outcome of the dispute to justify taking exclusive jurisdiction. The “face of the complaint” approach ensures that the plaintiff has a forum available in which the action can be litigated to judgment. Because the approach focuses on the plaintiff’s complaint, the jurisdictional question is resolved early in the litigation, allowing the parties and the court to focus on the merits of the claim and any defenses. The second approach, as compared to the first, is therefore more efficient.

Detracting from the first approach is its complexity. The resolution of the “essence of the dispute” issue strikingly resembles a determination on the merits of the litigation.\textsuperscript{201} The second approach is also flawed. Jurisdiction is taken based on the face of the plaintiff’s complaint. Facts deduced subsequent to the pleadings stage of the proceeding, however, may disclose that no copyright claim or issue was raised in the case. A dismissal on jurisdictional grounds is inappropriate. Rather, the court, once having found jurisdiction, should enter judgment on the merits against the plaintiff finding that there is no copyright claim or issue.

With each approach having both positive as well as negative aspects, it is not surprising that lower federal courts have yet to reach an agreement on which approach to follow. It may serve those courts that follow the “essence of the dispute” approach to consider distinguishing the § 1338(a) issue from the question of deciding the copyright claim or issue on its merits. In this regard, it appears that this approach blurs that distinction, if not ignores it. The result is that a dismissal of the plaintiff’s action on the jurisdictional grounds that the copyright claim or issue is not the “essence of the dispute” leaves open the question of whether there

\textsuperscript{200} See generally Vestrion, Inc., 839 F.2d at 1380. See supra notes 114-118 and accompanying text.
\textsuperscript{201} See generally Schoenberg, 971 F.2d at 926. See supra note 154 and accompanying text.
is a valid copyright claim or issue at all. That question, of course, cannot be resolved before the court of any state.\textsuperscript{202} It would be better, therefore, for the "essence of the dispute" courts to consider whether the decision they are making is one on the merits versus one merely affecting the proper forum for the plaintiff's action. Dismissal would be appropriate only when the court is persuaded that the circumstances will show that no copyright claim or issue exists in the case. That dismissal, in turn, is for lack of jurisdiction and not for want of a copyright claim or issue.

Those lower federal courts that follow the "face of the complaint" approach may also want to consider the issue that they are deciding. As suggested by the district court in \textit{Prime TV Limited}, if, as the plaintiff's complaint discloses, the circumstances will not lead to a copyright claim or issue, the court should not take jurisdiction. If the circumstances lead to that claim or issue, however, the court should not dismiss the complaint for the lack of jurisdiction.\textsuperscript{203}

In sum, the "essence of the dispute" courts would benefit from a sharper distinction between the § 1338(a) jurisdictional issue and a merits determination. The "face of the complaint" courts, on the other hand, must recognize when circumstances may not lead to a copyright claim or issue. Thereafter, those courts should be willing to dispose of the case for lack of jurisdiction at the pleading stage of the litigation.

\textsuperscript{202} The federal court's jurisdiction over the action arising under the Copyright Act is "exclusive." 28 U.S.C. § 1338(a) (1993 & Supp. 2001).

\textsuperscript{203} See supra notes 188-197 and accompanying text.