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## Guaranteed Jurisdiction: The Emerging Role of FED. R. CIV. P. 4(k)(2) in the Acquisition of Personal Jurisdiction of Foreign Nationals in Internet Intellectual Property Disputes

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# **Guaranteed Jurisdiction: The Emerging Role of FED. R. CIV. P. 4(k)(2) in the Acquisition of Personal Jurisdiction of Foreign Nationals in Internet Intellectual Property Disputes**

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## INTRODUCTION

Ever since the negotiations over the terms of what would later become the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement, many less developed countries bitterly complained that the United States was, along with other more developed countries, attempting to exert domination and control over the world marketplace for intellectual property matters.<sup>1</sup> While this controversy will no doubt continue to spur endless debate, one inter-related issue that has quietly undergone very interesting and substantial changes in the last fifteen years is the extent to which U.S. courts may acquire jurisdiction over non-U.S. citizens to determine Internet related intellectual property disputes.

As will be examined more fully below, the largely unnoticed enactment of FED. R. CIV. P. 4(k)(2) (“RULE 4(k)(2)”) provides a powerful tool for U.S. plaintiffs to bring international owners of Internet web sites, who previously would have been immune from suit, to U.S. courts. The effect of this tool may offer U.S. citizens the very type of overarching control over the worldwide marketplace for Internet based

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1. See, e.g., Lekshmi Sarma, Comment, *Biopiracy: Twentieth Century Imperialism in the Form of International Agreements*, 13 TEMP. INT’L & COMP. L.J. 107, 118 (1999).

intellectual property rights that less developed countries fear.

Part I of this article will examine general concepts of jurisdiction as they have been applied to Internet transactions. Part II will discuss the emergence of RULE 4(k)(2) and trace its early development in non-Internet cases. Part III will examine newly decided cases that apply RULE 4(k)(2) to Internet intellectual property disputes and, in so doing, will demonstrate the extraordinary breadth of jurisdiction this new statute provides. Part IV will analyze the effect of this jurisdictional development on international relations to the extent that such development concerns intellectual property matters. Finally, Part IV will also offer recommendations for an international protocol standardizing the means by which national courts determine how and when to assert jurisdiction over foreign defendants. This protocol would minimize the possibility of an escalating controversy between nations concerning the inappropriate assertion of jurisdiction over non-residents.

## I. BACKGROUND OF RULE 4, PERSONAL JURISDICTION

Every analysis of modern federal jurisdiction must begin with the 1963 revision of the Federal Rules of Civil Procedure. Revised FED. R. CIV. P. 4 allowed federal courts to acquire personal jurisdiction over parties by incorporating the particular jurisdictional rules of the state in which the federal court was located.<sup>2</sup> As a result, personal jurisdiction over a foreign defendant could be obtained either by the physical presence of that defendant in the forum state or by the assertion of rights over a non-resident defendant under the long-arm statute of the forum state.<sup>3</sup> Thus, assuming that a plaintiff did not have the exquisite luck of serving a non-resident defendant while that defendant was physically present in the forum state, a federal court plaintiff would have to borrow the applicable state long-arm statute, which would have to meet the requisites of the Due Process clause of the United States Constitution.

The seminal case that provided the methodology to determine whether a particular state long-arm statute met the standards of Due Process is *International Shoe Co. v. Washington*.<sup>4</sup> In *International Shoe*, the Supreme Court articulated its famous requirement that the acquisition of personal jurisdiction over a non-resident defendant (whether out-of-state or international) must not offend “traditional conception[s] of fair play and substantial justice.” The Court also announced a two-part analysis, which focused on: (1) whether there were sufficient minimum contacts between the defendant and the forum state to justify the submission of the defendant to jurisdiction; and (2) whether forcing the defendant to defend a suit in the forum state would be “reasonable and just.”<sup>5</sup>

*International Shoe*’s “minimum contacts” approach has gradually evolved into two entirely separate forms of jurisdictional analysis, one based on “general” jurisdictional contacts and the other based on “specific” jurisdictional contacts. A determination of whether general jurisdictional contacts exist requires an analysis of whether a defendant’s

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2. See FED. R. CIV. P. 4(e) 1963 advisory committee’s note.

3. *Id.*

4. 326 U.S. 310 (1945).

5. *Id.* at 320.

contacts with a jurisdictional forum were systematic and continuous, while analysis of specific jurisdictional contacts instead centers on the nexus between the transaction that was the subject of the litigation and the forum state. Thus, under specific jurisdictional analysis, jurisdiction could be found, notwithstanding isolated or non-systemic contacts, so long as there were contacts with the forum state that actually led to or were a part of the cause of action at issue.<sup>6</sup>

Modern cases generally use a three-pronged test to determine whether the exercise of specific jurisdiction over a non-resident defendant is appropriate. In order to exercise specific jurisdiction: “(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.”<sup>7</sup>

However, for Internet disputes, where the minimum contacts between the defendant and the forum state could be entirely web-based, the traditional three-pronged test proved insufficient. Ultimately, courts arrived at a new method for determining specific jurisdiction minimum contacts. *Zippo Manufacturing Co. v. Zippo Dot Com, Inc.*<sup>8</sup> has been widely cited as the starting point for the analysis of whether an Internet based presence within a forum state will fulfill the minimum contacts test for specific jurisdiction.<sup>9</sup> The *Zippo* court’s contribution was to distinguish between web sites based on a measurement of the “nature and quality of commercial activity . . . conduct[ed] over the Internet.”<sup>10</sup> The *Zippo* court established a “sliding scale” test to determine whether and to what extent an Internet web site creates interactivity with the forum state.<sup>11</sup> Under *Zippo*, “active” sites are those where there is a knowing and repeated transmission of computer files

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6. See *Helicopteros Nacionales De Colombia v. Hall*, 466 U.S. 408, 414 (1983).

7. *Zippo Mfg. Co. v. Zippo Dot Com, Inc.*, 952 F. Supp. 1119, 1122-23 (W.D. Pa. 1997) (citing *Mellon Bank (East) PSFS, N.A. v. Farino*, 960 F.2d 1217, 1221 (3d Cir. 1992)).

8. *Zippo Mfg. Co.*, 952 F. Supp. at 1124.

9. See, e.g., *Toys “R” Us, Inc. v. Step Two, S.A.*, 318 F.3d 446, 452 (3rd Cir. 2003) (observing that “[t]he opinion in [*Zippo Mfg. Co.*] has become a seminal authority regarding personal jurisdiction based upon the operation of an Internet web site”); cf. *Revelle v. Lidov*, 317 F.3d 467, 470 (5th Cir. 2002) (same).

10. *Zippo Mfg. Co.*, 952 F. Supp. at 1124.

11. *Id.*

between the site and the forum state.<sup>12</sup> These repeated transmissions compose constitutionally recognized minimum contacts and thereby allow for personal jurisdiction.<sup>13</sup> “Passive” sites, which only consist of posted information that may be simply viewed over the Internet, will not.<sup>14</sup> In the middle are those interactive sites that exchange minimal information with the forum state.<sup>15</sup>

Examples of cases that have found active web sites include *Zippo* and *CompuServe*.<sup>16</sup> In *Zippo*, the web site contained “information about the company, advertisements and an application for [the] Internet news service” owned by the website operators.<sup>17</sup> A prospective subscriber could fill out an on-line application and pay for the service either via a supplied phone number or through an interactive service on the site.<sup>18</sup> Following payment, the subscriber was assigned a password, and the site then acted as a portal for a user to view or download Internet newsgroup messages stored on the defendant’s web server.<sup>19</sup> The *Zippo* court ruled that these interactive transfers of information were part of a “conscious choice” by the defendant to conduct business with residents of the forum state and thereby sustained the Due Process test of minimum contacts for personal jurisdiction.<sup>20</sup>

Similarly, in *CompuServe*, the defendant transmitted thirty-two separate “shareware” software programs to the CompuServe system, physically located in the forum state of Ohio, for others to use and purchase.<sup>21</sup> The evidence also revealed that a number of Ohio state residents downloaded and purchased the shareware programs.<sup>22</sup> The *CompuServe* court held that these contacts created a purposeful transaction of

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12. *Id.* at 1125.

13. *Id.* at 1124.

14. *Id.*

15. *Id.*

16. *Id.*; cf. *CompuServe, Inc. v. Patterson*, 89 F.3d 1257, 1265-66 (6th Cir. 1996). The court found that Patterson’s repeated transmissions were evidence of purposeful availment of the state of Ohio (the definition of an “active” website for the purpose of this article) rather than an explicit finding of an “active” web site.

17. *Zippo*, 952 F. Supp. at 1121.

18. *Id.*

19. *Id.*

20. *Id.* at 1126.

21. *CompuServe*, 89 F.3d at 1261.

22. *Id.*

business in Ohio: the defendant “chose to transmit software from Texas [his home state] to CompuServe’s system in Ohio, that myriad others gained access to [his] software via that system, and that [the defendant] advertised and sold his product through that system.”<sup>23</sup>

In contrast, *Cybersell, Inc. v. Cybersell, Inc.*<sup>24</sup> and *Donmar, Inc. v. Swanky Partners, Inc.*<sup>25</sup> held that, under the *Zippo* test, the subject web site was merely passive and had insufficient interactivity with the forum state. *Cybersell* involved a suit between two companies operating under the same name, one based in Arizona and the other in Florida.<sup>26</sup> The defendant (Cybersell Florida) maintained a web site that merely posted information about the company and invited users to e-mail them to obtain further information about the services it offered.<sup>27</sup> *Donmar* involved an out-of-state web site for a nightclub (with the tantalizing domain name “www.theleopardlounge.com”), where the only interactivity involved the web site’s ability to allow users to sign up for a mailing list and to receive driving directions.<sup>28</sup> Both the *Cybersell* and *Donmar* courts held that the level of interactivity of the web sites was insufficient to demonstrate the “purposeful availment” of a forum state that was required by the U.S. Constitution.<sup>29</sup>

*Robbins v. Yutopian Enterprises, Inc.*,<sup>30</sup> is an interesting middle ground case that demonstrates the true reach of the *Zippo* sliding scale test. There, the web site of the defendant not only actively advertised its “Go-Product” game, but took orders directly over the Internet.<sup>31</sup> Nevertheless, because only a limited number of Internet transactions occurred between the web site and residents of the forum state, the *Robbins* court ruled that there were insufficient contacts to sustain jurisdiction.<sup>32</sup> The *Robbins* court also noted (in a comment that

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23. *Id.* at 1264-65.

24. 130 F.3d 414 (9th Cir. 1997).

25. 2002 U.S. Dist. LEXIS 15308 (N.D. Ill. Aug. 19, 2002).

26. *Cybersell*, 130 F.3d at 414.

27. *Id.* at 415-416.

28. *Donmar*, 2002 U.S. Dist. LEXIS 15308, at \*2.

29. *See Cybersell*, 130 F.3d at 419-20; *Donmar*, 2002 U.S. Dist. LEXIS 15308, at \*11.

30. 202 F. Supp. 2d 426 (D. Md. 2002).

31. *Robbins*, 202 F. Supp. 2d at 430.

32. *Id.*

would prove to be highly ironic in view of the subsequent enactment of RULE 4(k)(2)) that the assertion of jurisdiction in such a case would be unfair, since it would effectively “mean that [the defendant] would presumably be subject to general personal jurisdiction [anywhere] in the country, thereby allowing a plaintiff to sue it for any matter anywhere in the nation.”<sup>33</sup> The *Robbins* court observed that “[t]his, the constitution does not permit.”<sup>34</sup> As will be shown, the effect of RULE 4(k)(2) means that a *Robbins* style defendant would be subject to jurisdiction in *every* state in the United States.

*Robbins* is also noteworthy because the level of general interactivity of the web site and the level of Internet file transmission to and from the web site to other sites was not critical to the court’s determination. Rather, the *Robbins* court chose to focus on the level and intensity of that interactivity measured by the particular contacts that the web site had with the forum state.<sup>35</sup> As this article notes in the discussion of the applicability of RULE 4(k)(2), the *Robbins* court’s transformation of the minimum contacts test to measure national, as opposed to state-wide, contacts between the web site and its target audience, will have substantial repercussions on the outcome of jurisdictional contests in Internet related intellectual property cases. For, as will be seen, once the question of the amount of contacts between the web site and target audience shifts from a state to a national level, the jurisdictional reach vastly expands as well.

## II. THE EMERGENCE OF RULE 4(K)(2)

RULE 4(k)(2), enacted and effective on December 1, 1993, provides, in pertinent part, as follows:

If the exercise of jurisdiction is consistent with the Constitution and laws of the United States, serving a summons or filing a waiver of service is also effective, with respect to claims arising under federal law, to establish personal jurisdiction over the person of any defendant who is not subject to the jurisdiction of the courts of general jurisdiction of any state.<sup>36</sup>

The rule thus provides that a plaintiff may acquire personal jurisdiction over a non-resident (whether out-of-state

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33. *Id.* (citing *Atlantech Distrib., Inc. v. Credit Gen. Ins. Co.*, 30 F. Supp. 2d 534, 537 (D. Md. 1998)).

34. *Id.* (citing *Atlantech Distrib.*, 30 F. Supp. 2d at 537).

35. *Id.*

36. FED. R. CIV. P. 4(k)(2) (2003).

or a foreign national) in any federal district within the United States if the following criteria are met: (1) the plaintiff's claim against the defendant is based on a federal question; (2) the defendant's contacts with the United States as a whole are sufficient so as not to violate Fifth Amendment concerns regarding Due Process and the need for minimum contacts; and (3) the defendant is not otherwise subject to personal jurisdiction of any state within the United States.

Interestingly, RULE 4(k)(2) was enacted as a result of a suggestion by the U.S. Supreme Court to Congress in *Omni Capital Int'l, Ltd. v. Rudolph Wolff & Co.*<sup>37</sup> There, the Court held that personal jurisdiction was lacking because of insufficient contacts between an English defendant and the forum state in a Federal Securities Act lawsuit brought by Louisiana residents. The Court broadly hinted that an amendment allowing jurisdiction in a federal question case would be appropriate, and impliedly, constitutional.<sup>38</sup>

One of the first cases to apply RULE 4(k)(2) was *Eskofot A/S v. E.I. DuPont De Nemours & Co.*<sup>39</sup> *Eskofot* involved a federal anti-trust claim, where the plaintiff, a Danish corporation, alleged that the defendant, a British corporation, was attempting to monopolize "the domestic and international market for certain printing equipment and materials."<sup>40</sup> The *Eskofot* court found that personal jurisdiction existed under RULE 4(k)(2).<sup>41</sup> It therefore did not consider other possible bases for jurisdiction. In order to decide whether the defendant had the constitutionally required minimum contacts such that defendant was amenable to personal jurisdiction in New York federal courts, the *Eskofot* court adopted, for RULE 4(k)(2) purposes, the analysis previously used by the Second Circuit to interpret New York's long arm statute prior to the enactment of

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37. 484 U.S. 97, 109, 111 (1987).

38. The *Omni Capital* Court reasoned that:

A narrowly tailored service of process provision [in the Federal Rules], authorizing service on an alien in a federal-question case when the alien is not amenable to service under the applicable state long-arm statute, might well serve the ends of the CEA [Commodities Exchange Act] and other federal statutes. It is not for the federal courts, however, to create such a rule as a matter of common law. That responsibility, in our view, better rests with those who propose the Federal Rules of Civil Procedure and with Congress.

*Omni Capital*, 484 U.S. at 111.

39. 872 F. Supp. 81 (S.D.N.Y. 1995).

40. *Id.* at 83.

41. *Id.* at 87.

RULE 4(k)(2).<sup>42</sup> Under this analysis, the *Eskofot* court asked whether, as to a foreign national, (1) the defendant transacted business in the United States; (2) whether it did an act in the United States; or (3) whether there was “an effect in the United States caused by an act done elsewhere.”<sup>43</sup>

The *Eskofot* court centered on the third factor and held that sufficient facts had been presented by the plaintiff to at least raise a question of fact as to whether the defendant had engaged in anti-competitive activities that significantly affected the United States market.<sup>44</sup> The court sustained jurisdiction, at least for purposes of denying a motion to dismiss.<sup>45</sup>

Critical analysis of *Eskofot* reveals an extraordinarily expansive view of RULE 4(k)(2). The plaintiff alleged only that defendants “have the capacity to” and “currently sell a certain percentage” of their products in the United States.<sup>46</sup> The plaintiff did not allege any purposeful activity whatsoever within the United States except for the assertion that “a certain percentage” of products were sold and sent to a point of origin within the United States.<sup>47</sup> Nevertheless, the *Eskofot* court held that a prima facie case of jurisdiction was established.<sup>48</sup> The *Eskofot* factors have been followed by a number of courts in later cases.<sup>49</sup>

Surprisingly, the trend set in motion by *Eskofot* continued. Subsequent cases have uniformly followed this expansive view of the reach of RULE 4(k)(2), often with scant support in the pleaded facts of the cases on the issue of minimum contacts aside from the sale of products to points within the United States. For example, in *Szafarowicz v. Golterup*,<sup>50</sup> the court held that a foreign defendant might be amenable to jurisdiction

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42. *Id.*

43. *Id.* (citing [Leasco Data Processing Equip. Corp. v. Maxwell](#), 468 F.2d 1326, 1340 (2d Cir. 1972)).

44. *Id.* at 88.

45. *Id.*

46. *Id.* at 85.

47. *Id.*

48. *Id.* at 86.

49. *See, e.g.*, *United States v. Int'l Bhd. of Teamsters*, 945 F. Supp. 609, 617 (S.D.N.Y. 1996) (establishing jurisdiction over foreign corporation arising solely from effects in the United States of actions taken in another country); *see also Szafarowicz v. Gotterup*, 68 F. Supp. 2d 38, 41 (D. Mass. 1999) (allowing limited “jurisdictional discovery” to determine whether the *Eskofot* factors were satisfied).

50. 68 F. Supp. 2d 38 (D. Mass. 1999).

merely as a result of the targeting of U.S. customers through magazine advertisements and the use of a booking agent within the United States for U.S. customers.<sup>51</sup> The court in *Szafarowicz* did hint at one limitation to its grant of jurisdiction under RULE 4(k)(2). It found that jurisdiction did not exist for all purposes, but merely for discovery purposes.<sup>52</sup> The court stated that discovery should be permitted to find out if defendant had generated “significant business through its marketing in the United States.”<sup>53</sup> To that end, the *Szafarowicz* court permitted the plaintiff to engage in “jurisdictional discovery.”<sup>54</sup>

Perhaps the most remarkable example of the looseness with which RULE 4(k)(2) has been construed may be found in *United States v. Swiss Am. Bank, Ltd.*<sup>55</sup> This case arose when the U.S. government attempted to enforce a forfeiture action against John Fitzgerald, a U.S. citizen.<sup>56</sup> Fitzgerald had deposited sums in overseas bank accounts, including some in the Swiss American Bank branch in Antigua.<sup>57</sup> The U.S. government alleged that Swiss American had disbursed sums in disregard of constructive notice of the government’s claim.<sup>58</sup> The U.S. government reasoned that constructive notice was the result of publications pertaining to the forfeiture in newspapers of general circulation in Antigua.<sup>59</sup> The U.S. government commenced a claim against Swiss American in the United States District Court in New York, asserting conversion, unjust enrichment, and breach of contract.<sup>60</sup> The defendant moved to dismiss for lack of personal jurisdiction, alleging that Swiss American did not conduct or solicit business within the United States and did not have any of its accounts or assets located within the United States.<sup>61</sup> John Fitzgerald also opened the accounts while physically in Antigua.<sup>62</sup>

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51. *Szafarowicz*, 68 F. Supp. 2d at 42.

52. *Id.*

53. *Id.*

54. *Id.*

55. 191 F.3d 30 (1st Cir. 1999).

56. *Id.* at 35.

57. *Id.*

58. *Id.*

59. *Id.*

60. *United States v. Swiss Am. Bank, Ltd.*, 23 F. Supp. 2d 130, 132 (D. Mass. 1998)..

61. *Id.* at 133.

62. *Swiss Am. Bank*, 191 F. 3d at 38.

While in the end the case was dismissed for lack of personal jurisdiction,<sup>63</sup> in this proceeding the court vacated the lower court's grant of the defendant's motion to dismiss on jurisdictional grounds. First, the court determined that jurisdiction would not be properly based upon the Massachusetts long-arm statute allowing personal jurisdiction over persons who cause injury within Massachusetts when they conduct, solicit or derive substantial revenue from a business conducted within the state.<sup>64</sup> The *Swiss Am. Bank* court held that these requirements simply were not met under the circumstances of the case.<sup>65</sup> However, when the court turned to an analysis of whether or not the Federal courts had personal jurisdiction under RULE 4(k)(2), an entirely different analysis ensued.

Noting the order and allocation of the burden of proof in respect to the negation requirement of RULE 4(k)(2), the *Swiss Am. Bank* court determined for the first time that when a plaintiff seeks to invoke RULE 4(k)(2), he or she can make a prima-facie case for the applicability of the rule by simply alleging the following: "(1) that the claim asserted arises under federal law, (2) that personal jurisdiction is not available under any situation-specific federal statute, and (3) that the putative defendant's contacts with the nation as a whole suffice to satisfy the applicable constitutional requirements."<sup>66</sup> The court stated that "[t]he plaintiff . . . must certify that, based on the information that is readily available to the plaintiff and his counsel, the defendant is not subject to suit in the court of general jurisdiction of any state."<sup>67</sup> If the plaintiff establishes a prima-facie case, the burden will then shift to the defendant to provide evidence that, if credited, would have to illustrate either that (a) the defendant would be subject to suit under at least one state long-arm jurisdiction statute and thus be amenable to jurisdiction in one or more state forums, or (b) that its contacts with the United States were "constitutionally insufficient."<sup>68</sup> Applying this newly crafted burden-shifting approach to the facts at hand, the *Swiss Am. Bank* court

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63. *United States v. Swiss Am. Bank, Ltd.*, 116 F. Supp. 2d 217 (D. Mass. 2000), *aff'd*, 274 F.3d 610 (1st Cir. 2001).

64. *Swiss Am. Bank*, 191 F. 3d at 38.

65. *Id.* at 37-38.

66. *Id.* at 41.

67. *Id.*

68. *Id.*

decided that the determination of whether the defendant had adequate contacts within the United States as a whole to support jurisdiction was a question that required pretrial discovery. Therefore, the *Swiss Am. Bank* court vacated both the denial of the defendant's motion to dismiss and the denial of the plaintiff's request for jurisdictional discovery.<sup>69</sup>

The *Swiss Am. Bank* court then used a remarkable analysis to convert what was in essence a common law claim of conversion into a claim under "federal common law". The court theorized that when the United States sued an alleged converter of a U.S. government check, the right of the government to recoup such assets found its roots in, and had to be adjudicated in accordance with, the federal source.<sup>70</sup> In other words, since the authority of the United States to gain title to the disputed funds flowed from its federal power to punish criminals, the right to require forfeiture of racketeering proceeds consequently created, in the eyes of the court, a "federal source" for the authority of the government to bring a claim for conversion; thus, the claim "arises under" federal law.<sup>71</sup>

*Swiss Am. Bank* apparently indicates that, under RULE 4(k)(2), a plaintiff may bring a lawsuit against a foreign defendant in federal court on a federal question claim (the subject of which may even be newly minted by the reviewing court as "arising under" federal common law) with absolutely no need to allege concrete facts that would demonstrate that defendant is properly subject to personal jurisdiction. All that is necessary is a statement that it is possible that a plaintiff may later prove, after limited jurisdictional discovery, that that defendant has minimum contacts with the United States as a whole. This is clearly an extraordinary holding and demonstrates an exceedingly expansive view of federal jurisdiction, though one that has been cited with approval by a number of courts outside the First Circuit.<sup>72</sup>

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69. *Id.* at 42.

70. *Id.* at 43.

71. *Id.* at 42-45.

72. *See, e.g.,* Base Metal Trading, Ltd. v. OJSC, 47 Fed. Appx. 73, 75 (3d Cir. 2002); *see also* Graduate Mgmt. Admissions Council v. Raju, 241 F. Supp. 2d 589, 597 (E.D. Va. 2003); Sunshine Distrib. v. Sport Auth. Mich., Inc, 157 F. Supp. 2d 779 (E.D. Mich. 2001); Haemoscope Corp. v. Pentapharm AG, 2002 U.S. Dist. LEXIS 23387 (N.D. Ill. Dec. 6, 2002); *In re* Vitamins Antitrust Litigation, 120 F. Supp. 2d 45 (D.D.C. 2000).

As may be seen in the following section, which discusses the application of RULE 4(k)(2) to Internet cases, the expanded jurisdictional reach of this statute set in motion by *Swiss Am. Bank* has continued and, when applied to the unique issues that involve the Internet, has had profound consequences.

### III. APPLICATION OF RULE 4(K)(2) TO INTERNET CASES

To date, only a handful of courts have directly applied RULE 4(k)(2) to cases arising out of Internet intellectual property disputes. One of the first to address this issue is *Quokka Sports, Inc. v. Cup Int'l Ltd.*<sup>73</sup> The *Quokka Sports* court examined a claim for trademark infringement based on defendant's registration and use of the domain name "americascup.com" by the defendant.<sup>74</sup> The court observed that the level of interactivity of the defendant's web site was minimal.<sup>75</sup> No product was being sold except advertising spots on the website itself.<sup>76</sup> No particular part of the web site supplied specific information about the availability and cost of such advertised space; it was necessary to e-mail the owners in order to obtain this information.<sup>77</sup> The web site did, however, contain a travel section that offered cruises along the racecourse.<sup>78</sup> The consumers could fill out an on-line order form and purchase a travel packet.<sup>79</sup> Nevertheless, the court determined that these allegations were sufficient to set forth "interactive commercial activity" and thus constituted positive evidence of "purposeful availment" for the purpose of satisfying the jurisdictional test of RULE 4(k)(2).<sup>80</sup>

The *Quokka Sports* court also determined that inasmuch as it appeared that no particular state was being targeted by defendant's web site, their U.S. contacts should be considered in aggregate.<sup>81</sup> Thus, considering all contacts throughout the United States in conformance with RULE 4(k)(2),<sup>82</sup> the *Quokka Sports* court held that personal jurisdiction was properly established.<sup>83</sup> Thus, from the very beginning, it became clear that courts were inclined to take an expansive view of RULE 4(k)(2) as it applied to Internet related matters.

Another example of this expansive view may be found in

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73. 99 F. Supp. 2d 1105 (N.D. Cal. 1999).

74. *Id.* at 1107-8.

75. *Id.* at 1112.

76. *Id.*

77. *Id.*

78. *Id.*

79. *Id.*

80. *Id.*

81. *Id.* at 1112.

82. *Id.* at 1110-12, 1114.

83. *Id.* at 1110, 1114.

*Toys “R” Us, Inc., v. Step Two S.A.*<sup>84</sup> In *Toys “R” Us*, the allegations of interactivity between the Spanish defendant’s website and the United States were exceedingly sparse: the websites themselves were in Spanish; all prices for goods sold via the Internet site were in Spanish pesetas and Buros; and the websites provided a contact phone number that lacked the country code that an overseas resident would need to dial.<sup>85</sup> Nevertheless, the court denied the motion to dismiss and granted jurisdictional discovery to allow for the possibility that “something else” could be unearthed in discovery that would sustain jurisdiction.<sup>86</sup>

Perhaps the most stunning example of this expansive view of jurisdiction is found in the recent case of *Graduate Mgmt. Admission Council v. Raju*.<sup>87</sup> In this case the defendant, a citizen of India, registered the domain names “GMATPlus.com” and “GMATPlus.net.”<sup>88</sup> The domain names were used to operate a foreign web site that sold test preparation material in violation of U.S. copyright and trademark laws.<sup>89</sup> The *Graduate Mgmt.* court, presuming plaintiff’s pleading to be true, found that the defendant’s web site facilitated ordering materials through a two-step process that combined a money transfer arrangement through a third party with on-line ordering through the defendant’s e-mail address.<sup>90</sup> Interestingly, the ordering information appeared to facilitate world-wide orders, but according to the *Graduate Mgmt.* court, the defendant’s website placed special emphasis on the United States and Canada.<sup>91</sup>

The *Graduate Mgmt.* court found that the defendant’s

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84. 318 F.3d 446 (3d Cir. 2003).

85. *Id.* at 449-450.

86. *Id.* at 457.

87. 241 F. Supp. 2d 589 (E.D. Va. 2003).

88. *Id.* at 590-91

89. *Id.* at 590. The plaintiff had already established a right to copyright and trademark relief. The only issue before the court was whether personal jurisdiction could be properly exercised. The case involved a defaulting defendant. The court, therefore, presumed that the factual allegations made by the plaintiff were true.

90. *Id.* at 591.

91. *Id.* This was because the website provided a toll free number for contacting the third party to facilitate the money transfer (Western Union or MoneyGram). The number was for use solely in the United States or Canada. No countries other than the U.S. or Canada are mentioned on the site, and three of the six testimonials found on the site are from customers purportedly within the U.S. *Id.*

contacts with the forum state (Virginia) satisfied the state's long-arm statute because the defendant had caused a tortious injury (interference with a trademark) within the state and had regularly solicited business through the website.<sup>92</sup> These facts were not, however, sufficient to pass a Due Process examination.<sup>93</sup> In explaining the jurisdictional findings, the *Graduate Mgmt.* court first held that mere registration of the domain name with a company located in the state did not support personal jurisdiction.<sup>94</sup> Second, the court noted that potential indirect injuries sustained by colleges and universities that rely on GMAT scores were too indirect and diffuse to support a finding that the defendant specifically targeted Virginia.<sup>95</sup> Though the *Graduate Mgmt.* court held that the shipment of materials to two Virginia customers was insufficient to establish jurisdiction, the court did note that the question was a close one.<sup>96</sup> Finally, the court determined that the targeting of GMAC, a company located in Virginia, was insufficient to ground jurisdiction because there was no indication that the defendant could "reasonably anticipate being hauled into court" in Virginia since there was no showing that he was even aware of the company's existence, let alone its existence in Virginia.<sup>97</sup>

Up to that point the *Graduate Mgmt.* court's analysis was relatively standard.<sup>98</sup> However, the second part of the opinion is nothing short of remarkable. The court, *sua sponte*, determined that there was an *alternative* basis for personal jurisdiction in the case under RULE 4(k)(2).<sup>99</sup> The *Graduate Mgmt.* court specifically noted that this matter was "not raised

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92. *Id.* at 592-93. The Virginia long-arm statute specifically allows for personal jurisdiction over a person "causing tortious injury in this Commonwealth by an act or omission outside this Commonwealth if he regularly does or solicits business, or engages in any other persistent course of conduct, or derives substantial revenue from goods used or consumed or services rendered, in this Commonwealth." *Id.* at 593.

93. *Id.* at 595.

94. *Id.*

95. *Id.*

96. *Id.*

97. *Id.* at 596.

98. It is important to recognize that *Graduate Mgmt.* concerns a default application; this was a lawsuit filed against a defendant who failed to appear at court. *Id.* at 592. This case was an appeal from a U.S. Magistrate's determination denying the default application for lack of personal jurisdiction. *Id.*

99. *Id.* at 596-97.

by GMAC in its complaint or in its brief.”<sup>100</sup> The court then took its analysis of defendant’s contact with Virginia and expanded it to consider the same minimum contacts approach, but with the significant difference that the relevant forum was now the United States as a whole rather than only Virginia.<sup>101</sup>

Refining this new methodology, the *Graduate Mgmt.* court set forth a new spin on the famous *Zippo* three-part factor analysis for RULE 4(k)(2) purposes:

Substituting the United States as the relevant forum, the test requires a showing in this case (i) that [the defendant] directed his electronic activity into the United States, (ii) that he did so with the manifest intent of engaging in business or other interactions within the United States, and (iii) that his activity creates a potential cause of action in a person within the United States that is cognizable in the United States’ courts.<sup>102</sup>

Then, the *Graduate Mgmt.* court, reiterating its previous holding that the defendant lacked sufficient contacts in Virginia, determined that since the only evidence in the record pertained to contacts between the defendant and Virginia, it was therefore “apparent” that defendant had insufficient contacts with any other single state, and that the case was consequently appropriate for a finding of personal jurisdiction under RULE 4(k)(2).<sup>103</sup>

*Graduate Mgmt.* thus provides a nearly foolproof blueprint for plaintiffs to plead and prove, at least for the purposes of surviving a motion to dismiss, jurisdiction over a non-U.S. defendant in Internet intellectual property disputes. First, a plaintiff should allege that the defendant had minimum contacts with a particular state. In the alternative, the plaintiff should assert that minimum contacts exist within the United States as a whole, which thereby permits jurisdiction under the rubric of RULE 4(k)(2).<sup>104</sup>

That is precisely what happened in the well-known “KaZaa” case, *Metro-Goldwyn-Meyer Studios, Inc. v. Grokster*.<sup>105</sup> There, the court held that personal jurisdiction

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100. *Id.* at 596.

101. *Id.* at 597-98.

102. *Id.* at 597.

103. *Id.* at 599.

104. This would, of course, assume that there are not sufficient contacts in any other state. However, as the *Graduate Mgmt.* case shows, very little is apparently required to show that there is not another state that could exercise jurisdiction. *See supra* text accompanying notes 87-103.

105. 243 F. Supp. 2d 1073 (C.D. Cal. 2003).

was proper under the California long arm statute, or, in the alternative, jurisdiction was proper under RULE 4(k)(2).<sup>106</sup> Tellingly, the court, while indicating that there were sufficient contacts within California, made the following observation:

Finally, the Court notes that even if jurisdiction over Sharman [the KaZaa holding company] were unavailable in California state courts, it would nonetheless be appropriate in this Court on the basis of Sharman's aggregated U.S. contacts. Rule 4(k)(2) of the Federal Rules of Civil Procedure permits nationwide aggregation for cases arising under federal law, unless 1) the defendant is subject to jurisdiction of the courts of general jurisdiction of any state, or 2) aggregation is expressly forbidden by the relevant law.<sup>107</sup>

Thus, these latest cases have effectively taken the concept of RULE 4(k)(2) and vastly expanded it. No longer is RULE 4(k)(2) only to be applied in a situation where a jurisdiction cannot be established in any given state. Instead, it has become a fallback position for a plaintiff to be able to keep a defendant in a federal court of the plaintiff's choosing so long as there are minimum contacts aggregated on a national basis.

Taken together, *Grokster* and *Swiss Am. Bank* allow for unproven allegations of minimum contacts with the United States to suffice for the purpose of pretrial jurisdictional discovery.<sup>108</sup> Thus, even where *no* contacts are meaningfully demonstrated, a foreign defendant will be forced to defend itself on foreign soil for the limited purpose of engaging in pretrial jurisdictional discovery (and quite possibly for the entire lawsuit) based upon the most subtle of contacts with the United States.<sup>109</sup> Surely, it is no exaggeration to say that by virtue of RULE 4(k)(2), and the extravagant construction placed upon it by federal courts, jurisdiction over foreign defendants for Internet intellectual property disputes has become nearly guaranteed.

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106. *Id.* at 1094.

107. *Id.*

108. *See supra* text accompanying notes 55-72 & 105-107

109. *Id.*

## IV. RULE 4(K)(2) AND ITS LONG-TERM EFFECT

This article has demonstrated that RULE 4(k)(2) has dramatically escalated the potential for U.S. plaintiffs to haul an unwilling foreign entity within the jurisdiction of the United States judicial system for the purpose of adjudicating virtually all intellectual property disputes involving the Internet. One must ask what the long-term effect of this dramatic assertion of authority will ultimately be.

The reader is reminded of the controversy that erupted in 2002 when the Australian High Court, in *Dow Jones & Co., Inc. v. Gutnick*,<sup>110</sup> held that Dow Jones & Company could be sued in the Australian courts in a defamation case arising out of the publication of an article involving an Australian national on its Barron's website.<sup>111</sup> Under Rule 7.01 of the Victorian Rules, Australia's version of a long-arm jurisdictional statute, Gutnick's defamation claim was construed as a tort claim that caused injury "within" Victoria as a result of a tortious act occurring outside of the territory.<sup>112</sup> The Court theorized that the injury occurred within Victoria because the Dow Jones' news article was viewable in Victoria and claims for damages were limited to that jurisdiction.<sup>113</sup> Consequentially, the Dow Jones article was a "publication" and caused injury to Gutnick's reputation because "publication" occurred within Victoria.<sup>114</sup> Therefore, jurisdiction was properly located within Victoria.<sup>115</sup> *Dow Jones* has, not surprisingly, been condemned as being a grossly inappropriate exercise of local jurisdiction that may have a chilling effect on the free flow of information and create a "spider web" of potential litigation throughout the world.<sup>116</sup>

Is the assertion of power by the *Dow Jones* Court any different from the aggressive reach of RULE 4(k)(2) for Internet-based intellectual property disputes? Moreover, is it any coincidence that *Graduate Mgmt.*<sup>117</sup> was decided in January

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110. (2002) 194 A.L.R. 433 (Austl.).

111. *Dow Jones*, 194 A.L.R. at 433, 435, 444-46.

112. *Id.* at 445-46.

113. *Id.* at 446.

114. *Id.*

115. *Id.* at 445-46.

116. See, e.g., BBC News, World Edition, *Australia Makes Landmark Net Ruling*, (Dec. 11, 2002), available at <http://news.bbc.co.uk/2/hi/asia-pacific/2560683.stm> (last visited Sept. 28, 2003).

117. *Graduate Mgmt. Admission Council v. Raju*, 241 F. Supp. 2d 589 (E.D.

2003, one month *after* the Australia High Court's ruling in *Dow Jones*? Are the courts of the world on the brink of engaging in a "gotcha" game of mutually aggressive assertions of jurisdiction against each other's citizens?

These attempts at overarching authority and control over the world's intellectual property marketplace may well have unintended consequences. Proponents of the view that the United States must insist on strict regulation to bring the Internet into compliance with U.S. intellectual property standards may argue that the interests of the world might be well served. Such regulation would, if successful, certainly police the Internet and make it compliant with western notions of intellectual property protection. However, such a position by the United States might also lead to a contrary result: that the rest of the world might haul U.S. citizens into *their* courts and make those U.S. citizens adhere to the intellectual property regulations of *those* countries. Perhaps this contest of jurisdiction over the Internet (which can certainly be viewed as a truly international forum that realistically cannot and should not be unilaterally controlled or even policed by any one country) will eventually have no winners, only losers.

The time is now ripe for the adoption of an international treaty for the uniform treatment of jurisdictional questions involving disputes over intellectual property matters. The TRIPS Agreement does not establish rules or even guidelines for this important topic. One nascent effort to address this issue comes from the Hague Conference on Private International Law, an intergovernmental entity composed of sixty-two member states (including the United States and all members of the European Union).<sup>118</sup> A special commission from that organization, following exhaustive and apparently still inconclusive negotiations, has promulgated a draft Convention on Jurisdiction and Foreign Judgments in Civil and Commercial Matters ("Jurisdiction Convention").<sup>119</sup> Article 12 of the Jurisdiction Convention addresses the jurisdictional issues in intellectual property matters and provides, in

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Va. 2003).

118. See Hague Conference on Private International Law, *Member States*, at <http://www.hcch.net/e/members/members.html> (last visited Sept. 28, 2003).

119. See Hague Conference on Private International Law, *Preliminary Draft Convention On Jurisdiction and Foreign Judgments in Civil and Commercial Matters*, at <http://www.hcch.net/e/conventions/draft36e.html> (last visited Sept. 28, 2003).

paragraph 4, that exclusive jurisdiction regarding patent and trademark actions which have “as their object the registration, validity, [or] nullity, [or revocation or infringement]”<sup>120</sup> shall exist in “the courts of the Contracting State in which the deposit or registration [of the patent, trademark or other similar rights] has been applied for, has taken place or, under the terms of an international convention, is deemed to have taken place.”<sup>121</sup> The next section, paragraph 5, confusingly provides that “[i]n relation to proceedings which have as their object the infringement of patents, the preceding paragraph does not exclude the jurisdiction of any other court under the Convention or under the national law of a Contracting State.”<sup>122</sup>

Legal commentators report that the draft is clearly an “evolving document” which does not yet reveal a consensus as to jurisdictional matters generally.<sup>123</sup> Certainly, as the draft convention reveals, no consensus has emerged as to jurisdictional issues concerning either intellectual property matters generally or those related to the Internet.

An alternative method for resolving jurisdictional disputes involving the Internet would be for all agreeable countries to stipulate, through treaty, to apply a modified conflicts of law formula. The formula would determine not whether a country *can* assert jurisdiction through a finding of minimum contacts, but rather what country’s jurisdiction *should* be the one to exercise *exclusive* jurisdiction because it has the *most significant relationship* to the controversy. Under such a scenario, the court where an international intellectual property dispute concerning the Internet is brought would first be asked to make a preliminary jurisdictional review to determine what country and thereby what court system has the most significant relationship to the transaction at issue and with the parties.

To assist in this analysis, a court could use the approach found in the Restatement (Second) of the Conflicts of Laws (“Restatement”).<sup>124</sup> Section 188 of the Restatement sets forth

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120. *Id.* (substitutions in original).

121. *Id.*

122. *Id.*

123. *See generally*, Ray August, *International Cyber Jurisdiction; A Comparative Analysis*, 39 AM. BUS. L.J. 531, 557-58 (2002) (discussing current developments in cyberspace jurisdiction).

124. RESTATEMENT (SECOND) OF CONFLICTS OF LAWS (1971).

the relevant factors for determining what law governs a contract dispute.<sup>125</sup> A modified version of this approach could be used for determining the proper jurisdiction in an Internet intellectual property disputes. Such a version might look like this:

(1) The rights and duties of the parties with respect to an issue of intellectual property rights are determined by the local law of the state which, with respect to that issue, has the most significant relationship to the intellectual property matter in issue and the parties.

(2) In the absence of an effective choice of law by the parties, the contacts to be taken into account include:

(a) the place where the intellectual property rights originated,

(b) the place where the intellectual property protection is being sought or claimed,

(c) the location where the intellectual property rights are involved, and

(d) the domicile, residence, nationality, place of incorporation and place of business of the parties.

These contacts are to be evaluated according to their relative importance with respect to the particular issue.

(3) If the place where the intellectual property rights originated, the place where the intellectual property protection is being sought or claimed and the location where the intellectual property rights are involved are in the same state, the local law of this state will usually be applied.

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125. § 188, the “Law Governing in Absence of Effective Choice by the Parties” states:

(1) The rights and duties of the parties with respect to an issue in contract are determined by the local law of the state which, with respect to that issue, has the most significant relationship to the transaction and the parties under the principles stated in § 6.

(2) In the absence of an effective choice of law by the parties (see § 187), the contacts to be taken into account in applying the principles of § 6 to determine the law applicable to an issue include:

(a) the place of contracting,

(b) the place of negotiation of the contract,

(c) the place of performance,

(d) the location of the subject matter of the contract, and

(e) the domicil, residence, nationality, place of incorporation and place of business of the parties.

These contacts are to be evaluated according to their relative importance with respect to the particular issue.

(3) If the place of negotiating the contract and the place of performance are in the same state, the local law of this state will usually be applied, except as otherwise provided in §§ 189-199 and 203.

In this way, the general concepts set forth in Section 188 of the unmodified Restatement would be used to find proper jurisdiction for Internet intellectual property disputes. Part one of a modified Restatement (“Modified Restatement”) would essentially remain the same. The governing jurisdiction shall be the one with the most significant relationship between the intellectual property matter and the parties in dispute.

Part two of Section 188 would be modified to address factors relating to the underlying intellectual property rather than the underlying contract. In Section 188(2)(a), “the place of contracting” would be replaced by “the place where the intellectual property rights originated.” Section 188(2)(b) would be dropped because the “place of the negotiation of the contract” has no direct analog with Internet relationships. Factor (2)(b) of a Modified Restatement (i.e. replacing Section 188(2)(c) of the unmodified Restatement), would be “the place where the intellectual property protection is being sought or claimed” would replace “the place of performance.” Similarly, factor (2)(c) of a Modified Restatement, “the location where the intellectual property rights were involved,” would replace “the location of the subject matter of the contract.” Factor (2)(d) of a Modified Restatement would remain the same as in Section 188(2)(e) because the state of residence of the parties is obviously relevant. Finally, part 3 of a Modified Restatement would also remain essentially unchanged. In the case where parts (a), (b) and (c) of a Modified Restatement point to one jurisdiction, that jurisdiction will usually be the correct jurisdiction for the case.

Although this framework would require refinement by courts and/or lawmakers, it would provide a starting point for a logical, measured and reasonable set of criteria for determining personal jurisdiction in Internet intellectual property cases. Until a system such as this proposed Modified Restatement is in place, it is likely that global dueling for jurisdictional advantage will continue unabated.

## CONCLUSION

The recent amendment to RULE 4(k)(2) provides a powerful tool for U.S. plaintiffs in their efforts to protect U.S. based intellectual property rights in disputes concerning the Internet. Courts have taken a remarkably expansive and generous view of the reach of this RULE 4(k)(2) and have allowed U.S. plaintiffs to haul international defendants in for pretrial jurisdictional discovery on the most minimum of allegations.

RULE 4(k)(2) no doubt fulfils a significant role in the U.S. jurisdictional system by allowing a U.S. plaintiff to, in certain circumstances, assert claims against a foreign national. However, questions remain about the possible repercussions within the global judicial system. It is certainly possible that the early rumblings of a jurisdictional duel between countries over intellectual property matters may escalate to all-out jurisdictional war. The only sure way to avoid such a consequence is for all countries to agree to a treaty which will, once and for all, provide a systemic and fair way for signatory countries to determine which jurisdiction should resolve such disputes. Unless this occurs, the jurisdictional duel will doubtlessly continue.