Under New York's Long-Arm Statute, When Is Infringement "Within the State"?

By Jeffrey M. Koegel

I. Introduction

You represent creative people, and you may occasionally be called on to help them enforce their intellectual property rights. Unfortunately, advances in technology and global interconnectedness have made it more challenging to protect creative works against unauthorized copying and reproduction. To add insult to injury, the internet has even made it difficult to determine where injury arising from such infringement has occurred. The limitless extent of unauthorized copying and transmission of copyrighted works to anyone, anywhere, at any time can be maddening to copyright owners. Although there are remedies against such infringement, it is not always clear where the infringer can be sued. If someone sitting in Texas copies an image from a website owned by an artist in New York, is the artist injured in New York? Will she or he be able to hale the infringer into court in New York?

As you might imagine, the answer depends on whether the injury occurred "within the state," so that the infringer can be subject to personal jurisdiction under New York's long-arm statute. But where the injury occurs is not always clear. To explore this issue, this article focuses on, and discusses the impact of, two cases in which the Second Circuit addressed personal jurisdiction over non-New York defendants in copyright infringement actions.

II. *Penguin Group*: The Internet, Digital Piracy, and Non-Traditional Infringement

In *Penguin Group (USA) Inc. v. American Buddha*,[1] a New York publishing company brought a copyright infringement action in the Southern District of New York against an Oregon not-for-profit organization based in Arizona. The plaintiff alleged that the defendant had uploaded digital copies of four books, in their entirety, to its websites, and then made those copies freely available for downloading to its 50,000 users throughout the country.

The district court dismissed the complaint for lack of personal jurisdiction, finding that the alleged injury (the copying and uploading of the plaintiff's works) took place in either Oregon or Arizona, not New York. The plaintiff appealed to the Second Circuit, which certified to the New York Court of Appeals the question of how to apply New York's long-arm statute, CPLR § 302, to copyright infringement claims against out-of-state defendants. Specifically, the Second Circuit wanted to know whether the alleged infringement met the statute's requirement that the tortious act "caused an injury to a person or property in New York."[2] Specifically, the certified question was:

> In copyright infringement cases, is the situs of injury for purposes of determining long-arm jurisdiction under N.Y. C.P.L.R. § 302(a)(3)(ii) the location of the infringing action or the residence or location of the principal place of business of the copyright holder?[3]

The Court of Appeals, for its part, narrowed the question presented based on "the Internet play[ing] a significant role in this case."[4] The reformulated question (with emphasis added) was:

> In copyright infringement cases *involving the uploading of a copyrighted printed literary work onto the Internet*, is the situs of injury for purposes of determining long-arm jurisdiction under N.Y. C.P.L.R. § 302(a)(3)(ii) the location of the infringing action or the residence or location of the principal place of business of the copyright holder?[5]

In answering this question, the Court of Appeals found that the situs of the injury "under the circumstances of th[e] case" was the "location of the copyright holder."[6] Based on this answer, the Second Circuit reversed the district court and held that New York did, in fact, have jurisdiction over the non-resident defendant.

In narrowing the issue certified question, the Court of Appeals sought to avoid a "Pandora's box" that might result in "any nondomiciliary accused of digital copyright infringement [being] haled into a New York court" by a New York plaintiff.[7] Likewise, it acknowledged that the internet's role in the uploading of copyrighted books made the case distinguishable from "traditional commercial tort cases" in which jurisdiction is properly exercised where sales or customers are lost.[8] To guide its analysis, the Court identified two factors relevant to whether an injury was incurred in New York for purposes of section 302(a)(3)(ii): (1) the nature of the infringement and whether the injury could be associated with a particular geographic area and (2) the unique bundle of copyright rights implicated by the alleged tortious act.

As to the first factor, the Court noted that the "intended consequence[]" of the defendant's digital privacy was "the instantaneous availability of those copyrighted works . . . for anyone, in New York or elsewhere, with an

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Internet connection to read and download the books free of charge."[9] As to the second factor, the Court explained that the defendant's piracy—by making copyrighted materials free—threatened to "diminish[] the incentive to publish or write."[10] In balancing these factors, the Court held that the defendant could be subject to jurisdiction in New York, since the plaintiff's lost sales were "difficult, if not impossible" to correlate to any particular geographic area, and the infringement of the plaintiff's copyright rights resulted in the plaintiff "suffer[ing] something more than indirect financial loss."[11]

Although New York plaintiffs point to *Penguin* as authority for extending New York's long-arm jurisdiction over non-resident defendants in copyright infringement cases, defendants insist that the Court went out of its way to narrow its holding to cases involving digital piracy and "the uploading of a copyrighted printed literary work onto the Internet."[12] Ultimately, facts that implicate some use of the internet in connection with infringement are not by themselves determinative of whether a non-resident defendant can be haled into court in New York. The question of whether personal jurisdiction applies requires a more thorough examination of whether the plaintiff's injury can be ascribed to New York or anywhere else the copyright owner might obtain relief.

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III. *Troma*: Traditional Commercial Torts and "Simple" Economic Injury

In *Troma Entm't Inc. v. Centennial Pictures Inc.*[13] the Second Circuit took the opportunity to clarify the long-arm test in a "traditional" (non-internet) infringement case, where personal jurisdiction would not extend over a non-resident defendant. In *Troma* a motion picture producer and distributor based in New York brought a copyright infringement action in New York against defendants who met in California to arrange for the unauthorized distribution of the plaintiff's work in Germany.

The district court dismissed the case based on the plaintiff's failure to allege that the defendants caused the plaintiff's injury within New York, as section 302(a)(3) requires. The plaintiff appealed to the Second Circuit, where it complained of the "generalized harm" it experienced due to the alleged infringement.[14] The Second Circuit affirmed. The court balanced the *Penguin Group* factors and found that the plaintiff had not established a basis for long-arm jurisdiction. Regarding the first factor—the nature of the infringement—the court found that there was nothing about the case that prevented the injury from being circumscribed to a particular locality, namely California or Germany. The court distinguished *Penguin* on the ground that unlike that case, the facts in *Troma* did not involve injury that was "virtually impossible to localize" (i.e., widespread digital copying and distribution of literary works over the internet).[15] The court found instead that the case at hand was more of a "traditional commercial tort case[]," where the injury could be circumscribed to a particularly locality (California and/or Germany).[16] The court determined that this factor weighed heavily in favor of finding that jurisdiction did not lie in New York.

With respect to the second factor—the unique bundle of copyright rights at issue—the court found that plaintiff had not pled anything more than "simple economic losses."[17] The court stated that *Penguin* did not "relieve[] intellectual property owners of the obligation, in each case, to allege facts demonstrating a non-speculative and direct New York-based injury to its intellectual property rights."[18] Moreover, the court found that the plaintiff had failed to articulate a unique intellectual property right that would distinguish the case from a traditional commercial tort case. In *Penguin*, for instance, the Court of Appeals found that the copying and reproduction of the entirety of copyrighted works endangered the central purpose of copyright protection, namely, incentivizing the creation of creative works. In *Troma*, by contrast, the court found the loss of a distribution deal to be more akin to a generalized economic harm that did not satisfy the requirements of a harm "within New York" under section 302. In the absence of factual allegations demonstrating an injury suffered in New York, the Second Circuit affirmed the dismissal of the complaint for lack of personal jurisdiction.

IV. *Adwar*: The Internet Is Not Enough

In *Adwar Casting Co. v. Star Gems, Inc.*[19] the plaintiff was a New York corporation that manufactured, distributed, marketed, and sold original jewelry products throughout the United States. The defendant was a Georgia-based corporation that was a wholesale manufacturer of jewelry products. The plaintiff alleged that the defendant manufactured and sold knock-offs of the plaintiff's copyright-registered jewelry products. The complaint alleged (and the plaintiff argued) that the de-

fendant's infringing activities included the use of the internet to access the plaintiff's website and download images of the plaintiff's copyrighted designs, which the defendant then posted on its Facebook page with links to sales of its knock-offs. The plaintiff sued for infringement in the Eastern District of New York, where it was located, and the defendant moved to dismiss for lack of personal jurisdiction. The district court (Hon. Denis R. Hurley) granted the motion on the ground that the plaintiff had not sufficiently alleged that the claimed infringement had caused injury within New York.

In reaching this conclusion, the court applied the analysis set forth by the Second Circuit in *Penguin* and held that, notwithstanding the allegations of the internet-based copying of the plaintiff's works, by failing to allege any acts specifically tying the "knock-offs" to New York (e.g., that they were sold or advertised in New York), the plaintiff had failed to establish personal jurisdiction. The court concluded that the case was more akin to a traditional commercial tort case in the vein of *Troma* than to a digital piracy case like *Penguin*.

Although the defendant's use of the internet was a feature of the alleged infringement, the internet did not prevent the injury from being circumscribed to any particular location. Instead, the injury—the manufacture and sale of copyright-protected jewelry products—was one that could be remedied in an infringement action in Georgia. Moreover, the court found that the plaintiff's alleged generalized loss did not amount to anything more than a simple economic loss, which weighed against a finding of long-arm jurisdiction.

Although the plaintiff could have brought the suit in Georgia, where the defendant resides, it can be forgiven for suing in New York in reliance on *Penguin*. However, merely alleging that the internet played some role in infringement is not enough for New York to extend its jurisdictional reach beyond its borders.

The plaintiff also was unable to establish jurisdiction over out-of-state defendants in two separate cases brought by Freeplay Music in the Southern District of New York. In *Freeplay Music, LLC v. Dave Arbogast Buick-GMC, Inc.*[20] the plaintiff brought a copyright infringement case against an Ohio car dealership for uploading videos to the internet containing the plaintiff's copyrighted music. Although this case involved copyright infringement aided by the internet, the plaintiff did not allege "the type of 'digital piracy' at issue" in *Penguin*.[21] Instead, the court characterized the plaintiff's injury as the deprivation of licensing revenue that would have otherwise been paid by the Ohio defendant. Moreover, the court noted that the plaintiff did not allege that it was injured when the infringing videos were viewed by third parties over the internet in, say, New York. Since the plaintiff only suffered simple economic harm based on infringing activities in Ohio and did not otherwise suffer injury to the "unique bundle of rights" provided under copyright law, the court found no personal jurisdiction in New York.[22]

The same court found that personal jurisdiction over the defendant was lacking where the New York copyright owner (Freeplay Music) sued an Indian defendant for uploading videos containing its copyrighted musical works.[23] The court distinguished the case from *Penguin* on the ground that the plaintiff did not allege that its musical works were copied or uploaded in order to be freely accessible for viewing and downloading by anyone with an internet connection. Rather, the alleged harm, the loss of licensing fees, was purely economic. Since the case involved a narrowly circumscribed economic injury, the court concluded that it amounted to a traditional tort case under *Troma* and did not warrant the exercise of long-arm jurisdiction.

V. The Aftermath of *Troma*

The progeny of *Troma* illustrates the limitation of *Penguin* to a narrow set of circumstances. It is not enough for an owner of intellectual property residing in New York to allege infringement against an out-of-state defendant; New York courts require the plaintiff to plead non-speculative and direct injury to its intellectual property rights within the state of New York before long-arm jurisdiction will be extended.

For example, in *Verragio, Ltd. v. Malakan Diamond Co.*[24] the court found no personal jurisdiction over a California defendant where the New York plaintiff alleged that the defendant manufactured certain infringing jewelry in California that was sold in Wisconsin, Ohio, and Idaho. The court held that these allegations reflected a traditional commercial tort claim and that the plaintiff had not articulated a non-speculative injury in New York.

New York courts apply a similar pleading standard in patent infringement cases. In *Rates Tech., Inc. v. Cequel Communs., LLC*,[25] for example, the alleged infringement involved the plaintiff's patented technology claiming methods of routing telephone calls, which used telecommunications infrastructure passing through New York. While the defendant's alleged infringing services involved the transmission of data through New York, the defendant did not possess or own any equipment in New York but instead routed its data through networks and fiber owned by third parties. The court held that jurisdiction lay where infringing sales were made, and because the plaintiff did not allege that the defendant solicited New Yorkers to buy its infringing services, the long-arm statute did not confer jurisdiction.

In certain trademark cases, meanwhile, plaintiffs have had some success in pleading "something more" than the economic injury baked into typical copyright infringement claims. In *Lewis v. Madej*, following the out-of-state defendant's fraudulent trademark application attempting to usurp the New York plaintiff's brand, the plaintiff

successfully pled personal jurisdiction based on the defendant's "intentional and fraudulent trademark infringement specifically directed at the plaintiffs who reside in New York."[26] Likewise, in *International Diamond Imps., Inc., v. Med Art, Inc.*[27] a New York-based jewelry designer brought copyright and trademark infringement allegations against a Turkish defendant, and personal jurisdiction was found based on the claimed reputational harm and lost business suffered by the plaintiff.

However, in other cases, where the parties involved are exclusively foreign entities, New York jurisdiction is not certain even where the *Penguin* factors are satisfied. In *Alibaba Group Holding Limited v. Alibabacoin Foundation*,[28] for instance, the Chinese e-commerce giant Alibaba sued a group of companies based in Dubai and Belarus for trademark infringement. Applying *Penguin*, the district court found that (1) the injury—the loss of business, reputation, and goodwill due to "online infringement"—could be easily circumscribed to a specific location, and (2) the trademark infringement resulted in "something more" than indirect financial loss.[29] Nevertheless, after applying the *Penguin* test, the court found that the plaintiff did not establish the requisite New York-based injury due to a lack of "allegations of specific, non-speculative harm in the form of actual or potential injury in a New York market for its services."[30] Subsequently, however, the court did find jurisdiction, not under the *Penguin* test but based on amended allegations that the defendant "transacted business in New York," which satisfied another section of New York's long-arm statute, CPLR § 302(a)(1).[31]

In *Pablo Star Ltd. v. Welsh Gov't*[32] a copyright owner in the United Kingdom sued the government of Wales for the use of two of the plaintiff's photographs on a government tourism website. Although the court agreed that the infringement over the internet was difficult, if not impossible, to localize, the plaintiff was not relieved of its obligation to allege facts demonstrating non-speculative and direct New York-based injury to its rights. Moreover, although New Yorkers could access infringing content on a Welsh website over the internet, the requirements for establishing personal jurisdiction over the defendant were not met where the "most concrete" injury to the plaintiff was lost license fees.[33]

VI. Conclusion

To help determine what types of infringing defendants fall within the scope of New York's long-arm statute, the Court of Appeals in *Penguin* set forth a two-factor balancing test to help locate the situs of the injury so as to resolve questions of long-arm jurisdiction in copyright infringement cases. The test considers (1) the nature of the alleged infringement and (2) the nature of the rights at issue. Although the Court crafted its test in relation to particular facts involving digital piracy of printed literary works on the internet, courts have continued to apply the *Penguin* test to balance the rights of the parties in other online infringement cases.

A takeaway from the cases discussed above is that in order to avoid being vulnerable to dismissal for lack of personal jurisdiction in a case involving online infringement, plaintiffs should plead a violation of their intellectual property rights that is not clearly rooted in any particular location, and they should allege that the infringement is uniquely injurious to the plaintiff's rights, implicating more than mere financial loss. Moreover, in accordance with *Troma*, plaintiffs should plead facts demonstrating a non-speculative and direct New York-based injury to their intellectual property rights.

Endnotes

1. 640 F.3d 497 (2d Cir. 2011); 16 N.Y.3d 295 (2011).
2. CPLR 302(a)(3)(ii).
3. 640 F.3d at 499.
4. 16 N.Y.3d at 301.
5. *Id*. at 301-02.
6. *Id*. at 302.
7. *Id*. at 307.
8. *Id*. at 306.
9. *Id*. at 304-05.
10. *Id*. at 305.
11. *Id*.
12. *Id*. at 301.
13. 729 F.3d 215 (2d Cir. 2013).
14. *Id*. at 220 (quoting Appellant's Br. at 13).
15. *Id*. at 220.
16. *Id*. at 220 (quoting 16 N.Y.3d at 306).
17. *Id*. at 220.
18. *Id*.
19. 2018 U.S. Dist. LEXIS 179389 (E.D.N.Y. Oct. 18, 2018).
20. 2017 U.S. Dist. LEXIS 14942 (S.D.N.Y. Jan. 18, 2017).
21. *Id*. at 15.
22. *Id*. at 13.
23. *See Freeplay Music, LLC v. Nian Infosolutions Private Ltd.*, 2018 U.S. Dist. LEXIS 115659 (S.D.N.Y. July 10, 2018).
24. 2016 U.S. Dist. LEXIS 150689 (S.D.N.Y. Oct. 20, 2016).
25. 15 F. Supp. 3d 409 (S.D.N.Y. 2014).
26. 2015 U.S. Dist. LEXIS 144384 (S.D.N.Y. Oct. 23, 2015).
27. 2017 U.S. Dist. LEXIS 102257 (S.D.N.Y. June 29, 2017).
28. 2018 U.S. Dist. LEXIS 72282 (S.D.N.Y. Apr. 30, 2018).
29. *Id*. at 18.
30. *Id*. at 20.
31. 2018 U.S. Dist. LEXIS 180884 at 11 (S.D.N.Y. Oct. 22, 2018).
32. 170 F. Supp. 3d 597 (S.D.N.Y.) (2016).
33. *Id*. at 608.