A Jurisdictional Nightmare: Determining When an Interdependent Copyright and Contract Claim Arises under the Copyright Act in Scholastic Entertainment, Inc. v. Fox Entertainment Group, Inc.

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Casenotes

A JURISDICTIONAL "NIGHTMARE": DETERMINING WHEN AN INTERDEPENDENT COPYRIGHT AND CONTRACT CLAIM "ARISES UNDER" THE COPYRIGHT ACT IN SCHOLASTIC ENTERTAINMENT, INC. V. FOX ENTERTAINMENT GROUP, INC.

I. Introduction

No area of law plays a more vital role in the entertainment industry than intellectual property, which continues to evolve as one of today's most exciting and challenging legal fields. With the advent of the digital age, intellectual property has gained prominence in its protection of copyright, patent, and trademark owners. Each year, individuals spend billions of dollars to protect their property. Despite this tremendous financial outlay, any protection afforded relies wholly upon the ability of intellectual property owners to en-

1. See Academic Programs: Intellectual Property Law Program, at http://www.car-dozo.yu.edu/academic_prog/intellectual.asp (last visited May 1, 2004) (suggesting importance of intellectual property law); see also D.L. Hawley, Intellectual Property Field Grows, LEGAL ASSISTANT TODAY, Jan./Feb. 2000, at ¶ 1 (basing comment from on survey conducted in 1999), available at http://www.legalassistanttoday.com/profession/ip_field.htm. An independent research company conducted the survey by randomly contacting 200 attorneys from the 1,200 largest law firms across the country. See id. Almost sixty percent of respondents, when asked which area of law was growing most rapidly, cited intellectual property, which also topped the list in a similar survey two years prior. See id. According to U.S. court records, intellectual property suits continue to rise across the country. See id. Civil copyright, patent, and trademark suits collectively rose 2.5 percent between 1994 and 1998. See id.


force their rights. Unfortunately, courts have struggled to create clear standards that sufficiently define the jurisdiction in which an intellectual property owner may seek protection. Failure to develop a consistent standard may therefore delay the adjudication of artists' rights, increase litigation costs, and most importantly, undermine their confidence in protection of their ownership rights.

Federal subject matter jurisdiction under the United States Copyright Act ("Act") continues to present one of the "knottiest procedural problems in copyright jurisprudence." Federal courts have exclusive jurisdiction over any "civil action arising under any Act of Congress relating to . . . copyrights." It is also recognized, however, that federal subject matter jurisdiction does not exist simply because a case involves a copyright issue. Federal courts have

4. See generally A Radical Rethink: The Best Way to Foster Creativity in the Digital Age is to Overhaul Current Copyright Laws, ECONOMIST, Jan. 23, 2003 (discussing current worldwide battle concerning scope and enforcement of copyrights), available at http://www.economist.com/opinion/displayStory.cfm?story_id=1547223. For example, digital piracy threatens to overwhelm so-called "content" industries. See id. As the power and reach of the Internet continue expanding, the unlawful trading of perfect copies may ultimately prove catastrophic to the music, movie, and publishing industries. See id.


6. For a discussion of the problems inherent in courts' inability to determine a consistent approach in defining the jurisdiction where an intellectual property owner may seek protection, see infra notes 48-156 and accompanying text.

7. See generally A Radical Rethink: The Best Way to Foster Creativity in the Digital Age is to Overhaul Current Copyright Laws, ECONOMIST, Jan. 23, 2003 (discussing current worldwide battle concerning scope and enforcement of copyrights), available at http://www.economist.com/opinion/displayStory.cfm?story_id=1547223. For example, digital piracy threatens to overwhelm so-called "content" industries. See id. As the power and reach of the Internet continue expanding, the unlawful trading of perfect copies may ultimately prove catastrophic to the music, movie, and publishing industries. See id.

8. See Bassett v. Mashantucket Pequot Tribe, 204 F.3d 343, 347 (2d Cir. 2000) (noting cases involving copyright issues do not automatically invoke federal jurisdiction); see also Int'l Armor & Limousine Co. v. Moloney Coachbuilders, Inc., 272 F.3d 912, 915 (7th Cir. 2001) (noting federal courts do not necessarily have juris-
consistently dismissed complaints for lack of jurisdiction if they determine the claim to constitute a state law contract action "dressed up in copyright clothing." As a result, federal courts continue to walk a fine line between "usurping" the power of the state courts and providing redress for copyright infringement. Further complications to this balancing act arise with the interdependence of contract and copyright claims, which potentially masks the genuine issues in need of resolution. Because of these complexities, the question of whether breach of a contract licensing agreement or copyright assignment gives rise to a federal cause of action under the Act has led courts in many circuits to claw their way through this murky area of law in an attempt to reach uniformity.

This Note explores the Ninth Circuit's recent attempt to provide further definition to one of the more complex areas of copyright law in Scholastic Entertainment, Inc. v. Fox Entertainment Group, 10. Appellee's Brief at 16-17, Scholastic Entm't, Inc. v. Fox Entm't Group, Inc., 336 F.3d 982 (9th Cir. 2003) (No. 02-55667) (noting federal courts dismiss complaints fashioned as copyright cases when presenting only issues of state contract law); see also Dolch v. United Cal. Bank, 702 F.2d 178, 180 (9th Cir. 1983) (stating contract questions depending on common law or equitable principles belong in state court); Topolos v. Caldwewy, 698 F.2d 991, 993 (9th Cir. 1983) (noting fact that copyright as subject matter of contract does not automatically yield federal subject matter jurisdiction). For a discussion of Topolos, see infra notes 85-88 and accompanying text.

11. See Scholastic Entm't, Inc. v. Fox Entm't Group, Inc., 336 F.3d 982, 986 (9th Cir. 2003) (noting difficulties inherent when determining whether civil actions concerning copyrights invoke federal subject matter jurisdiction). For a discussion of the facts of the Scholastic case, see infra notes 21-35 and accompanying text.

12. See id.; see also Vestron, 839 F.2d at 1382 (noting difficulty courts experience when applying "sole question" rule to determine copyright jurisdiction). The problem looms largest where courts attempt to expose cases "couched" in terms of federal copyright but, in actuality, seek to vindicate rights created under state law. See id.

Part II provides the salient facts and history of the *Scholastic* case. Part III contextualizes *Scholastic* in the greater historical framework, providing a detailed overview of federal courts' efforts to determine whether interdependent copyright and state contract claims "arise under" the Act for purposes of exercising federal subject matter jurisdiction. Part IV outlines the *Scholastic* court's reasoning in holding that it lacked federal subject matter jurisdiction over a purely state law contract claim. Part V critically examines the court's analysis and its resulting conclusions. Lastly, Part VI considers the potential impact of *Scholastic* on copyright subject matter jurisdiction as it specifically relates to claims raising both copyright infringement and state law contract issues.

II. FACTS: SCHOLASTIC ENTERTAINMENT, INC. V. FOX ENTERTAINMENT GROUP, INC.

In 1995, Scholastic Entertainment, Inc. ("Scholastic") and Fox Entertainment Group, Inc. ("Fox") entered into a contract that included broadcasting the copyright-protected television series, *Goosebumps*.

For several years, the parties performed their responsibilities under the contract without incident. In mid-1999, however, Scholastic discovered that the Fox Family Channel ("FFC"), not a party to the contract, was airing the *Goosebumps* series. Upon

14. 336 F.3d 982 (9th Cir. 2003).
15. For a discussion of the relevant facts in *Scholastic*, see infra notes 21-35 and accompanying text.
16. For a discussion of the varying approaches followed by federal courts when confronted with the copyright/contract jurisdictional issue, see infra notes 36-156 and accompanying text.
17. For a narrative discussion of the Ninth Circuit's reasoning in *Scholastic*, see infra notes 157-80 and accompanying text.
18. For a critical discussion of the Ninth Circuit's reasoning in *Scholastic*, see infra notes 181-207 and accompanying text.
19. For a discussion on the possible impact of *Scholastic* on claims involving interdependent copyright and contract issues, see infra notes 208-18 and accompanying text.
20. 336 F.3d 982 (9th Cir. 2003).
21. *See id.* at 985 (discussing nature of contract between Scholastic and Fox). Scholastic, which is a producer and marketer of motion pictures, television, and video-programming based on children's literary works, agreed to produce a television series based on the children's book series, *Goosebumps*, and to license to Fox the rights to exhibit and distribute such shows. *See id.* at 983. Fox was to first air the initial exhibition of the shows on Fox Broadcasting and later distributed the series to different television outlets for a period of years. *See id.* The contract was due to expire in 2013. *See id.*
22. *See id.* at 983 (reviewing facts of case).
23. *See id.* at 984 (discussing dispute between Scholastic and Fox). The airings by FFC continued through August of 2001, during which time Scholastic received no compensation. *See id.* According to Scholastic, this unauthorized licensing frus-
verifying the extent of Fox’s violation, Scholastic terminated its agreement in September 2001 and informed Fox that it planned to re-license the series to third parties.24 Fox insisted Scholastic could not permissibly terminate the contract.25

Shortly thereafter, Scholastic filed suit in the United States District Court for the Central District of California, claiming it had effectively terminated the agreement and that continued broadcast of the Goosebumps series by Fox and FFC qualified as copyright infringement.26 If valid, termination of the contract would result in the reversion of all of Fox’s ownership rights back to Scholastic, and continued use of the series would constitute copyright infringement.27 In its counterclaim, Fox contended the contract remained in effect and requested the court to enjoin Scholastic from licensing the series to third parties.28

The district court determined that the underlying dispute between Scholastic and Fox was contractual in nature.29 The court therefore concluded that a state court could properly adjudicate the dispute.30 Accordingly, the district court dismissed Scholastic’s claims without prejudice and granted Fox’s request for a preliminary injunction enjoining Scholastic from re-licensing the series.31 In agreeing with the district court’s conclusion that the dispute involved solely contract law, Scholastic made no attempt to appeal the dismissal.32 Approximately four months later, the district court,

24. See id. (noting Scholastic’s attempt to terminate its agreement with Fox).
25. See Scholastic, 336 F.3d at 984 (discussing Fox’s argument against Scholastic’s attempt to terminate agreement). Fox argued the contract remained in effect. See id. at 985. Therefore, pursuant to the agreement, Fox argued it alone had the right to exhibit and distribute the series until a determination regarding the status of the agreement was made. See id.
26. See id. at 984-85 (discussing Scholastic’s breach of contract claim against Fox).
27. See id. at 985 (noting consequences of termination if successful).
28. See id. at 984 (discussing Fox’s counterclaim).
29. See id. (discussing district court’s reasoning).
30. See Scholastic, 336 F.3d at 984 (noting district court’s inability to hear case for lack of subject matter jurisdiction). The court of appeals expressed concern over the state court’s inability to properly exercise jurisdiction over Scholastic’s request for a declaration that it had effectively terminated the agreement because it involved the Act. See id. at 984 n.1. The court ultimately found this conclusion erroneous. See id.
31. See id. at 984 (discussing district court’s holding in case).
32. See id. (recalling facts of case). Furthermore, Scholastic stipulated that it would forego any attempt to re-license the Goosebumps series until a determination of ownership had been made. See id.
concluding that it lacked subject matter jurisdiction, dismissed Fox's counterclaims *sua sponte.*

On appeal, Fox asserted that because the district court could exercise federal subject matter jurisdiction, it erred in dismissing the counterclaims. In determining whether it could properly exercise federal subject matter jurisdiction, the Ninth Circuit considered whether Fox's counterclaims "arose under" the Act or merely sought a determination of ownership.

III. BACKGROUND

A. The Power to Preside Over the Issue

Under Article III of the United States Constitution, federal courts have jurisdiction over "[c]ases, in Law and Equity, arising under [the] Constitution, the Laws of the United States, and Treaties made, or which shall be made." The United States Code incorporates this provision in the Intellectual Property context. Specifically, § 1338(a) provides 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."

Since the enactment of § 1338(a), courts have struggled to fully understand Congress's intent in its "arising under" language. In 1964, the United States Court of Appeals for the Second Circuit

See id. (noting district court's ultimate disposition in case). The court stated: "This is a contract case. It's a contract case simply and the State Court can decide it." *Id.* The district court's statement clearly demonstrates that lack of subject matter jurisdiction was the reason for its dismissal of Fox's counterclaims. See *id.*

See *id.* at 985 (noting Fox's appeal to Ninth Circuit).

For a discussion of the Ninth Circuit's analysis of whether Fox's counterclaims arose under the Act, see *infra* notes 157-80 and accompanying text.

The U.S. CONST. art. III, § 2, cl. 1. *See generally* BLACK'S LAW DICTIONARY 857 (7th ed. 1999) (defining federal subject matter jurisdiction). Federal subject matter jurisdiction provides the "extent to which a court can rule on the conduct of persons or the status of things." *Id.* All federal courts have limited subject matter jurisdiction; they may hear only certain kinds of cases, as prescribed by the United States Constitution and federal statutes. *See* RICHARD D. FREER & WENDY COLLINS PERDUE, CIVIL PROCEDURE: CASES, MATERIALS, AND QUESTIONS 194 (3d ed. 2001) (mentioning role subject matter jurisdiction plays in limiting breadth of cases federal courts may hear).


*Id.*

See Mary P. Twitchell, Characterizing Federal Claims: Preemption, Removal, and the Arising-Under Jurisdiction of the Federal Courts, 54 GEO. WASH. L. REV. 812, 812 n.2 (1986) (noting lack of any clear definition as it relates to meaning of "arising under"). *See generally* FREER & PERDUE, *supra* note 36, at 222. The term "arising under" has caused problems in two areas:
in *T.B. Harms Co. v. Eliscu*\(^{40}\) forwarded a watershed interpretation of
the language. Specifically, the court abstracted a three-part test
gear toward guiding future courts in their efforts to determine
whether interdependent copyright and contract cases "arose
under" the Act.\(^{41}\)

B. 28 U.S.C. § 1338(a)

Section 1338 of the United States Code delineates the circum-
stances under which federal district courts have jurisdiction over
federal intellectual property claims.\(^{42}\) Under this section, courts
have exclusive jurisdiction in all civil actions "arising under" the
Act.\(^{43}\) However, § 1338(a) fails to specifically state when a claim
"arises under" the Act.\(^{44}\) This poses a significant problem for fed-
eral courts, because it is well settled that not every complaint invol-
ving the Act "arises under" that law for purposes of § 1338(a).\(^{45}\)
Furthermore, the mere existence of an underlying contract dispute
in a suit relating to a copyright does not necessarily deprive a court

First is a requirement that the federal law be set forth as a claim, not as a
defense. This raises the problem of the curiously named "well-pleaded
complaint" rule. Second, and more challenging to understand, is an
assumption of whether federal law is sufficiently central to the claim as-
serted in a well-pleaded complaint. With each of these restrictions, the
federal courts have read the statutory language "arising under" more nar-
rowly than the constitutional language.

*Id.* Because of its ambiguous nature, therefore, scholars and jurists have frequently
discussed the tension surrounding the "arising under" language. *See* Fleischman,
*supra* note 5, at 120.

40. 339 F.2d 823 (2d Cir. 1964).

41. For a discussion of the *T.B. Harms* decision and the test that it established,
see *infra* notes 51-74 and accompanying text.

42. *See* 28 U.S.C. § 1338(a) (2000); *see also* PAUL GOLDSTEIN, COPYRIGHT, PAT-
ENT, TRADEMARK AND RELATED STATE DOCTRINES 195 (3d ed. 1993) [hereinafter
GOLDSTEIN 1] (discussing role § 1338 plays in copyright law). Section 1338 also
defines the jurisdiction of the federal courts over certain state law claims related to
federal Intellectual Property actions. *See id.*


44. *See* McCarthy, *supra* note 5, at 168 (emphasis added) (noting vagueness of
§ 1338(a)). On its face, § 1338(a) appears to require federal subject matter juris-
diction over all copyright actions. *See id.* at 169.

45. *See* T.B. Harms Co. v. Eliscu, 339 F.2d 823, 828 (2d Cir. 1964) (discussing
limits of subject matter jurisdiction as it relates to Act); *see also* Scandinavian Satel-
ite Sys., AS v. Prime TV Ltd., 291 F.3d 839, 844 (D.C. Cir. 2002) (discussing limits
of subject matter jurisdiction as it relates to Act). For example, a "suit on a contract
does not 'arise under' the copyright laws even though a copyright may have been
the subject matter of the contract." *Id.* See, e.g., Bassett v. Mashantucket Pequot
Tribe, 204 F.3d 343, 347 (2d Cir. 2000) (noting difficulties in distinguishing which
cases "arise[] under" the Act).

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of jurisdiction.46 Because of the complexity in determining exactly when a claim "arises under" the Act, federal courts have experienced significant difficulty in their attempts to properly exercise federal subject matter jurisdiction under § 1338(a).47

C. Post-Enaction § 1338(a) Interpretation

Since Congress enacted § 1338(a), courts have sought to define the meaning of "arising under" in federal copyright law.48 The Second Circuit provided the first intensive examination of the matter in T.B. Harms.49 The T.B. Harms court conceived of a three-part test, which became a paradigm for future determinations of the types of actions that "arise under" the Act.50

1. T.B. Harms: The Seminole Interpretation

In T.B. Harms, the plaintiff brought an action against the defendant, Edward Eliscu, in a United States district court, seeking declaratory and equitable relief.51 T.B. Harms claimed that under its contract with Eliscu, Harms acquired ownership of renewal copy-

46. See Bassett, 204 F.3d at 355 (discussing instance where federal courts may properly exercise subject matter jurisdiction). For a discussion of the Bassett decision, see infra notes 114-23 and accompanying text.
47. See Mark R. Kravitz, Developments in the Second Circuit 1999-2000, 33 CONN. L. REV. 945, 1021 (2001) (noting confusing nature of § 1338(a)). "Typically, such claims arise where the defendant has a license to exploit the plaintiff's copyright, but is alleged to have forfeited the license by breaching the terms of the parties' agreement, and therefore to have infringed the plaintiff's copyright through further exploitation." Id.; see also Nimmer, supra note 7, § 12.01[A], at 12-13. State common law governs contract-based claims and therefore state courts hear such claims, whereas federal courts hear copyright actions. See id. at 13-14; see also Topolos v. Caldwell, 698 F.2d 991, 993 (9th Cir. 1983) (noting courts experience difficulty where plaintiff's claims include copyright allegations and preliminary legal issues of contract under state law); Franklin v. Cannon Films, Inc., 654 F. Supp. 133, 134 (C.D. Cal. 1987) (noting copyright issue must constitute "gist," "essence," or "principal issue," not claim for "naked declaration of ownership").
48. For a discussion of the attempts federal courts have made in defining the meaning of "arising under," see infra notes 75-156.
49. See T.B. Harms, 339 F.2d at 823 (discussing Second Circuit's attempt to clarify meaning of "arising under" as it relates to federal copyright law); see also McCarthy, supra note 5, at 168-69 (same).
50. See Wanat, supra note 5, at 372 (recognizing T.B. Harms as leading case in determining whether claims "arise under" the Act); see also McCarthy, supra note 5, at 166 (recognizing T.B. Harms as leading case regarding question of when claims "arise under" the Act). The three-part test provides that an action "arises under" the Act, if and only if: (1) the complaint seeks a remedy expressly granted by the Act; (2) the complaint requires construction of the Act; or (3) federal principles should control the disposition of the claim. See T.B. Harms, 339 F.2d at 828.
51. See T.B. Harms, 339 F.2d at 824-25 (discussing dispute between plaintiff and defendant).
rights in songs that Eliscu co-authored.\textsuperscript{52} Eliscu denied transferring ownership to Harms by contract.\textsuperscript{53}

Holding that it could not properly exercise subject matter jurisdiction under § 1338(a), the district court dismissed Harms's complaint.\textsuperscript{54} In reaching its conclusion, the court based its lack of jurisdiction on Harms's failure to allege "any act or threat of copyright infringement."\textsuperscript{55}

On Harms's appeal, the Second Circuit affirmed the district court's holding that no infringement existed.\textsuperscript{56} However, the court noted § 1338(a) failed to mention infringement, and thereby concluded "the undoubted truth that a claim for infringement 'arises under' the Copyright Act does not establish that nothing else can."\textsuperscript{57} Addressing additional theories under which the plaintiff could possibly gain access to federal court, the court analyzed earlier Supreme Court definitions of "arising under."\textsuperscript{58} The Second Circuit noted that in \textit{Osborn v. Bank of the United States},\textsuperscript{59} the United States Supreme Court applied an "ingredient theory" and construed the "arising under" language in the context of Article III of the Constitution.\textsuperscript{60} The \textit{Osborn} Court determined federal subject

\textsuperscript{52} See id. at 824 (discussing facts of case). The litigation in \textit{T.B. Harms} concerned four copyrighted songs composed by Vincent Youmans for use in the movie, "Flying Down to Rio." See id. Youmans entered into a contract with RKO Studios requiring him to assign certain rights, including recordation, to RKO during the existence of the copyrights and any renewals. See id. In return, RKO agreed to hire a lyric writer and obtain the publishing rights to the lyrics. See id. Plaintiff, T.B. Harms Co., acquired these rights from Youmans. See id. RKO hired defendant, Edward Eliscu, as one of the lyric writers. See id. Upon completion of this task, Youmans retained the authority to assign both the performing and publishing rights to the music and lyrics. See id.

\textsuperscript{53} See id. (discussing facts of case). The principal dispute in the case rested upon whether or not Eliscu ever assigned his rights to the copyrights and renewals to T.B. Harms. See id.

\textsuperscript{54} See id. at 825 (discussing district court's reasoning and ultimate disposition in case).

\textsuperscript{55} See id. (reviewing district court's reasoning). The court concluded that no use or threatened use of the copyrights existed and the parties sought only to establish their ownership of the copyrights. See id. Accordingly, the Act was not at issue and the court could not properly exercise federal subject matter jurisdiction to rule on the contractual dispute. See id.

\textsuperscript{56} See \textit{T.B. Harms}, 339 F.2d at 825 (noting court of appeal's affirmation of district court's holding).

\textsuperscript{57} Id. The court noted the phrasing of § 1338(a) would not compel the conclusion that an action to determine ownership of a copyright does not fall under the Act. See id.

\textsuperscript{58} See id. at 825-26 (noting court's analysis of past Supreme Court decisions to gain more in-depth understanding of "arising under").

\textsuperscript{59} 22 U.S. 738 (1824).

\textsuperscript{60} See \textit{T.B. Harms}, 339 F.2d at 825 (noting Second Circuit's reference to \textit{Osborn} for guidance). In \textit{Osborn}, Ohio imposed a tax on a nationally charted federal
matter jurisdiction was proper in any case where federal law comprised a necessary ingredient of the claim. The T.B. Harms court concluded, however, that pursuant to a subsequent Supreme Court decision in New Marshall Fire Engine Co. v. Marshall Engine Co., the ingredient theory could not apply.

While the T.B. Harms court discarded the ingredient theory as inapplicable to its analysis, it found some merit in the "creation test" enunciated in American Well Works Co. v. Layne & Bowler Co., which held, "[a] suit arises under the law that created the cause of action." Because federal copyright laws do not create a cause of

bank. See Osborn, 22 U.S. at 740-41. The bank, claiming the tax was unconstitutional, sued to enjoin the state auditor from collecting it. See id. The bank's charter stated that the bank had the right "to sue and be sued" in every United States circuit court. See id. at 817. The Court interpreted this language as a grant of federal subject matter jurisdiction because federal subject matter jurisdiction always exists when a party calls the constitutionality of a statute into question. See id. at 819 (citation omitted). The Court further held that federal subject matter jurisdiction would exist in any case involving the bank. See id. at 822-27.

61. See Osborn, 22 U.S. at 824-25 (noting federal question jurisdiction depended on whether federal question may theoretically arise as ingredient in claim). The Court reasoned: "Whether [the federal ingredient is] in fact relied on or not, in the defence, it is still part of the cause, and may be relied on." Id.

62. 223 U.S. 473 (1912). In New Marshall Engine Co., a case involving the question of title to a patent, the Court stated: "Federal courts have exclusive jurisdiction of all cases arising under the patent laws, but not of all questions in which a patent may be the subject-matter of the controversy. For courts of a State may . . . construe and enforce contracts relating to patents." Id. at 478.

63. See T.B. Harms, 339 F.2d at 828 (noting Court perceived as having adopted significantly narrower definition of "arising under"); see also McCarthy, supra note 5, at 172-73 (acknowledging perception that Court had adopted significantly narrower definition of "arising under"). The T.B. Harms court analyzed the Supreme Court precedent set forth in New Marshall Engine Co., concluding that the federal grant of a copyright does not transform a contractual dispute into a federal question merely because of the contract's copyright subject matter. See id. at 172. Furthermore, expansion of federal subject matter jurisdiction would unquestionably deny state courts jurisdiction over state matters, which mattered little to the nation at large. See id. at 173; see also T.B. Harms, 339 F.2d at 826 (noting cases dealing with federal subject matter jurisdiction over copyrights have traditionally taken "conservative line").

64. 241 U.S. 257 (1916); see also Franchise Tax Bd. v. Constr. Laborers Vacation Trust, 463 U.S. 1, 8-9 (1983) (overruling Am. Well Works Co. v. Layne & Bowler Co.).

65. Am. Well Works, 241 U.S. at 260 (noting Court's holding in case). Applying this rule to the plaintiff's suit, the Court determined the suit to constitute one for damages to the plaintiff's business, which resulted from the defendants' threatened suits under the patent. See id. at 259. In its determination that the defendants' actions "wrong[ed]" the plaintiff because they caused injury to the plaintiff's business, the majority depended "upon the law of the State where the act is done, not upon the patent law . . . ." Id. at 260. "[T]herefore[,] the suit a[rose] under the law of the State" to the exclusion of the patent laws. Id. Accordingly, the United States district court lacked proper jurisdiction to hear the case. See id.
action to fix the locus of ownership, the *T.B. Harms* court also held the creation test inapplicable.66

Nevertheless, the *T.B. Harms* court noted a cause of action brought to fix copyright ownership could "arise under" federal law if the complaint included a need to determine the meaning or application of a federal law.67 Citing *De Sylva v. Ballentine*,68 the Court explored a new doctrine that permitted federal subject matter jurisdiction over a state-created claim if a federal interest dominated, even in the absence of an express statute.69 This doctrine supports the idea that "if this 'federal common law' governed some disputed aspect of a claim to ownership of a copyright or for the enforcement of a license, federal subject matter jurisdiction might follow."70

The court ultimately established that an action "arises under" the Act if, and only if: (1) the complaint seeks a remedy expressly granted by the Act;71 (2) the complaint requires construction of the

66. See *T.B. Harms*, 339 F.2d at 826-27 (holding test established in *American Well Works* as too narrow); see also *Effects Assoc., Inc. v. Cohen*, 817 F.2d 72 (9th Cir. 1987).

67. See *T.B. Harms*, 339 F.2d at 827 (discussing aspect of court's reasoning in case). The court determined that appropriate pleadings of a pivotal question of federal law could suffice to give federal subject matter jurisdiction even for a state-created claim. See *id.*

68. 351 U.S. 570 (1956). The *De Sylva* Court found federal subject matter jurisdiction over a claim created by state law because two significant questions existed concerning the Act's construction. See *id.* at 572. The *T.B. Harms* court noted *De Sylva* also applied the principle that a state-created claim could "arise under" a federal law if the complaint disclosed the necessity for determining the meaning of such a law. See *T.B. Harms*, 339 F.2d at 827.

69. See *T.B. Harms*, 339 F.2d at 828 (reviewing aspect of court's rationale).

70. Id. (noting appropriate pleading as to pivotal questions of federal law may suffice to give federal subject matter jurisdiction, even for "state-created" claims).

71. See *id.* at 828 (discussing aspect of court's holding in case); see also *McCarthey*, supra note 5, at 185. The *T.B. Harms* court first found infringement claims to "arise under" the Act. See *id.* As the primary wrong addressed directly by the Act, infringement unquestionably belongs in federal court. See *id.* Consequently, if a complaint includes only the elements required for infringement action, and fails to contain any claims based on state grounds, § 1338(a) will grant federal subject matter jurisdiction. See *id.* However, federal courts recognize other actions, aside from infringement, over which they may claim jurisdiction. See *id.;* see also *Bassett v. Mashantucket Pequot Tribe*, 204 F.3d 343, 349 (2d Cir. 2000). The analysis under *T.B. Harms* turns on what the plaintiff alleges on the face of the complaint. See generally 2 PAUL GOLSTEIN, COPYRIGHT: PRINCIPLES, LAW AND PRACTICE § 13.2.1.1(a) (1989) [hereinafter *GOLSTEIN II*].

But see *Amy B. Cohen*, "Arising Under" Jurisdiction and the Copyright Laws, 44 HASTINGS L.J. 337, 373 (1993). By requiring federal courts to accept all cases in which a complaint seeks a remedy provided by the Act or raises a claim requiring interpretation of the Act, it might "open the floodgates," thereby drowning federal courts in the "litigation of cases that are at heart contract disputes." *Id.*
Act;\textsuperscript{72} or (3) federal principles should control the disposition of the claim.\textsuperscript{73} Since the plaintiff’s claim failed to fulfill any of these three categories outlined by the court, the court of appeals dismissed it for lack of jurisdiction.\textsuperscript{74}

2. **Confusion in the Wake of T.B. Harms: Three Emerging Interpretations**

In the forty years since *T.B. Harms*, courts have embraced three different interpretations of the “arising under” language: (1) the “essence of the claim” standard,\textsuperscript{75} (2) the “well-pleaded complaint” standard,\textsuperscript{76} and (3) the “Schoenberg test.”\textsuperscript{77}

a. The “Essence of the Claim” Standard

Federal courts following this standard base their jurisdictional decisions on the “essence of the claim.”\textsuperscript{778} All of the cases using the

\textsuperscript{72} See T.B. Harms, 339 F.2d. at 828 (discussing aspect of court’s holding in case); see also McCarthy, supra note 5, at 185-86. According to *T.B. Harms*, the second category of cases “arising under” the Act includes those requiring construction of the Act. See id. Even if a dispute is contractual in nature and, therefore, state controlled, interpretations of federal statutes are a federal concern and subject to federal subject matter jurisdiction. See id.; see also Foxrun Workshop, Ltd. v. Klone Mfg., Inc., 686 F. Supp. 86 (S.D.N.Y. 1988). For a discussion of *Foxrun*, see infra notes 106-10 and accompanying text.

\textsuperscript{73} See T.B. Harms, 339 F.2d at 827-28 (discussing aspect of court’s holding in case); see also McCarthy, supra note 5, at 186. The third category of actions “arising under” the Act consists of actions involving distinctive federal policies. See generally Goldstein II, supra note 71, § 13.2.1.1(c). Federal courts will exercise subject matter jurisdiction so long as the claim meets one of these three requirements. See Bassett, 204 F.3d at 349.

\textsuperscript{74} See T.B. Harms, 339 F.2d at 827-28 (discussing court’s final disposition in case). The Second Circuit ultimately found the claim did not satisfy the test and the district court acted properly in dismissing Harms’s claims. See id. The court noted that “[t]he relevant statutes create no explicit right of action to enforce or rescind assignments of copyrights, nor does any copyright statute specify a cause of action to fix the locus of ownership.” Id. at 827.

\textsuperscript{75} For a discussion of the “essence of the claim” standard, see infra notes 78-98 and accompanying text.

\textsuperscript{76} For a discussion of the “well-pleaded complaint” standard, see infra notes 99-128 and accompanying text.

\textsuperscript{77} For a discussion of the Schoenberg standard, see infra notes 129-56 and accompanying text. While the three categories delineated in *T.B. Harms* represent the area of settled and undisputed copyright jurisdictional law where cases will always “arise under” the Act, there are also those cases that will never “arise under” the Act. See McCarthy, supra note 5, at 186. Between these two bright-line categories lies a gray area causing significant confusion among courts in their ability to determine whether alleged claims constitute infringement or breach of contract actions. See id. at 186-87.

\textsuperscript{78} See McCarthy, supra note 5, at 176-77 (explaining “essence” standard). This standard is also known as the “essence” or “essence of the dispute.” See id. See generally Royal v. Leading Edge Prods., Inc., 833 F.2d 1 (1st Cir. 1987); Topolos v.
"essence" standard build from T.B. Harms's policy that state courts may exercise jurisdiction over claims of minimal federal significance.\(^79\) In an effort to avoid expanding the meaning of § 1338(a), the decisions in this line of cases suggest taking a conservative approach toward cases involving statutory jurisdiction over copyrights.\(^80\) This standard derives from two main sources of support. Courts using this standard follow the proposition from the T.B. Harms district court opinion that the complaint's formal allegations must give way to the substance of the claim.\(^81\) These courts also build upon the T.B. Harms view that courts should narrowly read provisions conferring federal subject matter jurisdiction so as not to deprive state courts of jurisdiction over matters of minor federal significance.\(^82\)

The first case that enunciated this interpretation of T.B. Harms was Elan Associates, Ltd. v. Quackenbush Music, Ltd.\(^83\) Looking be-

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\(^79\) See McCarthy, supra note 5, at 190 (explaining rationale for use of "essence" standard); see also T.B. Harms Co. v. Eliscu, 339 F.2d 823, 828 (2d Cir. 1964). The court precisely stated, "[t]he cases dealing with statutory jurisdiction over . . . copyrights have taken . . . [a] conservative line . . . ." Id. at 826. "[E]xpansion would entail depriving the state courts of any jurisdiction over matters having so little federal significance." Id.

\(^80\) See McCarthy, supra note 5, at 190. In an attempt to further the policy of avoiding expansion of the statute, these cases "stand for the idea that a plaintiff cannot manipulate federal subject matter jurisdiction, when none is appropriate, simply by artfully drafting the complaint." Id.

\(^81\) See Wanat, supra note 5, at 375 (explaining "essence" standard). Put more clearly, several federal courts have concluded that a complaint stating a cause of action for copyright infringement and seeking remedies under the Copyright Act may nevertheless fail to come within the jurisdiction of the federal courts under § 1338(a). See id.

\(^82\) See McCarthy, supra note 5, at 180 (noting courts' use of T.B. Harms decision for guidance); see also T.B. Harms, 339 F.2d at 826.

\(^83\) 339 F. Supp. 461 (S.D.N.Y. 1972). This case involved the execution of a contract, which provided that the plaintiff would enjoy the exclusive right to publish and obtain copyrights on certain music by Carly Simon. See id. The defendant, however, continued to obtain copyrights of Simon's compositions. See id.

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yond the plain language of the complaint, the Elan court interpreted the T.B. Harms test to hold it lacked subject matter jurisdiction because the case "essentially" involved a dispute as to the ownership of the copyright.  

Although the court in Topolos v. Caldewey used different language in its reasoning, it adopted the "essence" standard in principle. On appeal, the Ninth Circuit held that actions "arise under" the Act when a plaintiff seeks a remedy expressly granted by the Act or asserts a claim requiring construction of the Act. After searching for the "principal issue," the Ninth Circuit concluded the district court incorrectly dismissed the action.

The district court in Stepdesign, Inc. v. Research Media, Inc also adopted the "essence" standard. The court reasoned that questions of contract ownership did not necessarily qualify as questions for the federal courts. After noting the absence of an underlying plaintiff sued in New York State court for both breach of contract and copyright infringement. See id. at 461-62.

84. See id. at 462 (discussing court's reasoning in case). The court found that the resolution of the dispute depended ultimately upon the validity of the plaintiff's exclusive publishing agreement with Simon. See id. The court further reasoned that, although the action was couched in terms of infringement, in reality the suit desired to establish valid title by seeking to enforce a contract between an author and a publisher. See id. Accordingly, the case did not "arise under" the copyright laws so as to invoke federal subject matter jurisdiction. See id.

85. 698 F.2d 991 (9th Cir. 1983). In this case, Topolos and defendant, Vintage Image, entered into an exclusive publishing contract regarding a book. See id. at 992. The contract required Vintage to pay royalties to Topolos in consideration for receiving all rights under the copyright. See id. Vintage thereby obtained copyrights in its own name in accordance with the agreement. See id. A second book published by Vintage listed a co-defendant, Hinkle, as the author and copyright owner. See id. Topolos alleged Hinkle's book infringed upon his beneficial copyright ownership of the original book. See id.

86. See McCarthy, supra note 5, at 182 (reviewing Topolos court's reasoning in case). In deciding whether a case "arose under" the Act, the district court noted the importance of focusing on the "principal issue" for resolution. See id.

87. See Topolos, 698 F.2d at 993 (discussing court's rationale). The court found difficulty in cases where a plaintiff claims infringement under the Act and raises preliminary state contract issues. See id. The court ultimately agreed with the district court's holding that the "principal" issue of the case, or the "essence" of the plaintiff's claim, should determine whether federal subject matter jurisdiction existed. See McCarthy, supra note 5, at 183.

88. See Topolos, 698 F.2d at 994 (discussing court's holding in case). The Ninth Circuit determined the ownership issue constituted only a "threshold issue and not the principal one." See McCarthy, supra note 5, at 183.

89. 442 F. Supp. 32 (S.D.N.Y. 1977). In Stepdesign, the plaintiff sought a declaratory order that certain copyrights had reverted to him upon breach of contract and, therefore, the suit was merely one to determine ownership of the copyright. See id. at 33.

90. See id. at 35 (citing T.B. Harms Co. v. Eliscu, 339 F.2d 823, 826 (2d Cir. 1964)); see also Wells v. Universal Pictures Co., 166 F.2d 690, 691 (2d Cir. 1948) (stating patent or copyright only incidentally involved does not invoke federal sub-
claim for infringement, the court held it could not properly exercise federal jurisdiction.91

Although the "essence" standard possesses several strengths, as previously noted, it also suffers from various weaknesses.92 For instance, the determination of state or federal subject matter jurisdiction, even in the clearest of situations, may often turn on the issue of the plaintiff's "primary and controlling" purpose.93 This differs from resting the primary focus on the parties' intent, as practiced in traditional contract law, because jurisdiction instead hinges on what the judge believes the contract symbolizes.94 As a result, the judge becomes one who not only judges, but also one who determines what is to be judged.95

Furthermore, this standard blurs, if not ignores, the distinction between §1338(a) claims and the question of deciding the copyright claim on its merits.96 The result becomes a dismissal of the plaintiff's action on the jurisdictional grounds that the copyright claim is not the "essence of the claim," which leaves open the question of whether a valid copyright claim exists at all.97 No state court can resolve this question.98
b. The “Well-Pleased Complaint” Standard

Federal courts following this standard base their jurisdictional decisions on how the plaintiff pleads his case in the complaint.\(^{99}\) In other words, whatever the plaintiff pleads is what he or she means, and the court should not engage in any interpretation of the complaint.\(^{100}\) Courts using the “well-pleaded complaint” standard focus on two main sections of the *T.B. Harms* decision for support.\(^{101}\) First, under *T.B. Harms*, federal subject matter jurisdiction exists wherever “the complaint is for a remedy expressly granted by the Act.”\(^{102}\) Second, according to the Second Circuit, federal subject matter jurisdiction exists when the plaintiff directs his complaint against an infringing use and refers to the license only incidentally.\(^{103}\) Therefore, courts may not exercise federal subject matter jurisdiction if the plaintiff sues to set the license aside and only incidentally seeks recovery for the infringing use.\(^{104}\) Courts apply these two portions of *T.B. Harms* to establish the basis for the “well-pleaded complaint” approach.\(^{105}\)

\(^{99}\) See McCarthy, *supra* note 5, at 175 (discussing “well-pleaded complaint” standard). This standard is also known as the “face of the complaint” rule or “pleadings” test. See id.

\(^{100}\) See id. (explaining “well-pleaded complaint” standard). See generally Vestron v. Home Box Office, Inc., 839 F.2d 1380 (9th Cir. 1988). The plaintiff’s complaint alleged ownership of the exclusive rights to reproduce and distribute two motion pictures in the form of videocassettes. See id. at 1380-81. The plaintiff’s complaint also alleged that the defendant’s acts constituted copyright infringement and sought relief under the Act. See id. at 1382. The court of appeals exercised jurisdiction, holding that whether the plaintiff’s case “arose under” the Act depended upon whether the court determined that the complaint stated a “bona fide infringement claim.” *Id.* at 1381.

\(^{101}\) See generally Arthur Young & Co. v. City of Richmond, 895 F.2d 967, 969 (4th Cir. 1990) (noting Fourth Circuit’s rejection of “essence” standard and holding subject matter jurisdiction exists when complaint asks for remedy provided in Act); see also Vestron, Inc., 839 F.2d at 1381-82 (holding court could exercise subject matter jurisdiction because complaint sought remedy expressly granted by federal copyright law); Foxrun Workshop, Ltd. v. Klone Mfg., Inc., 686 F. Supp. 86, 89 (S.D.N.Y. 1988) (rejecting “essence” standard in determining whether court could exercise federal subject matter jurisdiction to hear suit brought under Lanham Act for trademark infringement).

\(^{102}\) See McCarthy, *supra* note 5, at 175 (emphasis added) (noting courts adopting this approach focus their analysis on first part of *T.B. Harms* test).

\(^{103}\) See T.B. Harms Co. v. Eliscu, 339 F.2d 823, 823 (2d Cir. 1964) (discussing jurisdictional aspect of court’s holding).

\(^{104}\) See id. (discussing limitation of federal courts to hear certain claims); McCarthy, *supra* note 5, at 175. Courts apply this jurisdictional rule to a situation not addressed in *T.B. Harms* — when a defendant licensed to use a copyright on specific terms is alleged to have relinquished the grant through breach of contract. See McCarthy, *supra* note 5, at 175 n.89.

\(^{105}\) See McCarthy, *supra* note 5, at 175 (noting courts’ use of *T.B. Harms* decision for guidance when applying the “well-pleaded complaint” standard). See, e.g.,
The decision in *Foxrun Workshop, Ltd. v. Klone Mfg., Inc.*\(^\text{106}\) best establishes the "well-pleaded complaint" standard.\(^\text{107}\) In that case, the district court noted that even when the "essence" of a complaint is contractual in nature, a plaintiff's claim might continue to raise federal statutory questions necessitating determination by a federal court.\(^\text{108}\) Therefore, the court applied the "well-pleaded complaint" standard and concluded that pleadings must be directed against the offending use, the license must be referred to only by way of anticipatory replication, and a claim involving a trademark should not necessarily invoke federal subject matter jurisdiction.\(^\text{109}\) The court ultimately concluded that, because Foxrun's complaint alleged ownership of both a trademark and infringing use and sought remedies expressly granted by the Lanham Act, the court could properly exercise federal subject matter jurisdiction.\(^\text{110}\)

The case of *Arthur Young & Co. v. City of Richmond*\(^\text{111}\) likewise characterized the "well-pleaded complaint" standard as viewed by

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\(^\text{106}\) Vestron, 839 F.2d at 1380. For further discussion of the facts in *Vestron*, see *supra* note 100.

\(^\text{107}\) 686 F. Supp. 86 (S.D.N.Y. 1988). The court applied the "well-pleaded complaint" standard to support the holding that a federal court could hear a trademark infringement case based upon failure to perform obligations under a trademark license agreement. *See id.* at 89.

\(^\text{108}\) *See* McCarthy, *supra* note 5, at 175 (noting importance of *Foxrun* case as it relates to application of "well-pleaded complaint" standard).

\(^\text{109}\) *See* id. at 175-76 (discussing district court's reasoning in case). Although *Foxrun* represents a trademark case, the jurisdictional issue bears similarity to a copyright claim because both are matters of federal subject matter jurisdiction under § 1338(a). *See* 28 U.S.C. § 1338(a) (2000).

\(^\text{110}\) *See* McCarthy, *supra* note 5, at 176-77 (noting district court's use of "well-pleaded complaint" standard in its analysis).

\(^\text{111}\) *See* Foxrun Workshop, Ltd., 686 F. Supp. at 89, 91 (discussing district court's holding in case). The federal trademark laws are also known as the "Lanham Act." *See generally* 15 U.S.C. §§ 1051-1127 (2000). In dicta, the court noted that the "essence" standard went against public policy. *See* Foxrun Workshop, Ltd., 686 F. Supp. at 90. Furthermore, the "essence" standard left jurisdiction open to the question as the parties conducted discovery and refined the issues in the case. *See id.* Therefore, the court favored the "well-pleaded complaint" standard, since it permitted the determination of jurisdiction as a preliminary matter and thereby created predictability and uniformity. *See id.;* McCarthy, *supra* note 5, at 177 n.108.

\(^\text{112}\) 895 F.2d 967 (4th Cir. 1990). The plaintiff, Arthur Young & Co., entered into a contract with the City of Richmond. *See* id. at 968. Arthur Young & Co. contracted to design and install an on-line computer customer information and billing system. *See* id. When Arthur Young & Co. experienced difficulties with the program, the city complained, claiming that Arthur Young & Co. failed to meet scheduled deadlines in the contract. *See* id. In turn, Arthur Young & Co. claimed it deserved additional compensation for "out-of-scope" work. *See* id. Eventually, the city locked Arthur Young & Co. out of the work-place. *See* id. Arthur Young & Co. filed suit in state court for breach of contract in response to this lockout. *See*
the Fourth Circuit.\textsuperscript{112} Rather than searching the complaint for its "primary and controlling purpose," the court held that subject matter jurisdiction in a copyright infringement suit turned on whether the complaint requested a remedy provided for by the Act.\textsuperscript{113}

Most recently, the decision by the Second Circuit in \textit{Bassett v. Mashantucket Pequot Tribe}\textsuperscript{114} adopted the "well-pleaded complaint" standard.\textsuperscript{115} The \textit{Bassett} decision came in response to the three-prong test developed by the court in \textit{Schoenberg v. Shapolsky Publishers, Inc.}\textsuperscript{116} The \textit{Bassett} court rejected the \textit{Schoenberg} test, characterizing it as "unworkable" for two reasons.\textsuperscript{117} First, the court explained that depriving individuals of a federal forum would deny them the benefit of copyright remedies because their copyright claims fol-

\textsuperscript{id.} The plaintiff then obtained and registered a copyright for the program it installed and filed an infringement suit in federal court. See id.

\textsuperscript{112} See McCarthy, supra note 5, at 177. In that case, the district court held copyright infringement did not comprise the "principal and controlling issue of the case." See Arthur Young, 895 F.2d at 969. The district court viewed the infringement action as essentially a contract dispute governed by state law. See id. at 993-94.

\textsuperscript{113} See Topolos v. Caldewey, 698 F.2d 991, 993 (9th Cir. 1983) (discussing court's holding in case). The court specifically rejected the "essence" standard in its holding. See id.

\textsuperscript{114} 204 F.3d 343 (2d Cir. 2000). The \textit{Bassett} court not only reaffirmed the court's decision in \textit{T.B. Harms} but also attempted to clarify its "nebulous" reasoning. See Neil Weinstock Netanel, \textit{From the Dead Sea Scrolls to the Digital Millennium; Recent Developments in Copyright Law}, 9 \textit{TEX. INTELL. PROP. L.J.} 19, 48-49 (2000).

\textsuperscript{115} For further discussion of the \textit{Bassett} decision, see infra notes 117-23 and accompanying text.

\textsuperscript{116} 971 F.2d 926 (2d Cir. 1992). For further discussion of the \textit{Schoenberg II} decision and the \textit{Schoenberg} test, see infra notes 129-56 and accompanying text.

\textsuperscript{117} See \textit{Bassett}, 204 F.3d at 352 (noting different approach taken by \textit{Bassett} court). The \textit{Bassett} court described the \textit{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. The court further explained that "[t]he test had been severely criticized in the copyright scholarship." \textit{Id.} at 353 n.8 (citing 2 William F. Patry, \textit{Copyright Law and Practice} 1073 (1994)); see also Parachute Press, Inc. v. Scholastic, Inc., No. 99-7235, 2000 U.S. App. LEXIS 21398, at *1 (2d Cir. Aug. 22, 2000); Cohen, supra note 71, at 363, 365, 374). \textit{Bassett} contrasted the \textit{T.B. Harms} and \textit{Schoenberg} tests — the \textit{T.B. Harms} test differed significantly from the essence of the dispute or merely incidental test used in \textit{Schoenberg II}. See \textit{id.} "The analysis in \textit{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." \textit{Id.} (citing \textit{Bassett}, 204 F.3d at 349).
lowed the contract dispute. Second, the court characterized the Schoenberg test as "vague".

While the Bassett decision reaffirmed T.B. Harms and the principles underlying the rule in that case, it attempted to clarify some

118. See Bassett, 204 F.3d at 352 (discussing court's reasoning in case); Wanat, supra note 5, at 387. Infringement is the most important action the Act affords the copyright owner against others. See 17 U.S.C. § 504(a) (2000). Because the federal court is the exclusive forum before which this action may be adjudicated, a finding that the court lacks jurisdiction prevents adjudication in any other judicial forum. See Bassett, 204 F.3d at 352. As a result, the Bassett court opined that "[s]uch denial of copyright remedies undermines the Act's capacity to protect copyright interests." Id.

119. See Bassett, 204 F.3d at 353 (discussing court's reasoning in case); Wanat, supra note 5, at 387-88 (pointing out ambiguity of Schoenberg test). The Bassett court noted the general difficulty in applying the Schoenberg test for several reasons. See id. First, a plaintiff could not predict whether the federal court could exercise jurisdiction over the action. See id. In other words, because the court in Schoenberg II based its analysis more on the defense, rather than on the demands, asserted in the complaint, the plaintiff's attorney was unable to determine whether filing within the exclusive jurisdiction of the federal or state court was possible. See id. at n.165; see also Bassett, 204 F.3d at 353. Furthermore, the complaint will not necessarily reveal whether its claim of infringement and prayer for copyright remedies is "incidental to" a contract dispute. See Wanat, supra note 5, at 389.

Second, "the [Bassett] court noted that because the plaintiff's complaint may be grounded in copyright infringement, a federal court had no reason to question an assertion of jurisdiction under section 1338(a)." Id.; see also Scandinavian Satellite Sys., AS v. Prime TV Ltd., 291 F.3d 839 (D.C. Cir. 2002); Bassett, 204 F.3d at 353. Therefore, the face of the complaint raised no issue of whether the copyright infringement claim was incident to a contract claim. See Bassett, 204 F.3d at 354. In answer to the plaintiff's copyright infringement claim, "the defendant, like the plaintiff, may think it desirable to have them adjudicated in federal court . . . ." Id. As a result, the defendant's answer may not raise the dominance of the contracts issues at the pleading stage. See id. 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. See Wanat, supra note 5, at 389.

In raising a third difficulty with Schoenberg, the Bassett court noted that the test required the court to determine factually complex issues relating to the merits at the outset of the litigation process, before the court could even familiarize itself with the case. See id. These factual determinations in turn could require extensive hearings. See id. Therefore, it appears that the Bassett court concerned itself with the viability of resolving the subject matter jurisdictional issue near the outset of the suit, as well as its inability to decide that issue without an adjudication of the copyright infringement and breach of contract claims. See id. at 390.

Finally, the Bassett court explained that the Schoenberg court, in deviating from the T.B. Harms test, failed to follow governing Supreme Court authority upon which the latter relied. See Bassett, 204 F.3d at 348-49, 355. The Bassett court could not reconcile the Schoenberg II court's reliance on whether the disputed issues focused on matters of contract ownership rather than copyright with the American Well Works formulation that a "suit arises under the law that creates the cause of action." Id. at 355. Furthermore, the test conflicted with the well-established approach to federal question jurisdiction, pursuant to which courts determine jurisdiction by ascertaining whether the plaintiff's complaint asserts a right under federal law. See Netanel, supra note 114, at 48-49.
of Harms's more nebulous language. As such, the Bassett court determined: (1) the “suit arises under the law that creates the cause of action,” and (2) jurisdiction should be decided based upon the allegations within the plaintiff's complaint. Ultimately, the Bassett court concluded that federal courts could properly exercise jurisdiction when a complaint alleges a claim or seeks a remedy provided by the Act.

The “well-pleaded complaint” standard also suffers from a significant weakness. Federal courts exercise jurisdiction based on the face of the plaintiff's complaint. Facts introduced subsequent to the pleadings phase of the proceeding, however, may reveal that the plaintiff failed to raise a copyright claim. In this situation, a dismissal on jurisdictional grounds is inappropriate. Rather, the court, upon finding jurisdiction, should enter judgment on the merits against the plaintiff finding that no copyright claim existed.

c. The Schoenberg Test

Because of the uncertainty left in the wake of T.B. Harms, the Second Circuit in Schoenberg embraced a test to ensure certainty and

120. See T.B. Harms Co. v. Eliscu, 339 F.2d 823, 828 (2d Cir. 1964). The second and third categories in the T.B. Harms test have created substantial confusion among federal courts.

121. See Bassett, 204 F.3d at 355 (discussing aspect of court's holding in case); see also Am. Well Works Co. v. Layne & Bowler Co., 241 U.S. 257, 260 (1916). For further discussion of American Well Works, see supra notes 64-66 and accompanying text.

122. See Bassett, 204 F.3d at 355 (discussing aspect of court's holding in case); see also 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.”); Bassett, 204 F.3d at 355 (noting federal courts must determine from face of plaintiff's complaint whether they can properly exercise federal subject matter jurisdiction under § 1338(a)) (citing Taylor v. Anderson, 234 U.S. 74, 75 (1914)).

123. See Bassett, 204 F.3d at 355. The court excluded the remaining two prongs of the T.B. Harms test from its analysis. See id.

124. See Wanat, supra note 5, at 394 (noting flaws of “well-pleaded complaint” standard).

125. See id. (discussing method courts apply in determining whether complaint is sufficiently “well-pleaded” to properly exercise federal subject matter jurisdiction).

126. See id. at 394-95 (explaining flaws of “well-pleaded complaint” standard).

127. See id.

128. See id. (explaining action courts should take when no copyright claim exists under “well-pleaded complaint” standard).
uniformity among the courts within that circuit. The court selected a unique interpretation in an effort to ensure fairness, predictability, and equity among other courts. In that case, Schoenberg, the owner of a copyright in a literary work, claimed that the defendants, book publishers, breached their licensing contract with him and thereafter infringed his copyright by publishing and offering his work for sale. On appeal from a judgment holding one of the defendant’s former attorneys in contempt, the attorney took the position that because the copyright infringement action was simply a contracts claim “disguised” as one of infringement, the district court lacked jurisdiction over that dispute and, therefore, erred in holding him in contempt.

In its analysis, the Second Circuit looked to its decision in T.B. Harms for guidance. However, the court recognized that T.B. Harms, which focused solely on the ownership issue without any allegations of infringement, did not address the problem in the instant case. The unique jurisdictional issue facing the Schoenberg court was whether a claim asserting infringement because of a breach of contract licensing or assignment of a copyright “arose

129. For a discussion of the Schoenberg test, see infra notes 130-56 and accompanying text.

130. See Fleischman, supra note 5, at 134 (noting Second Circuit’s attempt to eliminate as much confusion and complexity as possible by adopting uniform rule).

131. See Schoenberg v. Shapolsky Pubs., Inc., 971 F.2d. 926, 928-30 (2d Cir. 1992) (discussing facts of case). Schoenberg entered into a publishing agreement with Steimatzky Publishing of North America, Inc., whereby the latter would publish Schoenberg’s work. See id. at 928. Schoenberg retained the copyright, but granted a license to Steimatzky to publish the book. See id. Steimatzky agreed to perform four duties. See id. After publication of the book in 1989, Schoenberg filed suit in the United States District Court for the Southern District of New York, alleging that the publishers had breached the contract by failing to perform the four duties to which they had agreed. See id.

132. The district court granted the plaintiff’s motion to compel discovery. See Schoenberg v. Shapolsky Pubs., 140 F.R.D. 282, 283-84 (S.D.N.Y. 1991), vacated by 971 F.2d 926 (2d Cir. 1992) [hereinafter Schoenberg I]. The defendant’s attorney, however, refused to comply with the motion on the grounds the court should permit him to file a motion to dismiss for lack of subject matter jurisdiction before being required to complete discovery. See id. at 285. After the Second Circuit denied his petition for a writ of mandamus requesting vacation of the Rule 37 order, the defendant’s attorney maintained his refusal to comply with the order and the Second Circuit held him in contempt of that order. See id.

133. See Schoenberg II, 971 F.2d at 931 (recognizing difficulty court experienced during its analysis). The court recognized the difficulty level of the case, characterizing it as a complex issue in a “murky” area that had confounded and divided the Second Circuit. See id.

134. See Fleischman, supra note 5, at 135 (noting Schoenberg II court’s inability to apply T.B. Harms test because facts and issues presented in each case differed).
under” the Act.\textsuperscript{135} Therefore, the court held the \textit{T.B. Harms} test inapplicable.\textsuperscript{136} Unable to find a satisfactory doctrine, the Second Circuit looked beyond the boundaries of its own decisions and developed a three-prong test to clarify a similar test applied by the District of Columbia circuit court in \textit{Costello Publishing Co., Inc. v. Rotelle}.\textsuperscript{137}

Under this test, a district court must first determine whether the infringement claim is merely “incidental” to the claim for a determination of ownership or contractual rights.\textsuperscript{138} Second, the court must determine whether the claim is more than incidental and whether the complaint alleges a breach of a covenant or a condition.\textsuperscript{139} Third, if the complaint alleges breach of a covenant, the court must ascertain whether the breach is so material as to provide the grantor a right of rescission.\textsuperscript{140} The asserted claim “arises under” the Act if the breach would create a right of rescission.\textsuperscript{141}

Although the three-prong \textit{Schoenberg} test appears to provide an orderly procedure for federal courts to follow in determining

\textsuperscript{135} See Wanat, \textit{supra} note 5, at 386 (discussing court issue in case); see also \textit{T.B. Harms Co. v. Eliscu}, 339 F.2d 823, 828 (2d Cir. 1964). In \textit{T.B. Harms}, the court determined that an action “arises under” the Act if, and only if, the complaint seeks a remedy expressly granted by the Act. See id. Because Schoenberg sought damages for alleged infringement, as well as an injunction against future infringements, the court held that he clearly asserted a claim “arising under” the Act. See \textit{Schoenberg II}, 971 F.2d at 931.

136. \textit{See Schoenberg II}, 971 F.2d at 931 (discussing court’s rationale). Although the \textit{T.B. Harms} court concluded that federal subject matter jurisdiction did not arise where the sole issue was one of copyright ownership without any allegations of infringement, the \textit{Schoenberg II} court determined that the \textit{T.B. Harms} court failed to address the problem. See id.

137. 670 F.2d 1035, 1045 (D.C. Cir. 1981). The \textit{Schoenberg II} court looked to \textit{Costello} after failing to find a satisfactory doctrine within the Second Circuit. See \textit{Schoenberg II}, 971 F.2d at 932. Under this test, “a district court must [first] determine whether the complaint alleges a breach of condition to, or a covenant of, the contract licensing or assigning the copyright.” Id.; see also \textit{Costello}, 670 F.2d at 1045. If a plaintiff alleges a breach of a condition, then the district court may exercise subject matter jurisdiction. See id. If the complaint merely alleges a breach of a covenant in the agreement licensing or assigning the copyright, however, then the court must next determine whether the breach is so material that it created a right of rescission in the grantor. See id. If a breach would create a right of rescission, then the asserted claim “arises under” the Act. See id.

138. \textit{See Schoenberg II}, 971 F.2d at 932 (describing first prong of test); see also \textit{Costello}, 670 F.2d at 1045.

139. \textit{See Schoenberg II}, 971 F.2d at 932 (describing second prong of test); see also \textit{Costello}, 670 F.2d at 1045.

140. \textit{See Schoenberg II}, 971 F.2d at 932-33 (describing third prong of test); see also \textit{Costello}, 670 F.2d at 1045.

141. See Fleischman, \textit{supra} note 5, at 136 (explaining third prong of test).
whether a claim "arises under" the Act, each part of the test contains inherent weaknesses.\textsuperscript{142}

i. Prong One: An Incidental Complaint

Under the first prong, a district court, when faced with a complaint for copyright infringement based upon breach of a licensing contract, must determine whether the contract or copyright claims are merely incidental to each other.\textsuperscript{143} The term "incidental" may become problematic because it invariably permits judges to exercise excessive discretion.\textsuperscript{144} While judicial discretion creates no problem in most cases, it may result in two judges deciding the same case differently, effectively removing the predictability upon which many rely in dealing with the judicial system.\textsuperscript{145}

ii. Prong Two: Breach of Condition or Covenant

Under the second prong, the district court should determine whether the complaint alleges a breach of a condition or a breach of a covenant in the licensing contract.\textsuperscript{146} The Schoenberg test states that if the complaint alleges breach of a condition of the contract, then federal subject matter jurisdiction exists.\textsuperscript{147} If a covenant is allegedly violated, however, the district court should proceed to the third prong.\textsuperscript{148}

A criticism of this prong goes back to the Supreme Court decision in Luckett v. Delpark, Inc.\textsuperscript{149} In its opinion, the Court explicitly stated that where a complainant "makes his suit one for recovery of

\begin{itemize}
  \item \textsuperscript{142} See id. at 137-39 (noting deficiencies of Schoenberg test).
  \item \textsuperscript{143} See Schoenberg II, 971 F.2d at 932 (delineating first part of test).
  \item \textsuperscript{144} See Fleischman, supra note 5, at 137. But see McCarthy, supra note 5, at 192 (noting two policy reasons demonstrate need for this first level of inquiry). First, it would be inconsistent with the policies of the Act to limit a copyright holder to state law remedies when Congress both provides remedies for infringement and gives federal courts exclusive jurisdiction to award them. See id. Prevention of fraud constitutes the second policy concern supporting this first level of inquiry. See id.
  \item \textsuperscript{145} But see T.B. Harms Co. v. Eliscu, 339 F.2d 823 (2d Cir. 1964) (noting court's exercise of judicial discretion did not interfere with or impose upon involved parties).
  \item \textsuperscript{146} See Schoenberg II, 971 F.2d at 932 (delineating second prong of test).
  \item \textsuperscript{147} See id. at 932-33.
  \item \textsuperscript{148} See id. (explaining application of test). In undertaking this third step, the court "analyze[s] whether the breach is so material as to create a right of rescission in the grantor." Id. at 933.
  \item \textsuperscript{149} 270 U.S. 496 (1926). In Luckett, the Court held that an action against a patent licensee — requesting royalties owed, an accounting, and an injunction against future alleged infringements — did not "arise under" the patent laws, and, therefore, the Court could not exercise federal subject matter jurisdiction. See id. at 510. "'Covenant' is distinguished from a 'condition' in that the former goes to
\end{itemize}
royalties under a contract of license or assignment, or for damages for a breach of its covenants . . . he does not give the federal district court jurisdiction . . ." 150 The Second Circuit demonstrated inconsistency when it departed, without its reason for doing so, from precedent upon which it relied so heavily. 151

iii. Prong Three: Rescission

The third prong of the Schoenberg test applies in the event the alleged breach of contract is merely a breach of a covenant within the contract. 152 If the alleged breach pertains to a covenant, the relevant issue becomes whether that covenant creates a right of rescission on the part of the plaintiff. 153 The term "right of rescission," in and of itself, carries an unclear meaning. 154

The problem with this prong becomes clear, however, if courts interpret "right of rescission" to mean what it does in the normal course of dealings. 155 If they do so, then many federal courts will continue to exercise jurisdiction over cases solely alleging breaches of contract. 156

IV. NARRATIVE ANALYSIS

On appeal, the Scholastic court affirmed the district court's dismissal of Fox's counterclaims for lack of subject matter jurisdiction. 157 Recognizing the issue as complex and heavily fact

the very meaning and purpose of the contract while the latter only a component of it." Fleischman, supra note 5, at 138 n.118.

150. Luckett, 270 U.S. at 510 (emphasis added) (discussing Court's reasoning in case).

151. See Fleischman, supra note 5, at 138. The T.B. Harms court cited the Luckett case extensively. See id. at n.119. Because the Second Circuit supported, rather than undermined, the court's decision, it remains "good law." See id.

152. See Schoenberg II, 971 F.2d at 932-33 (delineating third prong of test).

153. See id.

154. See Fleischman, supra note 5, at 138 (identifying term "right of rescission" as vague). See generally Rotardier v. Entm't Co. Music Group, 518 F. Supp. 919 (S.D.N.Y. 1981) (explaining weakness of test's third prong). The issue in that case involved a covenant. See id. at 921. Violation of the covenant gave rise to the plaintiff's right of rescission, but the court could not exercise jurisdiction because it found the infringement to be merely incidental. See id.

155. See Fleischman, supra note 5, at 138-39. The third prong essentially forms a loop back to the first prong. See id. "Assuming that a claim for copyright infringement is not incidental, it must be determined whether the claim is for the violation of a condition or a covenant." Id. at 139. If the claim is for a covenant, the court must decide whether a right of rescission exists. See id.

156. See id. (noting potential for future problems with third prong if not clarified).

157. See Scholastic Entm't, Inc. v. Fox Entm't Group, Inc., 336 F.3d 982, 989 (9th Cir. 2003). The district court held that Scholastic's success in terminating the
dependent, the court applied the *T.B. Harms* test, which it designated as the "majority rule," to determine whether it could exercise jurisdiction. The court focused its analysis on this test's first category, which states that a complaint "arises under" the Act if, and only if, it seeks a remedy expressly granted by the Act. While it acknowledged the importance of the remaining two categories, the court found them inapplicable to the instant facts in the case.

A. Resolving the Ownership Dispute

The *Scholastic* court analyzed the rationale of several earlier Ninth Circuit decisions to determine whether Fox's counterclaims sought a remedy expressly granted by the Act. The Ninth Circuit, in reversing the district court's holding in *Topolos*, determined that the plaintiff successfully fulfilled the pleading requirements by alleging both ownership and infringement. As the Ninth Circuit noted, a qualified infringement allegation suffices as a clear question of copyright law. Unlike the plaintiff in *Topolos*, however, agreement constituted a pure question of state contract law appropriate for adjudication in state court. See id.


159. See *Scholastic*, 336 F.3d at 986 (discussing court's analysis in case). The court noted that the *T.B. Harms* test was "essentially a reiteration of the 'well-pleaded complaint' rule." Id. In other words, federal subject matter jurisdiction existed only when the face of the complaint presented a federal question. See id. For further discussion of the *T.B. Harms* test, see supra notes 71-73 and accompanying text. For further discussion of the "well-pleaded complaint" standard, see supra notes 99-128 and accompanying text.

160. See *Scholastic*, 336 F.3d at 986-89 (noting court did not adopt second or third prongs of *T.B. Harms* test in either part of its analysis).

161. See id. (noting court's reliance on Ninth Circuit precedent because of issue's complexity). The court recognized the merit in applying earlier Ninth Circuit decisions to aid in its analysis. See id.

162. See id. at 987; see also *Topolos* v. Caldewey, 698 F.2d 991, 993-95 (9th Cir. 1983) (discussing rationale of *Topolos* court's holding). The *Scholastic* court concluded, "it was obvious" that *Topolos* 'claim required a determination as to whether the two works . . . were sufficiently similar to warrant a finding of infringement — a clear question of copyright law." *Scholastic*, 336 F.3d at 987.

163. For further discussion of *Topolos*, see supra notes 85-88 and accompanying text.
the *Scholastic* court concluded that Fox had not alleged such an infringement claim.\textsuperscript{164}

The *Scholastic* court also looked to *Effects Associates, Inc. v. Cohen*\textsuperscript{165} for guidance.\textsuperscript{166} There, the Ninth Circuit focused its analysis on the issue of ownership, ultimately concluding that copyright ownership always constitutes a threshold question in determining whether federal subject matter jurisdiction exists.\textsuperscript{167} In agreement with the circuit court’s reasoning in *Effects*, the *Scholastic* court held that existence of an ownership issue coupled with a copyright issue does not necessarily prevent courts from exercising federal subject matter jurisdiction.\textsuperscript{168}

The *Scholastic* court solidified its analysis with the Ninth Circuit’s decision in *Vestron, Inc. v. Home Box Office, Inc.*\textsuperscript{169} Both *Vestron* and *Scholastic* involved a disagreement over the terms of a contract concerning ownership of a copyright.\textsuperscript{170} In *Vestron*, the Ninth Circuit held that the ownership issue constituted a threshold factor in determining whether a claim “arose under” the Act.\textsuperscript{171} Distinguishing *Vestron* on its facts, the *Scholastic* court held the ownership issue comprised the sole issue between Fox and *Scholastic*.\textsuperscript{172} As a result

\textsuperscript{164} See *Scholastic*, 336 F.3d at 989 (discussing aspect of court’s holding in case).

\textsuperscript{165} 817 F.2d 72 (9th Cir. 1987).

\textsuperscript{166} See *Scholastic*, 336 F.3d at 987-88 (discussing aspect of court’s rationale).

\textsuperscript{167} *See Effects Assoc., Inc.* 817 F.2d at 74 (reviewing *Effects* court’s reasoning in case). The court further reasoned that when such ownership comprised the sole question for consideration, federal courts lacked exclusive jurisdiction. *See id.*

\textsuperscript{168} See *Scholastic*, 336 F.3d at 988 (discussing court’s analysis of ownership issues in copyright cases). *But see* Int’l Armor & Limousine Co. v. Moloney Coachbuilders, Inc., 272 F.3d 912, 913-15 (7th Cir. 2001) (noting Seventh Circuit’s contradictory view regarding disputes concerning ownership of copyrights and whether they “arise under” federal law). In *Int’l Armor*, the Seventh Circuit held that because “the only serious dispute is how the contracts . . . allocate ownership rights in the Moloney name and business history, . . . the dispute arises under the law of contracts; any trademark claims are entirely derivative of the contract issues.” *Id.* at 916. Accordingly, the court held that the claim did not “arise under” the Act and dismissed the case for lack of subject matter jurisdiction. *See id.* at 918.

The court in *Scandinavian Satellite* concluded the Seventh Circuit’s holding represented “a misguided interpretation of the T.B. Harms test . . . and it surely does not square with the Second Circuit’s application of T.B. Harms in *Bassett*.” 291 F.3d 839, 845 (D.C. Cir. 2002). In the *Scandinavian Satellite* court’s view, “the Seventh Circuit’s position is premised on an unduly narrow and unrealistic reading of § 1358(a).” *Id.*

\textsuperscript{169} 893 F.2d 1380 (9th Cir. 1988).

\textsuperscript{170} Compare *Vestron*, 839 F.2d at 1380-81 with *Scholastic*, 336 F.3d at 983-85 (noting factual differences, specifically as they relate to ownership, between both cases).

\textsuperscript{171} See *Scholastic*, 336 F.3d at 988 (discussing court’s reasoning in *Vestron*).

\textsuperscript{172} *See id.*; *see also Vestron*, 839 F.2d at 1381-82. The fact that the plaintiff, *Vestron*, claimed ownership of the copyrights through a disputed contract gov-
of this determination, the court concluded it could not properly exercise federal subject matter jurisdiction.173

B. Rebutting Fox’s Final Argument Supporting Federal Jurisdiction

The court briefly entertained Fox’s final argument that the Act governed Scholastic’s attempt to terminate the agreement, thereby permitting federal court to hear the case.174 Relying on Ninth Circuit precedent, however, the court stressed the importance of applying state law to resolve those matters not addressed by the Act.175 Accordingly, the Scholastic court concluded that Fox’s argument hinged upon whether Scholastic’s termination concerned an issue addressed by the Act.176 The court found that § 203 of the Act governed the termination of a copyright license of indefinite duration.177 Because the Goosebumps contract was scheduled to expire in 2013, the court determined neither § 203 nor any other provision of the Act governed Scholastic’s right to terminate or rescind the agreed-upon license.178 The court therefore concluded that, because Fox’s counterclaims failed to adequately seek a remedy expressly granted by the Act, it could not properly exercise federal subject matter jurisdiction.179 As a result, the court held California state law governed this determination.180

173. See Scholastic, 336 F.3d at 989 (discussing court’s holding in case).
174. See id. at 988 (discussing one of Fox’s arguments supporting federal subject matter jurisdiction).
175. See id. (noting important distinction between claims seeking remedy under Act and those failing to do so).
176. See id. (noting Scholastic court’s holding in case). The court stressed the necessity of addressing termination issues by the Act before it could properly invoke federal subject matter jurisdiction. See id.
178. See Scholastic, 336 F.3d at 988 (discussing court’s reasoning concerning termination of contract and whether it was addressed by Act).
179. See id. at 989 (reviewing Scholastic court’s ultimate disposition in case).
180. See id. (noting court’s relegation of Fox’s counterclaims to state court for adjudication).
V. CRITICAL ANALYSIS: DEFINING A CLEAR AND CONSISTENT STANDARD

The Scholastic court astutely noted the difficult yet crucial distinction between claims "arising under" the Act and those merely seeking a determination of ownership.\textsuperscript{181} More importantly, however, the court laid precedent when it established the \textit{T.B. Harms} test as the majority rule to follow when confronted with interdependent copyright and contract claims.\textsuperscript{182} The court further recognized the similarities between the \textit{T.B. Harms} test and the "well-pledged complaint" rule.\textsuperscript{183} In doing so, it effectively stated federal courts might exercise federal subject matter jurisdiction only when a federal question appears on the face of a properly pleaded complaint.\textsuperscript{184}

While the court adopted the "well-pledged complaint"/\textit{T.B. Harms} standard, it also unknowingly applied the "essence of the claim" standard with respect to the ownership issue and whether it "arose under" the Act.\textsuperscript{185} In reaching its conclusion, however, the court's analysis exemplifies the problems other courts experience when attempting to make similar determinations.\textsuperscript{186}

Although the court unintentionally applied both the "well-pledged complaint" and "essence" standard, concurrent application of both standards in the analysis of future courts merits serious consideration.\textsuperscript{187} Courts should apply the "well-pledged complaint" standard because of its requirement that a complainant seek a remedy expressly granted by the Act.\textsuperscript{188}

\textsuperscript{181} See id. at 986 (discussing court's reasoning in case).

\textsuperscript{182} See id. The court held that the \textit{T.B. Harms} test constituted the majority rule in determining whether actions involving interdependent copyright and contract claims "arise under" the Act. See id.

\textsuperscript{183} See Scholastic, 336 F.3d at 986 (discussing court's rationale). The court determined that the test delineated in \textit{T.B. Harms} constituted a "reiteration" of the "well-pledged complaint" rule. Id.

\textsuperscript{184} See id.; see also T.B. Harms Co. v. Eliscu, 339 F.2d 823, 828 (2d Cir. 1964) (discussing nature of well-pledged complaint).

\textsuperscript{185} See Scholastic, 336 F.3d at 986-88 (noting court's incorporation of "essence" standard by looking to substance of Fox's counterclaims).

\textsuperscript{186} For further discussion of courts' varying interpretations with respect to determining whether they may exercise federal subject matter jurisdiction over interdependent copyright and contract claims, see supra notes 75-156 and accompanying text.

\textsuperscript{187} See McCarthy, supra note 5, at 191-94 (noting possible combination of both "essence" and "well-pledged complaint" standards by courts to advance their reasoning and promote consistency); see also Fleischman, supra note 5, at 142-45.

\textsuperscript{188} See \textit{T.B. Harms}, 339 F.2d at 828. For further discussion of the first prong of the \textit{T.B. Harms} test, see supra note 71.
Furthermore, two policy reasons support the need for applying the "well-pleaded complaint" standard. First, it would be inconsistent with the policies of the Act to limit a copyright holder to state law remedies when Congress has provided federal remedies for infringement and has given federal courts exclusive jurisdiction to award them. Additionally, applying the "well-pleaded complaint" standard helps prevent fraud.

Application of only the "essence" standard allows for the possibility that a copyright infringer will escape proper federal subject matter jurisdiction through an unfounded allegation that use of the copyrighted material fell within the terms of an oral license agreement. Nevertheless, a competing concern also exists for the necessity of incorporating the "essence" standard into a court's analysis. Because of the inherent concerns present when either only the "essence" or "well-pleaded complaint" standards is incorporated into a court's analysis, the following proposed test demonstrates the need to apply the "essence" standard in conjunction with that of the "well-pleaded complaint."

Under this proposed test, a court should first read the complaint. If the court determines the complaint to be grounded in copyright, then it inherently involves a case for copyright. The Act permits federal courts the discretion to grant injunctive re-

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189. See McCarthy, supra note 5, at 192 (discussing importance of incorporating "well-pleaded complaint" standard into analysis). For further discussion of the "well-pleaded complaint" standard, see supra notes 99-128 and accompanying text.

190. See McCarthy, supra note 5, at 192. If a court fails to incorporate the "well-pleaded" standard into its analysis, and follows the "essence" standard exclusively, that court may effectively deny a copyright owner a proper federal forum. See id.

191. See id. (discussing second policy concern in favor of applying "well-pleaded complaint" standard).

192. See id. (noting potential problems if court fails to apply "well-pleaded complaint" standard).

193. See id. (discussing importance of courts' incorporation of the "essence" standard in their reasoning). Some copyright and contract cases involve copyright questions so insubstantial as should cause a court to deny federal subject matter jurisdiction. See id. A skillfully drafted, "well-pleaded complaint," however, might allow a plaintiff to gain federal subject matter jurisdiction when it would otherwise be improper. See id.

194. See Fleischman, supra note 5, at 141-42 (discussing merit of applying both standards in jurisdiction analysis); see also McCarthy, supra note 5, at 191-94.

195. See Fleischman, supra note 5, at 142 (discussing first prong courts should adopt when undertaking this analysis).

196. See id. Although the issue of whether the copyright claim dominates might complicate matters, one can overcome this complication relatively quickly and effectively. See id.
lief. Even if injunctive relief is requested, however, it does not necessarily follow that a copyright claim has been stated.

Assuming the plaintiff requests injunctive relief, the court should move to the second step in its analysis. This second step incorporates various facets of the "essence" standard without the subjectivity that results from the application of such a standard.

As its next step, the court should determine the cause of the suit. If the complaint arises out of a copyright license, then under this step the court must determine who suffered the harm and who benefited by the breach of the license, and to what degree the conflict affected each party. In contrast to a breach of contract where a non-deserving party obtains something and the other party fails to receive something it reasonably believes is owed, the copyright infringer obtains something he or she does not deserve, while the copyright holder loses the right to something that he or she still owns. This occurrence constitutes theft "in the abstract, though on its face it is a violation of a contract right."

Finally, the court should determine whether this theft actually occurred. Such a theft occurs if the plaintiff, a copyright holder, alleges a violation of a right normally secured by the federal copyright laws. Accordingly, if the theft actually occurs, a federal court must then hear the action.

197. See id. (discussing aspect of Act). If a plaintiff seeks damages, then no claim upon which relief can be granted exists. See id.

198. See id. (noting federal as well as state courts may grant injunctions in variety of suits, copyright being only one of them).

199. See id. (explaining second prong of analysis courts should adopt under this proposed test). Typically, plaintiffs alleging infringement request injunctive relief. See id.

200. See Fleischman, supra note 5, at 142. Under this second level of analysis, the court must look not only to what is being requested, but also at what the plaintiff requests and what the plaintiff owned before bringing the suit. See id.

201. See id.; see also McCarthy, supra note 5, at 192-93 (elaborating on second prong of proposed test).

202. See Fleischman, supra note 5, at 142.

203. See id. (noting distinction between party breaching contract and copyright infringement).

204. Id. In other words, an action involving two parties bargaining to exchange something constitutes a contract claim. See id. at 143. "If, however, it is for one party to recover something that has been stolen, then [the claim] is for copyright infringement." Id.

205. See id. at 142 (discussing final part of court’s analysis).

206. See id. (defining when theft occurs for purposes of proposed test).

207. See Fleischman, supra note 5, at 142. This test "shakes" the criticism of the "essence" standard that states judges should look to what they perceive to constitute the plaintiff’s primary and controlling purpose. See id. at 144. "Once a determination has been made regarding what the plaintiff had and what the plaintiff seeks to recover, the primary purpose becomes clear." Id.
VI. Impact: Where Does the Law Currently Leave Copyright Owners?

Some consider a claim involving interdependent copyright and contract claims one of the "knottiest problems in copyright jurisprudence." As a result, federal courts experienced difficulty in establishing a uniform method for determining whether these types of claims "arise under" the Act. Almost one-half century after T.B. Harms and the varying interpretations that case spawned, it appears courts continue to disagree over what standard they should apply in their respective analyses. An important reason that explains this disagreement is the fact that each standard carries both positive and negative characteristics. For example, adopting the "essence" standard ensures that, once resolved, the court has before it a copyright claim of sufficient significance to the outcome of the dispute to justify its exercise of exclusive jurisdiction. On the other hand, this standard fails to make a sharper distinction between the § 1338(a) jurisdictional issue and a merits determination.

A proposed standard, which incorporates both the "well-pled complaint" and "essence" approaches, boasts stability and coherence, effectively allowing federal courts and future litigants some degree of predictability and stability. Furthermore, it will permit the courts some necessary discretion. American jurisprudence requires such discretion; however, courts must not receive

208. See Nimmer, supra note 7, at 12-14. (recognizing the difficulties inherent in cases involving interdependent copyright and contract claims).

209. For further discussion of court struggles with cases involving interdependent copyright and contract claims, see supra notes 44-156 and accompanying text.

210. For further discussion of different interpretations courts adopt in determining whether a claim "arises under" the Act, see supra notes 75-156 and accompanying text.

211. For further discussion regarding strengths and weaknesses of each of the three standards, see supra notes 75-156 and accompanying text.

212. For further discussion of the "essence of the claim" standard, see supra notes 78-98 and accompanying text.

213. The "essence" standard provides a clear example of the strengths and weaknesses contained in each approach. See Fleischman, supra note 5, at 142-44. For further discussion addressing weaknesses of the "essence of the claim" standard, see supra notes 78-98 and accompanying text.

214. See Fleischman, supra note 5, at 142-44. For further discussion of the proposed test, see supra notes 195-207 and accompanying text.

215. See id. This test is intended to combine the three views adopted from T.B. Harms. See id. It involves combining the "essence" and "well-pled complaint" standards as well as providing future courts with more discretion in making their decisions. See id. But see Schoenberg v. Shapolsky Pub., Inc., 971 F.2d 926, 933 (2d Cir. 1992) (noting Schoenberg test permits excessive discretion by courts).
virtually unfettered authority as the Schoenberg court attempted to do with its three-prong test.²¹⁶

This proposed standard might permit our judicial system to function on a more efficient, effective, and fair level, which in turn may instill confidence in future artists seeking protection of their works.²¹⁷ Therefore, if courts follow this standard in future cases, the current state of confusion may give way to uniformity and predictability, allowing the federal judicial system to keep pace with the rapidly evolving field of intellectual property.²¹⁸

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²¹⁶ See Fleischman, supra note 5, at 145. For further discussion of the Schoenberg test and its weaknesses, see supra notes 129-56 and accompanying text.
²¹⁷ See id. (discussing potential benefits of proposed test).
²¹⁸ See generally McCarthy, supra note 5, at 194-95 (discussing need for consistent approach taken by future courts faced with interdependent copyright and contract claims).