

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

DML ASSOCIATES, INC., and)
CJ ASSOCIATES, LTD.,)
)
Plaintiffs,)
)
v.) C.A. No. 03-128 GMS
)
MATTEL, INC.,)
)
)
Defendant.)

MEMORANDUM AND ORDER

I. INTRODUCTION

On December 13, 2002, the plaintiffs, DML Associates, Inc. (“DML”) and CJ Associates Ltd. (“CJ”) filed the above-captioned action against Mattel, Inc. (“Mattel”) in the Superior Court of the State of Delaware. The complaint alleges that Mattel has breached a license agreement it entered into with DML and CJ.

On January 27, 2003, Mattel filed a Notice of Removal of this case to the present court. On February 6, 2003, Mattel filed a motion to stay the litigation pending reexamination of one of the five patents mentioned in the complaint.

DML and CJ have now moved to remand this case to the Superior Court. For the following reasons, the court will grant this motion and dismiss Mattel’s motion to stay as moot.

II. STANDARD OF REVIEW

The removal of an action from state court is only permissible for “actions that originally could have been filed in federal court.” *Caterpillar Inc. v. Williams*, 482 U.S. 386, 392 (1987). Where removal is based on federal question jurisdiction, the propriety of the removal turns on whether the case “arises under” the Constitution, laws, or treaties of the United States. *See*

Franchise Tax Bd. v. Construction Laborers Vacation Trust, 463 U.S. 1, 8 (1983). Furthermore,

the presence or absence of federal question jurisdiction is governed by the “well-pleaded complaint rule,” which provides that federal jurisdiction exists only when a federal question is presented on the face of the plaintiff’s properly pleaded complaint.

Caterpillar, 482 U.S. at 392.

III. BACKGROUND

According to their complaint, DML and CJ developed novel toy figure joints, joint systems, and molding techniques to make such systems. These developments resulted in the relatively low-cost manufacture of durable toy action figures having articulating limbs and torso parts. At meetings in May and June 1998, and after Mattel signed a confidentiality agreement, DML and CJ disclosed these developments to Mattel, showed Mattel a working prototype toy action figure, and gave Mattel a patent application filed by CJ with the United States Patent and Trademark Office.

Shortly thereafter, Mattel entered into an agreement (the “License Agreement”) with DML and CJ. The License Agreement gave Mattel the exclusive worldwide right to manufacture, have manufactured, use, and sell “the ITEM.” The ITEM was generally defined as the toy figure with articulating joints described in CJ’s patent application. The License Agreement requires DML and CJ to use their best efforts to obtain patent protection for the licensed technology. According to DML and CJ, however, the terms of the License Agreement covered all material in the patent application, whether or not any patents actually issued from that application. To date, five patents have been issued to CJ from the application given to Mattel.

In order to retain its rights under the License Agreement, by February 1999, Mattel was required to offer for sale a product using the licensed technology. Mattel developed a line of toy action figures using the licensed technology and began selling those figures in 1999 and 2000.

Mattel initially paid royalties to DML and CJ on all toy figures in this line. Later, however, Mattel took the position that royalties were not required on many of these figures. It thereafter ceased paying royalties on them and recouped past royalty payments on such figures through deduction from royalties it owed on other figures.

After the parties were unable to resolve the dispute as to the products on which royalties must be paid, DML and CJ filed this action. The complaint alleges that “Mattel has breached and continues to breach the express and implied terms of the License Agreement by failing to make the royalty payments required by the License Agreement.” It further seeks compensatory damages and related relief. As Mattel is licensed to use the technology at issue, DML and CJ concede that they are not seeking damages for patent infringement.

IV. DISCUSSION

A. Remand

In its notice of removal, Mattel asserts that removal is proper because “plaintiffs have pleaded as state law claims, causes of action that are for patent infringement.” The court must disagree, however, that removal was proper.

The fact that the License Agreement relates in part to patents, or that patent issues could arise, does not make the case removable. More than seventy-five years ago the Supreme Court stated that:

[i]t is a general rule that a suit by a patentee for royalties under a license or assignment granted by him, or for any remedy in respect of a contract permitting use of the patent is not a suit under the patent laws of the United States and cannot be maintained in a federal court as such.

Luckett v. Delpark, Inc., 270 U.S. 496, 502 (1926); *accord Ballard Medical Products v. Wright*, 823

F.2d 527, 530 (Fed. Cir. 1987) (holding that, “the scope of a licensed patent may control the scope of a license agreement, but that rule of contract law cannot possibly convert a suit for breach of contract into one ‘arising under’ the patent laws”); 8 CHISUM ON PATENTS § 21.02 [1][c] at pp. 21-33 (stating that, “a patent owner’s claim for breach of a patent license or assignment agreement arises under state contract law rather than under the patent laws - even though the existence of contract liability requires resolution of patent issues such as validity and infringement.”).

Similarly, the fact that Mattel’s Answer and Counterclaims raise patent-related defenses and assert a counterclaim that CJ’s patents are invalid and unenforceable does not make the case removable. It is settled law that a case may not be removed to a federal court based upon a federal defense, even if the defense is anticipated in the plaintiff’s complaint. *See e.g. Caterpillar, Inc. v. Williams*, 482 U.S. 386, 393 (1987). Thus, “a case raising a federal patent-law defense does not, for that reason alone, ‘arise under’ patent law ‘even if the defense is anticipated in the plaintiff’s complaint, and even if both parties admit that the defense is the only question truly at issue in the case.’” *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 809 (1988).

Additionally, the fact that patent law issues might arise in the state court provides no basis for removal because state courts may decide patent questions that bear on claims in those courts. As the Federal Circuit has recognized, “the statutory limitations on the jurisdiction of this court and the federal district courts, in conjunction with the well-pleaded complaint rule, can and do result in state courts resolving patent issues.” *Speedco, Inc. v. Estes*, 853 F.2d 909, 913 (Fed. Cir. 1988).

In the face of this settled law, Mattel makes two arguments in defense of its removal. First, it contends that federal courts have exercised jurisdiction over patent licensing disputes. *See e.g. Kleinerman v. Luxtron Corp.*, 107 F. Supp. 2d 122, 124 (D. Mass. 2000) (noting that infringement

must be found before the license agreement issue could be decided); *Regents of the Univ. of Minn. v. Glaxo Wellcome, Inc.*, 58 F. Supp. 2d 1036, 1038 (D. Minn. 1999) (recognizing that infringement was a necessary precursor to a finding that the defendant breached the license agreement); *Robertson v. Baker Oil Tools, Inc.*, 2002 U.S. Dist. LEXIS 9368, at *15 (N.D. Tex. May 23, 2002) (requiring the fact-finder to determine whether the plaintiff's patents were infringed before deciding the licensing agreement issue). Here, however, unlike in the cases cited by Mattel, patent infringement is not a necessary element to the plaintiffs' claims because the License Agreement applies even in the event no patents issued.

Mattel alternatively argues that, because the License Agreement uses terms such as "unique" and "novel," which are also used in patent law, substantial issues of federal patent law are raised. Mattel cites no case law for this proposition. Moreover, the parties themselves agreed that state law, not federal law, would govern the License Agreement.

For these reasons, the court concludes that Mattel's assertion that the plaintiffs invoked federal law in their complaint cannot withstand scrutiny.

B. Attorneys' Fees

In ordering a case to be remanded, the court "may require payment of just costs and any actual expenses, including attorney fees, incurred as a result of the removal." 28 U.S.C. § 1447(c). The court has broad discretion in making such a determination, however, and may be flexible in its approach. *See Mints v. Educational Testing Serv.*, 99 F.3d 1253, 1260 (3d Cir. 1996).

In the present case, the court concludes that the removal of this action was not so "implausible, insubstantial or frivolous as to warrant the imposition of costs and attorney fees." *Robinson v. Computer Learning Centers*, 1999 WL 817745, *3 (E.D. Pa. Oct. 12 1999). In its

discretion then, the court will decline to award DML and CJ attorneys' fees.

V. CONCLUSION

For the foregoing reasons, IT IS HEREBY ORDERED that:

1. The Plaintiffs' Motion to Remand (D.I. 6) is GRANTED.
2. The Plaintiffs' Request for Attorneys' Fees is DENIED.
3. The Defendant's Motion for Stay Pending Reexamination (D.I. 4) is DISMISSED AS MOOT; and
4. The above-captioned action is hereby REMANDED to the Superior Court for the State of Delaware in and for New Castle County pursuant to 28 U.S.C. § 1447(c).

Dated: April 7, 2003

Gregory M. Sleet
UNITED STATES DISTRICT JUDGE