

Intellectual Property

Published by LexisNexis™

The Internet May Take You Places To Defend A Lawsuit, But Not To California

by
Frank J. Johnson, Jr., Esq.

Sheppard, Mullin, Richter & Hampton LLP
Los Angeles, California

**A commentary article
reprinted from the
January 6, 2003 issue of
Mealey's Litigation Report:
Intellectual Property.**

Commentary***The Internet May Take You Places
To Defend A Lawsuit, But Not To California***

By

Frank J. Johnson, Jr.

[Editor's Note: Frank J. Johnson, Jr. is a senior associate at the Del Mar Heights office of the California law firm of Sheppard, Mullin, Richter & Hampton LLP. Mr. Johnson is a trial lawyer and a member of the firm's Intellectual Property Group. Mr. Johnson has represented a number of clients with intellectual property issues such as trademark, trade dress, copyright and patent claims and similar issues relating to the developing law in connection with the World Wide Web. For further information, please visit www.sheppardmullin.com. Mr. Johnson may be reached via e-mail at fjohnson@sheppardmullin.com. Responses to this commentary are welcome. Copyright 2002 by the author.]

With the burgeoning growth of the Internet, courts across the nation have grappled with the issue of when they can properly exercise jurisdiction over out-of-state parties allegedly engaged in wrongful conduct in cyberspace. In the latest test of the Internet's lack of physical borders, the California Supreme Court in a 4-3 ruling in *Pavlovich v. Superior Court*,¹ held that a Texas resident could not be sued in California for allegedly stealing trade secrets and posting them on the Internet, even if he knew or should have known that the harm would be felt in California. The court started its analysis by acknowledging the uncertainty of the borderless territory it was entering:

Not surprisingly, the so-called Internet revolution has spawned a host of new legal issues as courts have struggled to apply traditional legal frameworks to this new communication medium. Today, we join this struggle and consider the impact of the Internet on the determination of personal jurisdiction.

In reaching its decision, the California Supreme Court reversed two lower California court decisions and made it more difficult for California residents to seek redress against out of state defendants.

While the *Pavlovich* decision is now the law in California, it is not the law of the land throughout the country. Persons engaging in commerce over the Internet should not take solace in the *Pavlovich* decision and assume that they will not be sued in far away jurisdictions. As discussed in this article, the law across the country is far from uniform. Even those engaged in legitimate e-commerce may still be sued in a state in which they have never done business or stepped foot if someone there files a lawsuit

claiming its intellectual property rights have been infringed or its reputation has been damaged based on what one might construe as legitimate Internet activity. If anything, the recent California decision stresses the need for businesses operating on the Internet to seek counsel in designing their Web sites and evaluating their e-commerce activity to minimize the risk of having to defend a lawsuit in a distant or inconvenient location.

Jurisdiction Basics

Generally, the power of a court to exercise personal jurisdiction over a nonresident defendant turns on whether assertion of such jurisdiction comports with federal constitutional principles of due process. Under the United States Constitution, due process requires that before a court may exercise personal jurisdiction over a nonresident defendant, that defendant must have certain "minimum contacts" with the forum State such that the maintenance of the suit does not offend "traditional notions of fair play and substantial justice."² The purpose of the minimum contacts doctrine is to protect nonresident defendants from the burden of litigating in a distant or inconvenient forum, and ensure that states do not reach out beyond the limits of their sovereignty imposed by their status in a federal system.³

These minimum contacts may result in a court exercising general or specific jurisdiction, depending on the nature and extent of the contacts.⁴ "When a State exercises personal jurisdiction over a defendant in a suit not arising out of or related to the defendant's contacts with the forum, the State is exercising 'general jurisdiction' over the defendant."⁵ General jurisdiction results from a defendant's "substantial" or "continuous and systematic" activities in the forum state.

"When a State exercises personal jurisdiction over a defendant in a suit arising out of or related to the defendant's contacts with the forum, the State is exercising 'specific jurisdiction' over the defendant."⁶ Specific jurisdiction, the most common for Internet related cases, is determined under a three-part test: "(1) The nonresident defendant must do some act or consummate some transaction with the forum or perform some act by which he purposefully avails himself of the privilege of conducting activities in the forum, thereby invoking the benefits and protections of its laws; (2) the claim must be one which arises out of or results from the defendant's forum-related activities; and (3) exercise of jurisdiction must be reasonable."⁷

In the end, the jurisdictional analysis is a case-by-case factual inquiry. As the United States Supreme Court has recognized, "the determination of whether minimum contacts exist is one in which few answers will be written in 'black and white.' The grays are dominant and even among them the shades are innumerable."⁸

The Internet And Jurisdiction

Over the past few years, courts across the nation have varied substantially in deciding whether an out-of-state defendant's activity over the Internet was sufficient to warrant the exercise of personal jurisdiction. A standard that has been adopted by many courts is set forth in the 1997 decision *Zippo Mfg. Co. v. Zippo Dot Com, Inc.*⁹ There, the court articulated a "sliding scale" for the exercise of jurisdiction identifying three types of Web sites:

- (1) *Clearly Doing Business*: If a company maintains a Web site on which it enters into contracts with residents of a foreign jurisdiction that involve the knowing and repeated transmission of computer files over the Internet, personal jurisdiction is proper.
- (2) *Interactive*: The middle ground is occupied by interactive Web sites where a user can exchange information with the host computer. In these cases, the exercise of jurisdiction is determined by examining the level of interactivity and commercial nature of the exchange of information that occurs on the Web site.
- (3) *Passive*: These Web sites are where a company has simply posted information which is accessible to users in foreign jurisdictions. A passive Web site that does little more than make information available to those who are interested in it is not grounds for the exercise of personal jurisdiction.

The strict application of the *Zippo* "sliding scale test" has been subject to debate, particularly when applied to "passive" Web sites. In trademark infringement suits, several courts have dismissed cases for lack of personal jurisdiction where the alleged infringement was a passive Web site's domain name.¹⁰ Even where a defendant has published allegedly defamatory remarks on passive Web pages, in posted messages and in discussion groups, courts have found that the contacts were not sufficient to exercise jurisdiction over an out-of-state defendant.¹¹ Other courts have concluded that a passive Web site alone can purposefully aim itself at a forum state thereby warranting the exercise of personal jurisdiction. For example, in a few cases, the court has concluded that the mere presence of a passive Web site on the Internet is sufficient to exercise jurisdiction over an out-of-state defendant because it has decided to direct its advertising activities toward the forum state on a continuing basis.¹²

Separate and distinct from the *Zippo* "sliding scale test," California courts have long held that the "purposeful availment" requirement for specific jurisdiction is satisfied where a defendant's intentional conduct causes harmful effects within the state. Under this "effects test," personal jurisdiction can be based upon: (1) intentional actions (2) expressly aimed at the forum state (3) causing harm, the brunt of which is suffered — and which the defendant knows is likely to be suffered — in the forum state.

In *Jewish Defense Organization, Inc. v. Superior Court*,¹³ the plaintiff filed an action in California alleging that defendants (an organization based in New York and an individual who resided in New York) posted a Web site containing defamatory statements about the plaintiff. The Court of Appeal found that the effects test had not been met because the defendants' actions did not create a "foreseeable risk of injury" in California. There was insufficient evidence to conclude that plaintiff's residence or principal place of business was in California. Thus, the court could not find that the alleged defamation was targeted at California or would cause the brunt of the harm in California. The court separately held that the Web site was "passive" and did not support the exercise of jurisdiction under the *Zippo* test.

On different facts, the United States Court of Appeals for the Ninth Circuit reached the opposite conclusion under the effects test in *Panavision Intern., L.P. v. Toeppen*.¹⁴ In that case, a Delaware limited partnership with its principal place of business in California

brought a lawsuit in California against a nonresident defendant who registered Panavision's trademark as his domain name and posted a "passive" Web site on the Internet in the hope of selling the domain name to Panavision. Some might characterize the defendant, who registered more than 100 domain names in the hope of selling them at a profit, as an entrepreneur. Forecasting the conclusion, the Ninth Circuit characterized his conduct as an attempt to extort money from Panavision.

The court held that the defendant's conduct was sufficient to exercise jurisdiction over the defendant under the effects test. First, however, the court recognized that simply registering someone else's trademark as a domain name and posting a web site on the Internet is not sufficient to subject a party domiciled in one state to jurisdiction in another. But the court felt that the defendant did considerably more than simply register Panavision's trademark as his domain name on the Internet. The court concluded that he registered the name as part of a scheme to obtain money from Panavision. After registering the domain name, he offered to sell it to Panavision for \$13,000. Thus, the court concluded that his acts were aimed at Panavision in California, and caused it to suffer injury there.

The Pavlovich Case

In *Pavlovich v. Superior Court*,¹⁵ the DVD Copy Control Association (DVDCCA), which is associated with the Motion Picture Association of America (MPAA), brought suit against twenty-one named individuals for posting certain software code on their websites. DVDCCA alleged that defendants misappropriated trade secrets when they reverse engineered DVD technology. The software, known as "DeCSS," is a computer program designed to defeat DVDCCA's encryption-based copy protection system, known as the Content Scramble System, or "CSS." The CSS is used to encrypt and protect the copyrighted motion pictures contained on digital versatile discs, or DVDs.

With the support of San Francisco-based Electronic Frontier Foundation, the defendants in *Pavlovich* raised interesting and novel First Amendment defenses. Although beyond the scope of this article, in *Pavlovich*, as in a similar case pending in New York,¹⁶ defendants are hopeful that the court will embrace their conduct as protected under the First Amendment right to free speech. Specifically, the defendants have argued that written software code is protected speech, in part because DeCSS is already widely available in the public domain and they are merely republishing it.

After being served with the lawsuit, Pavlovich moved to have the case thrown out on the grounds that the California court does not have personal jurisdiction over him. Pavlovich argued that he merely republished a piece of computer code identified as DeCSS at his Internet Web site while enrolled as a full-time student at the University of Indiana. Pavlovich submitted a declaration stating that he has never: (1) solicited business in California; (2) designated a registered agent for service of process in California; (3) maintained a place of business in California; (4) maintained a telephone listing in California; (5) maintained a bank account in California; or (6) even visited California for any business purpose. Pavlovich further argued that the Web site DVDCCA attributes to Pavlovich was a "passive" Web site that did not involve the interactive exchange of information with users, did not solicit or engage in business activities and did not solicit contact with California residents.

The trial court and the court of appeal rejected Pavlovich's "passive" Web site arguments by affirming that the California court had jurisdiction over Pavlovich. The court of appeal started its analysis by identifying the issue as follows: Is jurisdiction proper over "owners, publishers, and operators of those Web sites when, in violation of California law, they make available for copying or distribution trade secrets or copyrighted material of California companies." Applying traditional rules to the facts presented, the court answered the question in the affirmative and held that jurisdiction was proper. Specifically, the court held that Pavlovich "knew, or should have known, that the DVD republishing and distribution activities he was illegally doing and allowing to be done through the use of his Web site, while benefitting him, were injuriously affecting the motion picture and computer industries in California."

A slight majority of the justices on the California Supreme Court disagreed. In a 4-3 decision, the California Supreme Court analyzed the same set of facts, reviewed the same precedential case law, and concluded that jurisdiction was not proper. Both the court of appeal and the supreme court relied heavily on the United States Supreme Court's opinion in *Calder v. Jones*,¹⁷ a case arising not out of Internet activity but out of traditional marketing channels. In *Calder*, the plaintiff Jones brought suit in California against the defendants South and Calder. Jones claimed that she had been libeled in an article published in a national magazine (the National Enquirer) that was written and edited by the defendants in Florida. The article was circulated in California. South, who wrote the first draft of the article, lived in Florida, and did most of his research in Florida, relying on phone calls to sources in California for the information contained in the article. Calder, the president and editor of the National Enquirer, was also a resident of Florida. Calder reviewed South's draft and edited it in its final form. In finding that California had specific jurisdiction over South and Calder under these facts, the *Calder* Court stated that California was "the focal point both of the story and of the harm suffered," and that jurisdiction over their persons was "proper in California based on the 'effects' of their Florida conduct in California."¹⁸ *Calder* concluded that California courts had personal jurisdiction over the defendants in Florida because defendants' "intentional conduct in Florida [was] calculated to cause injury to respondent in California."¹⁹

The majority opinion in *Pavlovich* stated that the *Calder* "effects test" requires intentional conduct expressly aimed at or targeting the forum state in addition to the defendant's knowledge that his intentional conduct would cause harm in the forum. Unlike the court of appeal's conclusion, the majority of the California Supreme Court concluded that Pavlovich did not even know that his conduct would lead to injury in California. Although Pavlovich knew some entity owned the licensing rights to the CSS technology, he did not know that DVDCCA was that entity or that DVDCCA's primary place of business was California until after the filing of this lawsuit. More importantly, the court found that Pavlovich allegedly posted the misappropriated code two months *before* DVDCCA began administering licenses to the CSS technology. Thus, the court concluded that Pavlovich could not have "expressly aimed" his conduct at California.

The majority quickly dismissed DVDCCA's argument (the argument accepted by the court of appeal) that California jurisdiction over Pavlovich was proper because he knew or should have known that the injury would be felt in California. The majority said, under this logic, "plaintiffs connected to the auto industry could sue any defendant in Michigan, plaintiffs connected to the financial industry could sue any defendant in New

York, and plaintiffs connected to the potato industry could sue any defendant in Idaho." Making clear that it was not addressing the merits of the complaint, the court concluded by saying that "Pavlovich may still face the music — just not in California." As a result, if DVDCCA intends to pursue its claims, it may have to sue Pavlovich in his home state. In addition, it may have to file a multiplicity of suits in 21 different states against the 21 defendants and face the possibility of 21 separate decisions.

Three justices of the California Supreme Court agreed with the trial judge and the three court of appeal justices and dissented. The dissenting opinion, also relying on *Calder*, stated that defendants who aim conduct at particular jurisdictions, expecting and intending that injurious effects will be felt in those specific places, cannot shield themselves from suit there simply by using the Internet, or some other generalized medium of communication, as the means of inflicting the harm. They concluded that Pavlovich knew at least two of the intended targets — the movie industry and the computer industry involved in producing the licensed playback systems — either were centered in California or maintained a particularly substantial presence here. Thus, the dissenters felt that the record amply supported the trial court's conclusion, for purposes of specific personal jurisdiction, that Pavlovich's intentional act, even if committed outside California, was "expressly aimed" at California.

Why Pavlovich Is Important To e-Commerce

Whether a court applies the traditional test, the *Zippo* sliding-scale test, the effects test, or some other new test, whether one is subject to being sued in a distant forum for particular Internet activity is anything but certain. The procedural history of the *Pavlovich* case alone highlights the uncertainty of Internet law in this regard. Analyzing the same facts and interpreting the same traditional case law, four California jurists concluded that a California court could not exercise jurisdiction over Pavlovich, while seven California jurists (the trial judge, three court of appeal justices, and three California Supreme Court justices) reached a contrary conclusion. Of course it was the opinion of the four, rather than the seven, that now dictates the law in California.

Thus, one should not be surprised that there remains a multitude of case law decisions that can be cited to support or oppose jurisdiction if a lawsuit is filed in another state. As cited above, some courts have exercised jurisdiction over operators of a "passive" Web site regardless of whether there was any evidence that the defendant knew or should have known about the location of the plaintiff or where the injury would be felt. After all, if a person engages in intentional wrongful conduct over the Internet, he or she knows that the reach of his or her conduct is all over the world. Shouldn't he or she know that the brunt of the harm will be felt in any state in which the plaintiff happens to reside or does business even if the defendant does not know the specific state?

The *Pavlovich* decision speaks to a broader issue than whether California companies can sue hackers in California. The decision limits the ability of California companies and residents to file suit in California against out of state residents who engage in tortious conduct over the Internet. Thus, out of state businesses may take comfort in thinking they are less likely to be sued in California for doing nothing more than posting material on the Internet. Unfortunately, California businesses and residents cannot take the same level of comfort.

Consider a hypothetical. Suppose a small company, only intending to do business in San Diego, California, operates a passive Web site that offers local classes on health and safety. The local company posts an article on its Web site about serious health risks associated with a widely criticized diet. Although the article does not mention it, the diet is promoted by a business in Connecticut. Suppose further that the California company has no contacts or commercial activity in Connecticut, has no intention of ever doing business in Connecticut, and its Web site is never even accessed by anyone in Connecticut. If sued in Connecticut for defamation by the Connecticut business promoting the diet or in Virginia for trademark infringement based upon the domain name for the site, the California company may be required to hire counsel and defend a lawsuit in Connecticut or Virginia. If the tables were turned and the person in Connecticut or Virginia engaged in Internet activity that infringed the rights of a California resident, under the *Pavlovich* decision the California resident would have to hire counsel and pursue a lawsuit in Connecticut or Virginia.

It appears that the issue is ripe for the United States Supreme Court to address specifically what Internet conduct justifies the exercise of jurisdiction under our constitutional principles of due process. Until then, companies and individuals simply can take little solace in the notion that they will not be sued in a far away jurisdiction. If anything, the *Pavlovich* decision should be a reminder to companies engaged in e-commerce that their conduct could expose them to lawsuits anywhere in the country. However, defensive measures can be taken (*e.g.*, limiting the level of interactivity of the Web site, posting specific and clear notices on pages prior to allowing access to other pages, having a forum selection clause in any contracts entered into over the Internet, etc.). Although defensive measures may not be effective in some circumstances, e-commerce may very well be one of those instances in which an ounce of prevention is worth a pound of cure.

ENDNOTES

1. 2002 Daily Journal D.A.R. 13,223 (Nov. 25, 2002).
2. *International Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945).
3. *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 291 (1980).
4. *Helicopteros Nacionales de Columbia v. Hall*, 466 U.S. 408, 414 (1984).
5. *Helicopteros Nacionales*, 466 U.S. at 414 n.9.
6. *Helicopteros Nacionales*, 466 U.S. at 414 n.8.
7. *Panavision Intern., L.P. v. Toeppen* (9th Cir. 1998) 141 F.3d 1316, 1320.
8. *Kulko v. California Superior Court*, 436 U.S. 84, 92 (1978).
9. 952 F. Supp. 1119 (W.D.Pa. 1997).

10. *Cybersell, Inc. v. Cybersell, Inc.*, 130 F.3d 414 (9th Cir. 1997) (trademark/domain name); *Amberson Holdings LLC v. Westside Story Newspaper*, 110 F. Supp. 2d 332, 333-37 (D.N.J. 2000) (trademark/domain name); *See also, Nutrition Physiology Corp. v. Enviros Ltd.*, 87 F. Supp. 2d 648 (N.D. Tex. 2000) (patent).
11. *Bailey v. Turbine Design, Inc.*, 86 F. Supp. 2d 790 (W.D. Tenn. 2000); *Barrett v. Catacombs Press*, 44 F. Supp. 2d 717 (E.D. Pa. 1999).
12. *Inset Systems, Inc. v. Instruction Set, Inc.*, 937 F. Supp. 161, 165 (D. Conn. 1996); *Telco Communications v. An Apple A Day*, 977 F. Supp. 404, 407 (E.D. Va. 1997).
13. 72 Cal.App.4th 1045 (1999).
14. 141 F.3d 1316 (9th Cir. 1998).
15. 2002 Daily Journal D.A.R. 13,223 (Nov. 25, 2002).
16. *Universal City Studios, Inc. v. Reimerdes*, 111 F. Supp. 2d 294 (S.D.N.Y. 2000).
17. 465 U.S. 783 (1984).
18. *Calder*, 465 U.S. at 789.
19. *Calder*, 465 U.S. at 791. ■

MEALEY'S LITIGATION REPORT: INTELLECTUAL PROPERTY

edited by Melissa Keehn

The Report is produced twice monthly by



P.O. Box 62090, King of Prussia Pa 19406-0230, USA
Telephone: (610) 768-7800 1-800-MEALEYS (1-800-632-5397)
Fax: (610) 962-4991
Email: mealeyinfo@lexisnexis.com Web site: <http://www.mealeys.com>
ISSN 1065-9390