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**Personal Jurisdiction in Cyberspace: Where Does It Begin, and Where Does It End?**

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Today, virtually anything can be purchased online. Internet commerce is a way for companies to reach consumers worldwide, build brand recognition, dump overstock, and maximize revenue. Many parties are woefully unaware of how their activities in cyberspace may result in the creation of personal jurisdiction for courts in far off places, especially when one may have no physical presence or intended interaction. Conversely, many intellectual property owners may be perplexed about how to hail a foreign defendant into the jurisdiction of their choice once one discovers infringing activity online. With the modern convenience of having everything just a few key strokes away, where do the territorial limits of one’s online activities begin, and where do they end?

Ideally, one would look to US court decisions for guidance on these issues. A review of case law from the past year in particular exposes vast inconsistencies in the way that online activities are analyzed for purposes of determining personal jurisdiction. The traditional three-prong test for establishing personal jurisdiction is as follows:

1. The defendant must have sufficient minimum contacts with the forum state;
2. The claim asserted against the defendant must arise out of those contacts; and
3. The exercise of jurisdiction must be reasonable.¹

While most courts follow this three-prong test, they strongly diverge in their evaluation of the first prong: sufficient minimum contacts with the forum state. A split exists among the circuits as to whether minimum contacts online are analyzed according to the *Zippo* sliding scale test, the *Calder* effects test, or by a totality-of-the-circumstances test.²

The *Zippo* sliding scale test resulted from an opinion from Western District of Pennsylvania nearly 14 years ago. In that case, the manufacturer of ZIPPO tobacco lighters brought an action alleging trademark infringement against an online computer news service using the domain names *zippo.com*, *zippo.net*, and *zipponews.com*. The defendant, Dot Com, contested jurisdiction because its principal place of business was in California, and of its 140,000 paying subscribers, only 2 percent were Pennsylvania residents. In approaching this issue, the court first noted the long-standing principle that jurisdiction could not be avoided merely because the defendant did not physically enter the forum state.³

The *Zippo* court explained that the constitutional exercise of personal jurisdiction is directly proportionate to the nature and quality of commercial activity that a defendant conducts online. At one end of the sliding scale are situations in which the exercise of personal jurisdiction is proper because a defendant clearly does business over the Internet, such as entering into contracts with residents of a foreign jurisdiction that involve the knowing and repeated transmission of files over the Internet. At the opposite end of the sliding scale are situations in which the defendant merely posts information on a Web site that is accessible to users in foreign jurisdictions, making the exercise of personal jurisdiction improper. The middle of the sliding scale consists of interactive Web sites where a user exchanges information with a host computer,
but the commercial nature of the exchange of information conducted through the Web site must be carefully examined to determine whether minimum contacts exist. In applying the sliding scale analysis, the court found that Dot Com’s Web sites were at the end of the scale where business was clearly being conducted because nearly 3,000 Pennsylvania residents applied for subscriptions, executed contracts, and received electronically transmitted news services in Pennsylvania.

Alternatively, the Calder effects test, first articulated by the Supreme Court 26 years ago—and close to 13 years before Zippo—focuses on the harm caused by a defendant’s actions. Under the Calder effects test, a defendant must (1) commit an intentional act that is (2) expressly aimed at the forum state that (3) causes harm that the defendant knows is likely to be suffered in the forum state.4

In Calder, the issue of personal jurisdiction turned on whether the National Enquirer’s California distribution of an article libeling actress Shirley Jones would be sufficient to subject it to personal jurisdiction in California. The Supreme Court reasoned that the National Enquirer knew that the libelous article would have a devastating impact upon Jones, the article concerned the California activities of Jones and drew upon California sources for its facts, and the article caused harm because it impugned the professionalism of Jones, whose career was centered in California where the publication had its largest circulation.

Although Internet commerce did not exist at the time of the Calder ruling, the Seventh and Ninth Circuits both handed down opinions in 2010 applying the Calder effects test to determine whether online activities could subject a defendant to personal jurisdiction in the target forum.5 Other circuits have yet to address whether the Zippo sliding scale test applies in such situations.6 Meanwhile, recent cases indicate that the Third, Fourth, and Fifth Circuits still loyally stand by Zippo’s sliding scale analysis.7

While there is a clear split among the circuits regarding which test to apply, two facts remain clear: wrongs committed by means of the Internet are here to stay, and the law in this area will likely continue to develop. Even though the various circuits persist in disagreeing on a bright-line rule for determining personal jurisdiction in cyberspace, a perusal of the last year’s key intellectual property cases exposes the pivotal facts that courts scrutinize in rendering decisions either for or against the exercise of personal jurisdiction.

Where Personal Jurisdiction Begins: Cases Finding Personal Jurisdiction

The Seventh and Ninth Circuits both issued opinions this year applying the Calder effects test to find defendants subject to personal jurisdiction despite fairly de minimis Internet activity. In Brayton v. Recordon & Recordon, decided May 28, 2010, Brayton Purcell, LLP, a Novato, CA-based law firm marketing itself as a leader in elder abuse law brought a copyright infringement, unfair competition, and false advertising action against a San Diego-based law firm for the unauthorized use of verbatim portions of Brayton Purcell’s Web site.8 Brayton Purcell discovered Recordon’s Web site using Copyscape, a tool that scour the Internet for unauthorized use of copyrighted materials. Recordon sought to dismiss the suit for lack of personal jurisdiction and improper venue. Because venue is satisfied in the Ninth Circuit in any judicial district in which the defendant would be subject to personal jurisdiction if the venue were a separate state, the opinion applies a traditional personal jurisdiction analysis despite the underlying issue arising from a venue challenge.

In employing the Calder effects test, the Ninth Circuit found that under the first element Recordon had committed an intentional act by operating a Web site using Brayton Purcell’s original works of authorship. Recordon argued that, since its Web site was passive, its operation could not constitute an intentional act. This argument would not have fallen on deaf ears in a Zippo jurisdiction; however, the Ninth Circuit paid no deference to it and relied upon Rio Props., Inc. v. Rio Int’l Interlink, where operating a passive Web
site was expressly found to be an intentional act. Under the second element, the Ninth Circuit reasoned that, since Brayton Purcell practiced in Northern California, Recordon’s acts of infringement and false advertising were aimed at the plaintiff in Northern California.

Recordon also attempted to derail the third element of the *Calder* effects test by maintaining that it operated a Web site that solely appealed to Southern California residents because the Web site listed only San Diego and Orange County phone numbers. In finding element three of the *Calder* effects test satisfied, the Ninth Circuit noted that nothing on Recordon’s Web site indicated to potential clients that its practice was limited to Southern California, prior to copying Brayton Purcell’s Web site Recordon did not specialize in elder abuse law, and anyone in Northern California searching for a law firm specializing in elder abuse would have been confused when choosing between Web sites.

The Seventh Circuit ruled similarly on April 8, 2010, in *Tamburo v. Dworkin*, where John Tamburo, an Illinois resident who owned a dog-breeding software business was accused of copyright infringement by a Canadian proprietor of a dog-pedigree Web site. Tamburo brought a declaratory judgment action to exonerate his name from accusations of unlawfully copying data from the defendants’ Web sites. In applying the *Calder* effects test, the Seventh Circuit found that the Canadian defendant had subjected himself to personal jurisdiction in Illinois because he had sent blast emails specifically listing Tamburo’s Illinois address to the online dog-pedigree community to defame and generate a consumer boycott against Tamburo. The Canadian defendant knew that Tamburo lived and operated his software business in Illinois and would be injured there. Although the Seventh Circuit acknowledged that many circuits follow the *Zippo* sliding scale test and the level of interactivity of Web sites had been considered at least once by the Seventh Circuit, the court did not want to “fashion a special jurisdiction test for Internet-based cases.” The court reasoned that, because the *Calder* effects test speaks directly to personal jurisdiction in intentional-tort claims, the same principles can be applied to cases involving tortuous conduct committed over the Internet.

On September 29, 2010, the Seventh Circuit ruled again on personal jurisdiction in an Internet case and cited Tamburo’s application of the *Calder* effects test favorably in reversing the Northern District of Illinois. In *UBid, Inc. v. GoDaddy*, a Chicago-based company that auctioned overstock over the Internet brought a suit under the Anti-Cybersquatting Consumer Protection Act against domain name registration and Web site hosting company GoDaddy Group, Inc., for allowing its customers to register domain names confusingly similar to UBid’s. At the district court level, GoDaddy was successful in arguing that its contacts with Illinois included only two Illinois-registered domain names and that, because those contacts were created at the initiative of Illinois residents’ “unilateral activity” on GoDaddy’s Web site, GoDaddy did not expressly aim its conduct at Illinois nor did it know harm would be suffered by UBid in Illinois.

On appeal, the Seventh Circuit did not find GoDaddy’s assertion that it was exclusively an Arizona outfit as convincing as the district court had. First, the Circuit Court pointed out that, due to GoDaddy’s extensive marketing in Illinois and sales to Illinois customers, including the two who were allowed to register infringing domain names, GoDaddy thoroughly, deliberately, and successfully exploited the Illinois market. GoDaddy aired many television advertisements on national networks, including six straight years of Super Bowl ads, thus all of its marketing had successfully reached Illinois consumers and GoDaddy had hundreds of thousands of customers in Illinois resulting in millions of dollars of revenue annually from Illinois customers.

GoDaddy’s portrayal of itself as a mindless collection of servers allowing “unilateral activity” also failed to sway the Seventh Circuit. Despite the fact that most of GoDaddy’s customers entered into transactions online without any human interaction, the Seventh Circuit pointed out that GoDaddy had set up its system that way; therefore, it could not point to its hundreds of thousands of customers in Illinois and assert in the same breath that such sales were all the idea of GoDaddy’s users. In applying the *Calder* effects test, the Seventh Circuit concluded that, since GoDaddy made millions of dollars and recruited thousands of
customers from Illinois, it could not disavow its intentional conduct toward Illinois consumers that resulted in the harm UBid suffered there.

Based on these recent decisions from the Seventh and Ninth Circuits, one might conclude that personal jurisdiction in cyberspace begins anywhere a defendant resides as long as some harmful effect is felt in the forum regardless of how interactive a Web site may be. On the other hand, courts applying the Zippo sliding scale or totality tests provide a more quantifiable method of assessing minimum contacts online.

In *Chloé v. Queen Bee of Beverly Hills, LLC*, the Second Circuit applied a totality test to find that the California-based defendant's single act of shipping a counterfeit Chloé bag to New York, coupled with the operation of a Web site offering handbags purportedly manufactured by various name-brand designers that resulted in 52 sales in New York of non-Chloé merchandise, established sufficient minimum contacts in New York. Although the Second Circuit is not a Zippo jurisdiction *per se*, the court analyzed the level of interactivity of the defendant's Web site and noted that the Web site offered to ship bags anywhere in the continental US and permitted customers to purchase the handbags online. The fact that the defendant shipped a single counterfeit Chloé bag to New York at the initiation of an administrative assistant at Chloé's law firm did not deter the court. Because 52 transactions of other purported designer merchandise had been shipped to the forum as part of a larger business plan directed at New York, the court reasoned that the totality of the defendants actions—the operation of an interactive Web site, one counterfeit shipment, plus 52 non-Chloé shipments—meant that minimum contacts existed, making the exercise of personal jurisdiction in New York fair and reasonable.

The District of New Jersey faced with similarly sparse online sales in a forum applied the Zippo sliding scale test in its March 22, 2010, *Food Sciences Corp. v. Nagler* decision and reached a similar conclusion to that in *Chloé*. New Jersey-based Food Sciences Corp., (FSC), brought an action alleging trademark infringement and false designation of origin against defendant William Nagler for selling NUTRIMED dietary food supplements through a Web site without FSC's authorization. FSC maintained that the sale and administration of NUTRIMED supplements had always been carefully controlled by virtue of exclusive sales to medical professionals, who, in turn, administered and supervised diet programs while monitoring patients using the products. The District of New Jersey proceeded with a minimum contacts analysis citing the Third Circuit's holding requiring that New Jersey courts determine online activity according to the sliding scale set forth in *Zippo*. Nagler argued that personal jurisdiction in New Jersey was improper because he processed only six orders from New Jersey out of a total of 561 sales. Of these 561 sales, two of the New Jersey sales originated from the same customer, and FSC had initiated two other sales. Nagler also contended that he completely lacked knowledge regarding where the shipments actually went. The court found that, under *Zippo*, Nagler clearly did business through his interactive Web site by selling NUTRIMED products online. Next, the point of assessing the number of transactions in New Jersey was to determine whether Nagler deliberately made sales to the forum in the absence of other evidence of intent. The law was clear that even a single sale or transaction in a forum could be sufficient for personal jurisdiction. The court also stated that even a charitable interpretation of defendant's disavowal of personal knowledge regarding sales to New Jersey had no support in legal precedent. Nagler would be credited with constructive knowledge of sales to New Jersey, whether as an alter-ego of his business or by imputing him with the same knowledge of his employees. As in *Chloé*, one interactive Web site, plus a few shipments to the state, formed the primary basis to exercise personal jurisdiction.

Another example of a district court applying the *Zippo* sliding scale test to analyze minimum contacts came out of the District of Massachusetts on August 16 in *Jagex Limited v. Impulse Software*. Jagex, a UK corporation, owned and operated a massive multiplayer online game called Runescape. The Florida defendants had no contact with Massachusetts other than offering several Web sites selling software tools nationwide allowing players to cheat while playing Runescape. Jagex filed suit against the defendants alleging copyright infringement, violation of the Digital Millennium Copyright Act, trademark
infringement, and violation of the Computer Fraud and Abuse Act. Under Zippo, the court found that the defendants operated an interactive Web site because it allowed Massachusetts users to exchange payment information for downloading software tools. Although the defendants did not specifically seek out Massachusetts customers, they did not bar or discourage them from purchasing the infringing software tools. Further, the defendants’ Web sites were not passive in nature because Massachusetts residents used the Web sites to sign electronic agreements and take payment information. Although the opinion never mentioned the specific number of software tools purchased by residents in Massachusetts, the court was satisfied that at least a sale had occurred in the forum in order to justify the exercise of personal jurisdiction.

Where Personal Jurisdiction Ends: Cases Dismissed for Lack of Personal Jurisdiction

A fair discussion of personal jurisdiction in cyberspace must also include recent examples of cases dismissed for lack of personal jurisdiction. These cases demonstrate further shades of gray in adjudicating personal jurisdiction involving online activities. While it appears that online operations coupled with minimal sales or nationwide advertising may be enough to subject a defendant to personal jurisdiction, these cases tell a different story.

On March 25, 2010, the Northern District of Illinois applied the Calder effects test to refuse personal jurisdiction over the defendant in Annie Oakley Enterprises, Inc. v. Sunset Tan Corp. & Consulting. Annie Oakley filed an action against California-based defendant Sunset Tan alleging trademark infringement, dilution, and false designation of origin for defendants use of plaintiff's SUNSET trademark for skin care lotions on its Web site, sunsettan.com, which promoted its tanning salon services and sold tanning apparel items. The court found that the use and maintenance of Sunset Tan’s Web site did not amount to minimum contacts because the Web site did not specifically target Indiana residents and online sales were not for the allegedly infringing products. Despite evidence of $209 worth of apparel sold to Indiana residents via the Web site, as well as a nationally broadcast reality television show entitled “Sunset Tan” featuring the defendant’s tanning salons, the court maintained that none of these contacts were expressly aimed at Indiana, precluding the exercise of personal jurisdiction.

This holding is at odds with the Seventh Circuit’s holding in GoDaddy where the court maintained personal jurisdiction on the basis of a nationwide advertising campaign and marginal sales related to the infringing activity in Illinois. If anything may be gleaned, it is that even courts in the same circuit may vary widely about where to draw personal jurisdiction boundaries in cyberspace.

In QSR Automations, Inc. v. KRS Corporation, LLC, decided March 31, 2010, the Western District of Kentucky dismissed QSR’s suit against Kansas-based KRS for lack of personal jurisdiction. QSR, a computer and software developer headquartered in Kentucky, filed suit alleging misappropriation of trade secrets and confidential information, trademark infringement, and false advertising for KRS’s online sales of bump-bar keypads developed from QSR’s proprietary and confidential information and offered online as “Q.S.R. Keypad repair kits and complete replacement keypads.” Following a hybrid version of the Zippo sliding scale and Calder effects tests, the court reasoned that, although KRS’s Web site was interactive because of its capability of completing sales transactions, no sales were ever made to Kentucky purchasers. Without any Internet contacts in the forum, the maintenance of the Web site itself did not constitute purposeful availment. QSR urged the court to apply the Calder effects test, asserting that QSR could be expected to feel the effects of the theft of its trade secrets in Kentucky. The court did not decline to apply Calder but simply dismissed the plaintiff’s argument since QSR had failed to establish that KRS had targeted Kentucky in the first place.

The Northern District of Georgia applied a similar hybrid analysis of the Zippo sliding scale and Calder effects tests in Imageline, Inc. v. Fotolia, LLC. Imageline, Inc., a Virginia corporation, filed a copyright
suit against Fotolia for reproducing and distributing Imageline’s original digital illustrations on its Web site, fotolia.com. Fotolia contested personal jurisdiction for several reasons. To begin with, Fotolia primarily operated out of New York, and of its 173,504 registered users only 1.9 percent of its registered users lived in Georgia. Of this small percentage, only one user maintained an active account; therefore, nobody in Georgia had downloaded Imageline’s illustrations. While Imageline argued that the Zippo sliding scale test should determine minimum contacts, Fotolia urged the court to apply the Calder effects test. The court explained that, since the Eleventh Circuit had not stated whether the Zippo sliding scale test applies to such situations, the court would express no opinion as to its applicability in the case at hand.21

Despite declining to rule on whether Zippo would apply, the Northern District of Georgia agreed that Fotolia’s Web site was not merely passive. Rather, it fell within the middle ground of interactive Web sites because Internet users could interact with Fotolia’s host computers by uploading and downloading pictures to their online Fotolia accounts. Even with this finding, Fotolia’s Web site still lacked commercial qualities with respect to its use by Georgia residents. Because no Georgia users had actually downloaded the infringing images, the court held that no minimum contacts existed. Moving on to the Calder effects test, the court reasoned that any injury caused by Fotolia’s alleged copyright infringement would have occurred in Virginia, the state of Imageline’s incorporation, therefore no effects of Fotolia’s alleged illegal actions were felt in Georgia. Based on these conclusions, Fotolia succeeded in opposing personal jurisdiction and having the case dismissed.

Although many circuits shy away from definitively setting out a minimum contacts test, the Fifth Circuit systematically applies the Zippo sliding scale test to defendants caught in the act online. In M3Girl Designs, LLC v. Purple Mountain Sweaters, decided September 13, 2010, the Northern District of Texas considered whether to dismiss M3Girl’s action for copyright infringement, trademark infringement, and false designation of origin against defendant’s sole proprietor Carol Ann Bishop, a resident of Florida.22 M3Girl manufactured and sold interchangeable bottle cap necklaces, and Bishop operated a Web site that sold bottle cap necklaces using M3Girl’s registered trademark SNAP CAPS on the Web site.

The court found that Bishop’s Web site did not fall neatly in the “doing business” category of the Zippo sliding scale because the Web site did not operate as a virtual store through which Bishop repeatedly marketed, sold, and entered into contracts with residents of Texas. Instead, Bishop’s Web site fell in the middle ground of Zippo’s sliding scale because of its “shopping cart” and “contact us” features. These features allowed users to exchange information with a host computer. The district court went onto determine how these interactive elements could link the defendant to Texas.

Bishop argued that only one sale had been made to residents of Texas, yielding a total gross revenue of barely $600. While the Northern District of Texas acknowledged that in tort cases one act by a non-resident defendant that gives rise to the plaintiff’s claim may be enough to establish minimum contacts, in the present case a single sale coupled with Bishop’s nationally available Web site would not be enough to show intentional conduct directed at Texas. The court declined to exercise personal jurisdiction and dismissed M3Girl’s complaint. When compared to the Second Circuit’s holding in Chloé, where a single sale of the infringing item coupled with a Web site offering nationwide sales rendered the plaintiff subject to personal jurisdiction, M3Girl highlights another blurry line between where personal jurisdiction begins and ends.

**Conclusion**

Despite inconsistent opinions in the US courts and a lack of consensus as to which test to apply in determining the territorial limits of a defendant’s online activities, a few core principles exist across the board.
Regardless of whether a particular jurisdiction follows the Zippo sliding scale test, the Calder effects test, or a totality test, in all instances facts demonstrating how a Web site targets a particular forum are always carefully considered. For instance, does the Web site under consideration list specific jurisdictions where shipments are made or will not be made? Is a specific mailing address or area code listed that ties the Web site to a particular forum? Does the Web site contain an end-user agreement that designates certain jurisdictions for legal actions? Is the Web site in a language unique to a certain geographical audience?

Further, while some jurisdictions refrain from openly adopting Zippo’s sliding scale test or reject it altogether, the interactive nature of a Web site is often scrutinized to assess minimum contacts. It is important to determine whether the subject Web site has interactive elements. Examples of these may include online shopping carts, price or date calculators, “contact us” forms, live Web chat services, software downloads, or automated contracting. Do the interactive elements require the exchange of information with a particular server? Where are the servers located? Does the Web site offer technical support?

Finally, jurisdictionally savvy intellectual property owners should keep abreast of case law developments and consider conducting regular self-audits to determine where their business transactions occur nationwide. This information could prove helpful in pre-determining jurisdictions where one may be hailed into court despite lacking physical contacts in a forum.

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Notes


2 Grand River Enterprises Six Nations, Ltd. v. Pryor, 425 F.3d 158, 166 (2d Cir. 2005) (“No single event or contact connecting defendant to the forum state need be demonstrated; rather, the totality of all defendant’s contacts with the forum state must indicate that the exercise of jurisdiction would be proper.”).

3 Zippo, 952 F. Supp. at 1123, citing Burger King Corp. v. Rudzewicz, 471 U.S. 462, 475 (1985) (“It is an inescapable fact of modern commercial life that a substantial amount of commercial business is transacted solely by mail and wire communications across state lines, thus obviating the need for physical presence within a State in which business is conducted.”).


5 Brayton Purcell, LLP v. Recordon & Recordon, 606 F.3d 1124 (9th Cir. 2010); Tamburo v. Dworkin, 601 F.3d 693 (7th Cir. 2010).


7 See, e.g., Revell v. Lidov, 317 F.3d 467, 470 (5th Cir.2002) (“This circuit has drawn upon the approach of Zippo in determining whether the operation of an Internet site can support minimum contacts necessary for the exercise of personal jurisdiction.”); ALS Scan, Inc. v. Digital Serv. Consultants, Inc., 293 F.3d 707, 713 (4th Cir. 2002) (“We adopt today the model developed in Zippo.”).
8 Brayton, 606 F.3d at 1126-1127.

9 Brayton, 606 F.3d at 1129, citing Rio Props., Inc. v. Rio Int'l Interlink, 284 F.3d 1007, 1020 (9th Cir. 2002) (operating a passive Web site was an intentional act).

10 Tamburo, 601 F.3d at 697-698.


12 uBID, Inc. v. GoDaddy Group, Inc., No. 09-3927, 2010 WL 3768075 (7th Cir. Sept. 29, 2010).


14 Chloé v. Queen Bee of Beverly Hills, LLC, 616 F.3d 158 (2d Cir. 2010).


16 Id. at *2, citing Spuglio v. Cabaret Lounge, 344 Fed. Appx. 724, 725 (3d Cir. 2009).


19 QSR, 2010 WL 1416700 at *2-4.

20 Imageline, 663 F. Supp. 2d at 1376-1379.

21 Imageline, 663 F. Supp. 2d at 1376.