

1977

Time Commercial Financing Corp v. Carol
Brimhall, William Hesterman, Stephen D. Schultz
And Brimhall Products, Inc., A Corporation, And
4-Spectra, Inc And Walker Bank & Trust Company,
Administrator With The Will Annexed of The
Estate of Ray S. Brimhall, Deceased v. Brimco
Hydraulics & Engineering, Inc., A Corporat: On,
John B. Fairbanks, Jr., And Western Research And
Manufacturing Company : Reply To Defendants-

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Utah Supreme Court

Original Brief submitted to the Utah Supreme Court; funding for digitization provided by the Institute of Museum and Library Services through the Library Services and Technology Act, administered by the Utah State Library, and sponsored by the S.J. Quinney Law Library; machine-generated OCR, may contain errors. Thomas J. Rossa, David V. Trask; Attorneys for Defendants and Respondents Carol Brimhall Philip A. Mallinckrodt, Robert R. Mallinckrodt, A. Wally Sandack; Attorneys for Plaintiff-Appellant

Recommended Citation

Reply Brief, *Time Comm. Financing v. Brimhall*, No. 15136 (Utah Supreme Court, 1977).
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IN THE SUPREME COURT OF
THE STATE OF UTAH

TIME COMMERCIAL FINANCING CORP.,
a Utah corporation,

Plaintiff-Appellant,

vs.

CAROL BRIMHALL, WILLIAM HESTERMAN,
STEPHEN D. SCHULTZ and BRIMHALL
PRODUCTS, INC., a corporation, and
4-SPECTRA, INC.,

Defendants-Respondents,

and

WALKER BANK & TRUST COMPANY,
Administrator with the Will annexed
of the Estate of Ray S. Brimhall,
deceased,

Defendant-Respondent and
Third-Party
Plaintiff,

vs.

BRIMCO HYDRAULICS & ENGINEERING, INC.,
a corporation, JOHN B. FAIRBANKS, JR.,
and WESTERN RESEARCH AND MANUFACTURING
COMPANY,

Third-Party Defendants-
Respondents

Case No. 15136

REPLY TO DEFENDANTS-RESPONDENTS' "RESPONSE"

(Continued on inside of cover)

FILED

NOV 23 1977

Appeal from the Judgment of the Third
District Court for Salt Lake County
Hon. James S. Sawaya, Judge

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59(e) FRCP 2

REPLY REQUIRED

The "Response" filed by defendants-respondents calls for a reply from plaintiff-appellant.

The additional brief is believed to be completely unwarranted and presumptuous, because the case cited to support the proposition that the notice of appeal is fatally defective was available at the time of preparation of defendants-respondents' appeal brief and is not in response to a new issue. Moreover, under the heading "Plaintiff Was Not Denied Due Process", the quotation from a transcript of lower court proceedings after the appeal was filed and appeal briefs had been submitted sheds no new light on the issues in the appeal. It seems clear, that both are merely excuses for belated and prolonged argument in a transparent attempt to obtain the last word in an otherwise legitimate exchange of briefs.

NOTICE OF APPEAL IS NOT FATALY DEFECTIVE

It is submitted that defendants-respondents' reliance on the cited case of Walker v. Bank of America National Trust & Savings Association, 268 F. 2d 16 (CCA 9th, 1959) is misplaced. If anything the case supports plaintiff-appellant's position that this appeal is proper.

In the first place, the factual situation is very different. The plaintiff-appellant in the cited case had pleaded and appeared in propria persona and had failed to either establish jurisdiction or state

a cause of action by the allegations in the original, amended, and proposed to be amended complaints. After dismissal of the action, she made four motions designed to reinstate the lawsuit. The lower court denied these motions. On appeal, the motion to set aside the order of dismissal and for leave to file an amended complaint was considered by the court to be, in effect, a motion to alter or amend the order, under Rule 59(e) Federal Rules of Civil Procedure. The Court reasoned that, since a motion for a new trial gives the trial judge power to alter, amend, or vacate the judgment, and, if the motion is denied, such denial may be reviewed for manifest abuse of discretion, the same should be true for a motion to alter or amend. It applied this reasoning in the case then at bar and held that, under the circumstances, there had been no manifest abuse of discretion.

It should be noted that the Court held the appeal had been timely filed and considered both the merits of the original order of dismissal and the merits of the denial of the motion to alter or amend.

In their main Brief, defendants-respondents have taken the position (p. 8) that a request for a new trial is not appealable. Plaintiff-Appellant has argued that its motion was, in effect, a motion to alter or amend the Order of January 24, 1977, holding that royalties are due on the Nordell-Kimball cab latch. Whichever way it is viewed, implicit in this appeal is the proposition that the trial court erred and abused any discretion it might have had to grant or deny the motion.

THE APPEAL IS NOT UNTIMELY

Defendants-Respondents now argue that plaintiff-appellant's motion was one for reconsideration of the Amended Decree of July 30, 1975, which awarded plaintiff-appellant an exclusive license under the Brimhall patents for the life of such patents subject to payment of a royalty, and that such a motion is untimely.

This is a completely illogical argument. Plaintiff-Appellant did not appeal from that decision favorable to it, did not move for reconsideration of that decision, and does not now urge any alteration of that decision.

Neither does plaintiff-appellant seek the introduction of new or additional evidence with respect to that decision. Rather, defendants-respondents asked the lower court to hold plaintiff-appellant in contempt for not paying royalty on a product manufactured under a different patent. This appeal arises from the lower court's refusal to conform to the requirements of the United States Patent Laws and to accepted practice thereunder by holding royalties ^{to be} due under a patent and on a product not subjected to proper scrutiny by the Court from the standpoint of patent validity and infringement.

PLAINTIFF-APPELLANT WAS DENIED DUE PROCESS

Defendants-Respondents insist that, because the lower court had knowledge of the Nordell-Kimball cab latch (the so-called "black

cab latch") prior to entry of the Amended Decree of July 30, 1975 (which would also be prior to entry of the Amended Findings of Fact and Conclusions of Law), it had sufficient facts and details before it to justify the finding that royalties are due on such product.

But, if that had been so, certainly the lower court would have made formal findings and conclusions to that effect, which it did not do.

It is submitted that it was improper for defendants-respondents to ask, and for the lower court to decide, that the Nordell-Kimball cab latch comes within the scope of its Amended Decree of July 30, 1975, without proof that such cab latch comes within the scope of and is subject to the licensed Brimhall patents.

The comments of the trial judge, the Honorable James S. Sawaya, quoted at page 5 of the so-called "Response" from the transcript of a hearing (September 23, 1977) on several motions brought by defendants-respondents, provides no effective support for the decision and clearly shows that there was an abuse of discretion with respect to denying plaintiff-appellant a proper evidentiary hearing. From mere external observation, without reference to Brimhall patent description or claims, without benefit of the explanation and differentiation that gained Messrs. Nordell and Kimball a separate patent from a presumably skilled and knowledgeable patent examiner, and

without consideration of patent validity, the trial judge decided only "that the black cab latch is sufficiently identical with the original cab latch that royalties should be paid on it".

PLAINTIFF-APPELLANT'S ARGUMENTS ARE NOT IMPROPER

Although the Nordell-Kimball patent is not of record, its existence has been recognized by defendants-respondents and is a fact to be considered on the appeal.

As to the matter of asserted resistance to royalty payments, plaintiff-appellant stands on its Reply Brief, pages 1 and 2.

It is true that the transcript of proceedings shows no objection being voiced on behalf of plaintiff-appellant. This is due to the sudden departure of the court reporter and to the fact that defendants-respondents' suggestion for and the resulting discussion as to the propriety of the trial judge informally viewing the exhibits (which had been set up in the courtroom by defendants-respondents), without setting a time for a proper evidentiary hearing, came after departure of the court reporter and, indeed, after formal closing of the Court.

ADDENDUM TO PLAINTIFF-APPELLANT'S REPLY BRIEF

Since the filing of plaintiff-appellant's reply brief, the decision in Milprint, Inc. v. Curwood, Inc., 422 F. Supp. 579; 192 USPQ 769 (DCE Wisc. Feb. 24, 1977) (see page 16 of the reply brief) has been

affirmed by the Court of Appeals, Seventh Circuit. A copy of the as yet unpublished decision is included herein as an appendix.

It is significant, indeed, to note that the Federal Circuit Court affirmed the lower court in its dismissal of the complaint that sought a declaratory judgment of noninfringement and patent invalidity, in view of the fact that such complaint was filed by the defendants-respondents in an action in the State court for royalties due under a license agreement, and that the case of Public Service Commission of Utah v. Wycoff Company, Inc., 344 U. S. 237, 248 (1952) was discussed (at pages 6 and 7) and its logic was held to control the outcome of the case then at bar.

It is submitted that there can be no question but that the lower court in the present case must confront, and not avoid, proper application of the patent law as urged by plaintiff-appellant in its main Brief, particularly pages 12-14 thereof.

Respectfully submitted,



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APPENDIX

In the
United States Court of Appeals
For the Seventh Circuit

No. 77-1049
MILPRINT, INC.,

Plaintiff-Appellant,

v.

CURWOOD, INC.,

Defendant-Appellee.

Appeal from the United States District Court for the
Eastern District of Wisconsin.
No. 76-C-201—John W. Reynolds, Judge.

ARGUED APRIL 19, 1977—DECIDED SEPTEMBER 14, 1977

Before PELL, TONE, and WOOD, *Circuit Judges.*

PELL, *Circuit Judge.* Appellee Curwood, Inc., is the owner of a patent covering a plastic laminated film product. In 1970, Curwood advised appellant Milprint, Inc., that it should either take a license under the patent or prepare for an infringement suit. By two agreements in April 1971 Milprint took a license but reserved its right to contest the validity of the patent. In mid-1973, Milprint ceased making royalty payments due under the license agreement and on March 1, 1976, Curwood instituted an action for royalties in the Circuit Court of Milwaukee County, Wisconsin. Diversity between the

parties being lacking, the state court, as will be discussed hereinafter, was the only forum available to Curwood.

On March 22, 1976, Milprint filed in the district court a complaint seeking a declaratory judgment to the effect that Curwood's then-current reissue patent and its predecessor were invalid, that no further royalties were due Curwood under the license agreements, and that Milprint was entitled to return of the royalties paid between 1971 and 1973. A separate count of the complaint alleged breaches of the agreements by Curwood and sought similar declarations as to royalties. On April 1, Milprint filed a petition removing the state court case to the district court. The district court remanded the case because it had been "removed improvidently and without jurisdiction." 28 U.S.C. § 1447(c).¹ In the same decision and order, the district court rejected Curwood's argument that the case should be dismissed for lack of jurisdiction, but nonetheless dismissed the declaratory action because of the pendency of the state court suit.

Milprint's appeal attacks only the propriety of the district court's discretionary dismissal, and Curwood, apparently satisfied with a dismissal on any grounds, did not press its jurisdictional objection in this court. The objection made in the district court was that Milprint's declaratory action does not "aris[e] under any Act of Congress relating to patents" within the meaning of U.S.C. § 1338(a).² The district court was of the view that

¹ By unreported order of February 11, 1977, this court dismissed Milprint's appeal from this remand order for lack of appellate jurisdiction. *Curwood, Inc. v. Milprint, Inc.*, No. 77-1050. See 28 U.S.C. § 1447(d); *Thermtron Products, Inc. v. Hermansdorfer*, 423 U.S. 336, 343 (1976).

² Section 1338(a) provides:

The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.

the action "manifestly does" so arise. Because the matter does not seem to us to be so simple, we must first decide whether the district court had jurisdiction of the case. See *Arvin Industries, Inc. v. Berns Air King Corporation*, 510 F.2d 1070, 1072 (7th Cir. 1975).

It has long been clear, notwithstanding the substantial federal interest in patent matters, that there is no exclusive federal jurisdiction over *questions* arising under the patent laws; only *cases* so arising may be brought in the federal courts. *Pratt v. Paris Gas Light & Coke Company*, 168 U.S. 255, 259 (1897). Consistent with the oft-cited principle stated by Justice Holmes in *American Well Works Co. v. Layne & Bowler Co.*, 241 U.S. 257, 260 (1916) (in which patent jurisdiction was asserted), that "[a] suit arises under the law that creates the cause of action," it is well established that

[w]hile a suit for infringement of a patent arises under the patent laws and is therefore cognizable under 28 U.S.C. § 1338(a), a suit to enforce an undertaking to pay royalties for the use of a patent arises under state law and is not within the jurisdiction of the federal courts. *Albright v. Teas*, 106 U.S. 613 . . . (1883); *Lockett v. Delpark, Inc.*, 270 U.S. 496, 510 . . . (1926).

Arvin Industries, supra, 510 F.2d at 1072-73.³ A patent licensor whose licensee has broken the agreement is not without choice between a state and a federal forum. It can, for example, declare the license forfeited for breach of a condition subsequent and sue for infringement. If it is correct as to its right to declare such a forfeiture unilaterally (a question of state law) federal jurisdiction of the infringement suit exists. *Lockett v. Delpark, Inc., supra*, 270 U.S. at 511. But where the licensor stands on

³ Under these principles, there can be no doubt that the count of Milprint's complaint which alleges Curwood's breaches of the license agreement and seeks, thus, a declaration that Milprint is entitled to return of already paid royalties, has no jurisdictional significance. This count sounds exclusively in contract, and, unlike the other count, does not even assert the existence of patent law issues.

the license agreement and seeks contract remedies. An allegation of infringement will not create federal jurisdiction, for the existence of the license precludes the possibility of infringement. *Arvin Industries, supra*, 5 F.2d at 1073.

These principles lead straight to the conclusion that Curwood's state court royalties suit, diversity being absent, could have been brought nowhere else but in state court. Curwood's suit is a prototypical one of a kind that arises under state, not federal patent law. Milprint's assertions that the underlying patents are invalid could be asserted by way of defense in the state court. See *Lear, Inc. v. Adkins*, 395 U.S. 653, 669-71 (1969).

The questions at hand are whether Milprint's suit does anything more than seek to establish what would be its defenses in the state court royalties action, and not, whether the Declaratory Judgment Act, 28 U.S.C. § 2201, somehow allows Milprint to test a defense in federal court that could, without the Act, only be raised in state court.

We answer the first question in the negative. As we have remarked, the second count of the complaint, which asserts something akin to a trade secret rescission cause of action, must be disregarded for jurisdictional purposes. See n.3 *supra*. The balance of the complaint, while it asserts the invalidity of Curwood's patents, is entirely geared to the royalty dispute. The existence of the license agreements, and a generalized statement of their terms, are alleged, but nowhere stated that the license has been terminated by either party. In fact, the complaint specifically avers the existence of Curwood's pending state court suit to enforce payment of royalties. The relief sought

* It should be recalled here that 28 U.S.C. § 1338a is a federal jurisdiction of cases arising under the patent laws. *exclusive*. Absent diversity, the propriety of a state forum, e.g., *Lear, supra*, necessarily implies the nonexistence of federal jurisdiction. See Chisum, *The Allocation of Jurisdiction between State and Federal Courts in Patent Litigation*, WASH. L. REV. 633, 670 (1970).

than a declaration of patent invalidity and of the rights of the parties under the license agreement, is specifically aimed at eliminating Milprint's royalty obligations. This is, thus, a quite different case than would be presented by a complaint alleging that a licensee's non-payment of royalties gave it reason to fear the licensor would declare a forfeiture and sue for infringement. By alleging that Curwood is standing on the license agreement, Milprint forecloses that possibility. See *Arrin Industries, supra*, 510 F.2d at 1073; *Thiokol Chemical Corporation v. Burlington Industries, Inc.*, 448 F.2d 1328, 1330 n.2 (3d Cir. 1971), *cert. denied*, 404 U.S. 1019 (1972). In fact, the word "infringement" does not even appear in the complaint. For purposes of jurisdiction, then, this case is nothing more than Milprint's attempt to use the Declaratory Judgment Act to establish a federal defense to an action grounded exclusively in state law, which could only be and has been brought in state court.

We believe the attempt must fail. The Act provides, 28 U.S.C. § 2201, that "[i]n a case of actual controversy *within its jurisdiction* . . . any court of the United States . . . may declare the rights and other legal relations of any interested party seeking such declaration" (Emphasis supplied.) By its terms, the Act makes declaratory judgment jurisdiction dependent on the traditional grants of jurisdiction by which conventional coercive suits would be judged.

"[T]he operation of the Declaratory Judgment Act is procedural only." *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 240 [1937]. Congress enlarged the range of remedies available in the federal courts but did not extend their jurisdiction.

Skelly Oil Co. v. Phillips Petroleum Co., 339 U.S. 667, 671 (1950).

In *Skelly Oil*, the declaratory plaintiff sought to have its right to contract performance adjudicated. The defendants had stated they would not perform because

the contract was conditioned on the issuance of a Federal Power Commission certificate of public convenience and necessity to plaintiff, which had, it was not been issued in time. The complaint alleged that the certificate had been "issued" in time. Notwithstanding that the time of issuance of the certificate was a federal law question critical to plaintiff's recovery, and that the dispute thereon had to be pleaded to establish a live controversy, the Supreme Court held there was no federal jurisdiction, in accordance with the long-established rule that the plaintiff's claim must present a federal question without reference to anticipated defenses. *Id.* at 673. *Louisville and Nashville Railroad Company v. Moan*, 211 U.S. 149 (1908). The Court stated:

To sanction suits for declaratory relief as within the jurisdiction of the District Courts merely because, as in this case, artful pleading anticipates a defense based on federal law would contravene the trend of jurisdictional legislation by Congress and disregard the effective functioning of the federal judicial system and distort the limited procedure and purpose of the Declaratory Judgment Act. *Developments in the Law—Declaratory Judgment*, 1941-1949, 62 Harv. L. Rev. 787, 802-03 (1949).

339 U.S. at 673-74.

Here, unlike *Skelly Oil*, the federal "defense" asserted as the claim of the declaratory plaintiff. Procedurally, of course, this is part of what the Declaratory Judgment Act is all about, but we think the jurisdictional principles should be the same. The Supreme Court apparently agreed. The very portion of the HARVARD LAW REVIEW Comment cited approvingly by the Court reached the conclusion that a declaratory action seeking to test a defense should be triable in federal courts *only* if it would normally arise in and to a complaint which itself would properly raise a federal question. Citing the same Comment, the Court in *Public Service Commission of Utah v. Wycoff Company, Inc.*, 344 U.S. 237, 248 (1952), observed that "[w]here a complaint in an action for declaratory judgment seeks its essence to assert a defense to an impending

threatened state court action, it is the character of the threatened action, and not of the defense, which will determine whether there is federal-question jurisdiction in the District Court."

In our opinion the logic of *Skelly Oil* and *Wycoff* controls this case. It is true, that the Declaratory Judgment Act does allow cases to be brought in federal courts which would not, *for lack of a proper coercive remedy*, otherwise be there. But it would be anomalous to conclude that an Act which provides only *procedural* and *remedial* flexibility somehow allows a party to invoke federal question jurisdiction to adjudicate its federal defense to an exclusively state law action. Accordingly, we hold that where diversity is lacking, a patent licensee's declaratory complaint which asserts patent invalidity simply to avoid the obligations of the license does not state a claim arising under the patent laws within the meaning of 28 U.S.C. § 1338(a).⁵ The Third Circuit has flatly so held, *Thiokol Chemical Corporation, supra*, 448 F.2d 1328, and the Tenth Circuit in *Product Engineering and Manufacturing, Inc. v. Barnes*, 424 F.2d 42 (10th Cir. 1970), while considering the jurisdictional issue in conjunction with a discretionary dismissal issue much as is presented here, with some resulting loss in conceptual clarity, did

⁵ Because the importance of respecting jurisdictional limits often leads federal courts to examine their jurisdiction even where the parties do not question it, it might be argued that *Edward Katzinger Co. v. Chicago Metallic Manufacturing Co.*, 329 U.S. 394 (1947), embodies an implicit holding that a licensee can invoke federal jurisdiction to test a federal validity defense. We think it does not, for three reasons. First, the declaratory plaintiff in *Katzinger* had not only ceased royalty payments but had also terminated the license and sought declaration not only of invalidity but also of noninfringement. Second, even if this were not so, we doubt that any such implicit and unconsidered "holding" survived *Skelly Oil* and *Wycoff*. Third, diversity jurisdiction may, for all that appears, have existed in *Katzinger*. The existence of diversity jurisdiction, which is shown by court records but not mentioned in the opinions, explains this court's unquestioning acceptance of jurisdiction in two recent declaratory actions by licensees, *USM Corporation v. Standard Pressed Steel Co.*, 524 F.2d 1097 (7th Cir. 1975); and *Beckman Instruments, Inc. v. Technical Development Corporation*, 433 F.2d 55 (7th Cir. 1970), *cert.denied*, 401 U.S. 976 (1971).

expressly affirm the district court's conclusion that the action virtually identical to this one "was purely a contract action which properly should be litigated in State court." *Id.* at 43.⁶

We have considered and found without merit the issues raised by Milprint including the contentions that it is an imposition on a state judicial system to require its judges to resolve complex issues under federal statutes with which they are generally unfamiliar and that there are potential discovery limitations at the federal forum level. Aside from the fact that we are cognizant of frequent federal judicial recognition of the concurrent ability of state courts to handle difficult legal questions including federal constitutional ones, we are unaware of any basis in contentions such as those presently advanced for according jurisdiction to a court when that jurisdiction does not otherwise exist.

Although our reasons differ from those used by the district court, we conclude that the judgment of dismissal must be, and it hereby is,

AFFIRMED

A true Copy:

Teste:

Clerk of the United States Court
Appeals for the Seventh Circuit

⁶ Indeed, this court has recently indicated the result to reach today. In *Super Products Corporation v. D P Wagon Corporation*, 546 F.2d 748, 753 n.8 (7th Cir. 1976), a case primarily concerned with the existence of a real case or controversy it was observed, citing *Thiokol, supra*, that

[t]he plaintiff's stake must be an interest in such *infringement litigation* or the threat of such litigation to satisfy the . . . jurisdictional requirement that the controversy arise under the patent law. [Emphasis supplied.]