Federal Jurisdiction -- Amount in Controversy -- Unregistered Trade-marks and Trade Names

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cause he was not a defendant within the meaning of the removal statutes.

It is equally clear that the defendant being sued in his home state cannot remove, because the statute explicitly limits the right of removal to a nonresident defendant or defendants.\(^2\) By the weight of authority a non-resident defendant who pleads a counterclaim in a state court in excess of the jurisdictional amount cannot remove when the plaintiff claims only $3,000 or less. The courts take the view that it is the demand in the complaint which fixes the amount in controversy, and a counterclaim is not to be considered.\(^2\)

When both original and removal suits are considered, the decisions do not warrant the statements frequently made by writers that it is generally held that a counterclaim can be used to make up the jurisdictional amount.\(^2\) Most of the decisions cited as permitting such a proposition are only dicta.\(^2\)

In conclusion this writer suggests that the existing practice of deciding compulsory counterclaims when there is jurisdiction over the plaintiff’s complaint, regardless of the amount of the counterclaim, should be maintained. In addition the effect of a counterclaim upon the jurisdictional amount should be made clear by an amendment to Rule 13 of the Federal Rules of Civil Procedure. The simplest rule, and one which would be in line with the plaintiff’s viewpoint theory, as well as the policy of restricting federal jurisdiction, would be a requirement that plaintiff’s complaint show that an amount exceeding $3,000 exclusive of interest and costs, be in controversy, and no counterclaim would be considered to make up that amount. No distinction should be made between original and removal jurisdiction.

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**Federal Jurisdiction—Amount in Controversy—Unregistered Trade-marks and Trade Names**

Where the owner of a trade-mark has registered it pursuant to the Federal Trade-Mark statutes, no jurisdictional amount is required in an action for infringement in the federal courts.\(^1\) In addition, where a

\(^2\) 28 U. S. C. §1441 (b) (1948).


\(^2\) Note, 25 MINN. L. REV. 356 (1941).

\(^1\) 28 U. S. C. §1338(a) (1948).
claim for unfair competition is joined with a substantial and related claim of infringement, federal courts will accept and retain jurisdiction of the former irrespective of the amount in controversy even though the latter claim fails. Where, however, the action is not bottomed on a federally registered mark, federal courts have jurisdiction only where the amount in controversy exceeds $3,000 exclusive of interest and costs. This note deals with the manner in which federal courts determine the requisite amount in actions to enjoin as infringement and unfair competition the use of an unregistered trade-mark or trade name.

The courts have employed two different but related tests for measuring the amount in controversy. Under one test the measure is the entire value of the trade-mark, trade name, or good will wherever found. Under the other test, jurisdictional amount is not measured by the entire value of the mark, name, or good will, but only by the injury to that value, both present and prospective.

In all the cases where the “entire value” test has been adopted, the courts have found the requisite jurisdictional amount. The fact situations involved were not confined to any one type of unfair use but in-

\[\text{References:}\]

2 U. S. §1338(b) (1948). Cf. Del Monte Special Food Co. v. California Packing Corp., 34 F. 2d 774 (9th Cir. 1929).


4 28 U. S. §1332(a) (1948).

5 Beneficial Industrial Loan Corp. v. Kline, 132 F. 2d 520 (8th Cir. 1942) (value of good will); Indian Territory Oil & Gas Co. v. Indian Territory Illuminating Oil Co., 95 F. 2d 711 (10th Cir.), cert. denied, 305 U. S. 607 (1938) (value of the business or right to be protected; good will is an intangible asset to be considered in ascertaining the value of the business or right); Harvey v. American Coal Co., 50 F. 2d 832 (7th Cir.), cert. denied, 284 U. S. 669 (1931) (value of trade name or good will); Wisconsin Electric Co. v. Dunmore Co., 35 F. 2d 555 (6th Cir. 1929), cert. granted, 281 U. S. 710 (1930), cert. dismissed, 282 U. S. 813 (1931) (value of word as applicable to plaintiff’s business); Del Monte Special Food Co. v. California Packing Corp., 34 F. 2d 774 (9th Cir. 1929) (value of good will); Ury v. Mazer Cigar Mfg. Co., 253 Fed. 551 (8th Cir. 1918) (value of property right); General Shoe Corp. v. Rosen, 29 F. Supp. 102 (S. D. W. Va. 1939), rev’d on other grounds, 111 F. 2d 95 (4th Cir. 1940) (value of good will and business); Great Atlantic & Pacific Tea Co. v. A. & P. Radio Stores, 20 F. Supp. 703 (E. D. Pa. 1937) (value of trade-mark and good will); Household Finance Corp. v. Delaware v. Household Finance Corp. of West Virginia, 11 F. Supp. 3 (N. D. W. Va. 1935) (value of good will); Hennessy v. Harrmann, 89 Fed. 669 (C. C. N. D. Cal. 1898) (value of trade-mark); Great Atlantic & Pacific Tea Co. v. A. & P. Cleaners & Dyers, Inc., 10 F. Supp. 450 (W. D. Pa. 1934) semblé; cf. Coca-Cola Co. v. Brown & Allen, 274 Fed. 481 (N. D. Ga. 1921) (The alleged unfair use differs from the other cases under consideration. Here the defendant was diluting plaintiff’s syrup before mixing fountain Coca-Colas.) see Hanson v. Triangle Publications, Inc. 163 F. 2d 74, 79 (8th Cir. 1947), cert. denied, 332 U. S. 855 (1948) (value of good will); Adam Hat Stores, Inc. v. Scherper, 45 F. Supp. 804, 807 (E. D. Wis. 1942) (value of good will); American Viscose Corp. v. Crown Craft, Inc., 28 F. Supp. 884, 885 (S. D. N. Y. 1939) (value of good will); Eternit, Inc. v. J. J. Clarke Co., 18 F. 2d 607, 609 (E. D. La. 1927) (value of trade-mark).
cluded palming off of product,\(^6\) confusion of source of product\(^7\) or service,\(^8\) confusion of ownership of the business,\(^9\) and confusion of sponsorship.\(^10\) The test has been applied where the products were in direct competition for a substantial market in the same area,\(^11\) but in *Ury v. Maser Cigar Manufacturing Co.*,\(^12\) plaintiff of Detroit had only one customer in St. Louis where defendant's cigars were sold. And in *Household Finance Co. of Delaware v. Household Finance Co. of West Virginia*,\(^13\) plaintiff not only was not doing business in defendant's area of operation and had not even qualified to do business in that state, but also there was no evidence offered of an intention ever to do business there. There was neither evidence of the volume and extent of defendant's business nor evidence of any probability of expansion. Since, however, plaintiff had advertised in local and national periodicals and maintained offices sixty miles away in a bordering state, the court found confusion and the "entire value" test was applied.\(^14\) There are other cases where the parties were producing non-competing products but

\(^6\) Hennessy v. Harrmann, 89 Fed. 669 (C. C. N. D. Cal. 1898) (defendant sold counterfeit labels to others who palmed off their brandy as plaintiff's).

\(^7\) Wisconsin Electric Co. v. Dumore Co., 35 F. 2d 555 (6th Cir. 1929), cert. granted, 281 U. S. 710 (1930), cert. dismissed, 282 U. S. 813 (1931); Del Monte Special Food Co. v. California Packing Corp., 34 F. 2d 774 (9th Cir. 1929).

\(^8\) Beneficial Industrial Loan Corp. v. Kline, 132 F. 2d 520 (8th Cir. 1942); Household Finance Corp. of Delaware v. Household Finance Corp. of West Virginia, 11 F. Supp. 3 (N. D. W. Va. 1935).


\(^11\) Harvey v. American Coal Co., 50 F. 2d 832 (7th Cir.), cert. denied, 284 U. S. 669 (1931).

\(^12\) 253 Fed. 551 (8th Cir. 1918). There was however an accounting of $346 which indicates that defendant's volume of sales was substantial.


\(^14\) The court pointed out that the injury to be guarded against was (1) to the public by palming off and (2) to the plaintiff by diverting trade. While there was confusion, in the absence of inferior service and business practices by defendant it is doubtful whether the public would actually be injured. [But injury to the public is not confined to a situation where the purchaser obtains an inferior product or service. There is prejudice to the public when the product or service it receives is different from that which it thought it was buying. See Federal Trade Commission v. Algoma Lumber Co., 291 U. S. 67 (1934).] And in view of the areas of operations of the parties it is questionable whether there was or would be a substantial amount of trade diverted. The court probably was greatly impressed by the fact that defendant, after eight years of operation under one name, changed its name to the exact name of plaintiff for the rather obvious purpose of obtaining an unfair benefit from plaintiff's advertising and good will. In this connection, see Beneficial Industrial Loan Corp. v. Kline, 132 F. 2d 520 (8th Cir. 1942), where plaintiff's subsidiaries had operated under the name "Personal Finance Co." in four different localities in Iowa for several years prior to liquidation and withdrawal in 1934. In 1940 a subsidiary re-entered Iowa. The next year defendant began operating under the same name as plaintiff's subsidiaries in a city where one of the subsidiaries had formerly operated. The circuit court of appeals stated that confusion would arise, the public would be deceived, and that defendant would reap where it had not sown.
nevertheless, there existed a probability of deception because plaintiff was carrying on a substantial amount of business in the defendant's area of operation and, while defendant was not yet doing a large volume of business, there were indications of expansion of volume and area by defendant. In one case the court referred to the value of plaintiff's good will and advertising, not merely of the trade-mark in question but also of two other trade-marks which plaintiff was using or had used on its product.

The second test used in the injunction cases restricts the amount in controversy to the injury, both present and prospective, to the value of the trade-mark, trade name, or good will. Of the cases adopting this test, the strongest opinion is that of Judge Clark in Pure Oil Co. v. Puritan Oil Co. There the plaintiff brought action for damages, an accounting, and injunction against infringement of trade-marks and unfair competition, but on trial renounced the prayer for damages and an accounting. Plaintiff sold gasoline and other petroleum products through filling stations in twenty-five states. Defendant operated a single unprofitable filling station in Hartford, Connecticut, under the name "Puritan" and sold oil and grease under the trade-marks of their producers and gasoline under the trade-mark "Pure." At least 95% of defendant's gasoline sales were to local residents. The plaintiff formerly had stations in Connecticut but had withdrawn them, and at the time of suit its only sales were of oil and grease for industrial use. Judge Clark squarely faced and rejected the contention that jurisdiction was to be measured by the entire value of plaintiff's good will. In

Wisconsin Electric Co. v. Dumore Co., 35 F. 2d 555 (6th Cir. 1929), cert. granted, 281 U. S. 710 (1930), cert. dismissed, 282 U. S. 813 (1931); Del Monte Special Food Co. v. California Packing Corp., 34 F. 2d 774 (9th Cir. 1929). In these two cases the products were of a kind which reach a large number of people.


The trade-marks were registered, but the district court held that it did not acquire jurisdiction under the Federal Act because there was no use by defendant in interstate commerce and that the court could not retain jurisdiction under the Hurn rule because there was no substantial claim that defendant's use was in interstate commerce. The circuit court of appeals reversed on a finding of substantial claim. 127 F. 2d 6 (2d Cir. 1942).

There are three distinct factors involved in these cases: (1) amount of injury to date (2) future injury (3) entire value of the trade-mark, trade name, or good will. The courts adopting the "entire value" of the good will test state the amount in controversy is not limited to (1) but is or includes (3). With apparently two
applying the injury test and finding a lack of jurisdictional amount, he emphasized that practically all of defendant’s small volume of gasoline sales were to local residents; that there was no probability of expansion since defendant was operating at a loss; that there was no evidence of inferior service; and that plaintiff no longer sold its products through filling stations in Connecticut and offered no evidence of an intention to do so in the future.

The most recent decision on this question was the Food Fair case. Defendant was operating a supermarket in Brookline, Massachusetts. Plaintiff’s action was based on a Massachusetts statute which provided that injunction would lie for “likelihood of injury to business reputation or of dilution of the distinctive quality of a trade-mark or trade name . . . notwithstanding the absence of competition between the parties or of confusion as to source of goods or service.” The trial court adopted the injury test as stated in the Pure Oil case but unlike Judge Clark found jurisdictional amount involved. A comparison of these two cases indicates the chief difference to be that in Pure Oil plaintiff had withdrawn from Connecticut and offered no evidence of re-expanding; whereas, in Food Fair plaintiff’s business was expanding and there was a probability that it was planning to commence business in Massachusetts. Without attempting to evaluate the injury that was or would be the result from dilution of the trade name, the district court held the value of plaintiff’s “right to operate supermarkets in Massachusetts under the name Food Fair without being faced with a competitor in Brookline who has the same name and who probably would seek to enjoin plaintiff’s expansion” exceeded $3,000.

In computing jurisdictional amount in actions to enjoin as infringement and unfair competition the use of an unregistered trade-mark or

exceptions, Miles Laboratories, Inc. v. Seignious and Caron Corp. v. Wolf Drug Co., both cited infra note 22, the courts make no specific mention of factor (2) in stating the test. Therefore, in a sense the courts adopting the “entire value” test do not squarely reject the “injury test.”

Courts adopting the “entire value” of the good will test did not decide whether or not jurisdictional amount would be present had they applied only the “injury” to good will test. An analysis of these cases indicates that the requisite jurisdictional amount probably would not have been present in some instances had the latter test been applied.


In Fair Trade actions to enjoin sales below the standard price established by the producer, the courts have stated that price standardization is primarily effected to protect good will. Most of the cases measure jurisdictional amount by the entire value of the good will in a particular state. Miles Laboratory, Inc. v. Seignious, 30 F. Supp. 549 (E. D. S. C. 1939); Calvert Distilling Co. v. Brandon, 24 F. Supp. 857 (W. D. S. C. 1938); Caron Corp. v. Wolf Drug Co., 40 F. Supp. 103 (D. N. J. 1941). *Contra: James Hedron’s Sons v. Callender, 28 F. Supp. 643 (D. Minn. 1939).*
trade name, it appears that the better test is the injury to the value of
the trade-mark, trade name, or good will.23 Numerous factors present
themselves for consideration under this test. Among the more im-
portant factors are the extent of plaintiff’s business and/or good will
in defendant’s area of influence, the character of both businesses and
the class and number of people they serve, and whether either business
is expanding or contracting in volume, area, or scope of use. Such
factors are important whether injury be to the public by palming off
or to the plaintiff by diverting trade, injuring good will by inferior
product or service, or diluting the distinctive quality of the mark. In
applying this test and evaluating the injury, the court should not restrict
itself to arbitrary geographical boundaries but should look to the area
of defendant’s influence wherever its bounds may be.

It is the view of some writers that the Lanham Trade-Mark Act24
provides for a substantive federal law of trade-marks and unfair com-
petition.25 Diggins interprets the Act as “national legislation along
national lines” designed to provide uniformity in place of conflict and
confusion. His view is that if the action “involves commerce which
may lawfully be regulated by Congress” then it “arises under” the Act;
and if it “arises under” the Act then the federal courts have original
jurisdiction irrespective of registration. If this view is adopted by the
courts, the conflict as to the proper method of calculating jurisdictional
amount will be eliminated. Such interpretation of the Lanham Act has
not yet been adopted by the courts and it is doubtful that it will be. In
the absence of such interpretation of the Act by the courts, the lack of
registration will continue to raise the problem of the amount in con-
troversy.26

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23 There are exceptional cases where defendant’s acts threaten to destroy the
good will in a definite geographical area. In such case the value of the injury
will be the entire value of the good will in that area. An interesting example of
this is Scalise v. National Utility Service, Inc., 120 F. 2d 938 (5th Cir. 1941),
where defendant fraudulently obtained a permit to do business in Florida under
plaintiff’s name thus preventing plaintiff from obtaining a permit to do business
in that state under its own name.


25 See ROBERT, THE NEW TRADE-MARK MANUAL 167-180 (1947); Diggins,
Federal and State Regulation of Trade-marks, 14 LAW & CONTEMP. PROB. 200
(1949). See also Bunn, The National Law of Unfair Competition, 62 HARV. L.
REV. 987 (1949), where the author concluded that even before the Lanham Act
Congress had provided for a national law of unfair competition in the Federal
Trade Commission Act.

26 Due to the expanded scope of marks and names registrable under the Lanham
Act, the problem of jurisdictional amount may become less important. However,
the anticipated rush to register theretofore unregistrable marks has not yet ma-
teralized.