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STATE E-DISCOVERY

Long-Arm Jurisdiction E-Communication Update

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Understanding how jurisdiction may be conferred predicated upon “electronic” events is critical to a litigator, and this article serves to update two prior articles that addressed this issue.¹

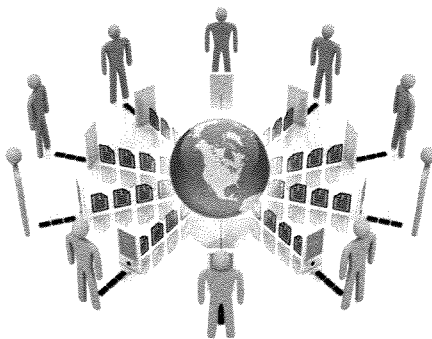
Recent decisions examine what connections to New York need to exist in digital piracy cases under the Federal Copyright Laws in order to sustain jurisdiction in this state. In more traditional commercial disputes involving websites, courts review the “substance,” “quality” and “extent” of “electronic” New York connections to a site in order to determine whether “long-arm” jurisdiction should be extended to New York state, often relying on non-electronic connections to the state to find jurisdiction.

The issue that courts continue to address, given the often ephemeral nature of “electronic” communications, is—consistent with required “minimum contacts” and due process considerations—when jurisdiction should properly be extended to a defendant when a website is not necessarily directed to New Yorkers.

This analysis becomes fact specific when a transaction or conduct is predicated upon little more than limited “interaction” or “involvement” with the site, and there are few, if any, non-electronic connections between the defendant and the state.

The New York Court of Appeals in *Penguin Group (USA) Inc. v. American Buddha*,² a case certified to it by the U.S. Court of Appeals for the Second Circuit, held that in copyright infringement cases involving the digital piracy of uploading of literary work onto the Internet the copyright holder’s residence or principal place of business is the site of injury for purposes of establishing long-arm jurisdiction in New York over a non-resident defendant.³

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Plaintiff, a New York company, sued an Arizona company that operated two websites hosted by servers in Arizona and Oregon. Plaintiff alleged that defendant uploaded four of its copyrighted literary works onto its sites, making them available free of charge. The actual uploading and electronic copying were undertaken in Arizona. Relying on CPLR §302(a)(3)(ii), the Court held that a plaintiff must establish the following requirements:

(1) 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.

The Court noted that injury alleged “is more difficult to identify and quantify because the alleged infringement involves the Internet, which by its nature is intangible and ubiquitous. But...a New York copyright owner alleging infringement sustains an in-state injury pursuant to CPLR §302(a)(3)(ii) when its printed literary work is uploaded without permission onto the Internet for public access.”

The Court held that:

In sum, the role of the Internet in cases alleging the uploading of copyrighted books distinguishes them from traditional commercial tort cases where courts have generally linked the injury to the place where sales or customers are lost. The

location of the infringement in online cases is of little import inasmuch as the primary aim of the infringer is to make the works available to anyone with access to an Internet connection, including computer users in New York. In addition, the injury to a New York copyright holder, while difficult to quantify, is not as remote as a purely indirect financial loss due to the broad spectrum of rights accorded by copyright law.

Lastly, while the Court found “long arm jurisdiction to exist, it noted that notwithstanding its holding, CPLR 302(a)(3)(ii) still requires that a plaintiff show that “the nondomiciliary both ‘expects or should reasonably expect the act to have consequences in the state’ and, importantly, ‘derives substantial revenue from interstate or international commerce.’ There must also be proof that the out-of-state defendant has the requisite ‘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,’ as required by the Federal Due Process Clause.”

Then, in *Digiprotect USA Corp. v. Does 1-266*,⁴ the court noted that “[a]lthough questions remain as to whether the benefit of American Buddha is properly extended to a New York company, such as Digiprotect, that holds a very narrow license and where most of ‘exclusive rights’ granted to copyright holders remain with an out-of-state company—in this case, Patrick Collins Inc.—the court need not decide that issue because even if the situs of the ‘injury’ is assumed to be New York, this court would still not have jurisdiction over out-of-state defendants.”

In *Digiprotect*, the plaintiff alleged that 266 unidentified defendants illegally downloaded and shared a certain pornographic film via peer-to-peer file sharing networks. The film was produced by a California corporation located in California.

Digiprotect, rather than the film’s producer, was the plaintiff because Digiprotect purchased from Patrick Collins Inc., “the narrow right to distribute this film via peer-to-peer file sharing networks such as those allegedly used by defendants.”

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The court found that "Digiprotect has made no showing that any of the Doe defendants expected or reasonably should have expected their downloading of this film to have consequences in New York, particularly when the producer of the film is located in California. Furthermore, Digiprotect surely has no basis from which to allege that the unknown defendants derived substantial revenue from interstate or international commerce."

Systematic, Continuous Activity

In a recent trial court decision, pre-action discovery was sought to identify information concerning "unknown users" of a website for purposes of filing a defamation action.

In *Hall v. Lipstick Alley*,⁵ a resident of New York sought pre-action discovery from a Michigan company that operated a message board and discussion forum, which did not have servers in New York.

Neither the website nor its owner had an office, mailing address, or contact information in New York and they had not "targeted" New York for "business development."

Membership on the website was free to the general public, including New York residents, and the site generated all of its revenue through advertising. The owner of the site represented that a non-New York advertising company was responsible for selecting ads and all messages were posted to the site without the owner's involvement, and the owner "generally" did not become aware of any "specific posts" until it received a complaint.

Relying on the principle that "whether the exercise of personal jurisdiction is permissible is directly proportionate to the nature and quality of commercial activity that an entity conducts over the internet,"⁶ the court recited the factors to be reviewed in order to make a jurisdictional determination, which include "the extent of the website's interactive nature, whether the company has substantially solicited New York business through its website, and whether defendant's servicing of New York customers has been 'systematic and continuous.'"⁷

The court found jurisdiction absent because the site was "passive" in that it "allows users to comment on and discuss various issues with other users" and there is "virtually no interaction" between the owner of the site and users.

The court further noted that there was nothing in the record to show that "Respondent either solicited business in New York, or systematically and continuously provided services to persons in New York."

As such, although the alleged injury was experienced by plaintiffs in New York, the pre-action discovery proceeding was dismissed for lack of jurisdiction pursuant to CPLR §302(a)(1).

Conversely, active communications between a New York plaintiff and a non-domiciliary defendant involving its business with plaintiff will suffice to establish jurisdiction under CPLR §302(a)(1).

In *Iconix Brand Group Inc. v. West Coast Customs Int'l, LLC*,⁸ the issue was whether a corporation engaged in the business of customizing vehicles that was based in California, could be subject to long-arm jurisdiction.

The referee found that after plaintiff reviewed defendant's website, "hundreds" of e-mails and phone calls were exchanged between the parties, and that defendant sent documents, photos, designs and samples by mail to plaintiff in New York. The referee found that, although defendant never physically entered New York and the customized vehicle was delivered in California, defendant was subject to long-arm jurisdiction because it had "conducted purposeful activity" through its communications with plaintiff in New York.

In *Doe v. McCormack*,⁹ defendants' motion to dismiss, pursuant to CPLR Rule 3211(a)(8), was denied with leave to renew pending completion of jurisdictional discovery.

Doe, an infant plaintiff residing in New York state, sued a bishop and various non-secular organizations allegedly affiliated with the bishop for claims related to negligence, negligent hiring, negligent infliction of emotional distress, and loss of services following the bishop's guilty plea to the crime of third-degree sexual abuse.

'American Buddha' made new law and, under certain limited circumstances relating to the Federal Copyright Law, altered the traditional analysis engaged in by trial courts to determine whether "long-arm" jurisdiction exists.

The entity defendants submitted affidavits attesting, inter alia, that they did not have a contract with the bishop and were not affiliated with him, that they did not contract to supply goods or services or transact business in New York and that they did not derive substantial revenue from New York.

However, one of the defendant's website contained the bishop's photo and solicited individuals to visit.

The court noted that given that the amount of revenue derived from New York from the websites was unknown prior to joinder of issue, and due to the presence of the bishop on defendant's website in contravention of defendant's affidavit, issues of fact existed and the motions to dismiss thus would be denied.

Conclusion

American Buddha made new law and, under certain limited circumstances relating to the Federal Copyright Law, altered the traditional analysis engaged in by trial courts to determine whether "long-arm" jurisdiction exists.

It will be interesting to observe in the future whether and how courts may extend the *American Buddha* rationale to other "intangible and ubiquitous" commercial torts.¹⁰

Other decisions continue to make clear that allegations that a defendant merely operates a website that reaches New Yorkers will be insufficient to trigger jurisdiction in New York.

Before commencing litigation, plaintiffs seeking to demonstrate a basis for jurisdiction need to carefully look at and do their advance homework about the defendant, to the extent possible, regarding the quality of defendant's New York contacts, the "interactive" nature of the website at issue, and whether, how and the extent to which the website solicits viewers and derives revenue from New York residents.¹¹

1. See Mark A. Berman, "Long-Arm Jurisdiction E-Mail and Websites," New York Law Journal March 29, 2009, and "Interactive Websites and New York Jurisdiction," New York Law Journal, Jan. 27, 2009.

2. 16 N.Y.3d 295, 921 N.Y.S.2d 171 (2011).

3. However, the Court made it clear that it did not "find it necessary to address whether a New York copyright holder sustains an in-state injury pursuant to CPLR 302(a)(3)(i) in a copyright infringement case that does not allege digital piracy and, therefore, express[ed] no opinion on that question." *Id.* at 307, 921 N.Y.S.2d at 177, fn. 5.

4. 2011 WL 1466073 (S.D.N.Y. April 13, 2011).

5. Index No. 101342/2011 (Sup. Ct. N.Y. Co. May 5, 2011).

6. *Id.* (quoting *Citigroup Inc. v. City Holding Co.*, 97 F. Supp.2d 549, 565 (S.D.N.Y. 2000)).

7. *Id.* at 2 (quoting *Bankrate Inc. v. Mainline Tavistock Inc.*, 856 N.Y.S.2d 496 (Sup. Ct. Kings Co. 2008)).

8. Index No. 603774/2009 (Sup. Ct. N.Y. Co. Jan. 4, 2011). See *Iconix Brand Group Inc. v. West Coast Customs Int'l, LLC*, Index No. 603774/2009 (Sup. Ct. N.Y. Co. March 4, 2011) (motion to confirm report withdrawn as moot).

9. Index No. 17871/2011, at 3 (Sup. Ct. Nassau Co. June 1, 2011).

10. *American Buddha*, at 303-04, 921 N.Y.S.2d at 174-75.

11. See *Nationwide Mut. Ins. Co. v. Morning Sun Bus Co.*, 2011 WL 381612 at *8 (E.D.N.Y. Feb 2, 2011) (citing federal cases) "The fact that individuals in New York can access Morning Sun's website does not constitute 'transacting business' for the purposes of section 302(a)(1) unless Morning Sun, through its website or other commercial activity, has some additional connection to New York. See, e.g., *ISI Brands Inc. v. KCC Intern. Inc.*, 458 F.Supp.2d 81, 87-88 (E.D.N.Y.2006) (noting that "[e]ven the existence of an interactive 'patently commercial' website that can be accessed by New York residents is not sufficient to justify the exercise of personal jurisdiction unless some degree of commercial activity occurred in New York"); *Savage Universal Corp. v. Grazer Constr. Inc.*, 2004 WL 1824102, at *9 (S.D.N.Y. Aug.13, 2004) ("It stretches the meaning of 'transacting business' to subject defendants to personal jurisdiction in any state merely for operating a website, however commercial in nature, that is capable of reaching customers in that state, without some evidence or allegation that commercial activity in that state actually occurred"); *Chloe, Div. of Richemont North Am. Inc. v. Queen Bee of Beverly Hills, LLC*, 571 F.Supp.2d 518, 528 (S.D.N.Y.2008) (collecting cases and observing that courts have exercised personal jurisdiction based upon a defendant's website only in cases where the defendant had other relevant forum contacts)."

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