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Reporter's Transcript

IN THE UNITED STATES DISTRICT COURT

FOR THE WESTERN DISTRICT OF CALIFORNIA

CLOSED CORPORATION, a California Corporation, Plaintiff, v. OPEN SESAME USERS' GROUP, DOES 1–1000, SCAPE GOAT, Defendants.	Case No.: CT-0001-DFO

REPORTER'S TRANSCRIPT

HON. DIARMUID F. O'SCANNLAIN, JUDGE

RULING FROM THE BENCH

OCTOBER 23, 1999

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THE COURT: First of all, I want to commend counsel for their thorough and able arguments both in their briefs and in open court. In ruling on the Defendants' Motion to Dismiss in this case, I will address in turn each of the separate issues raised. Of course, for posterity, I must remind all present that this is a teaching vehicle and my ruling has no binding or precedential effect in any District of California or the United States Court of Appeals for the Ninth Circuit.

As an initial matter, I have chosen to adjudicate these jurisdictional issues by examining whether Closed Corporation has shown a likelihood of the existence of each fact necessary to support jurisdiction, as I may do under *Foster-Miller, Inc. v. Babcock & Wilcox Canada*, 46 F.3d 138, 146 (1st Cir. 1995). We have had the benefit of a fully developed evidentiary hearing, which makes this approach appropriate. This standard navigates a path between unfairness to the plaintiff by requiring that it establish jurisdiction by a preponderance of the evidence before discovery, and unfairness to the defendants by forcing them through litigation on only a prima facie showing of jurisdiction. *See id.* at 150-51.

This is a patent infringement case, and we are at a very early stage. We have before us a motion to dismiss based on jurisdictional grounds only; there is no pending motion for a preliminary injunction.

I.

The threshold question in this lawsuit is whether Open Sesame Users' Group is an entity that is capable of being sued. Of course, if it is not, the claim against the Group cannot proceed and must be dismissed. On these facts, this question is one of first impression.

Because I am persuaded by Plaintiff's argument that Open Sesame Users' Group has a "distinct purpose" and "performs specific functions toward that end," I find that it is an unincorporated association and, as such, is subject to suit. Open Sesame Users' Group is an organization much like the group at issue in *Project Basic Tenants Union v. Rhode Island Housing & Mortgage Finance Corp.*, 636 F. Supp. 1453 (D.R.I. 1986), in that it has a definite purpose and has engaged in concerted activities. In that case, the court found that,

even though the group lacked elected officers, a budget, and bylaws, it was far from an amorphous or transitory group. Indeed, though it had "apparently no set group of members," the group was still held to be an unincorporated association. *Id.* at 1457-58.

The group in *Tenants Union* did have an office, *see id.* at 1457, and I find that so too does Open Sesame: Its Usenet site is the functional equivalent of an office. Furthermore, the process of creating the newsgroup in the first place evinced the organized effort behind Open Sesame Users' Group. I was persuaded by Dr. Felten's testimony about the "charter" of this newsgroup to that extent. More importantly, the very nature of the collaborative project to develop the Open operating system—regardless of whether the collaborators voted on the charter itself—required that there be an organizational structure to the group, with a core set of individuals controlling the evolution of the code. Although it is a close question, I am satisfied, given our decisions, that meaningful relief could be enforced against the group if Plaintiff prevails on the merits.

For these reasons, I conclude that Open Sesame Users' Group is subject to suit.

II.

Turning next to the issue of personal jurisdiction, I must acknowledge that traditional notions of this venerable legal concept must be set aside when venturing into the ether of cyberspace. The central notion of the law of jurisdiction is that there is one geographical location in which it is appropriate for a court to hear the case before it. The Internet, however, defies such territorial boundaries and cannot be easily captured by our tangible legal system. Nevertheless, the federal courts have begun to grapple with this issue and provide guidance for us now. The parties here are bound by the law of the Federal Circuit rather than that of the Ninth Circuit in this patent infringement case. *See Beverly Hills Fan Co. v. Royal Sovereign Corp.*, 21 F.3d 1558, 1564-65 (Fed. Cir. 1994). The Federal Circuit, however, has not yet considered to what extent a court may exercise personal jurisdiction over a defendant based solely on the defendant's Internet contacts with the forum. Several other courts, however, have ruled on this issue. I turn to them for guidance.

Courts apply a "sliding scale" to determine whether the defendant's Internet contacts with the forum satisfy the "purposeful availment" prong of the minimum contacts test laid out in *Panavision International, L.P. v. Toeppen*, 141 F.3d 1316, 1320 (9th Cir. 1998). As a general rule, "the likelihood that personal jurisdiction can be constitutionally exercised is directly proportionate to the nature and quality of commercial activity that an entity conducts over the Internet." *Cybersell, Inc. v. Cysbersell, Inc.*, 130 F.3d 414, 419 (9th Cir. 1997) (quoting *Zippo Mfg. Co. v. Zippo Dot Com, Inc.*, 952 F. Supp. 1119, 1124 (W.D. Pa. 1997)).

Cases discussing personal jurisdiction based on Web activity generally fall into three categories. At one end of the scale are cases where the defendant has merely posted information or advertisements that are accessible to users in foreign jurisdictions. In these cases, involving so-called "passive" Web sites, courts typically hold that the defendant has not purposefully availed himself of a forum state in which the plaintiff had merely downloaded or viewed the material. The Ninth Circuit decision in *Cybersell* is illustrative. *See Cybersell*, 130 F.3d 414; *Bensusan Restaurant Corp. v. King*, 937 F. Supp. 295, 300 (S.D.N.Y. 1996), *aff'd*, 126 F.3d 25 (2d Cir. 1997). At the opposite end of the scale are situations in which the defendant "enters into contracts with residents of a foreign jurisdiction that involve the knowing and repeated transmission of computer files over the Internet." *Zippo Mfg. Co.*, 952 F. Supp. at 1125-26. In such situations, the defendant clearly does business in the forum and is subject to jurisdiction there. *See, e.g., CompuServe, Inc. v. Patterson*, 89 F.3d 1257, 1264 (6th Cir. 1996).

Between these extremes are cases in which the defendant created interactive Web sites, allowing the user to exchange information with the host computer. These cases are examined for the level of interactivity and commercial nature of the exchange of information that occurs over the Web site. *See generally Zippo Mfg. Co.*, 952 F. Supp. at 1124 (citing *Maritz, Inc. v. Cybergod, Inc.*, 947 F. Supp. 1328 (E.D. Mo. 1996)). I conclude that the case before me falls into this middle realm of cases that require individual examination.

Plaintiff Closed Corporation convincingly argues that the present case is governed by *Panavision*, *see* 141 F.3d at 1327, and I find that, like the defendants in that case, Defendant Open Sesame Users'

Group and its members are subject to personal jurisdiction. Like trademark infringement, patent infringement is akin to a tort. *See Hoover Group, Inc. v. Custom Metalcraft, Inc.*, 84 F.3d 1408, 1411 (Fed. Cir. 1996) (describing patent infringement as a "commercial tort"). Further, the brunt of the harm to Plaintiff will be felt in California. Like Panavision, Plaintiff is headquartered in California, and California is the center of the computer industry; many of the software developers and computer hardware manufacturers with whom Plaintiff enters into licensing agreements are located in California. The availability of Defendants' allegedly infringing operating system is likely to harm Plaintiff's relationship with these California-based computer companies. Given the prominence of Plaintiff within the computer industry, Defendants must have known that Closed Corporation would suffer the brunt of its injury in California.

A closer question is whether Defendants' conduct was "expressly aimed at the forum state," the second requirement under the "effects test." *Panavision*, 141 F.3d at 1316. This prong was satisfied in *Panavision* by the defendant's purposeful scheme to extort money from Panavision. *See id.* at 1322. Here, Plaintiff alleges that Defendants engaged in willful infringement of Closed's patent for Views operating system. Further, according to the stipulated facts, a number of Open operating system users organized a protest at Closed's California headquarters, where they returned their unopened Views operating system software. It is not clear whether members of Open Sesame Users' Group participated in this protest. If established at trial, these facts would support finding jurisdiction under the effects test. Furthermore, both Dr. Torvalds and Dr. Felten testified that the Open operating system was developed as an alternative system to Views.

Under *International Shoe*, however, jurisdiction must still comport with "traditional notions of fair play and substantial justice." *International Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945) (quoting *Milliken v. Meyer*, 311 U.S. 457, 463 (1941)). Although some defendants may be citizens and residents of foreign countries, their discomfort in defending themselves in California is outweighed by their actual contacts and combined interests of the Plaintiff, California, and the broader judicial system.

III.

Venue in this patent infringement case is governed by 28 U.S.C. § 1400 (1993). I consider first whether this is the proper venue as to Open Sesame Users' Group. The presence of a corporate defendant triggers 28 U.S.C. § 1391(c). Under § 1391(c), an action against a corporate defendant may be brought in any judicial district in which the corporation would be subject to personal jurisdiction. The same rule applies for unincorporated associations. *See Denver & Rio Grande W. R.R. v. Brotherhood of R.R. Trainmen*, 387 U.S. 556, 562 (1967).

In light of the preceding analysis, venue in the Western District is proper given that Open Sesame is subject to jurisdiction in California under the "effects test" of *Panavision*. *See Panavision*, 141 F.3d at 1321.

I next consider whether this is the proper venue as to Defendants Does 1–1000. For the individual defendants, venue is governed by 28 U.S.C. § 1400(b), which provides that "[a]ny civil action for patent infringement may be brought in the judicial district where the defendant resides, or where the defendant has committed acts of infringement *and* has a regular and established place of business." 28 U.S.C. § 1400(b) (1993) (emphasis added). The Supreme Court has held that § 1400(b) "is specific and unambiguous; it is not one of those vague principles which, in the interest of some overriding policy, is to be given a 'liberal' construction." *Schnell v. Peter Eckrich & Sons, Inc.*, 365 U.S. 260, 264 (1961) (quoting *Olberding v. Illinois Cent. R.R. Co.*, 346 U.S. 338, 340 (1953)).

Plaintiff does not contend that all the Doe Defendants reside in the Western District of California. In light of the foregoing discussion of jurisdiction, the non-resident Defendants do not have a "regular and established place of business" *in this District* as a result of their Internet contacts with California. Only the most liberal construction of the statutory language could produce a contrary result. Closed's appeal to "overriding policy" is unavailing in the face of the clear statutory language. Should Closed Corporation choose to pursue its infringement suit against the individual members of Open

Sesame Users' Group, it will in all probability have to proceed with separate suits in the districts in which each member resides.

IV.

The final issue before me today is whether Plaintiff effected adequate service of process on Defendants. My evaluation of the adequacy of service involves the two-step inquiry required by *Mullane v. Central Hanover Bank & Trust Co.*, 339 U.S. 306 (1950). First, the method of service must be authorized by a particular court rule or statute, *see id.* at 309, and second, the method must meet the constitutional test of "notice reasonably calculated, under all the circumstances, to apprise interested parties of the pendency of the action and afford them an opportunity to present their objection," *id.* at 314. I note that courts are recognizing newer communications technologies as valid media for providing legal notice in certain contexts.

First of all, as to service on Defendant Scape Goat, counsel for both sides concede that there is no issue pending before me since she was personally served in this District, and therefore the Motion to Dismiss must be denied as to her.

As to Defendants Does 1–1000, whom I have already found cannot be served in the Western District of California, under Federal Rule of Civil Procedure 4(e)(1), service upon an individual may be effected pursuant to the law of the state in which the district court is located.

Although California Code of Civil Procedure section 413.30 gives me discretion to authorize an alternative method where service cannot be effected in any other way, *see* Cal. Civ. Proc. Code § 413.30 (West 1973), the weight of authority compels me to agree with Defendant Open Sesame Users' Group's argument that electronic mail is too unreliable to fall within this provision. *See, e.g., Columbia Ins. Co. v. Seescandy.com*, 185 F.R.D. 573, 579 (N.D. Cal. 1999). The fact is, a number of the addresses that Plaintiff procured from the Open Sesame Usenet archive are simply no longer active. I therefore find that, even if venue were proper, service on the Doe Defendants was inadequate.

I am persuaded by Defendants' argument that staying a ruling pending further discovery is inappropriate where, as here, further

steps to obtain identities and to perform actual service should have been accomplished prior to filing.

V.

Finally, as to service on Open Sesame Users' Group, Closed Corporation contends that service by posting a message to the Usenet newsgroup and *OpenSource* Web site is proper given the nature of the entity.

I agree. The leaders of the Open Sesame Users' Group could well be expected to receive actual notice of this suit as a result of these postings by Closed Corporation. Furthermore, the applicable statutes governing service allow for a measure of flexibility in complying with the state rules for service. *See* Cal. Civ. Proc. Code § 413.30. I am not persuaded that the frequency of hoaxes and so-called "noise" is a bar.

VI.

In conclusion, I will GRANT the Defendants' Motion to Dismiss with respect to the Doe Defendants, subject to a request for leave to amend. I will DENY the Motion to Dismiss with respect to Open Sesame Users' Group and Scape Goat. If either counsel wishes to pursue an interlocutory appeal to the Ninth Circuit (who knows how *they* would rule?), I will be happy to certify under 28 U.S.C. § 1292(b) on request.

This session is ADJOURNED.