CHAPTER 20
LITIGATION IN A HIGH-TECH WORLD

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§20:1 Introduction

Every company today – high-tech and low-tech – litigates in an environment affected by evolving technology. Technological innovation has transformed U.S. litigation, even before a case reaches the courtroom. The ubiquity of electronic mail ("e-mail") and proliferation of websites renders all U.S. companies "high-tech" companies for procedural litigation issues. For example, websites have caused companies and Internet users to litigate cases in foreign courts. Companies can in certain instances be served by e-mail, and website publications face the same statute of limitations concerns as print media. As bulletin boards spring up on venues ranging from multinational Internet service providers ("ISPs") to tiny websites, many U.S. companies are suing their anonymous Internet critics, and seeking to unmask their identities in the process. Meanwhile, more and more companies are successfully invoking two U.S. statutory "safe harbors," to avoid liability for third-party misconduct on their websites. Then, once a case is brought, technology has changed the conduct of discovery, as companies are forced to resurrect and produce e-mail long since deleted from their systems but available through computer forensics. As for substantive matters, high-tech companies face special bankruptcy risks as parties to valuable technology licenses. This chapter addresses all of these topics and gives practical suggestions to corporate counsel.[2]

At least seven procedural issues are affected by recent advances in technology: (a) service of process (§ 20.2); (b) personal jurisdiction (§ 20.3); (c) forum selection (§ 20.4); (d) statutes of limitations (§ 20.5); (e) identifying anonymous defendants (§ 20.6); (f) discovery (§ 20.7); and (g) "safe harbors" against third-party Internet misconduct (§ 20.8).

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2 Sections entitled "Practical Suggestions" provide general guidance on the topic and do not constitute legal advice for any specific problem.

§ 20:2 Service of Process

§ 20:2.1 Case Law

The Internet allows users to commit torts from foreign lands (*e.g.*, defamation) without disclosing their residential or corporate location. As a result, some courts now allow plaintiffs to serve a summons and complaint upon foreign defendants by e-mail.

In U.S. district court, a plaintiff serves a summons and complaint upon a defendant pursuant to Rule 4 of the Federal Rules of Civil Procedure ("F.R.C.P.").[3] F.R.C.P. 4(f) provides that individuals may be served outside the United States "by other means not prohibited by international agreement as may be directed by the court." Corporations, associations and partnerships may be served outside the United States in any manner set forth in F.R.C.P. 4(f) except personal delivery.[4]

In *Rio Properties, Inc. v. Rio International Interlink*, the U.S. Court of Appeals for the Ninth Circuit held that a foreign corporate defendant could properly be served by e-mail when it effectively made itself "unservable" by other means.[5] A Las Vegas hotel/casino operator had sued a Costa Rica-based Internet gambling company for trademark infringement for using several Internet domain names containing the "Rio" name. The defendant had a Los Angeles attorney and Miami-based international courier, both of whom declined to accept service, and the plaintiff could not find a street address for the defendant in Costa Rica. The plaintiff obtained a court order pursuant to F.R.C.P. 4(h)(2) and 4(f)(3) to serve the defendant by e-mail. The Ninth Circuit affirmed the propriety of the e-mail service, stating that the plaintiff need not attempt "every permissible means of service" first, but need only demonstrate a need for the court's intervention.[6] The court held that the e-mail service comported with constitutional due process concerns, because it was reasonably calculated under the circumstances to apprise the defendant of the pending action.

Rio Properties may herald more widespread use of e-mail (and even more modern) service of process. The Ninth Circuit noted that "the Constitution does not require any particular means of service of process, only that the method selected be reasonably calculated to provide notice and an opportunity to respond."[7] The court also observed that service methods have evolved with the available technology, stating: "No longer must process be mailed to a

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[3] F.R.C.P. 4(f)(3).

[4] F.R.C.P. 4(h)(2).

[5] 284 F.3d 1007, 1013 (9th Cir. 2002).

[6] *Id.* at 1015.

[7] *Id.* at 1017.

defendant's door when he can receive complete notice at an electronic terminal inside his very office, even when the door is steel and bolted shut."[8]

Rio Properties cited with approval *In re International Telemedia Associates, Inc.*,[9] in which a bankruptcy trustee obtained a court order to serve by e-mail a former officer of the debtor corporation. The court allowed such service, because the defendant had made himself an unservable "moving target" – he had no U.S. residence, refused to give the trustee a telephone number or mail address, and claimed to be traveling continuously abroad. (In fact, his own mother even called the trustee to try to find her son!) As in *Rio Properties*, the court observed "that any unspecified form of alternate service usually has its genesis in untried or formerly unapproved methodology," and that the Internet already had nearly 150 million users.[10] The court also noted that the defendant had provided only a facsimile and e-mail address and "should not be allowed to evade service by confining himself to modern technological methods of communication not specifically mentioned in the Federal Rules."[11]

§ 20:2.2 Practical Suggestions

For plaintiffs attempting to serve defendants by electronic means:

1. Attempt other methods of service first. The *Rio Properties* and *International Telemedia Associates* courts noted that the plaintiffs first attempted more conventional means of service before seeking court-ordered e-mail service.

2. Seek a court order first. In *WAWA, Inc. v. Christensen*,[12] the court held that plaintiff's attempted e-mail service of a Danish citizen, without first seeking a court order, was *not* a valid means of delivery. *Rio Properties* and *International Telemedia Associates* distinguished *WAWA* on that ground – absence of a court order.[13]

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8 *Id.*, citing *New England Merchs. Nat'l Bank v. Iran Power Generation & Transmission Co.*, 495 F. Supp. 73. 81 (S.D.N.Y. 1980).

9 245 B.R. 713 (Bankr. N.D. Ga. 2000).

10 *Id.* at 719.

11 *Id.* at 722.

12 44 Fed. R. Serv. 3d 589, No. CIV. A. 99-1454, 1999 WL 557936, at *1 (E.D. Pa. July 27, 1999).

13 284 F.3d at 1018; 245 B.R. at 721 n.6.

3. If possible, obtain consent for e-mail service. F.R.C.P. 5(b)(2)(D) provides for e-mail service by parties' consent. While an elusive defendant is unlikely to grant consent during a dispute, consent could be obtained via a prior "clickwrap" agreement.[14]

4. Preserve e-mail logs and receipts of service. Under F.R.C.P. 5(b)(3), consensual e-mail service under F.R.C.P. 5(b)(2)(D) is not effective if the plaintiff knows it was not received. In *International Telemedia Associates*, the certificate of service noted that one of the two service e-mails had "bounced back." As such, the court treated the second e-mail as duly received.[15]

§ 20:3 Personal Jurisdiction

§ 20:3.1 General Principles

As companies increase the geographic reach of their businesses through e-mail, websites and other technologies, they invite litigation in foreign, unanticipated forums. In 1996, the U.S. courts began considering whether to exercise personal jurisdiction over defendants on the basis of their websites. As of this writing, few courts have *not* addressed the issue, and new cases are decided each week.

As with all personal jurisdiction cases, the plaintiff seeking to hale a foreign Internet defendant into court must show that (a) the state's "long arm" jurisdiction statute covers the defendant's conduct and circumstances, and (b) the defendant's contacts with the forum state make the exercise of personal jurisdiction reasonable, as a matter of constitutional principles of "due process." A long-arm statute may be narrower than what constitutional law allows – a state legislature may affirmatively decide not to have its local courts hear every theoretically permissible dispute.[16] Other long-arm statutes allow state courts to adjudicate any case in which due process principles are not violated.[17] In such case, the jurisdictional analysis for (a) and (b) above is one and the same.

The necessary threshold for the out-of-state defendant's contact with the forum state varies for general and specific jurisdiction. In a general jurisdiction case, in which the defendant may be sued locally on any claim, regardless of whether it relates to the defendant's local contacts, the defendant must engage in a high level of contact with the forum state –

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14 *See* § 20:4.2[1].

15 245 B.R. at 716.

16 *See, e.g.*, the long-arm statutes of New York (N.Y. C.P.L.R. § 302(a)(3)) and Massachusetts (M.G.L.A. ch. 223A, § 3(d) (West Group 2003)), which set specific criteria for jurisdiction over out-of-state tortfeasors.

17 *See, e.g.*, the long-arm statutes of California (Ca. Civ. Pro. 410.10 (West Group 2003)) ("A court of this state may exercise jurisdiction on any basis not inconsistent with the Constitution of this state or of the United States.") and Pennsylvania (PA St. 42 Pa.C.S.A. §5322(b) (West Group 2002)), which allow for broad-based jurisdiction over out-of-state defendants, so long as the Constitution is not violated.

"systematic and continuous" activities.[18] For example, the defendant must have an in-state office or bank account, a local agent for service of process or state license, conduct local board meetings or direct operations from the home state.[19] Based on the reported cases to date, maintenance of a website accessible in the home state is not a basis for general jurisdiction there.

Specific jurisdiction applies when the plaintiff's claim arises out of the defendant's particular activities that are in or connected to the forum state.[20] Here, because the grievance is tied to the defendant's in-state contacts, the defendant need only have engaged in sufficient "minimum contacts" with the state to support jurisdiction.[21] Courts analyze specific jurisdiction principles when the defendant's website creates the lawsuit, such as domain name piracy, copyright infringement or online defamation. Specific jurisdiction is supported when (a) the out-of-state defendant has "purposefully directed" its activities at forum residents, such that it should "reasonably anticipate" litigation there; (b) the plaintiff's claim arises out of those contacts; and (c) the exercise of jurisdiction is reasonable and comports with principles of "fair play and substantial justice."[22]

§ 20:3.2 The Zippo System

Personal jurisdiction cases are highly fact-specific; therefore, any prior ruling is rarely dispositive in one's particular situation. Courts have historically used two frameworks to navigate the high volume of cases on point: (i) the three-part classification created in *Zippo Manufacturing Co. v. Zippo Dot Com, Inc.*[23] and approved by several appellate courts[24] and/or (ii) specifically for torts, the "effects" test in *Calder v. Jones.*[25]

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18 *Helicopteros Nacionales de Colombia, S.A. v. Hall*, 466 U.S. 408, 414 & n.9 (1984).

19 *Perkins v. Benguet Consol. Mining Co.*, 342 U.S. 437, 438 (1952); *Bancroft & Masters, Inc. v. Augusta Nat'l, Inc.*, 223 F.3d 1082, 1086 (9th Cir. 2000).

20 *Helicopteros*, 466 U.S. at 414 & n. 8.

21 *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 474 (1985), citing *Int'l Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945).

22 *Burger King*, 471 U.S. at 473-77 (citations omitted); *Cybersell, Inc. v. Cybersell, Inc.* 130 F.3d 414, 416 (9th Cir. 1997) (formulating *Burger King* analysis as three-part test).

23 952 F. Supp. 1119 (W.D. Pa. 1997).

24 *See ALS Scan, Inc. v. Digital Serv. Consultants, Inc.*, 293 F.3d 707, 714 (4th Cir. 2002) (endorsing adapted version of *Zippo*), *cert. denied*, No. 02-463, 2003 WL 95361 (Jan. 13, 2003); *Mink v. AAAA Dev. LLC*, 190 F.3d 333 (5th Cir. 1999); *Cybersell, supra* note 22; *Soma Med. Int'l v. Standard Chartered Bank*, 196 F.3d 1292 (10th Cir. 1999).

25 465 U.S. 783 (1984).

A recent Third Circuit case, *Toys "R" Us, Inc. v. Step Two, S.A.*,[26] cited *Zippo* as supporting an "intentional conduct" requirement for local jurisdiction, rather than tailoring its analysis to *Zippo*'s three-class system. The case may herald a decline in reliance on *Zippo*'s original framework.[27] In addition, given the sophistication of Internet sites today, few may have the passivity required for the first two *Zippo* categories. Nevertheless, *Zippo* establishes three classes of Internet defendants:

- **Passive.** Defendants operating wholly or largely passive websites (*e.g.*, the site mainly advertises the company) generally are *not* subject to personal jurisdiction in foreign forums, just because users can access the site there.

- **Commercial.** Defendants operating websites that are primarily used to transact business over the Internet generally *are* subject to personal jurisdiction in foreign forums.

- **Limited Activity.** Defendants operating interactive websites with "limited commercial activity" – *i.e.*, the site does not engage in full e-commerce but allows some user interaction – fall into the "maybe" category, in terms of personal jurisdiction.

[A] Passive Websites

Courts generally decline to exercise personal jurisdiction over websites that are essentially "passive" in nature. In the seminal case on point, *Bensusan Restaurant Corp. v. King*,[28] the Southern District of New York held that the owner of the Missouri "Blue Note" nightclub could not be sued for trademark infringement in Manhattan by the "Blue Note" jazz club in Greenwich Village. While the Missouri club maintained a website that New York users could access, it did not sell tickets online, send tickets or brochures into New York or have New York tourists in attendance. The court held that the Missouri club was not "target[ing] its product in New York" just because New Yorkers could gain information from a globally accessible website.[29] The Second Circuit affirmed.[30]

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26 318 F.3d 446, 452 (3d Cir. 2003).

27 *See also ALS Scan,* 293 F.3d at 714 ("adopting and adapting" *Zippo* model as supporting local jurisdiction when a person "directs electronic activity" into the state); *Graduate Management Admission Council v. Raju*, 241 F. Supp. 2d 589, 594 (E.D.Va. 2003) (citing *ALS Scan* application of *Zippo* as requiring "purposeful targeting" of forum, not just a certain "level of interactivity").

28 937 F. Supp. 295 (S.D.N.Y. 1996), *aff'd*, 126 F.3d 25 (2d Cir. 1997). Simpson Thacher & Bartlett (and the author) represented defendant King.

29 *Id*. at 299.

30 *Bensusan Rest. Corp. v. King*, 126 F.3d 25 (2d Cir. 1997). The opinion discussed only the New York long-arm statute and did not address constitutional issues.

The *Bensusan* case involved a 1996 website. Few websites today are likely to be entirely passive; most sites at least allow users to send e-mail or join a mailing list. The courts hold that essentially – if not completely – passive websites are not generally subject to personal jurisdiction in foreign forums. For example, in *Cybersell, Inc. v. Cybersell, Inc.*, the Ninth Circuit similarly found that a Florida-based defendant was not subject to jurisdiction in Arizona on the basis of a website that received user names and addresses, but conducted no other e-commerce activities.[31]

[B] Commercial Websites

The second *Zippo* category comprises websites used actively to transact business, whereby the defendant purposefully targets local residents and enters into contracts with them, or engages in repeated Internet transactions for financial benefit. The courts generally uphold personal jurisdiction in these cases. The leading decision here is the pre-*Zippo* case of *CompuServe, Inc., v. Patterson*, in which the Sixth Circuit held that an Ohio court could exercise jurisdiction over Patterson, a Texas resident who entered into an online contract with the Ohio-based CompuServe to distribute computer software through its servers.[32] The contract was governed by Ohio law, and CompuServe hosted the software on its system. The court held that the Texas resident must litigate CompuServe's declaratory judgment action of non-infringement in Ohio. While Patterson did not operate an e-commerce business, the court noted that he had "substantial" contacts with Ohio and had "purposefully perpetuated the relationship with CompuServe," an Ohio business.[33] Post-*Zippo* courts cite *CompuServe* as the classic example of specifically targeting an out-of-state forum with one's Internet activities.[34]

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[31] 130 F.3d 414 (9th Cir. 1997). *See also Mink*, 190 F.3d at 336-37 (declining jurisdiction; site provided e-mail address and order form, with orders completed by mail or fax); *Soma*, 196 F.3d at 1297, 1299 (finding passive website providing information to viewers not "purposeful availment" of business in Utah); *Med-Tec Iowa, Inc. v Computerized Imaging Reference Sys., Inc.*, 223 F. Supp. 2d 1034, 1038 (S.D. Iowa 2002) (same; site contained product descriptions and instructions for customers seeking to order product and allowed buyers to download catalogue); *Willow Creek Exploration Ltd. v. Tadlock Pipe & Equip. Inc.*, 186 F. Supp. 2d 675, 685 (S.D. Miss. 2002) (same; site provided product information and link to e-mail addresses); *ALS Scan, Inc. v. Wilkins*, 142 F. Supp. 2d 703, 709 (D. Md. 2001) (no personal jurisdiction based upon website used for advertising, providing customer services and soliciting employees, but for no sales or commercial activity), *aff'd*, 293 F.3d 707 (4th Cir. 2002), *cert. denied*, No. 02-463, 2003 WL 95361 (Jan. 13, 2003); *Jeffers v. Wal-Mart Stores, Inc.*, 152 F. Supp. 2d 913, 923 (S.D. W.Va. 2001) (same; site advertised defendant's product line and provided contact information).

[32] 89 F.3d 1257 (6th Cir. 1996).

[33] *Id*. at 1264.

[34] *See, e.g.*, *Bird v. Parsons*, 289 F.3d 865, 874 (6th Cir. 2002) (noting that defendant's website accepted domain name registrations from 4,666 Ohio residents); *Gorman v. Ameritrade Holding Corp.*, 293 F.3d 506, 513 (D.C. Cir. 2002) (finding it "quite possible" that Ameritrade was "doing business" in the local jurisdiction via its online brokerage, but affirming dismissal on other grounds); *Verizon Online Services Inc. v. Ralsky*, 203 F.

[C] Limited Activity Websites

The middle *Zippo* category is for websites that interact with users but do not routinely consummate sales. For these sites, courts balance the website's interactive capability and commercial nature with the defendant's due process rights. Sometimes, the courts rely on *non*-Internet related conduct in the forum to support personal jurisdiction.[35] This middle category provides murky guidance to would-be Internet defendants, for several reasons.

First, courts interpreting narrower long-arm statutes (*e.g.,* New York or Massachusetts) may decline to exercise personal jurisdiction, while states with broader statutes (*e.g.,* California or Texas) may uphold it under identical circumstances. Second, the variety of jurisdictional cases often provides precedent for contradictory positions, such as whether jurisdiction can be based upon a "1-800" telephone number or actual sales consummated in the forum state.[36] Third, in many cases, there simply is no principled distinction between different courts' reactions to similar lists of interactive website features.[37] Fourth, as stated above, *Zippo* may be losing steam as an analysis framework, as courts rely instead on an "effects" or "intentionality" test to analyze jurisdiction.

Supp. 2d 601, 618-19 (E.D. Va. 2002) (defendants had knowingly sent "spam" e-mails to millions of Verizon subscribers via local servers); *Alitalia-Linee Aeree Italiane S.p.A. v. Casinoalitalia.com*, 128 F. Supp. 2d 340, 349-50 (E.D. Va. 2001) (defendant's casino site was inherently interactive and required users to enter into online contracts); *Stomp, Inc. v. Neato, Inc.*, 61 F. Supp. 2d 1074, 1078 & n.7 (C.D. Cal. 1999) (defendant's site was "highly commercial" and constituted "virtual store").

35 *See, e.g.*, *Neogen Corp. v. Neo Gen Screening, Inc.*, 282 F.3d 883, 891-92 (6th Cir. 2002) (defendant had entered into 14 yearly contracts with Michigan customers); *In re Ski Train Fire in Kaprun, Austria on Nov. 11, 2000*, 230 F. Supp. 2d 376 (S.D.N.Y. 2002) (finding jurisdiction over German company based upon web site, NYSE stock listing and New York-based representatives); *Hasbro, Inc. v. Clue Computing, Inc.*, 994 F. Supp. 34, 45 (D. Mass. 1997) (defendant had done significant work for other local, computer company).

36 *Compare Inset Sys., Inc. v. Instruction Set, Inc.*, 937 F. Supp. 161, 165 (D. Conn. 1996) (specifically including defendant's 1-800 telephone number as jurisdictional grounds) *with Fix My PC, L.L.C. v. N.F.N. Assocs., Inc.*, 48 F. Supp. 2d 640, 643-44 (N.D. Tex. 1999) (noting defendant's 1-800 number, but declining to follow *Inset*).

37 *Compare cases upholding jurisdiction*: *American Eyewear, Inc. v. Peeper's Sunglasses & Accessories, Inc.*, 106 F. Supp. 2d 895, 901 (N.D. Tex. 2000) (site users could order products, communicate with defendant's employees and receive online passwords); *Bochan v. La Fontaine*, 68 F. Supp. 2d 692, 701 (E.D. Va. 1999) (website did not conclude sales, but was interactive in several ways); *Blumenthal v. Drudge*, 992 F. Supp. 44, 56 (D.D.C. 1998) (users could send e-mail to defendant, order subscriptions and receive newsletter online); *GTE New Media Servs. Inc. v. Ameritech Corp.*, 21 F. Supp. 2d 27, 38 (D.D.C. 1998) (sites actively sought information exchange with users) *with cases declining to exercise jurisdiction*: *iAccess, Inc. v. Webcard Technologies, Inc.*, 182 F. Supp. 2d 1183, 1187-88 (D.Utah 2002) (users could email site and join mailing lists and view order online); *Bell v. Imperial Palace Hotel/Casino, Inc.,* 200 F. Supp. 2d 1082, 1087-88 (E.D.Mo. 2001) (noting that travel, and not online exchanges, are final goal of tourists); *ESAB Group, Inc. v. Centricut, LLC*, 34 F. Supp. 2d 323, 330 (D.S.C. 1999) (site had product literature and online ordering form); *S. Morantz, Inc. v. Hang & Shine Ultrasonics, Inc.*, 79 F. Supp. 2d 537, 541 (E.D.Pa. 1999) (site had lease application and order form and link to send e-mail).

§ 20:3.3 The "Effects" Test

The Ninth Circuit and other courts have used the "effects" test to analyze personal jurisdiction in Internet tort cases. Therefore, high-tech litigants may need to argue the merits of personal jurisdiction under both frameworks. The effects test, formulated in *Calder v. Jones*,[38] *supra*, holds that specific jurisdiction is supported by (1) intentional actions (2) expressly aimed at the forum state (3) that cause harm, the brunt of which is suffered, and which the defendant knows is likely to be suffered, in the forum state.[39] In *Calder*, the Supreme Court affirmed that a Florida-based reporter could be sued in California for allegedly libeling Shirley Jones, a celebrity residing in California, because most of her reputational harm would occur there.

The case law is not consistent as to whether libel actually "targets" the state of the defamed person or entity, and thus supports jurisdiction there. In some cases, jurisdiction was found because the libelous content itself related to plaintiff's home state. For example, in *Northwest Healthcare Alliance Inc. v. Healthgrades.com, Inc.*, [40] the Ninth Circuit held that the defendant had "purposefully interjected itself" into Washington by rating local medical service providers on its website. In contrast, in *Revell v. Lidov*,[41] the Fifth Circuit declined to exercise jurisdiction over the Boston author of an article on the Pan Am Flight 103 bombing that allegedly defamed an FBI official living in Texas. The Fifth Circuit noted that the article did not refer to Texas, and that Texas was not the focal point of the article or the harm suffered. Similarly, in *Young v. New Haven Advocate*,[42] the Fourth Circuit held that the alleged libel of a Virginia prison warden on a Connecticut newspaper's website did not support Virginia jurisdiction, because the articles concerned Connecticut's prisoner transfer policy, and Virginia was not their focal point.

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[38] 465 U.S. 783 (1984).

[39] 465 U.S. at 788-89; *Core-Vent Corp. v. Nobel Indus. AB*, 11 F.3d 1482, 1486 (9th Cir. 1993).

[40] 50 Fed.Appx.339, No. 01-35648, 2002 WL 31246123, at *2 (9th Cir. Oct. 7, 2002). *See also Planet Beach Franchising Corp. v. C3ubit, Inc.*, No. Civ.A. 02-1859, 2002 WL 1870007, at *3 (E.D.La. Aug. 12, 2002) (finding jurisdiction when Pennsylvania website posted defamatory article about local corporation and directed article to local franchisees).

[41] -- F.3d --, No. 01-10521, 2002 WL 31890992, at *4 (5th Cir. Dec. 31, 2002).

[42] -- F.3d --, No. 01-2340, 2002 WL 31780988, at *6 (4th Cir. Dec. 13, 2002). *See also Medinah Mining Inc. v. Amunategui*, -- F. Supp. 2d --, No. CV-N-00-0163-ECR, 2002 WL 3164077 (D. Nev. Nov. 5, 2002) (declining jurisdiction; no evidence that defamatory remarks related to plaintiff's state of residence); *Callaway Golf Corp. v. Royal Canadian Golf Ass'n*, 125 F. Supp. 2d 1194, 1201-02 (C.D. Cal. 2000) (finding plaintiff's California headquarters insufficiently germane to the alleged defamation); *Bailey v. Turbine Design, Inc.*, 86 F. Supp. 2d 790, 796 (W.D. Tenn. 2000) (defamatory comments had nothing to do with the businessman's state of residence and were not "expressly aimed" at Tennessee); *Barrett v. Catacombs* Press, 44 F. Supp. 2d 717, 730 (E.D. Pa. 1999) (plaintiff defamed "in his national capacity" as prominent doctor speaking out on health care fraud, not as Pennsylvania doctor).

Courts have also applied the "effects test" to trademark infringement and cybersquatting. In *Panavision International, L.P. v. Toeppen*,[43] the Ninth Circuit held that Dennis Toeppen, who had demanded $13,000 from Panavision for the domain name panavision.com, must litigate that cybersquatting action in California, where Panavision was based. The court noted that Toeppen had done "something more"[44] than run a passive website; he had engaged in an extortion scheme against Panavision, which would most injure Panavision in its home state. Similarly in *Bancroft & Masters, Inc. v. Augusta National, Inc.*,[45] the Ninth Circuit held that the Georgia-based owner of the "Masters" trademark must litigate an infringement action in California, because it had "expressly aimed" at California by sending a protest letter about the California-based plaintiff to a domain name registrar. The "effects test" has since expanded to copyright infringement, "spam" e-mail and misappropriation of image, supporting its future application to many other Internet-related torts.[46]

§ 20:3.4 Practical Suggestions

While past personal jurisdiction cases cannot predict future ones with certainty, a few general principles can be gleaned:

1. Consider interactivity carefully. In general, the more interactive the website, the more susceptible it is to creating jurisdiction over the operator in a foreign forum. For example, websites that consummate sales have broader jurisdictional risk than websites that merely provide product information or ancillary sales functions.[47]

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[43] 141 F.3d 1316 (9th Cir. 1998).

[44] *Id.* at 1322, citing *Cybersell*, 130 F.3d at 418. *Cf., Tech Heads, Inc. v. Desktop Serv. Ctr., Inc.*, 105 F. Supp. 2d 1142, 1148 (D. Or. 2000) (no jurisdiction; plaintiff's trademark did not show up in defendant's pre-registration clearance search, no evidence that defendant had targeted plaintiff's mark).

[45] 223 F.3d 1082, 1088 (9th Cir. 2000). *See also Euromarket Designs, Inc. v. Crate & Barrel Ltd.*, 96 F. Supp. 2d 824, 836, 839 (N.D. Ill. 2000) (finding jurisdiction; injury of trademark infringement felt mainly in plaintiff's home state); *Digital Equip. Corp. v. Altavista Tech., Inc.*, 960 F. Supp. 456, 470 (D. Mass. 1997) (same).

[46] *See Pavlovich v. Superior Court of Santa Clara County*, 29 Cal. 4th 262, 276, 127 Cal. Rptr. 2d 329, 340-42 (Cal. 2002) (finding posting of anti-DVD encryption source code on web site was not intentional "targeting" of California, despite harm to local film industry); *Remick v. Manfredy*, 238 F.3d 248, 259 (3rd Cir. 2001) (misappropriation of image claim; website not targeted toward Pennsylvania); *Verizon Online Services*, 203 F. Supp. 2d at 618-19 (finding jurisdiction; defendant sent bulk unsolicited e-mail (spam) through Verizon's servers in Virginia, causing brunt of harm there); *Costar Group, Inc. v. Loopnet, Inc.*, 106 F. Supp. 2d 780 (D. Md. 2000) (declining jurisdiction; defendant caused photographs to be posted, to web site, but did not know posting was infringing).

[47] *Compare Christian Science Bd. of Dirs. of the First Church of Christ, Scientist v. Robinson*, 123 F. Supp. 2d 965, 975 (W.D.N.C. 2000) (non-profit website solicited funds and therefore transacted business in forum), *aff'd*, 259 F.3d 209 (4th Cir. 2001) and *Sports Auth. Mich., Inc. v. Justballs, Inc.*, 97 F. Supp. 2d 806, 814 (E.D. Mich.

2. Consider sales carefully. For websites that do consummate sales, the greater the sales to the home forum – either in absolute numbers or relative to other states – the stronger the basis for local jurisdiction.[48] Low sales volume may support jurisdiction, however, because the critical inquiry turns on "the quality, not merely the quantity, of the contacts."[49]

3. Consider the site's nature. If the website's essential nature demands interactivity, such as an Internet casino or headhunting service, jurisdiction is more likely to attach.[50]

4. Consider local content. A few courts have conferred personal jurisdiction over websites based upon content relating to the local forum. For example, in *Blumenthal v. Drudge,*[51] the court noted that the defendant's gossip column contained Washington, D.C.-related news items, supporting local jurisdiction there. In *Sports Authority Michigan, Inc. v. Justballs, Inc.*,[52] the website sold memorabilia of local sports teams.

5. Consider non-Internet activities. Several courts have upheld jurisdiction by including the defendant's "offline" activities – such as local customers or a 1-800 telephone number – in the jurisdictional analysis.[53]

2000) (finding actual online sales a deciding factor for jurisdiction) *with iAccess*, 182 F. Supp. 2d at 1187 (declining jurisdiction; no evidence of local sales – website merely facilitated mailing lists and e-mail exchanges) and *ESAB Group*, 34 F. Supp. 2d at 330 (same; website could not consummate sale until user called toll-free telephone number).

48 *Bird*, 289 F.3d at 874-75 (finding specific jurisdiction over website that registered domain names from 4,666 Ohio residents); *Colt Studio, Inc. v. Badpuppy Enterprise*, 75 F. Supp. 2d 1104, 1109-10 (C.D. Cal. 1999) (same; site had collected 2,100 subscription fees in California); *Robbins v. Yutopian Enters. Inc.*, 202 F. Supp. 2d 426, 429 (D. Md. 2002) (declining jurisdiction based upon 46 in-state sales); *Molnlycke Health Care AB v. Dumex Med. Surgical Prods. Ltd.*, 64 F. Supp. 2d 448, 452 (E.D. Pa. 1999) (same; less than one percent of defendant's products sold in local forum).

49 *Stomp,* 61 F. Supp. 2d at 1078. *See also Neogen Corp. v. Neo Gen Screening, Inc.*, 282 F.3d 883, 891-92 (6th Cir. 2002) (noting that personal jurisdiction is not based upon local percentage of business, but whether local business was not "random, fortuitous or attenuated"); *Ty, Inc. v. Sullivan d/b/a Ebeanies On Line*, No. 01 C 1604, 2002 WL 500663, at *1 (N.D. Ill. Mar. 12, 2002) (finding jurisdiction based upon 38 sales in forum); *Tech Heads,* 105 F. Supp. 2d at 1149 (D. Or. 2000) (same; only one transaction with Oregon resident).

50 *Alitalia-Linee Aeree Italiane*, 128 F. Supp. 2d at 350 (noting that online casino gambling is inherently interactive activity); *Tech Heads,* 105 F. Supp. 2d at 1150 (website solicited and received applicant resumes); *LFG, LLC v. Zapata Corp.*, 78 F. Supp. 2d 731, 737 (N.D. Ill. 1999) (portal site hinged on user participation). *But see English Sports Betting Inc. v. Tostigan*, No. CIV.A. 01-2202, 2002 WL 461592, at *3 (E.D. Pa. Mar. 15, 2002) (declining jurisdiction over offshore betting site; Pennsylvania not targeted).

51 992 F. Supp. 44 (D.D.C. 1998).

52 97 F. Supp. 2d 806 (E.D. Mich. 2000).

53 *See* nn. 35, 36, *supra*.

6. Have case, will travel. While courts consider the defendant's burden in determining whether jurisdiction is constitutionally reasonable,[54] the current ease of cross-country travel may prevent sympathy here.[55]

7. No "target" practice. To avoid litigation in a particular forum, do not target it with a website. This is easier said than done – the courts disagree on whether a state has been "targeted" just because its citizens can access a website.[56] In addition, one court recently held (an unusual finding) that a website's failure to <u>dis</u>courage local viewership was a factor supporting jurisdiction.[57] "Targeting" has not been found, however, in the online auction cases – courts have declined jurisdiction over foreign defendants who could not control the location of the winning bidder.[58]

8. Use forum selection clauses. As discussed in § 20:4.1, courts are generally willing to enforce online forum selection clauses. If the Internet user duly agrees to litigate disputes in a foreign forum, personal jurisdiction objections are waived.[59]

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54 Compliance with "fair play and substantial justice," the third *Burger King* factor to support specific jurisdiction, is based upon seven factors: (1) extent of a defendant's purposeful interjection; (2) burden on the defendant in defending in the forum; (3) extent of conflict with the sovereignty of the defendant's state; (4) forum state's interest in adjudicating the dispute; (5) most efficient judicial resolution of the controversy; (6) importance of the forum to the plaintiff's interest in convenient and effective relief; and (7) existence of an alternative forum. *Burger King*, 471 U.S. at 476-77; *Panavision*, 141 F.3d at 1323.

55 *See Euromarket Designs,* 96 F. Supp. 2d at 840 (noting current era of Internet communications, faxes, telecommunications and discount air travel, plus defendant's prior trips to Illinois for trade shows); *Superguide Corp. v. Kegan*, 987 F. Supp. 481, 487 (W.D.N.C. 1997) (local counsel requirement could ease defendant's travel burden); *Hasbro,* 994 F. Supp. at 45 (defendant had admitted extensive business travels). *But see Callaway Golf Corp.*, 125 F. Supp. 2d at 1207 (declining jurisdiction; most key witnesses located in Canada).

56 *Compare Molnlycke Health Care*, 64 F. Supp. 2d at 452 (noting that defendant's website did not target Pennsylvania and was not central to its business) and *ESAB Group,* 34 F. Supp. 2d at 331 (noting that website did not encourage South Carolina users but merely had national presence) *with Bochan*, 68 F. Supp. 2d at 701 (finding that defendant solicited business in Virginia by advertising on website accessible 24 hours a day to Virginia users) and *Hasbro,* 994 F. Supp. at 45 (granting jurisdiction based upon national availability of defendant's site).

57 *See System Designs, Inc. v. New Customware Co.*, -- F. Supp. 2d --, No. 2:01-CV-0070PGC, 2003 WL 940804, at *7 (D. Utah 2003).

58 *See Metcalf v. Lawson*, 802 A.2d 1221, 1226 (N.H. 2002) (declining jurisdiction based upon sales via eBay into local forum); *Winfield Collection, Ltd. v. McCauley*, 105 F. Supp. 2d 746, 751 (E.D. Mich. 2000) (same).

59 *See American Eyewear,* 106 F. Supp. 2d at 904 (noting that defendant could have avoided local jurisdiction by using an online choice of venue clause with customers); *Peridyne Tech. Solutions, LLC v. Matheson Fast Freight, Inc.*, 117 F. Supp. 2d 1366, 1372 (N.D. Ga. 2000) (noting that defendants' contract with plaintiff

9. Avoid torts, avoid courts. Courts may more readily exercise jurisdiction to protect their citizens from obviously "bad acts." Sending "spam" or stealing trade secrets may persuade a court to protect its citizens personally and exercise personal jurisdiction.[60]

10. Consider foreign laws. While this chapter focuses on U.S. law, a recent case highlights the risks facing U.S. companies based upon globally accessible websites. In *Dow Jones & Co. Inc. v. Gutnick*, the High Court of Australia held that Dow Jones could face a libel suit in Australia for an article published in Barron's Online on wsj.com and emanating from Dow Jones' New Jersey computer servers.[61]

§20:4 Online Forum Selection Clauses

§ 20:4.1 Case Law

High-tech companies are increasingly using "clickwrap" and "browsewrap" agreements, by which users enter accept a standard, non-negotiated agreement by "clicking" assent on a website. These agreements typically contain forum selection clauses, which provide that any disputes relating to that agreement or website will be litigated solely in a particular location.

The Supreme Court has long upheld the general enforceability of forum selection provisions.[62] As of this writing, courts in California, District of Columbia, Florida, Illinois, Maryland, Massachusetts, New Jersey, New York, Rhode Island and Texas have upheld forum selection clauses contained in Internet user agreements.[63] While online contracts may seem

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contained forum selection clause requiring litigation in local forum); *Decker v. Circus Circus Hotel*, 49 F. Supp. 2d 743, 748 (D. N.J. 1999) (declining Internet-based jurisdiction due to online forum selection clause).

60 *See Verizon Online Services*, 203 F. Supp. 2d at 616 (finding jurisdiction in "spam" case; noting state's greater interest in jurisdiction over tortfeasor); *Peridyne Tech. Solutions*, 117 F. Supp. 2d at 1373 (noting state's interest in protecting plaintiff from theft of technology, trade secrets and confidential information).

61 2002 HCA 56, 10 December 2002, M3/2002. *See also Union des Étudiants Juifs de France v. Yahoo! Inc.*, T.G.I. Paris (Nov. 20, 2000), Interim Court Order No. 00/05308 (finding Yahoo! liable under French law for allowing users to auction Nazi-related memorabilia on its service).

62 *See Carnival Cruise Lines, Inc. v. Shute*, 499 U.S. 585, 593-94 (1991); *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 472 n.14 (1985).

63 *See Stan McLain v. Smith-Gardner*, No. B149630, 2002 WL 654130 (Cal. Ct. App. Apr. 22, 2002) (unpublished; slip copy); *Forrest v. Verizon Communications, Inc.*, 805 A.2d 1007 (D.C. Ct. App. 2002); *America Online, Inc. v. Booker*, 781 So. 2d 423 (Fla. Dist. Ct. App. 3d Dist. 2001); *Celmins v. America On Line*, 748 So. 2d 1041 (Fla. Dist. Ct. App. 2d Dist. 1999); *DeJohn v. The .TV Corp.*, 245 F. Supp. 2d 913 (C.D. Ill. 2003); *Koch v. America Online, Inc.*, 139 F. Supp.2d 690 (D. Md. 2000); *Hughes v. McMenamon*, 204 F. Supp. 2d 178 (D. Mass. 2002); *Kilgallen v. Network Solutions, Inc.*, 99 F.Supp. 2d 125 (D. Mass. 2000); *Decker v. Circus Circus Hotel*, 49 F.Supp. 2d 743 (D. N.J. 1999); *Caspi v. Microsoft Network*, L.L.C., 732 A.2d 528 (N.J.Super. 1999); *DiLorenzo v. America Online, Inc.*, No. 605867/96, slip op. (N.Y.Sup.Ct. Jan. 22, 1999); *Groff v. America Online, Inc.*, No. PC

somewhat unfair – they present pages of text in "take it or leave it" fashion – the Internet user may always refuse to visit the website. Therefore, courts have upheld these clauses, absent fraud, coercion or other unfairness in the contract formation.[64]

§ 20:4.2 Practical Suggestions

1. Make users affirmatively agree. A forum selection clause is more likely to be enforced if the Internet user clearly accepts it, such as by clicking "I Agree" at the end of the online agreement.[65] Ideally, the "I Agree" button should be juxtaposed with an "I Don't Agree" button at the end of the agreement, so the user must scroll to the end before deciding. If the user clicks "I Agree" after having the opportunity to read the online agreement – even if he or she does not actually do so – the clause is likely valid.[66]

2. Make users see the rules. A different font and typeface are not required, but if a forum selection clause is too inconspicuous, it may not be enforceable.[67] In *Specht v. Netscape Communications Corp*., the Second Circuit held that plaintiffs had not accepted an online license by downloading software, because the agreement was visible only if users scrolled down to the next computer screen and then linked to a separate web page.[68] The court distinguished "shrinkwrap" cases where a license is conspicuous to consumers.[69]

97-0331, 1998 WL 307001 (R.I. Super. May 27, 1998); *Barnett v. Network Solutions, Inc.*, 38 S.W.3d 200 (Tex. App. 2001). The *Barnett* (38 S.W.3d at 203) and *Kilgallen* (99 F. Supp. 2d at 129) cases upheld such clauses under Virginia law, which governed the contracts at issue.

[64] *Caspi*, 732 A.2d at 531-32; *Barnett*, 38 S.W.3d at 204; *DiLorenzo* at 5.

[65] *See Barnett*, 38 S.W.3d at 203-04; *Caspi*, 732 A.2d at 532-33; *DiLorenzo* at 2; *Groff,* 1998 WL 307001, at *5.

[66] *See DeJohn*, 245 F. Supp. 2d at 919 (noting that plaintiff's failure to read online contract "is not a get out of jail free card"); *Forrest*, 805 A.2d at 1010; *Barnett*, 38 S.W.3d at 203-04; *Kilgallen*, 99 F. Supp. 2d at 129-30; *Caspi,* 732 A.2d at 532; *Groff,* 1998 WL 307001, at *5.

[67] *Forrest*, 805 A.2d at 1010-11; *Caspi*, 732 A.2d at 532.

[68] 306 F.3d 17, 23-24 (2d Cir. 2002).

[69] *Id*. at 32, 35. *See also Ticketmaster Corp. v. Tickets.com, Inc*., 2000 Copr. L. Dec. ¶ 28,146, No. 99CV7654, 2000 WL 1887522, at *1 (C.D. Cal. Aug. 10, 2000) (fine-print link to terms and conditions on website did not create binding contract between two corporations), *aff'd*, 2 Fed. Appx. 741, No. 00-56574, 2001 WL 51509 (9th Cir. Jan. 22, 2001); *America Online, Inc., v. Superior Court of Alameda County*, 90 Cal. App. 4th 1, 108 Cal. Rptr. 2d 699, 703 (Cal. Ct. App. 2001) (noting user's objection that online agreement was "densely worded, small-size text that was hard to read on the computer screen"); *Williams v. America Online, Inc.*, No. 00-0962, 2001 WL 135825, at *2 (Mass. Super. Ct. Feb. 8, 2001) (online agreement required two user requests to override default option). *But see Register.com, Inc. v. Verio, Inc.*, 126 F. Supp. 2d 238 (S.D.N.Y. 2000) (online database's terms of use prevented competitor from taking information from it).

3. Do not deny users' fundamental rights. This is hard to analyze in advance, without knowing the future claim arising from the online agreement. Courts in Maryland, New Jersey, New York and Texas have upheld forum selection clauses, acknowledging that other state courts could equally protect their citizens.[70] In *America Online, Inc., v. Superior Court of Alameda County*, [71] however, the court refused to honor an online clause mandating Virginia choice-of-law and venue, because California consumer protection law was broader than that of Virginia, and consumers would be hurt by the case transfer.

4. Choose a reasonable forum. Do not select Alaska for a forum selection clause, due to a recent favorable case there. Courts will consider the public interest, witness convenience, whether the forum discourages legitimate claims and issues of fraud and over-reaching.[72] Some courts are clearly unsympathetic to a party's inconvenience, noting that an online agreement is voluntary, and, at least for class actions, any forum is inconvenient for some.[73]

5. Always litigate disputes over forum selection clauses, to avoid a charge of waiver in a particular case.[74]

§ 20:5 Online Statutes of Limitations

The Internet allows traditional publishers to distribute content to a wider audience for a more continuous time period, thereby potentially increasing the reputational damage caused by libel. New York and Kentucky courts recently grappled with the application of libel law to the online context.

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70 *Koch*, 139 F. Supp.2d at 695; *Barnett*, 38 S.W.3d at 203; *Caspi*, 732 A.2d at 531; *DiLorenzo* at 5-6. *See also Williams*, 2001 WL 135825, at *4 (noting lack of record evidence that Virginia would not enforce Massachusetts consumer protection laws in case).

71 108 Cal. Rptr. 2d 699, 710 (Cal. Ct. App. 2001). Such policy considerations may not be present in an online dispute between two corporations. *See Stan McLain*, 2002 WL 654130, at **4-5 (transferring corporate lawsuit to Florida; no discussion of consumer protection policies); *see also Koch*, 139 F. Supp. 2d at 695 (transferring case to Virginia despite lack of class action remedy there; noting that plaintiff could still file individual suit); *Forrest*, 805 A.2d at 1011 (same).

72 *Koch*, 139 F. Supp. 2d at 694 (noting lack of evidence to support plaintiff's claim that Northern Virginia jury would be partial to AOL); *Barnett*, 38 S.W.3d at 203.

73 *See Caspi*, 323 N.J. Super. at 123-24 (noting that class action trial in Washington was no more inconvenient than holding it elsewhere); *America Online v. Superior Court of Alameda County*, 90 Cal. App. 4th 1, 108 Cal. Rptr. 2d at 713-14 (noting that trial economics cannot be examined each time a forum selection clause is enforced).

74 *Williams*, 2001 WL 135825, at *3 (noting that AOL "undercut" its transfer objection by not opposing transfer of similar federal cases to Florida); *cf. DiLorenzo* at 5 (noting that AOL had not waived forum selection clause by settling prior case); *Stan McClain*, 2002 WL 654130, at *4 (rejecting relevance of waiver of forum selection clauses in prior suits with different parties).

§ 20:5.1 Defamation

In *Firth v. State of New York*,[75] the Court of Appeals affirmed that a defamation plaintiff was time-barred from bringing a libel suit in New York, because it had waited longer than one year after the disputed report was posted on the Internet. The court held that New York's "single publication rule"[76] applied to Internet libel suits, and that no "republication" – triggering a new statute – occurred when the defendant later added unrelated material to its website.[77]

The *Firth* plaintiff had made two arguments to differentiate online libel from the print context. He stated that Internet publication, which is 24 hours a day, 7 days a week, constitutes a "continuing wrong," such that the statute of limitations is tolled until the conduct is terminated (*e.g.*, the content is removed). The trial court held, however, that the "wrongful act" was the initial posting of the content, and its continued online availability was only "a continuing effect of an earlier wrongful act," which does not restart the statute.[78] The lower court also held that each day a libel is posted on the Internet is not a "republication" triggering a new statute of limitations.[79] The intermediate appellate court affirmed.[80]

The Court of Appeals again affirmed, holding that the policy behind the "single publication rule" – preventing harassment and conserving judicial resources – applied on "a far grander scale" for the Internet, given its "instantaneous, worldwide ability to communicate."[81] It also rejected plaintiff's argument that the libelous report was "republished" when the website was updated with unrelated material. To rule otherwise would force publishers to create a new website for every new item of content or risk having a continuously running libel statute.[82]

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75 98 N.Y.2d 365, 747 N.Y.S.2d 69 (N.Y. 2002).

76 The "single publication" rule provides that the publication of a defamatory statement in a newspaper or magazine – even though thousands of copies are distributed – is one publication, creating one cause of action and triggering the statute of limitations from the initial publication date. 98 N.Y.2d at 369, 747 N.Y.S.2d at 70-71; *see also* Restatement (Second) of Torts § 577A(4) (1977) (noting that single publication supports only one action for damages suffered in all jurisdictions), cited in *Keeton v. Hustler Magazine, Inc.*, 465 U.S. 770, 777 (1984).

77 *Firth*, 98 N.Y.2d at 370-71, 747 N.Y.S.2d at 72.

78 *Firth v. State of New York*, No. 97999, 2000 WL 306865, at *5 (N.Y. Ct. Cl. Mar. 8, 2000).

79 *Id.* at *6.

80 *Firth v. State of New York*, 287 A.D.2d 771 (N.Y. App. Div. (3d Dep't) 2001).

81 98 N.Y.2d at 370, 747 N.Y.S.2d at 71.

82 *Id.* at 371, 747 N.Y.S.2d at 72.

A federal court in Kentucky soon endorsed *Firth* and dismissed libel claims based upon nine statements posted on the defendant's website more than one year before the plaintiff filed suit.[83] So far, New York and Kentucky courts alone have addressed this issue.[84] Meanwhile, *Firth* and *Mitan* are important for their distinctions. The *Firth* court noted that defendant's website was later updated with material *un*related to the alleged libel and did not intend to reach a new audience, leaving unresolved what happens if (a) a website later updates or supplements the libelous material itself or (b) a defendant publishes the same libelous material on a new website.[85] Meanwhile in *Mitan*, the court sustained the libel claim for a separate, final statement that the defendant posted less than one year before plaintiff filed suit.[86]

§ 20:5.2 Negligence

In a similar case, the Supreme Court of Nebraska held that the state's one-year libel statute did not apply to a student's privacy claim when her autobiographical English paper was posted on a website without her consent. In *Shlien v. Board of Regents of the University of Nebraska*,[87] Rania Shlien sued the University of Nebraska for invasion of privacy and negligence, for not supervising the professor who published her paper. The University argued that Shlien's claim was time barred, because it was filed more than one year after the paper was initially posted. The state's highest court disagreed, holding that the "discovery rule" applied to a negligence claim, and the two-year statute of limitations began to run not when the paper was posted, but when plaintiff discovered (or reasonably should have discovered) the posting.[88]

§ 20:5.3 Practical Suggestions

1. Given that many states have short libel statutes of limitations, monitor the Internet carefully for false statements and file claims quickly in the local forum. Given the global nature of the Internet, one can sue later in a foreign state with a longer statute, but as noted in § 20:3.3, this may prompt a jurisdictional challenge.[89]

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83 *Mitan v. Davis*, 243 F. Supp. 2d 719, 724 (W.D. Ky. 2003).

84 *See also Van Buskirk v. The New York Times Co.*, 325 F.3d 87 (2d Cir. 2003) (upholding one-year statute of limitations for Internet-based libel claim; following *Firth*).

85 The appellate court made the same distinction, and two justices dissented altogether on the "republication" issue. *Firth*, 287 A.D.2d at 774, 775.

86 243 F. Supp. 2d at 724.

87 640 N.W.2d 643 (Neb. 2002).

88 *Id*. at 650. In contrast, a libel statute begins to run even if the plaintiff is ignorant of the publication. *Id*. at 651. *See also Schweihs v. Burdick*, 96 F.3d 917, 920 (7th Cir. 1996) (libel statute generally is triggered without plaintiff's knowledge of injury).

89 *See Keeton*, 465 U.S. at 772 (noting that New York resident sued Ohio corporation for libel in New Hampshire, which has unusually long six-year libel statute).

2. If all libel deadlines are missed, consider pleading other timely claims, such as negligence, invasion of privacy, breach of a non-disparagement agreement or trade libel.

3. Be aware that the "single publication rule" may not cover (a) modifications to libelous material or (b) publication of libelous material on a different website. The *Firth* case leaves open this issue, which may trigger a new claim and/or statute of limitations.

§ 20:6 Anonymous Internet Critics

§ 20:6.1 Identifying Defendants

Many companies have faced a "cybersmear," or criticism on an online bulletin board. Such remarks may be constitutionally protected opinions or may be actionable libel, trade libel, breach of a confidentiality agreement or misappropriation of trade secrets. In the latter case, aggrieved companies must discover the author's true identity to file a claim.

Courts have traditionally disfavored suits against anonymous "John Doe" defendants,[90] but some have acknowledged concerns unique to the Internet. While anonymous online speech fosters robust debate and allows people with sensitive problems to obtain information safely, online torts such as libel or infringement are more easily committed anonymously.[91] Therefore, courts must balance First Amendment concerns with the need to provide injured parties with a forum for redress.[92]

Courts in California, New Jersey, Pennsylvania, Virginia and Washington have addressed the right to unmask anonymous defendants in Internet litigation. In *Columbia Insurance Co. v. Seescandy.com*,[93] a domain name infringement case, the court allowed the plaintiff to identify the person who registered seescandy.com and gave misleading contact information to the registrar. The court formulated a four-part test to obtain such information: the plaintiff must (1) identify the anonymous party with sufficient specificity to allow the court to determine that the defendant is a real person who can be sued in federal court; (2) identify all previous steps taken to locate the defendant; (3) establish that its lawsuit would survive a

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90 *Gillespie v. Civiletti*, 629 F.2d 637, 642 (9th Cir. 1980); *Columbia Ins. Co. v. Seescandy.com* ("*Seescandy.com*"), 185 F.R.D. 573, 577 (N.D. Cal. 1999).

91 *Seescandy.com*, 185 F.R.D. at 578.

92 *Id.*; *Dendrite Int'l, Inc. v. Doe No. 3*, 775 A.2d 756, 760-61 (N.J. Super. Ct. App. Div. 2001). In a recent and controversial case, a federal district court upheld the right of potential copyright infringement plaintiffs to subpoena the identity of an ISP subscriber (who had allegedly infringed more than 600 copyrighted songs in one day) pursuant to the subpoena power of the Digital Millennium Copyright Act, 17 U.S.C. § 512(h). *See In re Verizon Internet Services, Inc.*, 240 F. Supp. 2d 24, 43 (D.D.C. 2003) (noting that claim for massive unauthorized downloading did not implicate First Amendment).

93 185 F.R.D. 573 (N.D. Cal. 1999). For example, the defendant gave as his telephone number the local information number for San Jose, California. *Id.* at 576.

motion to dismiss (*e.g.*, not be a conclusory pleading); and (4) request specific discovery methods and identify a limited number of targeted persons for which discovery is reasonably likely to facilitate service of process. The court gave plaintiff 14 days to propose a court-ordered discovery process.[94]

Other courts have followed suit. In *Dendrite International, Inc. v. Doe No. 3* and *Immunomedics, Inc., v. Doe*,[95] two cases decided the same day, the court adopted the *Seescandy* test in deciding whether to compel Yahoo! to disclose the identity of anonymous Internet users. Dendrite had sued for defamation based upon anonymous "John Doe" commentary on a Yahoo! message board. The court held that Dendrite could not conduct discovery to disclose John Doe's identity, because it had not adequately pleaded its defamation claim, thereby failing the third *Seescandy.com* element.[96]

In *Immunomedics*, the court followed *Dendrite* but held that plaintiff had successfully pleaded a claim for breach of a confidentiality agreement, thereby satisfying the third *Seescandy.com* element, when a self-described "worried employee" posted an item on a Yahoo! message board. The plaintiff had demonstrated that all employees were bound by a confidentiality agreement, the anonymous poster was admittedly an employee, and the posting contained confidential information. The court affirmed the motion judge's refusal to quash the subpoena to obtain the employee's identity.[97]

Other courts have articulated a slightly different test from *Seescandy.com*, but with the same policy concerns. In *In re Subpoena Duces Tecum to America Online, Inc.*,[98] the Circuit Court of Virginia reviewed an Indiana court's order allowing a plaintiff to proceed anonymously until it could identify the Internet "John Doe" defendants and authorizing a subpoena to Virginia-based AOL to reveal their identities. The court accorded comity to the Indiana court's holding on plaintiff's anonymity, and denied AOL's motion to quash the subpoena. The court held that a non-party ISP can be ordered to provide a subscriber's identity only when (1) the court is satisfied by the pleadings or evidence that (2) the plaintiff has a legitimate, good faith basis to contend it is the victim of conduct actionable in the instant jurisdiction, and (3) the subpoenaed

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94 *Id.* at 579-81.

95 775 A.2d 756 (N.J. Super. Ct. App. Div. 2001) and 775 A.2d 773 (N.J. Super. Ct. App. Div. 2001), respectively.

96 775 A.2d at 771-72. The court held that this third *Seescandy.com* element – whether plaintiff's claim can survive a motion to dismiss – should "act as a flexible, non-technical, fact-sensitive mechanism" for courts to ensure that defendants' identities are not unmasked for harassment or intimidation purposes. *Id.* at 771.

97 *Id.* at 777.

98 52 Va.Cir. 26, No. 40570, 2000 WL 1210372 (Va. Cir. Ct. 2000), *rev'd on other grounds, America Online, Inc. v. Anonymous Publicly Traded Co.*, 542 S.E.2d 377 (Va. 2001).

identity information is centrally needed to advance that claim.[99] The Supreme Court of Virginia reversed, declining to grant comity to the Indiana court's order allowing plaintiff to remain anonymous, because the plaintiff had not proven its need for anonymity under Virginia law.[100]

§20:6.2 Witness Identity

Both the *Seescandy.com* and *In re AOL Subpoena* tests applied similar factors: a good-faith basis for plaintiff's lawsuit and evidence of compelling need for the discovery sought.[101] The test for identifying an Internet user is more stringent when he/she is a witness and not the defendant in the case. In *Doe v. 2themart.com, Inc.*, the court quashed a subpoena for an ISP to identify non-party anonymous Internet posters in a securities fraud case, adopting a four-part test for such requests: (1) the subpoena must be issued in good faith and not for improper purpose; (2) the subpoenaed information must relate to a core claim or defense; (3) the subpoenaed information must be directly and materially relevant to the claim or defense; and (4) the information must be sufficient to establish or disprove the claim or defense must be unavailable from any other source.[102]

§ 20:6.3 Practical Suggestions

[A] Online Plaintiffs

1. Have all employees and contractors sign written confidentiality and non-disparagement agreements, so that chat room "leaks" will create a viable action for breach of contract, thereby meeting the third *Seescandy.com* element.

2. Try all alternative methods to locate an anonymous defendant and all alternative sources for any related information before seeking court assistance.

[B] Online Defendants

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99 *Id.* at ** 4, 8.

100 542 S.E.2d at 385. *See also America Online, Inc. v. Nam Tai Elecs., Inc.*, 571 S.E.2d 128 (Va. 2002) (upholding refusal to quash subpoena to AOL; according comity to California court's decision to identify anonymous Internet defendants).

101 *See Doe v. 2themart.com, Inc.,* 140 F. Supp. 2d 1088, 1094-95 (W.D. Wash. 2001). *See also Melvin v. Doe*, 49 Pa. D. & C. 4th 449, No. 6D99-10264, 2000 WL 33311704 (Pa. Ct. Comm. Pl. Nov. 15, 2000), in which the court allowed the plaintiff, a judge, to obtain the identity of a website poster who accused her of improperly lobbying the governor. Applying traditional libel law, the court noted that plaintiff could obtain the information, because it was (1) material, relevant and necessary, (2) unattainable by alternative means; and (3) crucial to plaintiff's case. *Id.* at 477.

102 *2themart.com*, 140 F. Supp. 2d at 1095.

Caveat emptor. Read the service agreement with one's ISP, which likely sets forth its policy for providing subscriber information to authorities. Such agreements have been held enforceable,[103] and therefore, users have likely consented to the ISP's procedures.[104]

§ 20:7 E-Mail Discovery

§ 20:7.1 General Principles

As more and more corporate communication uses electronic mail, courts are addressing e-mail issues in litigation discovery disputes. A few general principles have emerged so far.

First, e-mail can qualify for the attorney-client privilege, according to several state and federal courts. "The electronic mail message is protected under the principle that the privilege covers the substance of the communication." *State of West Virginia ex rel. United States Fidelity and Guaranty Co. v. Canady.* [105]

Second, electronic mail is as discoverable in litigation as paper documents, according to the Federal Rules of Civil Procedure and courts in several states.[106]

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103 *See* § 20:4.1.

104 *See, e.g., United States v. Hambrick*, 55 F. Supp. 2d 504 (W.D. Va. 1999) (denying motion to suppress subscriber information obtained from ISP via state subpoena), *aff'd*, 225 F.3d 656 (4th Cir. 2000), *cert. denied*, 531 U.S. 1099 (2001); *Jessup-Morgan v. America Online, Inc.*, 20 F. Supp. 2d 1105, 1108-09 (E.D. Mich. 1998) (AOL did not breach member agreement by identifying subscriber pursuant to civil subpoena).

105 460 S.E.2d 677, 689 (W. Va. 1995). *See also Yurick v. Liberty Mut. Ins. Co.*, 201 F.R.D. 465, 470 (D. Ariz. 2001); *Newport Pac. Inc. v. County of San Diego*, 200 F.R.D. 628, 635 (S.D. Cal. 2001); *McCook Metals L.L.C. v. Alcoa Inc.*, 192 F.R.D. 242, 254 (N.D. Ill. 2000); *Long v. Anderson Univ.*, 204 F.R.D. 129, 134 (S.D. Ind. 2001); *In re Monsanto Co.*, 998 S.W.2d 917, 930 (Tex. App. 1999); *Richards v. Jain*, 168 F. Supp. 2d 1195, 1207-08 (W.D. Wash. 2001); *Blumenthal v. Drudge*, 186 F.R.D. 236, 243-44 & n.10 (D.D.C. 1999). *See generally*, *Omega Consulting Group, Inc. v. Templeton*, 805 So.2d 1058, 1059-60 (Fla. App. Dist. 2002) (e-mails were not privileged in lawsuit against two corporations by 50% shareholder); *Fullerton v. Prudential Ins. Co.*, 194 F.R.D. 100, 104 (S.D.N.Y. 2000) (e-mails were privileged attorney work product, but privilege was waived); *United States v. Keystone Sanitation Co.*, 885 F. Supp. 672, 675 (M.D. Penn. 1994) (finding attorney-client privilege waived on two e-mails).

106 *See Rowe Entm't, Inc. v. The William Morris Agency, Inc.*, 205 F.R.D. 421, 428 (S.D.N.Y. 2002) ("Electronic documents are no less subject to disclosure than paper records."); *Simon Prop. Group L.P. v. mySimon Inc.*, 194 F.R.D. 639, 640 (S.D. Ind. 2000) (noting that computer records, including deleted ones, are discoverable documents under FRCP 34); *Playboy Enters., Inc. v. Welles*, 60 F. Supp. 2d 1050, 1052-54 (S.D. Cal. 1999) (holding that electronic documents are discoverable under FRCP 34); *In re Brand Name Prescription Drugs Antitrust Litig.*, No. 94 C. 897, MDL 997, 1995 WL 360526, at *1 (N.D. Ill. June 15, 1995) (holding that e-mail is discoverable under FRCP 26(b) and 34 under same rules pertaining to tangible, written materials); *Bills v. Kennecott Corp.*, 108 F.R.D. 459, 461 (D. Utah) (finding it "axiomatic" that e-mails are discoverable under FRCP 34).

Third, courts may order the production of *deleted* e-mail, if recovery is possible, and will allocate the often-considerable cost between the requesting and responding parties, based upon the particular facts of the case.[107] As with paper documents, overly burdensome or broad e-mail production requests may be narrowed or denied.[108]

§ 20:7.2 Practical Suggestions

1. Do not create problematic e-mail. E-mail can be dangerous, because it is easy to create, informal in nature and nearly impossible to destroy. Employees may write statements in e-mail they would never put in formal corporate correspondence. The discretion used for e-mail content should be the same as with all print documents.

2. In litigation, learn the adversary's e-mail retention policies (*e.g.*, through interrogatories, document requests and depositions), so discovery requests can be drafted successfully. The courts will order recovery and production of deleted e-mail, so long as it is not unduly burdensome.

§ 20:8 Legal "Safe Harbors" For ISPs

§ 20:8.1 The CDA and DMCA

Today, every sizable U.S. company has a website, many of which support e-commerce or posting of user comments. Every website that is not utterly passive – *i.e.*, a user cannot add content in any manner – risks hosting, displaying or transmitting some third-party content that violates the rights of others. Yet, it is virtually impossible for companies to monitor all user traffic and commentary to avoid this liability.

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[107] See *Rowe*, 205 F.R.D. at 428 (setting forth complex protocol for defendant's e-mail production); *Byers v. Ill. State Police*, No. 99 C 8105, 2002 WL 1264004, at *4 (N.D. Ill. June 3, 2002) (ordering e-mail production, subject to reimbursement by requesting party;) *Murphy Oil USA, Inc., v. Fluor Daniel, Inc*. 2002 WL 246439, at **4-5 (E.D. La. Feb. 19, 2002) (adopting multi-factor balancing approach for cost allocation); *Simon Property Group*, 194 F.R.D. at 641 (setting forth procedure for expert to recover deleted computer files from four named individuals); *McPeek v. Ashcroft*, 202 F.R.D. 31, 34-35 (D.D.C. 2001) (permitting limited discovery of deleted e-mail on backup systems); *Kleiner v. Burns*, 48 Fed.R.Serv.3d 644, 2000 WL 1909470, at *4 (D. Kans. 2000) (requiring ISP to disclose all e-mails and similar materials in its possession or control); *Playboy Enterprises*, 60 F. Supp. 2d at 1053-55 (establishing process to retrieve defendant's deleted e-mail at plaintiff's expense); *In re Brand Name Prescription Drugs Antitrust Litigation*, 1995 WL 360526, at *1 (requiring defendants to retrieve e-mail data tapes, subject to plaintiffs' paying copying fee).

[108] *In re General Instrument Corp. Sec. Litig.*, No. 96 C 1129, 1999 WL 1072507, at *6 (N.D. Ill. Nov. 18, 1999) (denying motion to compel production of e-mail from backup tapes; defendants had already produced thousands of e-mails); *Van Westrienen v. Americontinental Collection Corp.*, 189 F.R.D. 440, 441 (D. Or. 1999) (rejecting plaintiffs' e-mail discovery request as unduly burdensome); *Alexander v. Federal Bureau of Investigation*, 188 F.R.D. 111, 117 (D.D.C. 1998) (holding that government office need not completely restore all deleted e-mail files; plaintiff could pursue discussions regarding "targeted and appropriately worded searches"); *Concord Boat Corp. v. Brunswick Corp.*, No. LR-C-95-781, 1997 WL 33352759, at *9 (E.D. Ark. 1997) (party need not restore and search backup tapes for deleted e-mail).

In recognition of this difficulty, and to promote the growth of the Internet in the United States, Congress enacted two legal "safe harbors" for websites to avoid liability for third-party content: (a) Section 230 of Communications Decency Act ("CDA") of 1996,[109] which covers all claims against a website operator, and (b) the Digital Millennium Copyright Act ("DMCA") of 1998,[110] which covers copyright infringement liability. If the CDA "safe harbor" applies, a website cannot be held liable for defamation or any other state or local law violation by a third party on the site.[111] If the DMCA applies, the ISP is immune from monetary liability for copyright infringement due to third-party content, and is subject only to prospective and limited injunctive relief.[112]

§ 20:8.2 Trends Under the Case Law

The early CDA cases concerned only defamation.[113] Since then, courts have applied the CDA and/or DMCA safe harbor in almost 30 cases. A few trends have emerged as follows:

[A] More Businesses Qualifying for Safe Harbors

More and more companies are qualifying for a safe harbor – it is not just for traditional "ISPs" such as AOL and Yahoo. Courts have construed the CDA and DMCA "ISP" definitions[114] broadly over the years to include a photocopy store and public library with Internet access available from on-site computers, an online matchmaking service, an online bookseller, an online auctioneer, an online real estate listing service, a news group website and a women's health site.[115] In fact, the only reported defendants to be denied "ISP" status for a

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[109] 47 U.S.C. § 230.

[110] 17 U.S.C. § 512.

[111] 47 U.S.C. § 230(e)(3).

[112] 17 U.S.C. §§ 512(a)-(d) and (j).

[113] *See Zeran v. America Online, Inc.*, 129 F.3d 327 (4th Cir. 1997), *cert. denied*, 524 U.S. 937 (1998) (holding AOL not liable for alleged failure to remove defamatory material concerning fake Oklahoma City bombing merchandise); *Blumenthal v. Drudge*, 992 F. Supp. 44 (D.D.C. 1998) (finding AOL not liable for allegedly libelous content of "Drudge Report" gossip newsletter).

[114] The CDA defines "interactive computer service" as "any information service, system, or access software provider that provides or enables computer access by multiple users to a computer server" (47 U.S.C. § 230(f)(2)), while the DMCA defines "service provider" as (a) "an entity offering the transmission, routing or providing of connections for digital online communications, between or among points specified by a user, of material of the user's choosing, without modification to the content of the material as sent or received" or (b) "a provider of online services or network access, or the operator of facilities therefor," including ISPs under subsection (a). 17 U.S.C. § 512(k)(1)(A) and (B).

[115] *See PatentWizard, Inc. v. Kinko's, Inc.*, 163 F. Supp. 2d 1069, 1071 (D.S.D. 2001) (photocopy store); *Kathleen R. v. City of Livermore*, 104 Cal. Rptr. 2d 772, 778 (Cal. Ct. App. 2001) (public library); *Schneider v. Amazon.com,*

statutory safe harbor are two of the litigation-prone music-sharing online services, Napster and MP3Board.[116] Given the broad statutory definitions and the case law, most companies with an Internet connection should qualify.

[B] Protections Against More Torts

ISPs are being protected against more and more torts. While the early CDA cases concerned defamation, the statute expressly applies to any state-law cause of action.[117] Recent cases have expanded the CDA safe harbor to torts such as posting inaccurate stock information, selling unauthorized photographs and counterfeit goods, and offering to sell child-related erotica.[118]

[C] No Protection Against Trademark Claims

Trademark (and likely patent) infringement is not covered by a safe harbor. 47 U.S.C.§ 230(e)(3) provides: "Nothing in this section shall be construed to limit or expand any

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Inc., 31 P.3d 37, 40 (Wash. Ct. App. 2001) (online bookseller); *Hendrickson v. eBay, Inc.*, 165 F. Supp. 2d 1082, 1088 (C.D. Cal. 2001) (online auctioneer); *CoStar Group, Inc. v. LoopNet, Inc.*, 164 F. Supp. 2d 688, 701 (D. Md. 2001) (online real estate listings service); *ALS Scan, Inc. v. RemarQ Cmties., Inc.*, 239 F.3d 619, 623 (4th Cir. 2001) (newsgroup website); *Barrett v. Clark*, No. 833021-5, 2001 WL 881259, at *9 (Cal. App. Dep't Super. Ct. Jul. 25, 2001) (unpublished; women's health site).

116 *See Arista Records, Inc. v. MP3Board, Inc.*, 2002 Copr. L. Dec. ¶ 28,483, No. 00 CIV. 4660 (SHS), 2002 WL 1997918 at *10 (S.D.N.Y. Aug. 29, 2002) (noting material issues of fact as to whether MP3Board qualified as "service provider" under 17 U.S.C. § 512(d)); *A&M Records, Inc. v. Napster, Inc.,* 239 F.3d 1004, 1025 (9th Cir. 2001) (noting that plaintiffs had raised significant questions as to whether Napster was an ISP under 17 U.S.C. § 512(d)), citing *A&M Records, Inc. v. Napster, Inc.*, 54 U.S.P.Q. 2d 1746, 1751-52 (N.D. Cal. 2000) (finding Napster not a protected ISP under DMCA § 512(a)). In *In re: Aimster Copyright Litigation*, -- F. Supp. 2d --, No. 01 C 8933, 2002 WL 31006142, at **20-21 (N.D. Ill. Sept. 4, 2002), the file-sharing service Aimster *was* deemed a DMCA "service provider," but failed to win a safe harbor by inadequately implementing its repeat infringer policy under 17 U.S.C. § 512(i).

117 47 U.S.C. § 230(e)(3).

118 *Green v. America Online, Inc.*, 318 F.3d 465 (3rd Cir. 2003)(negligent failure to police various online misconduct); *Ben Ezra, Weinstein & Co., Inc. v. America Online, Inc.*, 206 F.3d 980 (10th Cir.), *cert. denied*, 531 U.S. 824 (2000) (posting of incorrect stock information); *Smith v. Intercosmos Media Group, Inc.*, No. Civ.A. 02-1964, 2002 WL 31844907 (E.D. La. Dec. 17, 2002) (slip copy) (negligent failure to revoke defendant's domain name registrations); *Gentry v. eBay, Inc.*, 99 Cal.App. 4th 816, 121 Cal. Rptr. 2d 703 (Cal. Ct. App. June 26, 2002) (selling fake autographed sports memorabilia); *Doe v. America Online, Inc.*, 783 So.2d 1010 (Fla.), *cert. denied*, 534 U.S. 891 (2001) (offering to sell obscene videos involving minors) and *PatentWizard*, 163 F. Supp. 2d at 1070 (aiding and abetting tortious interference with business relations); *Doe v. Franco Prods.*, No. 99 C 7885, 2000 WL 816779 (N.D. Ill. 2000) (sale of unauthorized nude locker room photographs); *Stoner v. eBay, Inc.*, 56 U.S.P.Q.2d 1852, 1853 (Cal. App. Dep't Super. Ct. 2000) (sale of counterfeit sound recordings in violation of state law); *Kathleen R.*, 104 Cal. Rptr. 2d at 780-81 (allowing minors to access Internet erotica, waste of public funds, public nuisance and premises liability).

law pertaining to intellectual property." Therefore, at least two courts have held that the CDA expressly does not shield an ISP from liability for third-party trademark infringement on its website. In *Gucci America Inc. v. Hall & Associates*,[119] the Southern District of New York denied a CDA defense to an ISP when one of its hosted sites infringed the Gucci trademark, and held that traditional trademark analysis would govern the case. Later that year, a federal court in Michigan applied *Gucci* and denied a CDA § 230 defense to a domain name reseller.[120] The courts presumably would deny a CDA safe harbor in a patent infringement case, as well.

[D] Creative Pleading Rejected

The courts have refused to allow plaintiffs to avoid a CDA safe harbor through artful pleading. In *Schneider v. Amazon.com, Inc.*,[121] the plaintiff claimed the CDA did not apply, because it had pleaded a contract claim for a disparaging user book review, based upon Amazon.com's posted guidelines for online reviewers. The court held that, tort or contract, Section 230 protected Amazon.com's "exercise of editorial discretion" in refusing to remove the disputed content.[122] Similarly in *Morrison v. America Online, Inc.*,[123] the court rejected the plaintiff's attempt to nullify AOL's CDA immunity in a libel case by claiming to be a third-party beneficiary of AOL's Member Agreement with its users.

[E] Strict Enforcement of "Notice and Takedown"

The courts are strictly enforcing DMCA § 512(c). This "notice and takedown" provision essentially protects ISPs from liability for infringing third-party materials posted on their sites if they do not participate in the infringement, duly notify copyright owners how to lodge infringement complaints and properly respond to any complaints received.[124] If a party

[119] 135 F. Supp. 2d 409, 412 (S.D.N.Y. 2001).

[120] *See Ford Motor Co. v. Greatdomains.com, Inc.*, 60 U.S.P.Q.2d 1446 (E.D. Mich. 2001).

[121] 31 P.3d 37 (Wash. Ct. App. 2001).

[122] *Id.* at 42.

[123] 153 F. Supp. 2d 930, 934 (N.D. Ind. 2001). *See also Jane Doe One v. Oliver*, 755 A.2d 1000, 1003-04 (Conn. Super. Ct. 2000) (applying Section 230 to dismiss breach of contract claim against AOL); *Franco Prods.*, 2000 WL 816779, at *1 (dismissing plaintiff's claim to be third-party beneficiary of agreements between videotape producers and ISPs).

[124] The elements of a proper DMA complaint are: (a) the physical or electronic signature of complainant; (b) identification of the infringed work; (c) identification of the infringing material and reasonable locating information; (d) the complainant's contact information; (e) statement of a good-faith belief that infringement has occurred; and (f) a sworn statement that (a)-(e) are accurate. 17 U.S.C. § 512(c)(3).

"substantially complies" with its DMCA § 512(c) notice obligation, the ISP must properly respond or risk losing its safe harbor.[125]

[F] Less Protection in Foreign Jurisdictions

This chapter concerns U.S. law; note that foreign courts may be far less protective of ISP immunity for third-party activity on their websites. The ISP Yahoo! litigated in France for years whether it was liable for users' selling Nazi-related memorabilia on its service in violation of French law.[126] Meanwhile in *Hit-Bit Software GmbH v. AOL Bertelsmann Online GmbH & Co. KG*,[127] a Bavarian appellate court held that an ISP was liable for third-party copyright infringement on its service, even though the ISP had posted legal warnings, monitored site forums for copyright notices and acted promptly to remove any infringing content.

§ 20:8.3 Practical Suggestions

1. Stay clearly on the sidelines. To maximize the applicability of a CDA § 230 defense, websites should make clear (in contracts, posted terms and conditions of use, etc.) that they are not the *authors* of any outside content, whether contributed by anonymous users or paid content providers.[128] Courts have held that ISPs may edit certain third-party content for format or

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125 *See ALS Scan, Inc. v. RemarQ Communities, Inc.*, 239 F.3d 619, 625 (4th Cir. 2001) (reversing summary judgment for ISP; noting that copyright complainant had "substantially complied" with DMCA § 512(c)(3) in its notice and ISP failed to respond); *Arista Records,* 2002 WL 1997918, at **8-10 (noting that complainant had not "substantially complied" with DMCA in notice merely citing aggrieved performers, but did "substantially comply" in notice that supplied printouts of site screens and highlighted infringing links); *Hendrickson,* 165 F. Supp. 2d at 1089-90 (granting DMCA safe harbor to e-Bay; copyright owner's notice failed to comply with DMCA, and eBay repeatedly asked plaintiff for more information); *CoStar,* 164 F. Supp. 2d at 704-08 (denying summary judgment to defendant; material issues in dispute as to adequacy and timeliness of its "takedown" response); *Perfect 10, Inc. v. Cybernet Ventures, Inc*., No. CV 01-2595LGB (SXH), 2002 WL 731721 (C.D. Cal. Aug. 13, 2002) (ISP's "notice and takedown" procedures departed from statutory requirements, lack of evidence that ISP expeditiously removed infringing material from site).

126 *See Association L'Amicale des Deportes d'Auschwitz v. Société Yahoo! Inc.,* Tribunal Correctionnel de Paris, Feb. 11, 2003 (acquitting Yahoo! and its former chief executive on charges of condoning war crimes and crimes against humanity). In November 2000, a Paris court had ordered Yahoo! to block French users from accessing Nazi auctions on its website. *Union des Etudiants Juifs de France v. Yahoo! Inc.*, T.G.I. Paris Nov. 20, 2000, Interim Court Order No. 00/05308.

127 OLG Munich, Mar. 8, 2001, Case No. 29/3282/00, *English translation available at* http://www.mhv-online.de/olg_ur_e.doc (last visited Jan. 22, 2003). *See also Graf v. Microsoft GmbH*, OLGZ Cologne, High Regional Civil Court, No. 15 U 221/01 (2002) (finding Microsoft liable for postings of fake naked photos of tennis star Steffi Graf on its service).

128 *See Carafano v. Metrosplash, Inc*., 207 F. Supp. 2d 1055, 1066-68 (C.D. Cal. 2002) (denying CDA safe harbor to Internet matchmaking service in suit over fake user profile, because service wrote questionnaire generating user profiles); *Sabbato v. Hardy*, No. 2000CA00136, 2000 WL 33594542 (Ohio Ct. App. Dec. 18, 2000)

policy reasons without forfeiting a CDA § 230 defense, provided they do not *create* the disputed content.[129]

2. Post the rules. By now, every major ISP website contains a link to its "terms and conditions" of use. Such rules should address third-party infringement; ISPs cannot invoke the DMCA safe harbor unless they adopt and inform subscribers of a policy to terminate repeat infringers on their network.[130]

3. Exclude third-party beneficiaries. As *Morrison v. AOL* instructs, a website's "terms and conditions" should make clear that its user agreements have no third-party beneficiaries, so as to defeat a future plaintiff's attempt to plead a contract claim — and evade the CDA — based on user misconduct.

4. Consider complaints carefully. The *CoStar* and *ALS Scan* cases highlight the perils facing an ISP that ignores a DMCA § 512(c) complaint of copyright infringement. In contrast, eBay was rewarded in *Hendrickson* for a proper response. Yet, some ISPs may be too resource-constrained to respond to every infringement complaint and must therefore assess the legal adequacy of each. While losing the DMCA "safe harbor" does not mean an ISP will lose a copyright case on the merits, it eliminates the chance for a quick (and therefore inexpensive) adjudication of the dispute.

5. ISP, regulate thyself. So long as the legal "safe harbors" do not shelter all ships, ISPs may wish to reduce their litigation risk by self-policing. Leading U.S. Internet companies have voluntarily publicly banned Nazi-related, adult and/or counterfeit material from their websites. [131] Congress expected such self-regulation in its passage of CDA § 230, which sought to protect

(denying motion to dismiss under CDA, given plaintiff's claim that defendant site operator had acted in concert with third parties creating the libel).

129 *See Schneider*, 31 P.3d at 41-42 (noting that Amazon.com's right to edit user postings did not disqualify CDA defense); *Stoner,* 56 U.S.P.Q.2d at 1853-54 (noting that eBay's adding logos, category headings and seller ratings did not make eBay itself a content provider with respect to goods sold on its site); *Blumenthal*, 992 F. Supp. at 51 (granting AOL immunity from liability for contents of Drudge Report, despite agreement allowing AOL to remove or modify its contents). *See also Ben Ezra,* 206 F.3d at 985-86 (holding that e-mails sent by ISP to correct inaccurate stock information did not make ISP a content provider under CDA).

130 17 U.S.C. § 512(i); *Ellison v. Robertson*, 189 F. Supp. 2d 1051, 1064-65 (C.D. Cal. 2002).

131 *See* Joelle Tessler, *Ebay Halts Sale of Items Related to Attacks*, SAN JOSE MERCURY NEWS, Sept. 13, 2001, at 3C (noting eBay's ban on World Trade Center merchandise; noting that eBay and Yahoo! prohibit listings associated with hate groups, including sales of Nazi memorabilia); John Schwartz, *Yahoo Goes Beyond Initial Plan Against Adult Sites*, N.Y. TIMES, May 16, 2001, at C6 (Yahoo! eliminating sexually explicit material from its shopping area); John Schwartz, *EBay Suspends Coin Seller Over Delivery Concerns*, N.Y. TIMES, Apr. 18, 2001, at C4 (eBay acting to suspend user suspected of fraud); Glenn R. Simpson, *EBay to Police Site for Sales of Pirated Items*, WALL ST. J., Feb. 28, 2001, at A3 (eBay monitoring sales on its sites for possible copyright infringement).

ISPs' voluntary policing and to prevent ISPs from being forced to self-police, for fear of monetary liability from third-party conduct.[132] For smaller company websites, aggressive self-regulation may be the only option, if even meritless litigation is too costly to bear.

§ 20:9 Bankruptcy

High-tech companies often have myriad licensing agreements, which pose unique problems if a contracting party declares bankruptcy.

§ 20:9.1 Licenses as "Executory Contracts"

Intellectual property licenses are generally considered to be "executory contracts" under Section 365 of title 11 of Chapter 11 of the U.S. Code (the "Bankruptcy Code"),[133] an "executory contract" is not defined in the Bankruptcy Code; the courts hold that it is a contract in which "the obligations of both parties are so far unperformed that the failure of either party to complete performance would constitute a material breach and thus excuse the performance of the other." [134] If a contract is not executory, it has been fully performed, such as an outright sale of intellectual property, and Bankruptcy Code § 365 will not apply.[135]

Intellectual property licenses generally qualify as executory contracts, because even in royalty-free licenses both sides have material ongoing duties. The licensor must (a) refrain from suing the licensee for infringement (the *raison d'etre* of a license)[136] and (b) for a trademark license, exercise quality control. The licensor may also need to (c) refrain from using the property in any exclusive fields; (d) maintain and renew patents and registrations; (e) defend

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132 *See Zeran,* 129 F.3d at 331; 47 U.S.C. §§ 230 (c)(1) and (c)(2).

133 11 U.S.C. § 365.

134 *In re CFLC, Inc.*, 89 F.3d 673, 677 (9th Cir. 1996) (citation omitted). This formulation essentially states the widely-cited definition of executory contracts attributed to Professor Vern Countryman. *See Sharon Steel Corp. v. National Fuel Gas Distribution Corp.*, 872 F.2d 36, 39 (3d Cir. 1989) and *In re Access Beyond Technologies, Inc.*, 237 B.R. 32, 43 (Bankr. D. Del. 1999), citing Countryman, Executory Contracts in Bankruptcy; Part I, 57 MINN.L.REV. 439, 460 (1973). Some courts take a more expansive, functional approach as to which contracts are "executory," so as "to permit the trustee or debtor-in-possession to use valuable property of the estate and to renounce title to and abandon burdensome property." *In re Orion Pictures Corp.*, 4 F.3d 1095, 1098 (2d Cir. 1993).

135 If a sale has occurred, the intellectual property is either an asset of the debtor's estate or has been sold to the purchaser, presuming that issues such as fraudulent transfers and preferences are not implicated. This § 20:9 discusses bankruptcy law for the limited purposes of Bankruptcy Code § 365, and does not address such other issues relevant to the inclusion of assets in the debtor's estate.

136 *See CFLC*, 89 F.3d at 677 (noting that non-exclusive patent license is waiver of right to sue licensee); *In re Golden Books Family Entm't, Inc.*, 269 B.R. 311, 314 (Bankr. D. Del. 2001); *Access Beyond Technologies,* 237 B.R. at 43 (same).

infringement suits;[137] or (f) provide training, improvements or support services. Meanwhile, the licensee must (a) use the property only within the specified field or territory; (b) for a trademark license, maintain quality standards; and may need to (c) mark legends and notices on products;[138] (d) keep proper accounting of royalty payments;[139] and (e) cooperate in enforcement actions by the licensor.

If a contract is deemed "executory," the trustee or debtor-in-possession ("debtor") has broad powers to assume or reject it, subject to the cure of existing defaults and assurance of future performance thereunder. Bankruptcy Code §§ 365(a) and (b).[140] If the debtor rejects the license, this is deemed to be a pre-petition breach, for which the non-debtor will have a pre-petition claim for damages,[141] which for unsecured claims usually recoups less than 100 cents on the dollar. If the licensee is the rejecting debtor, the non-debtor licensor still owns the licensed property, but will likely not recoup all outstanding royalties. If the licensor is the debtor, a rejection can be catastrophic for the non-debtor licensee, who can no longer use the licensed property, subject to any protection provided by Bankruptcy Code § 365(n).

§ 20:9.2 Debtor as Licensee – Assignment Issues

If the debtor does not wish to reject the executory contract, the debtor may assume it and assign it to a third party pursuant to Bankruptcy Code § 365(f), except for certain non-assignable contracts in Bankruptcy Code § 365(c), as discussed below. A non-debtor licensor may be quite eager to curtail the debtor-licensee's assignment power, particularly for a proposed assignment to a competitor. Yet, because the debtor has so much discretion in bankruptcy, parties generally cannot draft a license that avoids the issue. For example, if the contract provides – as many intellectual property licenses do – that the license terminates upon a party's bankruptcy, Bankruptcy Code § 365(e) holds that such provisions are unenforceable.

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137 *See Lubrizol Enterprises, Inc. v. Richmond Metal Finishers, Inc.*, 756 F.2d 1043, 1046 (4th Cir. 1985) (licensor had to give notice of and defend infringement suits and indemnify licensee), *cert. denied*, 475 U.S. 1057 (1986).

138 *See CFLC*, 89 F.3d at 677 (noting that patent licensee must mark products to allow patent holder to seek infringement damages); *Access Beyond Technologies, Inc.*, 237 B.R. at 44 (same; referring to such obligation as "significant and continuing," rendering license executory as to licensor).

139 *See Lubrizol*, 756 F.2d at 1046 (licensee had to maintain accounts to support royalty payments and deliver quarterly sales reports; distinguishing such ongoing obligation from mere debt).

140 The debtor may decide whether to assume or reject an executory contract at various stages in the bankruptcy case. Bankruptcy Code § 365(d)(2) permits a debtor to make such a determination at any time prior to confirmation of a Chapter 11 plan.

141 *See* 11 U.S.C. § 365(g); *In re Dak Industries, Inc.*, 66 F.3d 1091, 1094 (9th Cir. 1995); *In re Storm Tech., Inc.*, 260 B.R. 152, 156 (Bankr. N.D. Cal. 2001).

Similarly, if the license prohibits assignments without the licensor's consent, Bankruptcy Code § 365(f) permits a debtor to assign the contract irrespective of such language.[142]

The debtor's power under Bankruptcy Code § 365(f) is not absolute, however; it is subject to the exception in Bankruptcy Code § 365(c). Bankruptcy Code § 365(c) provides that, unless the non-debtor consents, the debtor may not assume or assign an executory contract (whether or not the contract prohibits assignment) if "applicable law" excuses the non-debtor from accepting performance from anyone else. The courts hold that this exception covers a narrow category of contracts – those for which non-bankruptcy law prohibits their assignment and/or those for which the contracting parties' identity is material, due to the very nature of the agreement.[143] Such contracts include contracts for personal services, government contracts, golf club memberships,[144] and as the cases below indicate, intellectual property licenses.[145]

[A] Non-Exclusive Licenses

Many appellate courts hold that, pursuant to Bankruptcy Code § 365(c), the licensor's consent is required to transfer a non-exclusive patent license in bankruptcy.[146] They have held that federal patent law — the "applicable law" under Bankruptcy Code § 365(c) — supports that a non-exclusive licensee has merely a personal privilege not to be sued by the licensor. The licensor may wish to grant this privilege to Company A, but not to an unspecified, future Company B. Therefore, the license is presumed non-assignable unless it expressly permits

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142 *See Cinicola v. Scharffenberger*, 248 F.3d 110, 120 (3d Cir. 2001).

143 *In re Catapult Entm't, Inc.*, 165 F. 3d 747, 752 (9th Cir.), *cert. dismissed*, 528 U.S. 924 (1999); *In re Supernatural Foods*, LLC, 268 B.R. 759, 780, 792 (Bankr. M.D. La. 2001) (noting that Section 365(c) covers contracts that restrict transfer "independent of any restriction contained within the contract itself").

144 *In re Magness*, 972 F.2d 689, 696 (6th Cir. 1992) (golf club membership); *In re West Electronics Inc.*, 852 F.2d 79, 83 (3d Cir. 1988) (government contract); *In re Alltech Plastics, Inc.*, 71 B.R. 686, 688 (Bankr. W.D. Tenn. 1987) (personal services contracts, leases of airport property, distributor agreements, agency contracts, real property leases (citations omitted)).

145 The reported case law concerns only debtor-licensees. If a debtor-licensor wished to assume or assign a Section 365(c) contract, it is unlikely the non-debtor licensee would object, because it probably wants to use the licensed property, regardless of its future owner.

146 *See, e.g., PPG Indus., Inc. v. Guardian Indus. Corp.*, 597 F.2d 1090, 1093 (6th Cir.), *cert. denied*, 444 U.S. 930 (1979); *Unarco Indus., Inc. v. Kelley Co.*, 465 F.2d 1303, 1306 (7th Cir. 1972), *cert. denied*, 410 U.S. 929 (1973); *Rock-Ola Mfg. Corp. v. Filben Mfg. Co.*, 168 F.2d 919, 922 (8th Cir.), *cert. dismissed*, 335 U.S. 855, *cert. denied*, 335 U.S. 892 (1948); *In re Catapult Entertainment, Inc.*, 165 F.3d 747, 750 (9th Cir. 1999); *Gilson v. Republic of Ireland*, 787 F.2d 655, 658 (D.C. Cir. 1986). *But see Farmland Irrigation Co. v. Dopplmaier*, 48 Cal. 2d 208 (Cal. 1957) (applying state contract law and not federal patent law to issue of license assignability).

otherwise.[147] At least two courts have analogized copyrights to patents and support that a non-exclusive copyright license qualifies for Bankruptcy Code § 365(c) and cannot be assigned in bankruptcy without the licensor's consent.[148] One district court suggests that a non-exclusive trademark license may also qualify for Bankruptcy Code § 365(c), as well.[149]

[B] Exclusive Licenses

The few reported cases are mixed as to whether *exclusive* intellectual property licenses fit within the Bankruptcy Code § 365(c) exception. The Ninth Circuit recently held that an exclusive licensee is not a full copyright owner, and therefore does not enjoy all of the owner's substantive rights, such as the right to assign without consent.[150] Meanwhile, two lower courts in other circuits hold that an exclusive copyright license is assignable without consent, because an exclusive licensee has some ownership rights, such as the right to restrict the licensor's use.[151]

The case law on this issue is preliminary; therefore, it is difficult to predict how future courts will rule on this issue. Further, no reported case has addressed the assignability of an exclusive trademark or patent license in bankruptcy. In fact, this issue may be murkier for patents and trademarks, because the federal statutes do not clearly distinguish between

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[147] *In re CFLC,* 89 F.3d at 679 (noting that free assignability of patent licenses would undermine the statutory reward that encourages invention); *Unarco*, 465 F.2d at 1306 (noting that patent licenses are personal to licensee and not implicitly assignable); *In re Supernatural Foods*, 268 B.R. at 802 (noting that licensor's promise not to sue one party cannot be transferred to another party); *In re Access Beyond Technologies,* 237 B.R. at 44 (noting that non-exclusive patent license is "mere naked license" and not a right to exclude others, the fundamental nature of a patent).

[148] *See In re Patient Educ. Media, Inc.*, 210 B.R. 237, 240-41 (Bankr. S.D.N.Y. 1997); *SQL Solutions, Inc. v. Oracle Corp.*, No. C-91-1079 (MHP), 1991 WL 626458, at *4 (N.D. Cal. Dec. 18, 1991) (non-bankruptcy case; holding that non-exclusive copyright license cannot be assigned without licensor's consent). *See also Harris v. Emus Records Corp.*, 734 F.2d 1329 (9th Cir. 1984) (case under old Bankruptcy Act and not § 365(c); holding that non-exclusive license is not an interest in a copyright).

[149] *Council of Better Bus. Bureaus, Inc. v. Better Bus. Bureau, Inc.*, No. 99-CV-282 (HGMGJD), 1999 WL 288669, at *3 (N.D.N.Y. Mar. 30, 1999) (non-bankruptcy case; holding that non-exclusive trademark licensee needed licensor's consent for *de facto* assignment of its license via merger; citing *PPG Industries*).

[150] *See Gardner v. Nike, Inc.*, 279 F.3d 774, 780-81 (9th Cir. 2002). The court stated that copyright licensees should bear the burden to obtain explicit consent to assign; the default should favor the licensor to enable him/her to monitor use of the copyright. *Id*. at 781.

[151] *See In re Golden Books Family Entm't*, 269 B.R. at 316-20 (allowing debtor to assume and assign exclusive copyright license in bankruptcy; noting that copyright law distinguishes between exclusive and non-exclusive licensees and grants rights of ownership to former); *In re Patient Educ. Media*, 210 B.R. 237, 240 (Bankr. S.D.N.Y. 1997) (analyzing non-exclusive copyright license, but stating that exclusive licensee may freely transfer its rights).

exclusive and non-exclusive licenses, as does the Copyright Act.[152] A few cases leave open the issue of whether an exclusive patent license may be assignable in bankruptcy without the licensor's consent, and no reported case has addressed trademark licenses.[153]

§ 20:9.3 Debtor as Licensee — Assumption Issues

If the license is a type that needs consent to assign under Bankruptcy Code § 365(c), the next issue is whether the debtor may still *assume* such license for its own continued use. The venue of the debtor's bankruptcy may be crucial, because the appellate courts are currently split on whether the debtor's assumption of a license requires the non-debtor's consent under Bankruptcy Code § 365(c). The Third, Fourth, Ninth and Eleventh Circuits currently hold that Bankruptcy Code § 365(c) requires the licensor's consent for either assignment *or* assumption of a qualifying license.[154] These courts' analysis, set forth *In re Catapult Entertainment, Inc.*, has been called the "hypothetical test," which holds that the debtor may not even *assume* a qualifying license, even if he or she has no intention of *assigning* it, if applicable law would hypothetically prevent the debtor from *assigning* the license to a third party.[155] The Ninth Circuit noted that the plain language of Bankruptcy Code § 365(c) treats assumption and assignment as two distinct events, each of which requires the non-debtor's separate consent.[156] Similarly, the Third Circuit has stated that Bankruptcy Code § 365(c) reflected Congress' judgment that "a solvent contractor and an insolvent debtor in possession going through bankruptcy are materially distinct entities."[157]

In contrast, the First Circuit held that a bankrupt licensee may assume a qualifying Bankruptcy Code § 365(c) license without the licensor's consent, because the bankrupt licensee

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[152] *See* Section 101 of the Copyright Act, 17 U.S.C. § 101 (defining copyright "transfer" to include "exclusive licenses" but not "non-exclusive licenses").

[153] *See Catapult Entertainment,* 165 F.3d at 750 n.3 (expressing "no opinion" on assignability of exclusive patent licenses); *CFLC*, 89 F.3d at 679 (noting that non-exclusive license is not a property right in a patent, but suggesting otherwise for exclusive license); *Supernatural Foods*, 268 B.R. at 803 (noting that patent is fundamentally the right to exclude others, which is present only in exclusive license).

[154] *In re West Electronics,* 852 F.2d 79 (3rd Cir. 1988); *In re Catron*, 158 B.R. 629 (E.D. Va. 1993), *aff'd*, 25 F.3d 1038 (4th Cir. 1994) (table case); *In re Catapult Entertainment, supra* note 138*; In re James Cable Partners, L.P.*, 27 F.3d 534 (11th Cir. 1994). *But see RCC Technology Corp. v. Sunterra*, 287 B.R. 864 (D. Md. 2003) (endorsing *Pasteur* and stating that Fourth Circuit has not yet ruled on issue).

[155] 165 F.3d at 752.

[156] *Id.*

[157] *West Electronics*, 852 F.2d at 83.

is still the same essential entity.[158] This analysis, set forth in *Institut Pasteur v. Cambridge Biotech Corp.*, is called the "actual test," which focuses on "the performance actually to be rendered by the debtor-in-possession," which the court should not presume is "materially distinct from the pre-petition debtor."[159] The First Circuit allowed CBC to assume a patent license from Pasteur, even though Pasteur's direct competitor had bought all of CBC's stock. The court noted that the license (a) restricted outright assignments but not transfers via a "change of control" scenario, such as a stock sale; (b) allowed CBC to assign to affiliates; and (c) expressly restricted CBC's rights to sublicense to a company other than its new owner. Therefore, the court held that Pasteur could have covered the instant scenario in the license's assignment clause, but did not do so.[160]

§ 20:9.4 Debtor as Licensor – Section 365(n)

The Bankruptcy Code provides certain protections for non-debtor licensees of intellectual property. In *Lubrizol Enterprises Inc. v. Richmond Metal Finishers Inc.*,[161] the court upheld a technology licensor's rejection of a license as properly following the law, despite the "serious burden" it caused to the licensee. In reaction to *Lubrizol*, and to protect all similarly situated licensees, Congress enacted the Intellectual Property Bankruptcy Protection Act of 1988 to add Section 365(n) to the Bankruptcy Code.[162]

Bankruptcy Code § 365(n) provides that if a licensor of "intellectual property" declares bankruptcy and rejects the license, the licensee may either (a) treat such contract as terminated, if the rejection amounts to such a breach as would render the contract terminated by virtue of its own terms, applicable nonbankruptcy law, or an agreement made by the licensee with another entity[163] or (b) retain its rights (including any exclusivity rights, but excluding other rights of specific performance) under the agreement and "any agreement supplementary" thereto as

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158 *Institut Pasteur v. Cambridge Biotech Corp.*, 104 F.3d 489 (1st Cir.), *cert. denied*, 521 U.S. 1120 (1997). Many lower courts had previously agreed with this approach. *See, e.g., In re GP Express Airlines, Inc.*, 200 B.R. 222, 231-33 (Bankr. D. Neb. 1996); *Texaco Inc. v. Louisiana Land & Expl. Co.*, 136 B.R. 658, 668-71 (M.D. La. 1992); *In re Am. Ship Bldg. Co.*, 164 B.R. 358, 362-63 (Bankr. M.D. Fla. 1994); *In re Fastrax*, 129 B.R. 274, 277 (Bankr. M.D. Fla. 1991); *In re Hartec Enters., Inc.*, 117 B.R. 865, 871-73 (Bankr. W.D. Tex. 1990), *vacated on other grounds*, 130 B.R. 929 (W.D. Tex. 1991); *In re Cardinal Indus., Inc.*, 116 B.R. 964, 976-82 (Bankr. S.D. Ohio 1990).

159 104 F.3d at 493.

160 *Id*. at 494-95.

161 756 F.2d 1043, 1048 (4th Cir. 1985), *cert. denied*, 475 U.S. 1057 (1986).

162 11 U.S.C. § 365(n).

163 § 365(n)(1)(A)

such rights existed immediately prior to bankruptcy.[164] Under option (a), if the licensee does not wish to continue the arrangement, it can terminate and sue for pre-petition damages.[165] Under option (b), the licensee may override the licensor's rejection and keep the license – with certain limitations – provided that it pays all royalties due and waives any right of setoff.[166]

Bankruptcy Code § 365(n) may help many licensees avoid a *Lubrizol* encore; yet, it does not provide *full* protection, for several reasons, including:

1. No Trademarks. Bankruptcy Code § 365(n) protects licensees of "intellectual property" as defined in Bankruptcy Code § 101(35A): trade secrets, patents, patent applications, plant varieties, works of authorship protected under the Copyright Act, and mask work, but *not* trademarks, trade dress, domain names and related rights. This is not intuitive, since trademarks certainly fit a plain English definition of "intellectual property."[167]

2. No Future Rights. Bankruptcy Code § 365(n) allows the licensee to retain its rights "as such rights existed immediately before the case commenced" and does not allow for future specific performance, except for honoring an exclusivity provision. Therefore, if the license covers a continuing stream of intellectual property (*e.g.*, real-time content for a website or database), future improvements or enhancements (*e.g.*, a software license), or future services (*e.g.*, support, maintenance and training), Bankruptcy Code § 365(n) does not apply here. Meanwhile, this unprotected matter can represent most of the license's value. For example, for a license to real-time national news footage, Section 365(n) allows the licensee to keep its pre-existing content, which would quickly become stale, and the licensee would receive no future news footage after the licensor's bankruptcy date.

3. No Future License. The license agreement must be valid and effective prior to the licensor's bankruptcy to merit Bankruptcy Code § 365(n) protection. In *In re Storm Technology*

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164 § 365(n)(1)(B).

165 Such a rejection results in the licensee's receiving the same treatment as any other claim resulting from a rejected executory contract, *In re EI Int'l*, 123 B.R. 64, 67 (Bankr. D. Idaho 1991), which generally recoups less than 100 cents on the dollar. Further, the entire contract is rejected; a licensee cannot treat the contract as terminated, but then enforce one favorable provision, such as a liquidated damages clause. *Id.* at 68.

166 11 U.S.C. § 365(n)(2).

167 One case, *In re Matusalem*, 158 B.R. 514 (Bankr. S.D. Fla. 1993) has applied Bankruptcy Code § 365(n) to protect a trademark licensee, but the case is widely viewed as an aberration, because (i) licensed trademarks were sufficiently tied to other § 365(n) "intellectual property" such that the rejection would not free the debtor to offer a similar license elsewhere; (ii) the rejection was viewed as a bad-faith gesture by the debtor with no legitimate business justification; and (iii) the rejection would result in a huge pre-petition damages claim. *Id.* at 521-23. *See also Cloyd v. GRP Records*, 238 B.R. 328, 335 (Bankr. E.D. Mich. 1999) (noting that individual covered by recording contract is not "intellectual property" under Bankruptcy Code).

Inc.,[168] the court held that a "springing" patent license – it was to "spring" into effect if the licensor did not repay a corporate note on time – was not covered by Bankruptcy Code § 365(n). The licensor had declared bankruptcy before the note's maturity date, and therefore, the licensee had only a contingent right to a license, not an actual license, at that time.

4. "Supplementary" Agreements Required. Bankruptcy Code § 365(n) protects the main intellectual property license and agreements "supplementary to" it. For example, a source code escrow agreement is supplementary to a software license, because it allows the licensee to retrieve the code under certain conditions specified in the main license. It is unclear what agreements will be deemed sufficiently "supplementary" by a bankruptcy court to merit Section 365(n) protection.

§ 20:9.5 Practical Suggestions — Licensors[169]

1. To minimize the likelihood of an unwanted license assumption, (a) specify in the contract that assignment *always* requires consent, including assignments to affiliates or implied assignments via a merger or change in control;[170] and (b) have the licenses governed by law in a federal circuit adopting the "hypothetical test" and not the "actual test" for Bankruptcy Code § 365(c) assumptions, as discussed above.

2. Front-load and aggregate all license payments. If the licensee wishes to invoke Bankruptcy Code § 365(n)(1)(B) and keep the license after its rejection, it must "make all royalty payments due." Bankruptcy Code § 365(n)(2). If most monies are due before the licensor declares bankruptcy, the licensee must soon cut a large check to keep the license.

§ 20:9.6 Practical Suggestions — Licensees

1. Have material intellectual property assigned outright, rather than becoming a licensee.[171] Owning the intellectual property eliminates the Bankruptcy Code § 365 risk associated with a licensor's future bankruptcy.

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168 260 B.R. 152, 157 (Bankr. N.D. Cal. 2001).

169 Given the debtor's broad powers and the unsettled state of bankruptcy/intellectual property case law, these "Practical Suggestions" cannot guarantee a desired result. Yet proper drafting will at least evidence the parties' intentions in this regard.

170 The *Institut Pasteur* licensor could not credibly object to the license's assumption in bankruptcy, because the contract allowed the licensee to assign to affiliates and did not restrict implied assignments via merger. While the most rigid anti-assignment provision is still subject to Bankruptcy Code § 365(f), it may help the licensor distinguish *Institut Pasteur* and prevent the license's unwanted assumption.

171 Whether a technology transaction is substantively a sale or a license may prompt court analysis. *See In re Dak Industries,* 66 F.3d at 1095-96 (analyzing "economic realities of software agreement and deeming it sale, not executory contract).

2. Expressly state that the agreement contains a license to "intellectual property" under Bankruptcy Code § 365(n) and that the licensee should enjoy its protection if the licensor declares bankruptcy. While the court will decide independently if Bankruptcy Code § 365(n) applies, such a statement will support such an outcome.

3. Have the same agreement contain a license to "intellectual property" such as patents and copyrights and non-"intellectual property" such as trademarks. Bankruptcy courts may be less likely to reject portions of a single license on a piecemeal basis.

4. Stagger or back-load as many license payments as possible. If the licensor rejects the agreement before they accrue, they will not be due. Meanwhile, the prospect of large future payments may discourage rejection at all.

5. Clearly separate and label (a) royalties for licenses to "intellectual property" versus trademarks and (b) license fees versus payments for services such as training and support. Bankruptcy Code § 365(n)(2) requires a licensee to pay all "royalty payments due" to keep its rights after rejection. Yet, as noted above, the section provides only partial protection, and does not cover trademarks or future rights. Therefore, the licensee should pay only "payments due" for benefits it will actually receive after the licensor's bankruptcy, and the license should clearly allocate these amounts. If payments are lumped together, the licensee may have to pay it all.[172]

6. Clearly indicate that the licensee's rights vest as of day one, and are not contingent upon a future occurrence, such as the licensor's default on a note. One can always sue for damages if a note payment is late; meanwhile, the license's validity under § 365(n) should be undisputed.

7. For ancillary documents such as source code escrow agreements, clearly state in both agreements that the latter is "an agreement supplementary to" the main license under Bankruptcy Code § 365(n)(1)(B). The court should not be in doubt as to the parties' intentions here. Further, escrow agreements should: (a) clearly state that the escrow agent has title to its software copy (which, therefore, is not within the debtor's estate); (b) require the licensor to forward updates promptly to the agent, so it always possesses a near-perfect version; and (c) have the licensee be party to or third-party beneficiary of the agreement, to facilitate its direct involvement in the licensor's bankruptcy proceedings.

8. If the licensor does not own the technology, but is a licensee and sublicensing it further, clearly state that the licensor must enforce its own Bankruptcy Code § 365(n) rights if the owner declares bankruptcy. The sublicensee is not in contractual privity with the owner; therefore, the licensor must preserve its own Bankruptcy Code § 365(n) rights for the sublicensee to have any indirect rights.

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172 *See In re Prize Frize*, 32 F.3d 426, 429 (9th Cir. 1994) (holding that under § 365(n), licensee must pay both "license fees" and "royalty payments" as payments to use the property).

9. Obtain other bankruptcy protections, such as a security interest in the licensed property, covenants governing the licensor's financial condition or placing the licensed property in a bankruptcy-remote special purpose vehicle. The latter two measures will lower the likelihood of a licensor bankruptcy, and if bankruptcy occurs, the security interest will eliminate the debtor's economic incentive to reject the license.[173]

§ 20:10 Conclusion

Litigation, like art, imitates life. As the business world is impacted by technological advances, so are its sources for disputes and the procedures for resolving them. Technology is a two-edged sword; it increases tortfeasors' ability to injure persons and corporations as well as plaintiffs' resources to bring actions for redress. Meanwhile, judges must continually adapt traditional legal principles to apply in a high-tech environment. It is essential that the modern practitioner keep abreast of technology-related case law; one cannot turn a blind eye or a "steel and bolted shut door"[174] to these issues.

173 At least one court has noted that "the better practice" in a technology deal, in which full payment is not made at closing, is a perfected security interest rather than a contingent license-back. *Storm Tech.,* 260 B.R. at 157.

174 *See Rio Properties*, 284 F.3d at 1017, cited in § 20:2.1.