

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

JAVELIN INVESTMENTS, LLC, <i>ET AL.</i> ,	§	
<i>Plaintiffs,</i>	§	
	§	
v.	§	Civil Action H-05-3379
	§	
ANGELA MCGINNIS AND MICHAEL	§	
MCGINNIS,	§	
<i>Defendants.</i>	§	

MEMORANDUM AND RECOMMENDATION

Defendants Angela and Michael McGinnis have filed an amended motion for summary judgment (Dkt. 58) in this breach of contract and copyright infringement case arising out of the construction of their house.¹ Defendants' motion will be granted in part and denied in part.²

BACKGROUND

In 2003, the McGinnises began working with plaintiffs Lynda Wood, Nick DiMinico, and Alta Construction on plans for an extensive remodeling of their house. After receiving

¹ Early in this case, plaintiffs filed two motions for preliminary injunctions (Dkts. 9, 11), and a motion for emergency hearing (Dkt. 10). At a hearing on October 18, 2005, the district court converted the first preliminary injunction motion (Dkt. 9) into a motion on the merits (Dkt. 15). Thereafter, the case was stayed pending conclusion of state court proceedings (Dkt. 33). Upon reinstatement, this court issued a scheduling order setting the case for trial on the merits (Dkt. 49) and a summary judgment briefing schedule (Dkt. 50). The prior motions (Dkts. 9, 11) are terminated as moot.

² Defendants also have filed an opposed motion to strike (Dkt. 69) plaintiff Nick Diminico's amended affidavit (Dkt. 68) filed in opposition to defendants' amended motion for summary judgment. Defendants object primarily that the affidavit is speculative and not based on personal knowledge. The affidavit is not referenced or cited in plaintiffs' response, and is irrelevant to the legal issues before the court. Defendants' motion to strike is granted.

a cost estimate that was more expensive than they anticipated, the McGinnises decided to rebuild their home instead. On March 15, 2004, the McGinnises entered into a residential construction contract with a builder, plaintiff Javelin Investments, LLC, d/b/a Alta Construction. Nick DiMinico and Lynda Wood signed the residential construction contract on behalf of Alta. The Residential Construction Contract called for construction of the home based on plans provided by Alta.

After construction began, the McGinnises became dissatisfied with the project. They sued Javelin, Alta, Wood, and DiMinico³ in state court for breach of contract among other things. The parties settled the state court lawsuit in April, 2005. At that time, the house was completely framed, but no sheetrocking or finishes had been completed. The settlement agreement was memorialized in an April 14, 2005 Rule 11 agreement.⁴ The settlement agreement provided that Javelin would pay the McGinnises \$30,000 in 20 monthly installments of \$1,500. If any payment was not timely, the McGinnises had the right to file an Agreed Judgment in the amount of \$125,000. The settlement agreement further provides as follows:

[The McGinnises] acknowledge that the original drawings were submitted to the city and were lost. [The McGinnises] agree that they will not use the original drawings or derivatives by Lynda Wood for the construction of the house. [Javelin] acknowledge[s] that the builder may need to reference the

³ Because plaintiffs in this case were defendants in the state court case, the court will refer to the parties here by name. The plaintiffs in this case/defendants in the state case will be referred to collectively as “Javelin” for purposes of this memorandum and recommendation.

⁴ Exhibit E to defendant’s motion.

drawings to correct defects in the existing structure.

And:

[The McGinnises] and [Javelin] agree this settlement releases and dismisses all claims of [sic] which *could have been filed* in this civil lawsuit.⁵

The McGinnises finished construction in October 2005. The McGinnises contend that the house was completed using a newly-created set of plans by architect James Sheblak.

Javelin filed this federal lawsuit on September 30, 2005 alleging breach of contract and copyright infringement. Javelin did not pay the McGinnises \$1,500 on October 1, 2005. The McGinnises moved for entry of the Agreed Judgment in state court. On October 28, 2005, the state court heard argument and granted the motion for entry of the Agreed Judgment. Javelin moved for a new trial on the ground, previously argued at the October 28 hearing, that the McGinnises breached the settlement agreement by using Lynda Wood's plans in constructing the house, thereby relieving it of its payment obligations. The state court denied that motion. The state court also denied the McGinnises' motion to clarify that Javelin released any claim for copyright infringement.

This case is now before the court on the McGinnises' amended motion for summary judgment arguing that: (1) Javelin's claims are barred by *res judicata*; (2) Javelin's copyright claim is a compulsory counterclaim that was waived because it was not asserted in state court; and (3) Javelin's copyright claim was released by the settlement agreement. Alternatively, the McGinnises seek a ruling that Javelin cannot recover statutory damages

⁵ *Id.* (emphasis added).

or attorney's fees because the alleged infringement took place before Wood registered the copyright.

ANALYSIS

1. Summary Judgment Standards

Summary judgment is appropriate if no genuine issues of material fact exist, and the moving party is entitled to judgment as a matter of law. FED. R. CIV. P. 56(c). The party moving for summary judgment has the initial burden to prove there are no genuine issues of material fact for trial. *Provident Life & Accident Ins. Co. v. Goel*, 274 F.3d 984, 991 (5th Cir. 2001). Dispute about a material fact is "genuine" if the evidence could lead a reasonable jury to find for the nonmoving party. *In re Segerstrom*, 247 F.3d 218, 223 (5th Cir. 2001). "An issue is material if its resolution could affect the outcome of the action." *Terrebonne Parish Sch. Bd. v. Columbia Gulf Transmission Co.*, 290 F.3d 303, 310 (5th Cir. 2002).

If the movant meets this burden, "the nonmovant must go beyond the pleadings and designate specific facts showing that there is a genuine issue for trial." *Littlefield v. Forney Indep. Sch. Dist.*, 268 F.3d 275, 282 (5th Cir. 2001) (quoting *Tubacex, Inc. v. M/V Risan*, 45 F.3d 951, 954 (5th Cir. 1995)). If the evidence presented to rebut the summary judgment is not significantly probative, summary judgment should be granted. *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 249-50 (1986). In determining whether a genuine issue of material fact exists, the court views the evidence and draws inferences in the light most favorable to the nonmoving party. *Id.* at 255.

2. *Res Judicata* Standards

The doctrine of *res judicata*, or claim preclusion, prohibits the relitigation of claims that have been previously resolved by final judgments, as well as claims arising out of the same transaction or subject matter that could have been litigated in the first suit. *Barr v. Resolution Trust Corp.*, 837 S.W.2d 627, 628 (Tex. 1992).⁶ A party asserting *res judicata* must establish three elements: (1) a prior final judgment on the merits by a court of competent jurisdiction; (2) identity of parties in the prior action and the second action; and (3) the claims raised in the second action were raised or could have been raised in the prior action. *Amstadt v. U.S. Brass Corp.*, 919 S.W.2d 644, 652 (Tex. 1996).

Texas applies the transactional test of the Restatement (2d) of Judgments to determine if a claim could have been raised in a prior action. *Barr*, 837 S.W.2d at 631. Whether or not two actions relate to the same transaction is determined pragmatically, “giving weight to such considerations as whether the facts are related in time, space, origin, or motivation, whether they form a convenient trial unit, and whether their treatment as a trial unit conforms with the parties’ expectations or business understanding or usage.” *Id.* In essence, the transactional test asks whether the two causes of action are “based on the same nucleus of operative facts.” *Musgrave v. Owen*, 67 S.W.3d 513, 519 (Tex. App. – Texarkana 2002, no pet.).

⁶ Texas law applies to determine the preclusive effect of a Texas court judgment. *Duffy & McGovern Accommodation Serv. v. QCI Marine Offshore, Inc.*, 448 F.3d 825, 828 (5th Cir. 2006); *Geary v. Texas Commerce Bank*, 967 S.W.2d 836, 839 (Tex. 1998).

The doctrine of collateral estoppel, or issue preclusion, prevents relitigation of particular fact issues resolved in a prior action. *Barr*, 837 S.W.2d at 628. The elements of collateral estoppel are different than those for *res judicata*. A party seeking to prevent relitigation of issues pursuant to collateral estoppel must show: (1) the same facts at issue in the second action were fully litigated in the prior action; (2) the litigated facts were essential to the judgment in the prior action; and (3) the parties were cast as adversaries in the prior action. *Sysco Food Servs. v. Trapnell*, 890 S.W.2d 796, 801 (Tex. 1994). Thus, the doctrine of collateral estoppel is much narrower in scope than *res judicata*. Instead of focusing on what could have been litigated, collateral estoppel focuses on what was actually litigated and essential to the judgment. *Van Dyke v. Boswell, O'Toole, Davis & Pickering*, 697 S.W.2d 381, 384 (Tex. 1985).

3. Preclusion of Javelin's Claims in this Case

Javelin has sued the McGinnises in federal court for breach of the settlement agreement and copyright infringement. The court must determine whether one or both claims are barred by *res judicata* or were released by the settlement agreement.

Breach of Contract— There is no question that the state court Agreed Judgment constitutes a final judgment on the merits by a court of competent jurisdiction in a case between the same parties as this case, satisfying the first two elements of the doctrine of *res judicata*. Therefore, the application of *res judicata* to this case is determined by the third element of the doctrine, *i.e.*, whether the breach of contract claim in this case was raised, or

could have been raised, in the state court action.

Javelin's breach of contract claim could have been brought in the state court action. As of September 30, 2005, the date Javelin filed this lawsuit, no final judgment had yet been entered in the state court case.⁷ The state court clearly had jurisdiction over the breach of contract claim. In fact, Javelin actually raised the claim in state court by way of a defense to entry of the Agreed Judgment. At the hearing on October 28, counsel for Javelin told that court "we do have a breach of contract claim pending."⁸

It is true, as Javelin argues, that the state court refused to rule on whether the McGinnises were guilty of copyright infringement. The court stated that there was no copyright infringement claim on file in the state court case and the issues before him on the motion for entry of the Agreed Judgment were limited to the enforceability of the Rule 11 settlement agreement.⁹ In contrast, the record reflects that Javelin's claim that the

⁷ Transcript of October 28, 2005 hearing, exhibit G to defendants' motion, at 35-36.

⁸ *Id.* at 9.

⁹ *Id.* at 25 (in response to counsel's assertion that certain testimony went to whether or not the McGinnises' architect infringed the copyright by making unauthorized copies of the plans, the court stated "That's Judge Hittner's case. That's not my case. You're not going to use this hearing as a way to do discovery in Judge Hittner's court."); *id.* at 35 (the court: "Well, this Rule 11 agreement in this case was filed first. I'm just here on this case only. I'm not on the patent [sic] infringement case."); *id.* at 39 (the court: "Whether or not this case involves or does not involve copyright infringement claims or counterclaims, it's whatever you have on file with my court. At this time, I don't really see anything on here saying that there's (an) agreement that involved a copyright infringement or claims. It has to be taken from the Rule 11 agreement. What else is there on this motion to enter judgment?"). The state court confirmed its position that no copyright claim was before it by denying Javelin's motion for new trial and the McGinnises' motion for clarification.

McGinnises breached the Rule 11 settlement agreement was clearly before the state court, and was necessary to the state court’s decision to enter judgment. The court heard testimony from Mr. McGinnis, who testified that he “never used Ms. Wood’s plans after the Rule 11 was signed on April 14th, 2005.”¹⁰ Javelin’s counsel continued to argue that his client was excused from making payments under the Rule 11 settlement agreement because the McGinnises breached the contract through their use of Wood’s plans, leading the court to inquire: “What’s the proof here today?”¹¹ In considering Javelin’s arguments regarding the McGinnises’ alleged breach, the court expressed concern that the house was a third built by the time the settlement agreement was entered, and that it was never contemplated that the McGinnises would tear the house down.¹² At the conclusion of the hearing, the court ruled as follows:

I’ll grant the motion to enter judgment for failure to pay the payments as stated in the April 14, 2005 Rule 11 agreement. So, I signed the judgment for violation of the settlement agreement.¹³

¹⁰ *Id.* at 31.

¹¹ *Id.* at 34-35.

¹² *Id.* at 36-38.

¹³ *Id.* at 45. Javelin argues in its brief that the McGinnises must show that the state court made a factual finding that the Javelin breached the settlement agreement. Javelin’s response, at 4-8. Factual findings are not necessary to the application of *res judicata*. See *Amstadt*, 919 S.W.2d at 652. Javelin confuses claim preclusion under *res judicata* with the narrower doctrine of issue preclusion known as collateral estoppel. See *Van Dyke v. Boswell, O’Toole, Davis & Pickering*, 697 S.W.2d 381, 384 (Tex. 1985) (while *res judicata* precludes claims that were or could have been raised in the prior action, collateral estoppel only prevents relitigation of identical issues of facts or law that were actually litigated and essential to the judgement.). *Sysco Food Servs. v. Trapnell*, 890 S.W.2d 796, 801 (Tex. 1994), cited by

The doctrine of *res judicata* prevents the relitigation in this court of Javelin’s breach of contract claim.

Copyright Infringement– Javelin’s claim of copyright infringement, as noted above, was not asserted in the state court proceeding. At issue before the state court was whether the McGinnises “used” Wood’s plans “for the construction of [their] house;” the state court did not address, or need to address, whether any actions by the McGinnises also constituted copyright infringement under federal law.¹⁴ The issue before this court is whether Javelin’s copyright claim *could have been* brought in the state court lawsuit.

The United States district courts have original jurisdiction, “exclusive of the courts of the states,” over any civil action arising under any Act of Congress relating to patents, plant variety protection, and copyrights. 28 U.S.C. § 1338(a). The McGinnises argue that *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826 (2002), recognizes an exception to the exclusive jurisdiction of federal courts where a patent or copyright infringement claim is asserted as a compulsory counterclaim in state court. This position is not supported by *Holmes*.

Javelin, is a collateral estoppel case. In any event, in this case the record reflects the state court’s finding that Javelin did not make payments as required and thus violated the settlement agreement.

¹⁴ For example, Javelin alleges in this case that the McGinnises’ “creation and distribution of copies of Wood’s 9164 Westview Plans, and their construction of the Infringing House infringe and violate Wood’s copyright.” Complaint (Dkt. 2), ¶ 22. In contrast, the Complaint alleges that the McGinnises breached the settlement agreement “by using Wood’s 9164 Westview Plans, or derivatives, to construct the Infringing House.” *Id.*, ¶ 30.

At issue in *Holmes* was whether the Federal Circuit has jurisdiction over an appeal from a district court case on the basis of a patent counterclaim. The Federal Circuit has exclusive jurisdiction over an appeal from a district court *if the jurisdiction of the district court was based in whole or part on 28 U.S.C. § 1338*. 28 U.S.C. § 1295(a)(1) (emphasis added). In determining whether a case “arises under” patent law for purposes of § 1338, as referenced in § 1295, the *Holmes* court utilized the well-established rules for determining whether a case arises under federal law for purposes of 28 U.S.C. § 1331 subject matter jurisdiction. The court recognized that “[t]he well-pleaded-complaint rule has long governed whether a case ‘arises under’ federal law for purposes of § 1331.” *Id.* at 830. The well-pleaded-complaint rule provides that whether a case “arises under” federal law must be determined by what appears in plaintiff’s own statement of his case in the complaint. In sum, because district court jurisdiction was not based on the patent law counterclaim, the Federal Circuit did not have jurisdiction over the appeal. The *Holmes* case, therefore, establishes a test for determining Federal Circuit jurisdiction, but it does nothing to alter the longstanding rules governing “arising under” jurisdiction in federal court, and in fact is dependent on them. The court explained that expanding the well-pleaded-complaint rule to establish “arising under” jurisdiction based on a counterclaim would contravene “longstanding policies underlying our precedents,” including the policy that the plaintiff is the master of the complaint and can eschew claims based on federal law to have his cause heard in state court.” *Id.* at 832. It also “would radically expand the class of removable cases, contrary to the

‘[d]ue regard for the rightful independence of state governments’ that our cases addressing removal require.” *Id.*

The McGinnises extrapolate from the rule that a copyright counterclaim does not create appellate jurisdiction in the Federal Circuit, the premise established by *Holmes*, that the *state court* has jurisdiction to hear a copyright counterclaim. The McGinnises’ conclusion does not follow from the *Holmes* premise. The *Holmes* decision did not involve the question of state court jurisdiction over copyright cases, and this court is not inclined to believe that the Supreme Court would silently overrule such a long-standing body of federal law ousting state courts of jurisdiction over such cases.

Neither *Salton, Inc. v. Philips Domestic Appliances and Personal Care B.V.*, 391 F.3d 871 (7th Cir. 2004), nor *Blankenship v. Wynne*, No. Civ. A.2:05-33611, 2006 WL 1207834 (D.S.C. May 3, 2006), also cited by the McGinnises, support the exercise of state court jurisdiction over a copyright counterclaim. In *Salton*, the federal district court found that joining an indispensable party in a case before it would destroy diversity jurisdiction. 391 F.3d at 874. The defendant’s counterclaim charging a violation of federal copyright law did not confer federal jurisdiction over the case. *Id.* at 875. Therefore, the district court dismissed the case. After dismissal, the defendant refiled its copyright claim as an independent suit in federal court. The district court dismissed the second suit based on the collateral estoppel effect of its ruling in the first that an indispensable party was missing. *Id.* at 880. The Seventh Circuit reversed because the missing party was not “indispensable”

under federal law. *Id.* The Seventh Circuit also noted that there was jurisdiction over the second suit regardless of diversity, because it was based on the federal copyright statute. *Id.* The *Salton* case is completely silent on the issue of state court jurisdiction over a copyright counterclaim, and indeed reinforces the idea that copyright claims belong in federal court.

In *Blankenship*, a *pro se* defendant in state court filed counterclaims in federal court, which he asked to be filed as a notice of removal. 2006 WL 1207834, at *1. The court construed the counterclaims as alleging claims arising under federal law. However, no federal claims were asserted in the state court petition against Blankenship. Citing *Holmes* for the proposition that counterclaims cannot be the basis for federal court jurisdiction, the federal court remanded the case to state court. *Id.* at *2. *Blankenship*, like *Holmes* and *Salton*, says nothing about state court jurisdiction over copyright claims.

The only case the parties' have brought to the court's attention that recognizes state court jurisdiction over a copyright infringement counterclaim is *Green v. Hendrickson Pub., Inc.* 770 N.E.2d 784 (Ind. 2002). In that case, the defendants filed a counterclaim in state court alleging violation of federal copyright law and removed the case to federal court. The federal court remanded the case because a defendant's counterclaim based on federal law cannot confer federal jurisdiction. *Id.* at 787. Back in state court, the defendants amended their counterclaim in an attempt to cast it as a breach of contract claim. *Id.* The trial court ruled that the claim could be resolved as a matter of state court contract law. *Id.* at 788. The Indiana Supreme Court reversed, holding that the counterclaim was preempted by federal

copyright law. *Id.* at 790. Nonetheless, the court interpreted *Holmes* as holding that federal jurisdiction over a copyright counterclaim is not exclusive of state court jurisdiction. *Id.* at 787. The *Green* court held that because a patent counterclaim brought in federal court does not “arise under federal law” for purposes of creating federal jurisdiction, then § 1338(a) does not deprive a state court of jurisdiction over a copyright counterclaim brought in state court. In doing so, the court found that *Holmes* overruled a substantial body of prior federal law interpreting 28 U.S.C. § 1338(a), despite the facts that *Holmes* does not expressly overrule anything and never discusses state court jurisdiction. This court finds *Green* neither binding nor persuasive in its interpretation of *Holmes*.¹⁵

Javelin’s exclusively federal copyright claim could only be brought as an independent action in federal court. Because the state court was without jurisdiction over Javelin’s copyright claim, it was not a compulsory counterclaim under Texas Rule of Civil Procedure 97(a). Thus, it is not barred by *res judicata* or released by the settlement agreement.

4. Statutory Damages and Attorney’s Fees

It is undisputed that Lynda Wood applied for a copyright on the plans on September 29, 2005, one day before filing this lawsuit. 17 U.S.C. § 412(l) provides that “no award of statutory damages or of attorney’s fees . . . shall be made for (1) any infringement of copyright in an unpublished work commenced before the effective date of its registration. . . .” Infringement “commences” when the first act in a series of acts constituting continuing

¹⁵ Westlaw’s citation service indicates that *Green*, decided in 2002, has never been cited by a state or federal court on this issue.

infringement occurs. *Johnson v. Jones*, 149 F.3d 494, 506 (6th Cir. 1998); *See Aitken, Hazen, Hoffman, Miller, P.C. v. Empire Const. Co.*, 542 F. Supp. 252, 268 (D. Neb. 1982) (because defendants commenced infringement before the effective date of the copyright registration, § 412(l) prohibits an attorney’s fee award). Javelin does not contest this statement of law, but asserts that it is entitled to statutory damages and attorney’s fees for new acts of infringement post-registration.

The Fifth Circuit ruled on the availability of statutory damages and attorney’s fees for pre-registration acts of infringement in *Mason v. Montgomery Data, Inc.*, 967 F.2d 135 (5th Cir. 1992). That case involved the alleged infringement of plaintiff Mason’s copyright for real estate ownership maps of Montgomery County, Texas. Mason registered a copyright for his first map in 1968. He published 232 additional maps over the years, but did not register them for copyrights until late 1987, after learning of the alleged infringement. *Id.* at 137. Mason sought statutory damages and attorney’s fees, arguing that he was allowed to collect such damages for any infringement that took place after he registered the copyrights, even though defendants commenced separate acts of infringement of the same work prior to registration. *Id.* at 143. The Fifth Circuit rejected this argument, finding it was “Congress’ intent that statutory damages be denied not only for *the particular infringement* that a defendant commenced before registration, but for all of that defendant’s infringements of a work if one of those infringements commenced prior to registration.” *Id.* (emphasis in original). Although Javelin alleges that the McGinnises infringed the copyright on the house

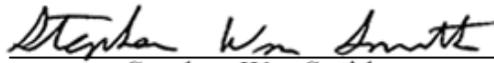
plans by making copies of those plans after September 29, 2005, Javelin alleges the McGinnises' allegedly first infringed the copyright on the same plans months earlier. Therefore, pursuant to *Mason*, Javelin may not recover statutory damages and attorney's fees in this case.¹⁶

CONCLUSION, ORDER AND RECOMMENDATION

The court orders that defendants' motion to strike the amended affidavit of Nick DiMinico (Dkt. 69) is granted. The court recommends that defendants' amended motion for summary judgment (Dkt. 58) be granted in part and denied in part, dismissing the breach of contract claim, as well as the claim for statutory damages and attorney's fees pertaining to copyright infringement. The motion should be denied in all other respects.

The parties have ten days from service of this Memorandum and Recommendation to file written objections. Failure to file timely objections will preclude appellate review of factual findings or legal conclusions, except for plain error. *See* FED. R. CIV. P. 72.

Signed at Houston, Texas on July 21, 2006.


Stephen Wm Smith
United States Magistrate Judge

¹⁶ *Mason* involved § 412(2) governing published works, but that is not a material difference for the issue at hand.