

## Did the Seventh Circuit Cut Off New York's Long-Arm? New Developments in Personal Jurisdiction for Internet Cases

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### *New York Extends its Long-Arm Reach*

In copyright infringement cases involving the uploading of a copyrighted printed literary work onto the Internet, is the situs of injury for purposes of determining long-arm jurisdiction under N.Y. C.P.L.R. § 302 (a) (3) (ii) the location of the infringing action or the residence or location of the copyright holder?

According to the New York Court of Appeals, it is the location of the copyright holder.<sup>1</sup> *Penguin Group (USA) Inc. v. American Buddha*, No. 09-1739, 2011 N.Y. Slip Op. 02079 at 4-5 (N.Y. Mar. 24, 2011).

Feeling "ill-suited" to analyze state law and policy consideration, the United States Court of Appeals for the Second Circuit certified a broader version of this question encompassing all copyright infringement cases to the New York Court of Appeals when a book publisher appealed a district court's dismissal of an infringement suit against an Oregon-formed online library based in Arizona for lack of personal jurisdiction. *Penguin Group (USA) Inc. v. American Buddha*, 609 F.3d 30, 32-33 (2d Cir. 2010).

Under the New York long-arm statute, New York courts can exercise personal jurisdiction over out-of-state tortfeasors who cause "injury to person or property within the state," if the tortfeasor "expects or should reasonably expect the act to have

consequences in the state and derives substantial revenue from interstate or international commerce." N.Y. C.P.L.R. § 302(a)(3)(ii). In this case, the plaintiff, New York-based Penguin Group USA, sued American Buddha for copyright infringement stemming from the defendant's alleged uploading and offering for download of four of Penguin's copyrighted works. *Penguin Group (USA) Inc. v. American Buddha*, No. 09-CV-528, 2009 BL 84939 at \*3-4 (S.D.N.Y. April 21, 2009). American Buddha moved for dismissal for lack of personal jurisdiction in New York state. Penguin claimed jurisdiction on the basis of C.P.L.R. § 302(a)(3)(ii) because, it argued, any Internet-based infringement regardless of location causes injury in New York, Penguin's principal place of business. The Southern District of New York dismissed the case because it found that the alleged injury occurred where the uploading took place, in Arizona or Oregon. In making his decision, Judge Lynch acknowledged that the Internet "has no doubt added additional layers of depth to personal jurisdiction jurisprudence, [but] it plays no role in determining the situs of plaintiff's alleged injury." *Id.* at \*12 (internal citations omitted).

Penguin appealed to the Second Circuit on the sole issue of personal jurisdiction. The Second Circuit acknowledged the two competing lines of New York state case law considered by the district court under C.P.L.R. § 302(a)(3)(ii) — one favoring situs of the injury at the place of the infringing action and the other the residence or location of the copyright

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holder. However, the Second Circuit believed that resolution of this issue "require[d] analysis of state law and policy considerations" better suited for the New York Court of Appeals. *Penguin*, 609 F.3d at 32.

To begin its analysis, the New York Court of Appeals noted that a plaintiff relying on New York's long-arm statute must meet five requirements:

- (1) the defendant committed a tortious act outside New York;
- (2) the cause of action arose from that act;
- (3) the tortious act caused an injury to a person or property in New York;
- (4) the defendant expected or should reasonably have expected the act to have consequences in New York; and
- (5) the defendant derived substantial revenue from interstate or international commerce

*Penguin*, 2011 N.Y. Slip Op. 02079 at \*5. The Court of Appeals, however, only focused on the third prerequisite; if the tortious act of copyright infringement caused injury in New York. American Buddha relied on *Fatis Foods v. Standard Importing Co.*, 402 N.E. 2d 122 (N.Y. 1980), arguing that derivative monetary injury is not enough to meet the test of in-state injury. In that case, the court found personal jurisdiction to be lacking where a New York wholesaler filed suit for conversion against a Greek company who diverted a shipment on the high seas meant for the wholesaler's Chicago location. The court aptly noted that the only connection to New York was the wholesaler's domicile and residency, which was too indirect a connection with New York to create an expectation of damages within the state. The Court of Appeals compared its holding in *Fatis Foods* to an earlier decision in *Sybron Corp. v. Wetzel*, 385 N.E. 2d 1055 (N.Y. 1978), where it found that personal jurisdiction did lie in New York. In *Sybron*, the out-of-state defendant hired a former Sybron employee allegedly to obtain trade secrets that would enable it to gain a competitive edge with Sybron's New York customers.

But the Court of Appeals then noted that "[t]he injury in [*Penguin*] is more difficult to identify and

quantify because the alleged infringement involves the Internet, which by its nature is intangible and ubiquitous." *Penguin*, 2011 N.Y. Slip Op. 02079 at \*8. The court focused on the reach of digital piracy:

The crux of Penguin's copyright infringement claim is not merely the unlawful electronic copying or uploading of the four copyrighted books. Rather, it is the intended consequence of those activities — the instantaneous availability of those copyrighted works on American Buddha's Web sites for anyone, in New York or elsewhere, with an Internet connection to read and download the books free of charge

*Id.* at \*9. Furthermore, the court explained, the loss of the exclusive bundle of rights granted to copyright owners residing in New York was not as tenuous as the derivative financial loss claimed in *Fatis Foods*. Penguin's lack of evidence that any New York residents downloaded the works proved to be of no consequence to the court. Thus, the court held that the injury occurred in New York.

While the Court of Appeals did seemingly extend the reach of New York's long-arm statute in Internet cases, it is important to note that the opinion considered only one of the five requirements under C.P.L.R. § 302(a)(3)(ii) and provided no analysis under federal constitutional law. In closing, the court was careful to note that, under the Due Process Clause, out-of-state defendants must also maintain "'minimum contacts' with the forum state and that the prospect of defending a suit here comports with 'traditional notions of fair play and substantial justice.'" *Id.* at 14 (quoting *International Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945)). In its opinion certifying the state law question to the New York Court of Appeals, the Second Circuit stated that if it found that the situs of the injury was New York, it would remand the case to the district court for further analysis under C.P.L.R. § 302(a)(3)(ii) and the Due Process Clause. *Penguin*, 609 F.3d at 41.

*An Internet Connection Does Not Create Minimum Contacts*

In *be2 LLC v. Ivanov*, the Seventh Circuit recently had occasion to decide "whether [an online matchmaking] defendant's Internet activity made him susceptible to personal jurisdiction in Illinois for claims arising from that activity." No. 10-2980, 2011 BL 112238 at \*1-2 (7th Cir. Apr. 27, 2011). The court held that "on this record [] the United States Constitution forbids an Illinois court to exercise personal jurisdiction over [the defendant] in this case." *Id.* at \*7.

In *be2 LLC*, the plaintiff operated an online dating website at be2.com. The complaint alleged that the defendant, Nikolay Ivanov, a New Jersey resident, deliberately infringed the plaintiff's trademark by moving his own dating website to the domain be2.net. The district court entered a default judgment when the defendant did not answer or appear for a status hearing. Ivanov later appeared through counsel and filed motion to vacate the judgment for lack of personal jurisdiction. The district court denied his motion and this appeal was filed.

According to the Seventh Circuit, "[t]he personal jurisdiction issue boils down to one of federal constitutional law." *Id.* at \*6. Illinois' long-arm statute, like New York's, authorizes personal jurisdiction on the bases permitted by the constitutions of Illinois and the United States. The court focused its inquiry on whether "Ivanov purposely exploited the Illinois market" because "[t]he Due Process Clause is satisfied only if Ivanov has minimum contacts with Illinois such that requiring him to defend against a lawsuit in this state 'does not offend traditional notions of fair play and substantial justice.'" *Id.* at \*7. (quoting *International Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945)). Quoting its own opinion in *Illinois v. Hemi Group, LLC*, the Seventh Circuit cautioned that:

Courts should be careful in resolving questions about personal jurisdiction

involving online contacts to ensure that a defendant is not haled into court simply because the defendant owns or operates a website that is accessible in the forum state, even if that site is interactive.

*Id.* at \*8 (quoting *Illinois v. Hemi Group, LLC*, 622 F.3d 754, 760 (7th Cir. 2010)). The plaintiff presented evidence that twenty active users of defendant's website were located in Illinois, but the court did not find these resident users enough to establish the necessary minimum contacts.

Thus, the court concluded, that personal jurisdiction did not lie in Illinois because Ivanov had not targeted Illinois such that one could conclude he purposely "availed himself of the privileges of doing business in the state." *Id.* at \*10.

*So How Long is New York's Long-Arm?*

While the Seventh Circuit's opinion in *be2 LLC v. Ivanov* is not controlling in the district courts of the Second Circuit, out-of-state website operators will no doubt cite this opinion in efforts to escape New York's long-arm reach. Based on the New York Court of Appeals' ruling in *Penguin v. American Buddha*, the Second Circuit will now likely have to determine if the exercise of personal jurisdiction over a defendant like American Buddha comports with the Due Process Clause. Can *be2 LLC v. Ivanov* be distinguished? The trademark owner, be2 LLC, is a Delaware company, which is also based in that state. While be2.com offers dating services to singles throughout the United States, the facts of the case did not reveal any further connection to Illinois over any other state where the Internet is available. Would the case have survived a motion to dismiss for want of personal jurisdiction in the District of Delaware?

Since the situs of the injury for purposes of determining long-arm jurisdiction in New York was determined to be the location of the copyright holder, could the Second Circuit now conclude that American Buddha's allegedly infringing conduct was "expressly aimed at" at New York? See *Chloé v.*

*Queen Bee of Beverly Hills, LLC*, 616 F.3d 158, 171 (2d. Cir. 2010) (quoting *Calder v. Jones*, 465 U.S. 783, 789 (1984)). The Second Circuit avoided a similar question involving a trademark infringement suit just last year in *Chloé v. Queen Bee of Beverly Hills, LLC*. *Id.* at 172. With Internet-based infringement of intellectual property becoming rampant, the Second Circuit will have no choice but to make a ruling in the near future.

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<sup>1</sup> For purposes of its opinion, the Court of Appeals assumed that copyrights are capable of having a location and that Penguin's copyrights are located in New York. *Penguin*, N.Y. Slip Op. 02079 at 3 n.2.