

What a Web We Weave...

Jurisdiction in Web-Related Litigation

Andrew J. Entwistle and Edward L. Doherty

Internet commerce is projected to grow from \$8 billion in 1997 to \$327 billion by 2002. The Internet itself is projected to expand to some 100 times its present size during the same period. It is inevitable, then, that litigation arising from Internet-based commerce will also expand dramatically. Where, though, is *in personam* jurisdiction proper for such litigation?

Two recent federal appellate decisions begin to shed some light on this issue, at least in terms of what level of contact over the world-wide web between persons is sufficient for a court to exercise *in personam* jurisdiction. (The terms "home page" and "web site," which commonly refer to a location on the world-wide web that can be accessed by other Internet users, will be used interchangeably throughout this article.) The opinions illustrate that the mere creation of a web site by an out-of-state business or individual, although accessible in another state by anyone with a suitably equipped computer, is not sufficient to form the basis of personal jurisdiction under the due process clause of the federal constitution. As business and personal use of the Internet proliferates, and intellectual property law struggles to evolve and keep pace with new technology, well established rules of procedure prove to be readily adaptable to the brave new world of cyberspace. This article examines these decisions and the impact that they will have on selecting the proper court to hear Internet-based claims.

In the first case, *Bensusan Restaurant Corp. v. King*, 126 F.3d 25 (2nd Cir. 1997), the Court of Appeals held that the mere creation by an out-of-state business or individual of an Internet web site, which could be accessed in New York by anyone with a computer and an Internet connection, was not sufficient to form the basis of personal jurisdiction under New York's long-arm statute. N.Y. Civ. Prac. L. & R. 302. While the Second Circuit passed on the due process issue, the underlying decision by the Southern District of New York, J. Stein, gave it a detailed analysis. 937 E.Supp. 295 (S.D.N.Y. 1996). Drawing substantially on the reasoning provided by Judge Stein, the Ninth Circuit undertook a similar jurisdictional analysis regarding passive Internet usage in *Cybersell, Inc. v. Cybersell, Inc.*, 130 F.3d 414 (1997). Both cases involved Internet home pages that were created in one state and

capable of being accessed by computer users in other states. According to the plaintiffs, the home page creators allegedly infringed upon federally registered trademarks on their web sites. The owners of these marks brought their claims in the states where they maintained their principle places of business instead of the domicile of the alleged infringer, thus invoking the long-arm statutes of their respective domiciles to assert personal jurisdiction. In both cases, the courts held that the essentially passive nature of the web sites was not sufficient to permit the exercise of personal jurisdiction over the defendants.

In Personam Jurisdiction—A Reminder

The traditional basis of *in personam* jurisdiction has always been either the defendant's presence within the forum state or its consent to the exercise of jurisdiction by the courts of the forum state. Over time, concerns about fundamental fairness have dictated a broader reach for the courts, prompting Supreme Court decisions that have expanded the scope of the traditional bases into our modern "minimum contacts" rule. Under the modern rule, which has expanded the reach of the courts to the limits of due process, a person is deemed to be "present" within the forum state, whether or not he or she is physically inside the state's boundaries, when his or her conduct touches the forum in such a way as to "purposefully avail" such person of the "privilege of conducting activities within the forum state," thus invoking the "benefits and protections" of the forum state's laws. *Hanson v. Denkla*, 357 U.S. 235 (1958). The conduct must be "so related" to the cause of action that being hailed into court in the forum would not offend "traditional notions of fair play and substantial justice." *International Shoe Co. v. Washington*, 326 U.S. 310 (1945). Armed with this constitutional mandate, it is well-settled that to obtain personal jurisdiction over a non-domiciliary, courts must have a grant of authority from the legislature that comports with the due process requirements of the federal constitution. *Id.*

Bensusan Restaurants Corp. v. King

In *Bensusan*, the plaintiff failed to make a prima facie showing that the defendant's allegedly infringing conduct occurred within the State of New York, or that the defendant both could foresee that his conduct would cause injury within the State of New York and that he derived substantial revenue from interstate commerce. While the long-arm statutes of most states grant the authority to exercise personal jurisdiction to the extent permitted by due process, New York remains one of several states that requires a greater quantum of contact with the forum state. The plaintiff, who owned a New York City night club called the "Blue Note," sued the owner of a Columbia, Missouri night club, whose business

Andrew J. Entwistle is the head of both the Litigation Department and Employment Practice Group at the New York firm of Wohl & Entwistle LLP. Mr. Entwistle has co-chaired a New York State Bar Association Panel on Alternative Dispute Resolution, is active in the Trial Practice Committee of the State Bar's Commercial and Federal Litigation Section, and is the author of articles and publications on various litigation topics.

Edward Doherty is an associate of the firm of Wohl & Entwistle, LLP and practices at the firm's New York City office. His areas of practice include insurance defense, employment law, and litigation. Mr. Doherty is a member of the New York State Bar Association and the New York State Trial Lawyers Association.

featured the same name, for trademark infringement, dilution, and unfair competition. The defendant advertised his business, in part, using a home page on the world-wide web that included references to the New York City club belonging to the plaintiff, along with its logo, and a hyperlink to the plaintiff's own Internet web site.

Before the trademark issues could be addressed, the defendant moved for dismissal of the action, pursuant to Fed. R. Civ. P. 12(b)(2), for lack of personal jurisdiction. To meet the defendant's jurisdictional challenge, the plaintiff alleged that jurisdiction was proper under N.Y. Civ. Prac. L. & R. 302(a)(2) and 302(a)(3)(ii). When examining challenges to personal jurisdiction in federal question and diversity actions, Federal courts sitting in a particular state must determine whether state law permits the exercise of jurisdiction and, if so, whether application of the law meets with the due process requirements of the Federal Constitution. *Id.*

New York's long-arm statute, N.Y. Civ. Prac. L. & R. 302, *et seq.*, establishes the circumstances under which New York courts may exercise *in personam* jurisdiction over non-domiciliaries for tortious acts committed outside the state of New York that cause injury to persons or property within the state. 126 F.3d at 28 (internal citation omitted). It is important to note in this case that the plaintiff only argued certain portions of the statute. N.Y. Civ. Prac. L. & R. 302(a)(2) states that a court may exercise personal jurisdiction over any non-domiciliary who commits a tort within the state of New York. It is well-settled that the tort must occur in New York and the defendant must be present in New York or jurisdiction is not proper. In *Bensusan*, the defendant was a Missouri resident who never set foot in New York. His web site was authorized, conceived, designed, and created in Missouri. All of the acts giving rise to the plaintiff's complaint, including the hyperlink to the plaintiff's web site, occurred in Missouri by non-New York residents. The Court rested its analysis on the fact that none of the persons involved in the creation or maintenance of the defendant's web site were ever physically present in New York.

The District Court took the analysis of N.Y. Civ. Prac. L. & R. 302(a)(2) one step further. Because all favorable inferences may be resolved in the plaintiff's favor, the court took into consideration that the allegedly infringing conduct could have occurred in New York because trademark infringement occurs where the passing off occurs. This enabled the Court to examine whether the defendant's existence within cyberspace could be construed as being "present" within the state of New York. Even making an assumption that a virtual existence within the electronic world of the Internet is possible, the Court could not rationalize that this would be enough to constitute presence. The reason is that an Internet user must take "affirmative steps" to obtain access to the defendant's web site.

Unlike N.Y. Civ. Prac. L. & R. 302(a)(2), section 302(a)(3) involves tortious conduct by non-domiciliaries outside of New York. By eliminating the requirement that the defendant be present within the state, this section of the statute reaches a greater variety of conduct and stretches the reach of the New York courts closer to the limits of due process. N.Y. Civ. Prac. L. & R. 302(a)(3) has two parts. As a threshold matter, each part

requires that the defendant's tortious conduct occur outside of the state of New York and that it cause injury to persons or property within the state. Subsection (i) then requires that the defendant regularly do business in New York, engage in persistent conduct within the state of New York, or derive substantial revenue from goods provided to or services rendered in the state of New York. Subsection (ii) simply requires that a defendant who derives substantial revenue from interstate commerce expect or foresee that his conduct will have consequences in New York. It was under this latter subsection that the plaintiff attempted to ward off the defendant's jurisdictional challenge.

With very little analysis, the Second Circuit rejected *Bensusan's* argument under N.Y. Civ. Prac. L. & R. 302(a)(3)(ii). Rather than examining the defendant's reasonable expectation that his use of the Internet would have consequences in New York, the Court instead chose to address whether the defendant derived substantial revenue from interstate commerce. In doing so, the Court could dispose of the issue without ever considering the defendant's objective intent to infringe upon the plaintiff's trademark through the use of the Internet. The court held that the activities of the defendant, such as hiring musicians of national stature and receiving revenue from patrons who were students at the University of Missouri, were not sufficient to establish that he derived substantial revenue from interstate commerce.

Again, the District Court's opinion provides greater insight. Judge Stein stated that the foreseeability prong of subsection (ii) is satisfied by showing a "discernible effort to serve, directly or indirectly, a market in the forum state." Mere allegations that the defendant knew the plaintiff's club was located in New York are insufficient to meet such a requirement. While the District Court could have stated this more clearly, it indicates that a hyperlink on the Internet will not constitute a discernible effort to serve a market in New York without some additional conduct or other acts. For example, if the site had been one to sell goods or services directly to those in the New York markets, the result may have been different. This is by its nature a vehicle for interactive inquiry and with a slight change in the facts may militate for a significantly different result.

Although not argued by the plaintiff, N.Y. Civ. Prac. L. & R. 302(a)(1) permits the exercise of personal jurisdiction over a defendant who transacts any business within New York, or who contracts anywhere to supply goods or services to New York. The District Court's analysis of N.Y. Civ. Prac. L. & R. 302(a)(2) even wandered into this area, but was unable to establish enough of a connection between the defendant and New York to determine that jurisdiction was proper. The defendant's web site did not sell tickets to his night club or actively advertise, sell, or promote an infringing product in New York. The District Court held that the defendant's web site merely provided information concerning the allegedly infringing product. The fact that a New Yorker could gain information is not enough to warrant the exercise of personal jurisdiction. 937 F.Supp. 295, 299 (S.D.N.Y. 1996).

The District Court concluded that even if jurisdiction were proper under New York's long-arm statute, such an assertion would violate the Due Process Clause of the Federal Constitution. Put another way, the defendant's creation of a web site,

with allegedly infringing references to the New York club, and hyperlinks between the two web sites, would not be sufficient to establish minimum contacts with the forum state. According to the District Court, creating a web site that can be accessed by persons in New York is not purposefully directed toward the forum state without some additional conduct to indicate that the web site creator is conducting business in the forum state or actively encouraging residents of the forum state to access the site.

Cybersell, Inc. v. Cybersell, Inc.

In a nearly identical fact situation, an Arizona corporation, which lawfully held the service mark "Cybersell," sued a Florida company of the same name for using the mark in connection with a home page advertisement. Unlike N.Y. Civ. Prac. L. & R. 302, however, Rule 4.2(a) of the Arizona rules of Civil Procedure permit the courts of that state to exercise personal jurisdiction to the maximum extent permitted by both the state and federal constitutions. 130 F.3d at 416. Therefore, there was no need to first consider whether jurisdiction was proper under the state's long-arm statute.

Instead, the Ninth Circuit immediately launched into an analysis of whether Cybersell FL's conduct met the minimum contacts test. (In the interest of clarity, we adopt the Ninth Circuit's distinction between the parties, where the plaintiff is referred to as "Cybersell AZ" and the defendant "Cybersell FL.") Noting that the case was one of first impression in the Ninth Circuit, the Court found the Southern District of New York's due process analysis extremely persuasive. The Court distinguished between web sites that passively provide information for any computer user with an Internet connection and a search engine, from interactive web sites where users can exchange information. (A search engine is a computer software program that enables the user to search for specific information on the world-wide web using key words and terms.) It is the level of interactivity and the commercial nature of such exchanges that determine whether sufficient contact exists to warrant the exercise of jurisdiction. See *Zippo Mfg. Co. v. Zippo Dot Com, Inc.*, 952 F.Supp. 1119 (W.D. Pa. 1997); see also *Martiz, Inc. v. Cybergold, Inc.*, 947 F.Supp. 1328 (E.D. Mo. 1996).

Like the defendant in *Bensusan*, Cybersell FL used an allegedly infringing mark on its web site. The site, however, merely provided information for the browser. No services could be provided via the site, no contracts could be consummated, and no products could be sold. The site listed the company's local telephone number. A passive web site, with nothing more, is not sufficient to permit a court to exercise *in personam* jurisdiction. The Court reasoned that some greater act or some transaction with the forum is necessary to satisfy the basic requirement that the defendant purposefully avail himself of the privilege of conducting activities in the forum state. Absent this activity, the Court saw no reason to proceed any further with the minimum contacts analysis. The Court summed up this position by quoting the District Court in *Zippo*: "the likelihood that personal jurisdiction can be constitutionally exercised is directly proportionate to the nature and quality of commercial activity that an entity conducts over the Internet." 130 F.3d at 418 (citations omitted).

Conclusion

These decisions remind us that even in areas where substantive law is scurrying to keep pace with rapid technological changes, there is no substitute for carefully considering the procedural requirements for getting a case to court and keeping it there. There has always been difficulty in applying substantive law, developed and settled in one technological era, to rapidly changing segments of business and society. The law does not spur change or anticipate ways in which regulation is needed, it catches up after seeing areas of injustice or inequity. The Second Circuit was keenly aware of this in *Bensusan* when it quipped that "attempting to apply established trademark law in the fast-developing world of the Internet is somewhat like trying to board a moving bus...." But this case never got to consider trademark law because the law of procedure adapts more easily to change.

Practitioners faced with starting litigation that involves Internet conduct need to spend some time with their clients and fully understand the nature and quality of the activity upon which the litigation will be based. In this regard, a visit by counsel to both web sites or other areas of the Internet at issue is a must for a proper understanding of the jurisdictional issues and the subsequent claims. Successful plaintiffs should be ready to allege conduct by the defendant that rises above passively providing information or they may be forced to litigate in a distant forum. Defendants, on the other hand, must be aware of deficiencies in the pleadings that fail to allege conduct sufficient to permit the exercise of jurisdiction. At the very least, pro forma waivers of jurisdictional defenses should be avoided, if at all possible, when seeking extensions of time to answer the plaintiff's complaint.

It is important to note that the plaintiffs in both *Bensusan* and *Cybersell* were not left without a remedy. They simply were without remedy in New York and Arizona, respectively. Because the Courts never reached the merits of the cases, the plaintiffs remained free to bring their claims in the states where they should have originally been brought.

Arguably, nobody actually exists in cyberspace. The term merely refers to a platform for communications. Although the technology that has brought us the Internet and the world-wide web has spawned the need for evolutionary changes in substantive areas of law dealing with, among other things, ownership and rights to certain forms of intellectual property, the interactions of people using the web are fundamentally unchanged from previous forms of communication. The existence of a new global electronic platform for the exchange of information and/or commerce that we euphemistically call "cyberspace" does not change the basic fact that a court's ability to exercise personal jurisdiction over someone who resides in a different forum depends upon whether the complained of activity was purposefully directed toward that forum. For the moment at least, although one can have a presence on the web, i.e. in cyberspace, the law does not yet recognize the Internet as a forum for *in personam* jurisdiction purposes. Someday the law may, but for now, personal jurisdiction will remain based upon contact with a recognized legal forum.