

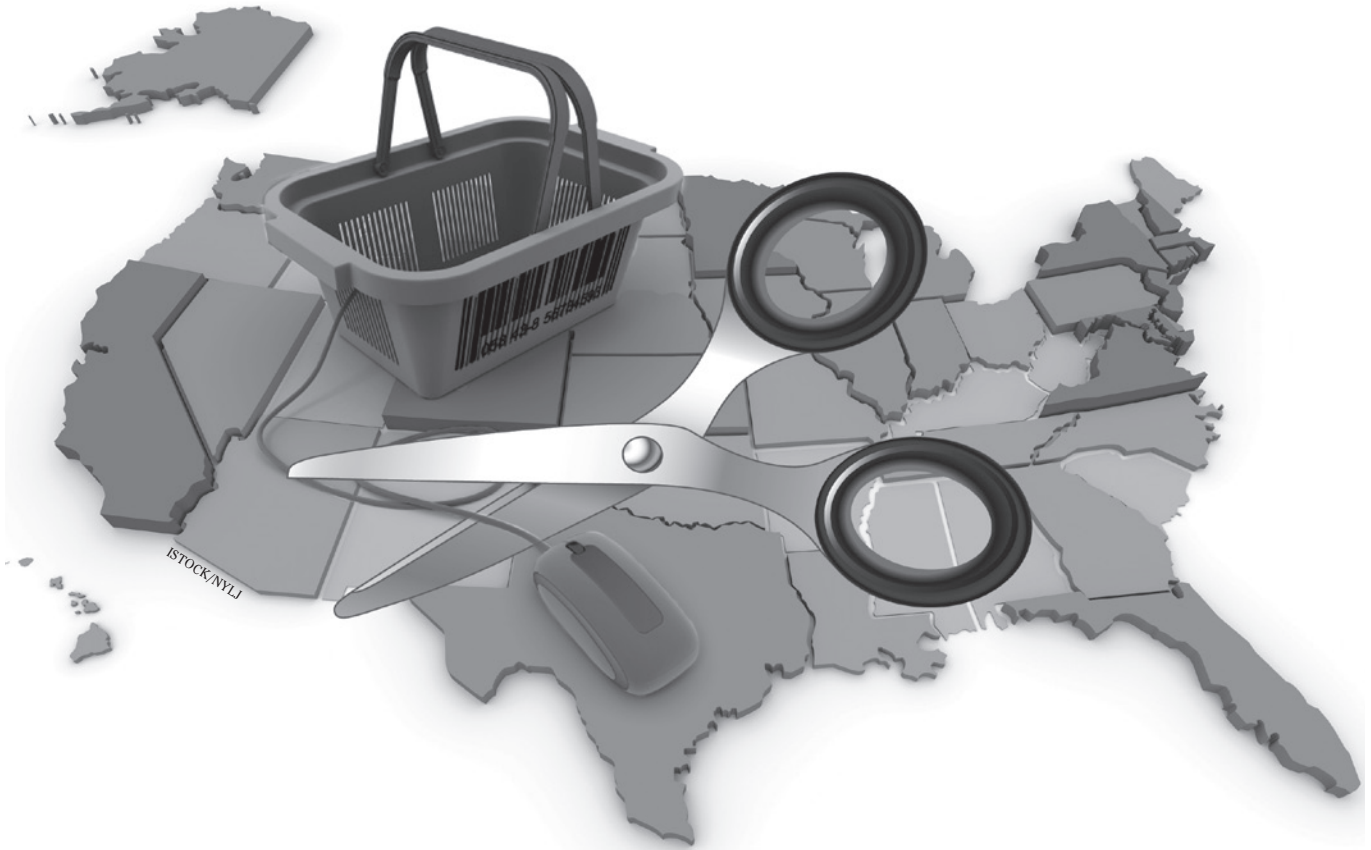
## Intellectual Property

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# Can Jurisdiction Over Infringers Be Manufactured?



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It's 4:30 on a Friday afternoon. Your phone rings. It is your biggest client, a New York company that makes widgets. "Help," your client pleads, "there is a California company that is copying our widgets! You can see them

on the company's website."

You go on the website to check things out. You find the infringing widgets but notice that the website is not interactive. You cannot make a purchase through the website, rather you must call, email, or visit the infringer to purchase the infringing widget. "We want to sue them right away for infringement—and we want to sue them here, in New York," your client says. "Let's think about this," you say. "This is a pretty savvy infringer. By disabling any interactivity on the website, this infringer is clearly trying to avoid getting sued in New York, or any other foreign jurisdiction for that

matter." "I don't understand," says the client. "Why should we have to go to California to enforce our rights that this company is clearly infringing?" You put your thinking cap on. "I have an idea," you say. "We will call this California company and order an infringing widget to be shipped to New York." Done! Jurisdiction in New York obtained! Or maybe not....

**The New Trend: Deactivate That Website.** Today, virtually anything can be purchased from your computer, tablet, smartphone, or personal mobile device. As online shopping has become increasingly popular, companies have expanded their use of the Internet to

reach customers located far and wide. Companies can market and sell just about anything online—to customers located just about anywhere—including clothing, household appliances, life insurance, and travel packages. This, unfortunately, also gives infringers or counterfeiters a potentially unlimited geographic reach.

For a time, companies were largely unaware that they could be haled into court in a foreign jurisdiction—where they maintain no physical presence or direct any purposeful activity—based *solely* on their Internet activities. But questions of personal jurisdiction with respect to internet-related activities have been litigated for over a decade, now. And while the courts continue to diverge on this issue, the general rule remains that courts are most likely to find personal jurisdiction over a foreign company whose website is interactive, meaning that customers can complete transactions through the website.<sup>1</sup> With this as their guidepost, potential infringers have found creative ways to minimize their exposure to lawsuits in foreign jurisdictions.

The recent trend, undoubtedly fueled by case law finding jurisdiction based on Internet activity, is for a company to deactivate portions of its website in order make it less apparent that the website is directing itself to customers located in other states. The easiest way to accomplish this is by prohibiting customers from completing transactions through the website. For example, a company's website may provide all the promotional materials and local contact information necessary to consummate a sale, but stop just short of allowing potential customers to purchase the desired goods or services online. In that instance, the customer must call, email, or visit the company to purchase the goods or services. Not only does this effort allow the company to exercise discretion in selling its goods or services, but it removes the company from the "highly interactive" category of Internet activity. Stated differently, if, for example, a California company is selling goods or services that may infringe a New York company's intellectual property, by deleting the interactive portions of its website, the California company will likely be able to avoid any infringing sales—and any resulting lawsuit—in New York.

To counteract this trend, it has become common practice for plaintiffs to "manufacture" a sale in their home states before filing a lawsuit. But assuming there are no other known contacts or transactions in New York, is the single, manufactured sale sufficient to achieve personal jurisdiction over the infringing non-New York defendant? While the law continues to develop on this issue, courts

are increasingly wary of plaintiffs' attempts to engineer personal jurisdiction. Practitioners should be aware of the recent case law refusing to recognize manufactured contacts for jurisdictional purposes.

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**Long-Arm Jurisdiction and Due Process.** New York's long-arm statute permits a court to exercise personal jurisdiction over an out-of-state defendant in two circumstances that are relevant to this analysis: (1) where the defendant "transacts any business within the state or contracts anywhere to supply goods or services in the state"<sup>2</sup> and the plaintiff's claim "results from that transaction;"<sup>3</sup> or (2) where the defendant "commits a tortious act without the state causing injury to person or property within the state" and the defendant "expects or should reasonably expect the act to have consequences in the state and derives substantial revenue from interstate or international commerce."<sup>4</sup>

Section 302 is a "single-act statute," which means that *one transaction may suffice to confer jurisdiction...* But that transaction must have been purposefully entered into, and there must be a "substantial nexus" between the transacted business and the cause of action.<sup>5</sup>

Because a website is equally accessible anywhere, a party does not subject itself to jurisdiction simply because it maintains a website that residents of the forum state may access. Courts have thus developed a "sliding scale" or "spectrum of interactivity" analysis where jurisdiction is premised on the use of a website by residents of a forum state:

[a]t one end [of the spectrum] are "passive" websites—i.e., those that merely make information available to viewers. Such websites have been analogized to an advertisement in a nationally-available magazine or newspaper, and [do] not without more justify the exercise of jurisdiction over the defendant. At the other end of the spectrum are "interactive" websites—i.e.,

those that knowingly transmit goods or services to users in other states. Where an "interactive" website is not only available but also purposefully directs activity into [the] forum state—for example, by making sales of goods or services to New York residents—those activities can be sufficient to trigger jurisdiction under [§302].<sup>6</sup>

In the middle of the spectrum are "cases in which the defendant maintains an interactive website that permits the exchange of information between users in another state and the defendant, which depending on the level and nature of the exchange may be a basis for jurisdiction."<sup>7</sup> Courts considering these "middle ground" websites "distinguish between those with significant commercial elements, which typically are found to constitute transaction of business, and those lacking significant commercial elements, which typically are not."<sup>8</sup>

Assuming a plaintiff can meet the requirements for establishing personal jurisdiction over the infringing defendant in New York, the inquiry then shifts to whether jurisdiction satisfies Due Process. To do so, a plaintiff must show both: (1) minimum contacts; and (2) reasonableness.<sup>9</sup> The minimum contacts analysis requires the court to look to the totality of defendant's contacts with the forum<sup>10</sup> to "determine whether the defendant purposefully availed itself of the privilege of doing business in the forum state and could reasonably anticipate being haled into court there."<sup>11</sup> Similarly, a court must assess whether it is "reasonable under the circumstances of the particular case" to exercise personal jurisdiction over the non-resident defendant.<sup>12</sup>

**'Manufactured' Contacts in the State of New York.** The Second Circuit has not yet resolved the issue of whether "manufactured" contacts (i.e., the sale of an infringing item to a plaintiff's agent) is sufficient on its own to confer jurisdiction, and there is conflicting precedent from the district courts.<sup>13</sup> This issue has been addressed recently by the Southern District of New York and, interestingly, the decisions have been inconsistent. It is clear, however, that the district court is becoming increasingly wary of manufactured jurisdiction.

The issue of manufactured contacts was first addressed by the Southern District of New York over a decade ago in *Mattel v. Adventure Apparel*, 2001 U.S. Dist. LEXIS 3179 (S.D.N.Y. March 22, 2001). *Mattel* involved allegations of trademark dilution and infringement, as well as cybersquatting by the Arizona defendant, Adventure. Adventure operated a website that, although listed as "not open for business," made one sale in New York—to Mattel's investigator. After determining that Adventure's interactive website was sufficient to bring

Adventure into the category of “transacting business” via the Internet, the court turned to the issue of whether personal jurisdiction could be maintained on a single sale made to the plaintiff’s investigator solely for purposes of the litigation. The court had no concerns and held that “[t]he fact that the sale was made to an agent of Mattel is irrelevant” and “[t]he fact that there was only one transaction did not vitiate personal jurisdiction” because Adventure’s activities were purposeful and there was a substantial relationship between the transaction and the claim asserted.<sup>14</sup>

The Southern District of New York followed the Mattel court’s lead when faced with the issue in *Cartier v. Seah*, 598 F. Supp. 2d 422 (S.D.N.Y. 2009). Cartier commenced a lawsuit against the Florida company Seah, Seah’s managing member, and Skymall alleging trade dress infringement of its Pasha de Cartier line of watches. Seah advertised its allegedly infringing products in a Skymall catalog that was distributed through airlines throughout the United States and on a Skymall website. Seah did not operate its own website. Seah made one sale in New York—to a paralegal employed by Cartier’s counsel. The court held that the one New York sale was sufficient to confer personal jurisdiction over the Florida defendants and stated that “the fact that the purchaser happened to be an investigator in plaintiffs’ employ does not go to the question whether Seah purposefully availed itself of the privilege of doing business in New York.”<sup>15</sup>

The Southern District of New York, however, has become increasingly hostile towards finding jurisdiction where the plaintiff instigated the lone New York activity. In *Buccellati Holding Italia SPA v. Laura Buccellati*, 935 F. Supp. 2d 615 (S.D.N.Y. 2013), the district court dismissed the upscale jeweler’s trademark infringement lawsuit for lack of personal jurisdiction. In that case, the single sale of merchandise to a New York customer, made only days before the action was commenced, was to plaintiff’s investigator. The defendant’s website was “unusual” in the sense that it was extant for several years, but made only that single sale instigated by the plaintiff. In order to justify filing the lawsuit in New York, the plaintiff argued that the defendant operated a website “capable” of serving a New York customer. But the district court was unpersuaded, finding that there was nothing about the defendant’s website that “demonstrate[d] an attempt to ‘serve the New York market.’”<sup>16</sup> Rather, the defendant offered uncontradicted evidence that its business was conducted through private parties, by word of mouth, and through trunk shows at retailers and homes—none of which had taken place in New York. Relying on the “well established”

principle that “one does not subject himself to the jurisdiction of the courts of another state simply because he maintains a web site which residents of that state visit,” the court held that the single act “instigated by a plaintiff” was insufficient to justify the court’s jurisdiction over the defendants.<sup>17</sup>

The Southern District of New York was presented with the same issue in *Richtone Design Group v. Live Art*, 2013 U.S. Dist. LEXIS 157781 (S.D.N.Y. Nov. 4, 2013). The defendant in *Richtone* sold one infringing pilates manual to plaintiff’s counsel in New York. The court noted that most New York courts would find that the plaintiff’s manufactured sale was insufficient to create jurisdiction because defendant’s activities were “not purposeful.” But the defendant also sold 10 similar, but noninfringing, items to New York customers in 2010 and 2012 through its online newsletter. While the court specifically noted that “[c]ourts are reluctant to find personal jurisdiction unless the website specifically targets New Yorkers, or is aimed at New York users,” it nevertheless found that the de minimus activity sufficed to confer long-arm jurisdiction over the defendants pursuant to CPLR 302(a)(i).<sup>18</sup> Ultimately, however, the district court held that the exercise of personal jurisdiction would be unreasonable as a matter of due process and dismissed the complaint.<sup>19</sup> In arriving at this decision, the court noted the de minimus complained-of conduct, as well as the plaintiff’s questionable motive in commencing the lawsuit against a disabled California woman that made a very small amount of money mailing out photocopies of an old pilates manual. Under such circumstances, the court found it was “hard pressed to identify any substantive social policy furthered by continued litigation in this matter in the Southern District of New York.”<sup>20</sup>

## Conclusion

While the courts have opened the door for personal jurisdiction to be found where the alleged infringer operates an interactive website and has shipped even a single infringing item into New York, they have become increasingly wary of plaintiffs’ attempts to manufacture that single sale. The hesitance by the courts to recognize these engineered sales, along with the increased efforts by potential infringers to deactivate their websites, have made it more difficult for intellectual property owners to sue in their home state. With this in mind, to obtain personal jurisdiction over a non-domiciliary infringer, plaintiffs will need to rely on the infringer’s other “contacts” in New York, which may include marketing attempts directed at New York customers, attending trade shows in New York, or sales of unrelated products in New York (even of a de minimus

nature). But in the absence of these contacts, practitioners must counsel their clients that even where the alleged infringer’s website is available for viewing by New York customers, this—while harmful to the clients—may be insufficient to maintain the lawsuit in their home state.



1. See *Zippo Mfg. v. Zippo Dot Com*, 952 F. Supp. 1119 (W.D. Pa. 1997). *Zippo* is the seminal Internet jurisdiction case, and established the “sliding scale” test for interactivity. See id. at 1123-24. Paul I. Perlman, coauthor of this article, was counsel to Zippo Manufacturing in that case.

2. N.Y. C.P.L.R. §302(a)(1) (McKinney 2013).

3. *Richtone Design Grp. v. Live Art*, 2013 U.S. Dist. LEXIS 157781, at \*8 (S.D.N.Y. Nov. 4, 2013).

4. N.Y. C.P.L.R. §302(a)(3)(ii). See also *Penguin Grp. (USA) v. American Buddha*, 16 N.Y.3d 295, 300 (2011).

5. *Richtone Design Grp.*, 2013 U.S. Dist. LEXIS 157781, at \*6 (citations omitted; emphasis added). See also *Chloe v. Queen Bee of Beverly Hills*, 616 F.3d 158, 170 (2d Cir. 2010) (recognizing that “proof of one transaction in New York is sufficient to invoke jurisdiction, even though the defendant never enters New York”).

6. *Royalty Network v. Dishant.com*, 638 F. Supp. 2d 410, 418-19 (S.D.N.Y. 2009) (internal citations omitted); see also *Best Van Lines v. Walker*, 490 F.3d 239, 251 (2d Cir. 2007).

7. *Royalty Network*, 638 F. Supp. 2d at 419 (internal quotation marks and citation omitted).

8. *Rescuecom v. Hyams*, 477 F. Supp. 2d 522, 529 (N.D.N.Y. 2006).

9. See, e.g., *Chloe*, 616 F.3d at 164.

10. See id.

11. *Richtone Design Grp.*, 2013 U.S. Dist. LEXIS 157781, at \*22 (internal quotation marks and citations omitted).

12. Id. at \*23 (internal quotation marks and citation omitted).

13. Compare *ISI Brands v. KCC Int’l*, 458 F. Supp. 2d 81, 88-89 (E.D.N.Y. 2006) (motion to dismiss for lack of personal jurisdiction granted where plaintiff placed two orders with defendant after the lawsuit was commenced, because those sales were “nothing more than an attempt by plaintiff to manufacture a contact with this forum . . . . It was the acts of [plaintiff] that brought the infringing product into the forum, not [defendant’s] promotion, advertising, or sales activities”) (internal quotation marks and citations omitted), with *Steuben Foods v. Shibuya Hoppmann*, 2011 U.S. Dist. LEXIS 90497, at \*11-15 (W.D.N.Y. Aug. 15, 2011) (motion to dismiss for lack of personal jurisdiction denied where defendant’s website did not specifically target New York customers and lacked the ability to complete a transaction online, but defendant admitted to “occasional sales” in New York and attended trade shows in New York City).

14. *Mattel*, 2001 U.S. Dist. LEXIS 3179, at \*9-10. See also *Mattel v. Procount Bus. Servs.*, 2004 U.S. Dist. LEXIS 3895, at \*6-7 (March 17, 2004) (“The fact that this sale was to Mattel’s investigator is irrelevant. Personal jurisdiction is proper as Defendants solicited sales over the Internet, accepted an order from a resident of this state, and shipped goods into this state to fill that order”) (citation omitted).

15. *Seah*, 598 F. Supp. 2d at 425. While the court noted that the single manufactured sale was sufficient, it also made note of the copies of the catalog containing Seah’s advertisement that were foreseeably distributed to airline locations in New York state for placement on flights originating from the state. Id.

16. *Buccellati*, 935 F. Supp. 2d at 627.

17. Id. at 622-23, & n.3. See also *North Jersey Media Grp. v. Nunn*, 2013 U.S. Dist. LEXIS 134972, at \*8 (S.D.N.Y. Sept. 20, 2013) (granting defendant’s motion to dismiss the complaint for lack of personal jurisdiction because the single sale to plaintiff’s counsel in New York was “insufficient to satisfy the minimum contacts element of the Due Process analysis”).

18. *Richtone Design Grp.*, 2013 U.S. Dist. LEXIS 157781, at \*11-12 (alteration in original).

19. Id. at \*25.

20. Id.