

09-1739-CV

United States Court of Appeals
for the
Second Circuit

PENGUIN GROUP (USA) INC.,

Plaintiff-Appellant,

– v. –

AMERICAN BUDDHA,

Defendant-Appellee.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

REPLY BRIEF FOR PLAINTIFF-APPELLANT

RICHARD DANNAY
THOMAS KJELLBERG
COWAN, LIEBOWITZ & LATMAN, P.C.
Attorneys for Plaintiff-Appellant
1133 Avenue of the Americas
New York, New York 10036
(212) 790-9200

TABLE OF CONTENTS

INTRODUCTION 1

I. American Buddha’s Position is Contrary to the Legislature’s Intent as Set Forth in the Legislative History 3

II. *DiStefano v. Carozzi* Sets the Proper Standard 5

A. The District Court’s Holding Here is Contrary to the District Court’s Own Construction of *DiStefano* 8

III. Penguin’s Injury Is Not Comprised Solely of Financial Consequences in New York Due to Penguin’s Location in New York 10

IV. Penguin Was Not Required to Show Lost Sales in New York 13

V. American Buddha’s Citations of Authority Are Inaccurate and Inapposite ... 16

VI. The District Court Erroneously Failed to Construe the Pleadings and Affidavits in the Light Most Favorable to Plaintiff 24

VII. American Buddha Has Not Rebutted Penguin’s Jurisdictional Allegations, Which Are Sufficient to Defeat American Buddha’s Motion 26

CONCLUSION 29

TABLE OF AUTHORITIES

Cases

<i>Am. Network, Inc. v. Access Am./Connect Atlanta, Inc.</i> , 975 F. Supp. 494 (S.D.N.Y. 1997).....	14
<i>Andy Stroud, Inc. v. Brown</i> , 2009 U.S. Dist. LEXIS 18725 (S.D.N.Y. Mar. 4, 2009).....	17, 25
<i>Art Leather Mfg. Co. v. Albumx Corp.</i> , 888 F. Supp. 565 (S.D.N.Y. 1995)	17
<i>Blumenthal v. U.S. DOI</i> , 228 F.3d 82, 89 (2d Cir. 2000)	4
<i>Capitol Records, LLC v. VideoEgg, Inc.</i> , 611 F. Supp. 2d 349 (S.D.N.Y. 2009).....	6
<i>Christopher Phelps & Assocs., L.L.C. v. Galloway</i> , 492 F.3d 532 (4th Cir. 2007)	11
<i>Connecticut Nat’l Bank v. Germain</i> , 503 U.S. 249 (1992).....	4
<i>Cutco Indus., Inc. v. Naughton</i> , 806 F.2d 361 (2d Cir. 1986)	25
<i>Design Tex Group, Inc. v. U.S. Vinyl Mfg. Corp.</i> , 2005 U.S. Dist. LEXIS 2143 (S.D.N.Y. Feb 14, 2005)	passim
<i>Energy Brands, Inc. v. Spiritual Brands, Inc.</i> , 571 F. Supp. 2d 458, 468 (S.D.N.Y. 2008).....	14, 23, 27
<i>Erickson v. Pardus</i> , 551 U.S. 89 (2007)	24
<i>Fantis Foods, Inc. v. Standard Importing Co., Inc.</i> , 49 N.Y.2d 317 (1980).....	13, 14
<i>Fifth Ave. of Long Island Realty Assocs. v. Caruso Mgmt. Co.</i> , 2009 U.S. Dist. LEXIS 13369 (E.D.N.Y. Feb. 17, 2009)	6, 15, 21
<i>Freeplay Music, Inc. v. Cox Radio, Inc.</i> , 2005 U.S. Dist. LEXIS 12397 (S.D.N.Y. June 23, 2005).....	9, 18, 20, 25
<i>LaMarca v. Pak-Mor Mfg. Co.</i> , 95 N.Y.2d 210, 713 N.Y.S.2d 304 (N.Y. 2000)	26
<i>Lehigh Valley Industries, Inc. v. Birenbaum</i> , 527 F.2d 87 (2d Cir. 1975)	16
<i>Marvel Characters v. Simon</i> , 310 F.3d 280 (2d Cir. 2002).....	4

<i>McGraw-Hill Cos. v. Ingenium Techs. Corp.</i> , 375 F. Supp. 2d 252 (S.D.N.Y. 2005).....	passim
<i>Mfg. Tech., Inc. v. Kroger Co.</i> , 2006 U.S. Dist. LEXIS 90393 (S.D.N.Y. 2006).....	7
<i>New York Trans Harbor LLC v. Derektor Shipyards Conn., LLC</i> , 19 Misc. 3d 1134A; 862 N.Y.S.2d 809 (Sup. Ct. Kings County 2008).....	1
<i>Rolls-Royce Motors, Inc. v. Charles Schmitt & Co.</i> , 657 F. Supp. 1040 (S.D.N.Y. 1987).....	9
<i>Royalty Network, Inc. v. Dishant.com, LLC</i> , 2009 U.S. Dist. LEXIS 65394 (S.D.N.Y. July 29, 2009).....	7, 8, 26, 27
<i>Sardi's Restaurant Corp. v. Sardie</i> , 755 F.2d 719 (9th Cir. 1985).....	11
<i>Savage Universal Corp. v. Grazier Constr., Inc.</i> , 2004 U.S. Dist. LEXIS 16088 (S.D.N.Y. Aug. 12, 2004).....	passim
<i>Sung Hwan Co., Ltd. v. Rite Aid Corp.</i> , 7 N.Y.3d 78 (2006).....	16
<i>Warner Bros. Entm't Inc. v. RDR Books</i> , 575 F. Supp. 2d 513 (S.D.N.Y. 2008).....	11
<i>Wiwa v. Royal Dutch Petroleum Co.</i> , 226 F.3d 88, 99 (2d Cir. 2000).....	2, 12
Statutes	
17 U.S.C. § 502.....	10
17 U.S.C. § 504.....	15
CPLR § 301.....	2, 12
CPLR § 302(a)(1).....	2, 21
CPLR § 302(a)(3)(ii).....	passim
Legislative History	
Memorandum of Judicial Conference, 1966 McKinney's Session Laws of NY.....	19
Report of Register of Copyrights on General Revision of U.S. Copyright Law, House Comm. on Judiciary, 87th Cong. (1961).....	15
Rules	
Fed. R. Civ. P. 8.....	24

INTRODUCTION

The sole provision at issue on this appeal is CPLR 302(a)(3)(ii), which authorizes New York courts to exercise personal jurisdiction over a nondomiciliary who “commits a tortious act without the state causing injury to person or property within the state ... if he ... expects or should reasonably expect the act to have consequences in the state and derives substantial revenue from interstate or international commerce.”

American Buddha does not direct its argument to personal jurisdiction under CPLR 302(a)(3)(ii), however. Instead, American Buddha haphazardly argues “facts” and misapplies case law relevant only to other provisions of the CPLR not at issue here. American Buddha’s off-the-mark argument is not unprecedented in the intricate jurisprudence of personal jurisdiction under the CPLR, *see, e.g., New York Trans Harbor LLC v. Derektor Shipyards Conn., LLC*, 19 Misc. 3d 1134A; 862 N.Y.S.2d 809 (Sup. Ct. Kings County 2008) (“[defendant’s] argument that [plaintiff] has failed to establish that it is doing business in New York pursuant to CPLR 301 and 302 is without moment as that is not the basis for the exercise of long-arm jurisdiction applicable here.”); it is futile nonetheless.

It is, for example, entirely irrelevant on this appeal that American Buddha allegedly has “no real estate, personal property, bank accounts, personnel[,] business associates or business activities in New York,” or “has never used hosting

or Internet services based in New York.” Brief for Defendant-Appellee (“Opp. Br.”) 4. Such indicia may be relevant to determining the propriety of personal jurisdiction under CPLR 301 or CPLR 302(a)(1). *See, e.g., Wiwa v. Royal Dutch Petroleum Co.*, 226 F.3d 88, 99 (2d Cir. 2000) (“In assessing whether [general] jurisdiction [under CPLR 301] lies ..., both this court and the New York courts have focused on a traditional set of indicia: ... whether the company has an office ... bank accounts or other property ... a phone listing ... does public relations work ... and ... has individuals permanently located in the state to promote its interests.”). None of those factors is relevant to jurisdiction under CPLR 302(a)(3).

American Buddha’s assertion that “Penguin’s opposition ... did not ... allege[] that the availability of *Oil!*, *It Can’t Happen Here*, or *The Golden Ass* on naderlibrary.com had led to infringements of copyright in New York,” Opp. Br. 4, shows that American Buddha misunderstands the history, purpose and function of CPLR 302(a)(3). “Infringements in New York” are exactly what is not required; what is required is injury to the plaintiff in New York caused by defendant’s out-of-state acts of infringement.

The venerable *Zippo* “sliding scale of interactivity” for websites is immaterial to the present inquiry, not because the transformation of society by

digitization and the Internet has no bearing on personal jurisdiction, as American Buddha believes, Opp. Br. 9-10, but because the *Zippo* “interactivity scale” has little or no relevance to the propriety of personal jurisdiction under CPLR 302(a)(3)(ii).¹

I. American Buddha’s Position is Contrary to the Legislature’s Intent as Set Forth in the Legislative History

American Buddha fails completely to address the legislative history of the statute, and claims it is “irrelevant,” Opp. Br. 16—the position invariably taken by a party whose position is contrary to the legislative history. The legislative history of CPLR 302(a)(3), *see* Penguin Main Brief at 16-24, is in fact highly relevant. The existence of opposing interpretations of CPLR 302(a)(3), whereby identical facts produce different results depending on the theory to which the court happens to subscribe, is a strong indication that the statutory language is ambiguous. And, “[w]hen the terms of a statute are ambiguous ... we may seek guidance in the

¹ American Buddha states with approval that the District Court “steered clear of interpolating special rules for the information age.” Opp. Br. 8. However, cases such as *Design Tex, McGraw-Hill* and *Royalty Network* have not applied special rules for the information age in determining the “situs of injury” in intellectual property cases. Indeed, the District Court below made the same determination in *Savage Universal*, after noting that the *Zippo* factors do not comprise a “separate framework for analyzing internet-based jurisdiction, and traditional statutory and constitutional principles continue to apply.” *Savage Universal*, 2004 U.S. Dist. LEXIS 16088, *26.

legislative history and purpose of the statute.” *Marvel Characters v. Simon*, 310 F.3d 280, 290 (2d Cir. 2002) (quoting *Connecticut Nat’l Bank v. Germain*, 503 U.S. 249, 254 (1992)). Courts do so to “construct an interpretation that comports with the statute’s primary purpose and does not lead to anomalous or unreasonable results.” *Id.* (quoting *Blumenthal v. U.S. DOI*, 228 F.3d 82, 89 (2d Cir. 2000)).

Accordingly, in *Sybron Corp. v. Wetzel*, 46 N.Y.2d 197 (1978), the New York Court of Appeals, in expanding the application of CPLR 302(a)(3) to commercial torts such as intellectual property infringement, sought guidance from the legislative history, noting that “the statute should be read with the breadth it easily carries, and the unqualified legislative enactment respected.” *Id.* at 205.

The contending lines of cases interpreting the New York long-arm statute lead to results that are anomalous, unreasonable, and worse, apparently arbitrary, for plaintiffs and defendants alike. This Court should resolve the conflict so as to effect the statute’s remedial purpose, to protect and broaden the rights of injured New York residents, *see* Penguin Main Brief 16-17, and to resolve the single disputed issue (situs of injury) to give guidance to litigants and avoid more district court motions, conflicting results, and appeals.

II. *DiStefano v. Carozzi* Sets the Proper Standard

In *DiStefano v. Carozzi*, 286 F.3d 81 (2d Cir. 2001), this Court reversed a district court's grant of the defendant's motion to dismiss for lack of personal jurisdiction. The plaintiff, a citizen and resident of New York, was hired as vice president for marketing and sales by the defendant, a Delaware corporation with its only office in Rhode Island, and no property or assets in New York. DiStefano worked from his office in New York City, where he resided. DiStefano was fired from his job at a meeting held in New Jersey. DiStefano sued in diversity in the Eastern District of New York, claiming his employment was unlawfully terminated because of his Italian origin.

The district court held that personal jurisdiction did not exist under CPLR 301, 302(a)(1) and 302(a)(2), as well as CPLR 302(a)(3); DiStefano, however, appealed only the holding as to the latter provision. This Court found that the *DiStefano* district court, like the District Court here, erred in applying the "situs-of-injury" test. Specifically, the court erred in its identification of the "original event":

The district court held that "the original event that caused plaintiff's injury could be construed as either the plaintiff's termination (which occurred in New Jersey) or the stockholders' bias," on which the record is silent as to location or relationship to New York. These two acts, more accurately described as the execution of the decision to terminate

DiStefano and the making of the decision itself, constitute the “tortious act without the state” contemplated by the statute, and not the “original event which caused the injury” to DiStefano.

DiStefano, 286 F.3d at 85. The “original event” instead was “DiStefano’s experience of being removed from his job.” *Id.* DiStefano, who resided and performed his employment duties in New York, “experienced the ‘first effect’ of losing his job in New York, even though he was fired in New Jersey.” *Id.* This Court concluded:

In sum, we hold that since DiStefano’s employment took place in New York, the “original event which caused the injury” occurred in New York. Therefore, New York constitutes the “situs of injury” for § 302(a)(3) purposes in this case.

Id.

New York courts have correctly applied the “situs of injury” test in numerous intellectual property cases, locating the “original event” that injures a New York author or intellectual property owner in New York, where the author or owner resides, works, and holds the intellectual property. Such parties necessarily experience the “first” and all subsequent effects of infringement in New York, where they live and conduct their business. *See Capitol Records, LLC v.*

VideoEgg, Inc., 611 F. Supp. 2d 349 (S.D.N.Y. 2009); *Fifth Ave. of Long Island Realty Assocs. v. Caruso Mgmt. Co.*, 2009 U.S. Dist. LEXIS 13369 (E.D.N.Y. Feb. 17, 2009); *Mfg. Tech., Inc. v. Kroger Co.*, 2006 U.S. Dist. LEXIS 90393 (S.D.N.Y.

Dec. 13, 2006); *McGraw-Hill Cos. v. Ingenium Techs. Corp.*, 375 F. Supp. 2d 252 (S.D.N.Y. 2005); *Design Tex Group, Inc. v. U.S. Vinyl Mfg. Corp.*, 2005 U.S. Dist. LEXIS 2143 (S.D.N.Y. Feb 14, 2005); *Savage Universal Corp. v. Grazier Constr., Inc.*, 2004 U.S. Dist. LEXIS 16088 (S.D.N.Y. Aug. 12, 2004).

While this appeal was pending, another New York court correctly located the “situs of injury” in an intellectual property case. In *Royalty Network, Inc. v. Dishant.com, LLC*, 2009 U.S. Dist. LEXIS 65394 (S.D.N.Y. July 29, 2009) (Stein, J.), the plaintiff was the New York administrator for an Indian music company. The defendant was a Virginia web company that permitted users, free of charge, to “create and save personal preferences such as play lists” and to play and download musical content, including content in which the plaintiff owned exclusive copyright rights.

As to CPLR 302(a)(3)(ii), the court found that the plaintiff

validly pleads the second element—i.e. , injury within the state of New York—because “the tort of copyright infringement causes injury in the state where the allegedly infringed intellectual property is held.”

Royalty Network, 2009 U.S. Dist. LEXIS 65394, * 29 (quoting *McGraw-Hill*, 375 F. Supp. 2d at 256, and citing *Design Tex*, 2005 U.S. Dist. LEXIS 2143, at *4).

The court found that

Royalty, as the American assignee of Saregama's copyright interests, holds those interests in New York where it is based, and therefore, for purposes of this litigation, plaintiff validly pleads out-of-state tortious conduct causing injury in New York.

2009 U.S. Dist. LEXIS 65394, *30.

However, the District Court below, like the district court in *DiStefano*, confused the site of the tortfeasor's infringement—the “tortious acts without the state” under the statute—with the location of the “original event which caused the injury”: New York, where Penguin resides and conducts business, and where it experienced the “first effects” of American Buddha's infringing acts.

A. The District Court's Holding Here is Contrary to the District Court's Own Construction of *DiStefano*

American Buddha should not be “baffled,” Opp. Br. 8, by the contention that in this case the District Court “declined ... to follow” *DiStefano*. In *Savage Universal* the District Court expressly followed *DiStefano*, noting:

The Second Circuit has held that, in order to be subject to jurisdiction under this ‘tortious injury’ provision of the CPLR, the ‘first effect’ of the tortious act must be felt by the plaintiff in New York. *DiStefano v. Carozzi North America, Inc.*, 286 F.3d 81, 84-85 (2d Cir. 2001) (New York plaintiff fired by out-of-state employer satisfies ‘first effects’ test; although tortious act of wrongful discharge took place outside New York, injury of job loss was felt by plaintiff in New York, where plaintiff lived and had performed job duties).”

2004 U.S. Dist. LEXIS 16088, *24-25 (emphasis added). The District Court then applied *DiStefano* to hold that

Savage Universal has presented sufficient allegations that the alleged infringement caused injury within New York, as the 'first effects' of trademark infringement or dilution are typically felt where the trademark owner resides and conducts business

....

Id., *30. The District Court readily found that the corporate plaintiff "felt" the effects of infringement where it resided and conducted business. In the present case, however, the District Court, while citing generally to *DiStefano*, followed instead its own opinion in *Freeplay Music, Inc. v. Cox Radio, Inc.*, 2005 U.S. Dist. LEXIS 12397 (S.D.N.Y. June 23, 2005), which in turn followed *Rolls-Royce Motors, Inc. v. Charles Schmitt & Co.*, 657 F. Supp. 1040, 1042 (S.D.N.Y. 1987), to hold that "the original event"—and the "first effects"—"will usually be located where the critical events associated with the dispute took place." Opinion and Order ("O&O") 4, A-204. In an unexplained about-face from *Savage Universal*, the District Court held that "in cases of injury caused by infringement of intellectual property, the intellectual property owner suffers injury where the infringement occurs." O&O 5, A-205.

III. Penguin's Injury Is Not Comprised Solely of Financial Consequences in New York Due to Penguin's Location in New York

The District Court's statement that Penguin "bases its claim of injury solely on the economic effect of an injury inflicted by defendant elsewhere," O&O 8, A-208, and American Buddha's echoing contentions that "Penguin's claim was based solely on the economic effect of an alleged injury caused by American Buddha's actions in Oregon and Arizona, and not on any injury occurring in New York," Opp. Br. 6, 5, 14, are simply wrong. The injury for which Penguin seeks relief is not limited to financial loss, but specifically includes irreparable injury for which no adequate remedy at law exists. The Complaint states

1. In this action Penguin seeks preliminary and permanent injunctive relief and damages arising out of American Buddha's willful infringement of Penguin's exclusive rights in the novels *Oil!* by Upton Sinclair and *It Can't Happen Here* by Sinclair Lewis; and the new translation by E. J. Kenney of *The Golden Ass* by Apuleius.

...

29. American Buddha's acts have irreparably damaged and, unless enjoined, will continue to irreparably damage Penguin.

30. Penguin has no adequate remedy at law for these wrongs and injuries.²

² The Copyright Act expressly provides for injunctive relief; a district court "may ... grant temporary and final injunctions on such terms as it may deem

(footnote continued on following page)

See A-5, A-9; *see also, e.g., Christopher Phelps & Assocs., L.L.C. v. Galloway*, 492 F.3d 532, 544 (4th Cir. 2007) (“Irreparable injury often derives from the nature of copyright violations, which deprive the copyright holder of intangible exclusive rights.”); *Sardi’s Restaurant Corp. v. Sardie*, 755 F.2d 719, 724 (9th Cir. 1985) (injury to the “business, profits or reputation of the plaintiff” creates “a possibility of irreparable injury.”); *Warner Bros. Entm’t Inc. v. RDR Books*, 575 F. Supp. 2d 513, 552 (S.D.N.Y. 2008) (infringing book would cause “irreparable injury to [J.K.] Rowling as a writer. . . . it would destroy her ‘will or heart to continue with [writing her own] encyclopedia.’”). To the extent that a plaintiff must allege injury “more direct” than financial loss, *see infra* § IV, Penguin alleged it.

It appears beyond reasonable dispute that the first effects, and indeed all effects, of such business, reputational and other non-quantifiable injury to an intellectual property owner are “felt” by the owner where it resides, conducts its business and holds the intellectual property—irrespective of whether they are

reasonable to prevent or restrain infringement of a copyright.” 17 U.S.C. § 502(a). An injunction such as the one Penguin seeks here “shall be operative throughout the United States and shall be enforceable, by proceedings in contempt or otherwise, by any United States court having jurisdiction of [the infringer].” 17 U.S.C. § 502(b).

“felt” by the owner in the out-of-state locale in which the precipitating tort was committed.

In *Sybron Corp. v. Wetzel*, 46 N.Y.2d 197 (1978), the New York Court of Appeals expressly held that jurisdiction under CPLR 302(a)(3)(ii) was available to plaintiffs seeking anticipatory injunctive relief; indeed, it would be “unacceptable” if CPLR 302(a)(3) were not “usable by a plaintiff seeking anticipatory injunctive relief” against an out-of-state tortfeasor. *Id.* at 204.

The statute should be usable by Penguin to seek relief for the injury inflicted upon it—which does not consist “solely o[f] the economic effect of an injury inflicted by defendant elsewhere.” Opp. Br. 5.³

³ American Buddha’s quotation, Opp. Br. 13, of *Wiwa v. Royal Dutch Petroleum Co.*, 226 F.3d 88, 98 (2d Cir. 2000), for the proposition that “the central question is whether the defendant (or its agent) behaved in such a way so as to encourage others to spend money (or otherwise act) in a manner that would benefit the defendant” is inapt because, like most of American Buddha’s authorities, it is addressed to a different provision of the CPLR than the one at issue here (CPLR 301).

Nor does *Wiwa* support American Buddha’s ensuing contention, that Penguin “fails to establish how, by offering [Penguin’s copyrighted] literary works without charge ... American Buddha reaps some financial benefit” Opp. Br. 13. American Buddha’s solicitation of “members,” *see* Penguin Opening Brief at 47-48; ADD-1, meets the definition in *Wiwa*, under which “benefit” to the soliciting defendant, like injury to the plaintiff, is not limited to economic gain or loss, but may consist of encouraging others to “otherwise act” in a manner beneficial to defendant.

IV. Penguin Was Not Required to Show Lost Sales in New York

The District Court found that Penguin's position is "unsustainable" because "Penguin does not allege that any infringement occurred in New York." O&O 5, A-205. The District Court cited *Fantis Foods, Inc. v. Standard Importing Co., Inc.*, 49 N.Y.2d 317, 326 (1980), for the proposition that "jurisdiction ... must be based upon a more direct injury within the State and a closer expectation of consequences within the State than the indirect financial loss resulting from the fact that the injured person resides or is domiciled there." O&O 5, A-205.

The facts and the posture of the parties in *Fantis Foods* are far removed from the present case. *Fantis Foods* was an action for lost profits brought by a New York entity against a Greek exporter, based on alleged conversion of the buyer's tangible goods, which occurred while the goods were either in Greece or on the high seas en route to Chicago, their ultimate destination. The only connection between the conversion and any injury or foreseeable consequences in New York was the fact that the buyer was incorporated and maintained offices here. The New York Court of Appeals held in *Fantis Foods* that allegations of "indirect financial loss" in New York, based solely on the fact that the injured party resides here, do not sufficiently allege injury to person or property within the state under CPLR 302(a)(3)(ii). 49 N.Y.2d at 326-27.

As shown above, Penguin’s injury from American Buddha’s infringement is far more direct, and is expressly not limited to financial loss. The “more direct injury” that must have occurred within New York under *Fantis Foods* “has long been interpreted to include ‘harm to a business in the New York market through lost sales or lost customers.’” *Energy Brands, Inc. v. Spiritual Brands, Inc.*, 571 F. Supp. 2d 458, 468 (S.D.N.Y. 2008), quoting *Am. Network, Inc. v. Access Am./Connect Atlanta, Inc.*, 975 F. Supp. 494, 497 (S.D.N.Y. 1997). In an intellectual property case, moreover, “the injury requirement is satisfied by harm and threatened harm resulting from actual or potential confusion and deception of internet users in New York State.” *Id.* (citing *Pitbull Prods., Inc. v. Universal Netmedia, Inc.*, 2008 U.S. Dist. LEXIS 30633 (S.D.N.Y. Apr. 4, 2008)).

American Buddha goes even further astray when it asserts that “Penguin presented no evidence whatsoever of even the most trivial economic injury—not a single sale had been shown to be lost.” Opp. Br. 14. Nothing requires that it do so; indeed, under the Copyright Act a plaintiff is not required to prove economic injury even at the damages stage. The Copyright Act provides that

the copyright owner may elect, at any time before final judgment is rendered, to recover, instead of actual damages and profits, an award of statutory damages for all infringements involved in the action, with respect to any one work ... in a sum of not less than \$750 or more than \$30,000 as the court considers just.

17 U.S.C. § 504(c)(1).⁴ It would be preposterous to require a showing of actual damages, or even “a single lost sale,” at the pleading stage, prior to any discovery. There is no such requirement under the Copyright Act or the CPLR. *See, e.g., Fifth Ave.*, 2009 U.S. Dist. LEXIS 13369, *35-36 (“For purposes of this motion, Plaintiff is not required to prove that it was actually injured. Rather, the issue is where the alleged injury occurred, not whether it occurred. Plaintiff’s ability, or

⁴ The considerations that underlay Congress’s enactment of the statutory damages provision include:

The value of a copyright is, by its nature, difficult to establish, and the loss caused by an infringement is equally hard to determine. As a result, actual damages are often conjectural, and may be impossible or prohibitively expensive to prove.

In many cases, especially those involving public performances, the only direct loss that could be proven is the amount of a license fee. An award of such an amount would be an invitation to infringe with no risk of loss to the infringer.

The actual damages capable of proof are often less than the cost to the copyright owner of detecting and investigating infringements.

An award of the infringer’s profits would often be equally inadequate. There may have been little or no profit, or it may be impossible to compute the amount of profits attributable to the infringement. Frequently the infringer’s profits will not be an adequate measure of the injury caused to the copyright owner.

Report of Register of Copyrights on General Revision of U.S. Copyright Law, House Comm. on Judiciary, 87th Cong., 102-03 (1961).

Those factors, which could have been written with this case in mind, also illustrate why requiring a copyright infringement plaintiff to show lost sales or other actual damages at the pleading stage is unacceptable.

lack thereof, to demonstrate actual injury goes to the merits of Plaintiff's claims and will no doubt be the subject of further motion practice in this case."); *Sung Hwan Co., Ltd. v. Rite Aid Corp.*, 7 N.Y.3d 78, 85 (2006) ("In *Sybron*, this Court held that a tortious act committed out of state that was likely to cause injury through loss of business in state was sufficient to satisfy personal jurisdiction regardless of whether damages were ascertainable or likely recoverable.") (emphasis added).

V. American Buddha's Citations of Authority Are Inaccurate and Inapposite

American Buddha's citations of authority, virtually without exception, relate to fact patterns and statutory provisions not at issue here, and misunderstand the single provision that is at issue.

American Buddha cites *Lehigh Valley Industries, Inc. v. Birenbaum*, 527 F.2d 87 (2d Cir. 1975), "for the principle that injury must be directly caused by tortious activity." Opp. Br. 15. In *Lehigh Valley* jurisdiction failed because the plaintiffs were not the parties injured: "The direct injury here is of course to Ornament, a Massachusetts corporation not doing business in New York." *Id.* at 94. The facts and holding of *Lehigh Valley* have no bearing on this case. It is undisputed that Penguin is resident, domiciled, conducts its business, and was injured in New York.

Art Leather Mfg. Co. v. Albumx Corp., 888 F. Supp. 565 (S.D.N.Y. 1995), Opp. Br. 15, turned on issues of “proximate cause” not present here. In *Art Leather* plaintiff claimed that defendant’s photograph albums infringed plaintiff’s patent. *Id.* at 566. The defendant sold the albums “through a network of twelve distributors, one of which ... sold the album to New York customers.” The court applied “common sense” and the familiar “floodgates” concern (*see* Penguin Main Brief at 22-24) to find:

the New York statute cannot mean “but for” cause when it refers to acts causing injury within the state. If it did, the New York courts would be deluged with issues of remote, tangential and inconsequential causes of injuries suffered here. Some rule of reason must have been contemplated: the understanding must have been the familiar one of proximate cause.

Id. at 568. The court found that “the sales in Illinois did not proximately cause the sales in New York.” *Id.* *Art Leather* is of no moment in resolving the present case.

The court in *Andy Stroud, Inc. v. Brown*, 2009 U.S. Dist. LEXIS 18725 (S.D.N.Y. Mar. 4, 2009), could not have been clearer: “As Plaintiffs are located in New York, under the test articulated in *McGraw-Hill* and *Design Tex*, the injury resulting from Brown’s allegedly tortious conduct necessarily was felt in New York.” American Buddha’s contention that “this was not the case,” Opp. Br. 18, because the court found that “Plaintiff has adequately pled a New York injury

under either approach” (i.e., under the *McGraw-Hill-Design Tex-Savage Universal* or the *Freeplay Music* line of cases), is wrong.

Even more peculiar is American Buddha’s argument that the holdings of *McGraw-Hill* and *Design Tex*, acknowledged by the District Court, O&O 5-6, A-205-06, and followed by numerous courts in this district, are *dicta*. To the (limited) extent that “both cases involved significant physical entry of either persons or material into New York in order to transact an infringing sale,” as American Buddha urges, Opp. Br. 19, it is those statements that are *dicta*.

The court in *McGraw-Hill Cos. v. Ingenium Techs. Corp.*, 375 F. Supp. 2d 252 (S.D.N.Y. 2005), denied defendant’s motion to dismiss for lack of personal jurisdiction based solely on CPLR 302(a)(3), holding that “[t]he torts of copyright and trademark infringement cause injury in the state where the allegedly infringed intellectual property is held, in this case New York.” *Id.* at 256. The presence or absence of an infringing sale in New York had no bearing on the court’s decision.

Similarly, the court’s finding of personal jurisdiction in *Design Tex Group, Inc. v. U.S. Vinyl Mfg. Corp.*, 2005 U.S. Dist. LEXIS 2143 (S.D.N.Y. Feb 14,

2005), is in no way premised on an “actual commercial transaction[] consummated in the forum state,” as American Buddha claims, Opp. Br. 19.⁵ To the contrary:

Under New York law, personal jurisdiction does not require that a tort be committed within the state. It is sufficient that the defendant’s tortious act causes “injury to person or property within the state,” the defendant “expects or should reasonably expect the act to have consequences in the state,” and the defendant “derives substantial revenue from interstate or international commerce.” Here, because the plaintiffs (and their intellectual property) are based in New York, the injury is felt within the state no matter where the infringement takes place.

Id., *4 (citing *Sybron*, 46 N.Y.2d at 204) (emphasis added).

There were no infringing sales in New York. Instead, “in response to what purported to be an ordinary purchasing inquiry made by an investigator working for plaintiffs, [defendant’s] employee sent a sample book that included the allegedly infringing pattern to a New York City address.” *Id.*, *2. The *Design Tex* defendant’s furnishing of a free infringing copy at the request of plaintiff’s agent in

⁵ American Buddha again misunderstands that the entire point of CPLR 302(a)(3) is to “broaden New York’s long-arm jurisdiction so as to include non-residents who cause tortious injury in the state by an act or omission without the state.” Memorandum of Judicial Conference, 1966 McKinney’s Session Laws of NY, at 2911. To require an act within the state for jurisdiction to be found under CPLR 302(a)(3) would defy logic and undo the Legislature’s intent, for “a tortious act within the state” would have conveyed jurisdiction under CPLR 302(a)(2). It was precisely CPLR 302(a)(2)’s requirement of an “act within the state” that prompted the Legislature to add CPLR 302(a)(3) to the statute. *See Penguin Main Brief* at 16-17.

New York cannot meaningfully be distinguished from the downloading of free pirate copies of Penguin's books from American Buddha's website by Penguin's New York counsel, *see* Kjellberg Decl. ¶ 8, A-51, which the District Court found to be of no moment. O&O 2, A-202.

It is thus striking that when the court in *Andy Stroud* found, in the alternative, that plaintiffs alleged injury in New York even under the *Freeplay Music* "line of cases", it was because one of the plaintiffs "allege[d] that he purchased one ... allegedly infringing item himself. Thus, unlike in *Freeplay Music*, Plaintiffs have alleged unlicensed use and access of infringing works in New York." 2009 U.S. Dist. LEXIS 18725, *22-23.

American Buddha's attempt to distinguish the District Court's *Savage Universal* opinion is entirely unpersuasive. American Buddha asserts that *Savage Universal* is inapposite because "[t]he District Court found, *inter alia*, that 'the entire purpose of [defendant's] activity appears to have been to damage [the plaintiff's] reputation and business.'" Opp. Br. 20. American Buddha does not explain how that language distinguishes *Savage Universal* as to CPLR 302(a)(3), and it does not.

In *Savage Universal* the defendants were "the sole officer, owner and employee of several Oregon corporations" and the "various corporate defendants

of which Grazier is principal.” The alleged torts of infringement were committed in Oregon, and it was “unclear whether plaintiff can meet its burden to establish a *prima facie* case of ‘transacting business’ under CPLR 302(a)(1).” *Id.*, *28.

However, under the provision at issue here, CPLR 302(a)(3), the District Court found that defendant’s cybersquatting and trademark infringement “qualifie[d] as a ‘tortious act’ without the state, which has caused harm within the state.” *Id.*, *29.

Savage Universal’s finding with respect to where the “first effects” of infringement are “felt” has nothing to do with the defendant’s motivation in committing the tort; rather, it is squarely in line with *DiStefano*, *McGraw-Hill* and

Design Tex:

Although the mere operation of a website containing or using others’ trademarks does not constitute a tort anywhere the site can be viewed, *Savage Universal* has presented sufficient allegations that the alleged infringement caused injury within New York, as the “first effects” of trademark infringement or dilution are typically felt where the trademark owner resides and conducts business, and can include injury in the form of damage to goodwill, lost sales, or lost customers.

Id., *29-30 (emphasis added). If the infringement alleged here is not “typical,” the District Court did not explain how.

American Buddha again applies the wrong statute with respect to *Fifth Ave. of Long Island Realty Assocs. v. Caruso Mgmt. Co.*, 2009 U.S. Dist. LEXIS 13369 (E.D.N.Y. Feb. 17, 2009), *Opp. Br. 20*. The *Fifth Avenue* defendant’s opening of a

New York office was not “dispositive” as to long-arm jurisdiction, as American Buddha claims, Opp. Br. 20. Even as to general jurisdiction (not at issue here), the court found that “Defendant’s maintenance of the office space ... without more is insufficient to constitute doing business in New York ... under CPLR 301.” *Id.*, *27.

However, in finding jurisdiction to be proper under CPLR 302(a)(3)(ii), the provision relevant here, the *Fifth Avenue* court’s “situs of injury” analysis followed the *DiStefano* and *Savage Universal*—and *McGraw-Hill* and *Design Tex*—line of cases without reservation:

The Second Circuit has held that “the ‘original event’ for purposes of § 302(a)(3) occurs where ‘the first effects of the tort that ultimately produced the final economic injury is located.’” *Panacea Solutions, Inc.*, 2006 U.S. Dist. LEXIS 79645, at *5 (quoting *DiStefano v. Carozzi North America, Inc.*, 286 F.3d 81, 84 (2d Cir. 2001)). “In trademark cases, the ‘first effects’ of trademark infringement or dilution ‘are typically felt where the trademark owner resides and conducts business.’” *Id.* (quoting *Savage Universal Corp. v. Grazier Constr., Inc.*, 2004 U.S. Dist. LEXIS 16088, at *9 (S.D.N.Y. Aug. 12, 2004)); *see also McGraw-Hill Companies, Inc. v. Ingenium Technologies Corporation*, 375 F. Supp. 2d 252, 256 (S.D.N.Y. 2005); *Design Tex Group, Inc. v. U.S. Vinyl Manufacturing Corp.*, 2005 U.S. Dist. LEXIS 2143 (S.D.N.Y. Feb. 14, 2005). In the instant case, the trademark owner resides and conducts business in New York, making New York the locus of the economic injury.

2009 U.S. Dist. LEXIS 13369, *31. The purportedly “dispositive fact ... that defendant had announced to the New York real estate world that it had ... opened an office in New York ...,” Opp. Br. 20, was dispositive of nothing, and played no part in the court’s determination under § 302(a)(3). It was relevant only to the court’s consideration of the propriety of jurisdiction under the Due Process Clause, as to which the court noted that

as a practical matter, the Due Process Clause permits the exercise of jurisdiction in a broader range of circumstances of N.Y. C.P.L.R. § 302, and a foreign defendant meeting the standards of § 302 will satisfy the due process standard.

Id. at 37 (quoting *Energy Brands*, 571 F. Supp. 2d at 468); see Penguin Main Brief at 45-54.

American Buddha repeats its error in its citation of *Sterling Nat’l Bank & Trust Co. v. Fidelity Mortg. Investors*, 510 F.2d 870, 873 (2d Cir. 1975), for a purported rule that “[i]n a hearing on personal jurisdiction ‘[t]he proper inquiry ... is “whether looking at ‘the totality of the defendant’s activities within the forum,’ purposeful acts have been performed in New York”” Opp. Br. 25. *Sterling* set forth no such general rule; the words elided by American Buddha show that this Court was stating “[t]he proper inquiry in a case such as this”; i.e., one in which “[t]he sole jurisdictional question is whether [defendant] transacted any business in New York so as to bring it within the reach of New York’s long-arm statute,

NYCPLR 302(a)(1).” *Id.* at 872 (emphasis added). American Buddha’s contention that the defendant’s “activities within the forum” are dispositive as to jurisdiction under CPLR 302(a)(3)(ii) is exactly wrong.

VI. The District Court Erroneously Failed to Construe the Pleadings and Affidavits in the Light Most Favorable to Plaintiff

American Buddha asserts that Penguin’s argument that the District Court did not construe the allegations in the light most favorable to plaintiff propounds a “rule” that “would make Rule 12 motions ... virtually meaningless.” *Opp. Br.* 12. American Buddha is wrong. American Buddha’s citation of Fed. R. Civ. P. 8, which requires that the complaint contain “only ‘a short and plain statement of the claim showing that the pleader is entitled to relief,’” *Erickson v. Pardus*, 551 U.S. 89, 93 (2007), is incongruous; the liberal pleading standard of Rule 8 supports Penguin’s position, not American Buddha’s, which seems to be that required jurisdictional allegations must be recited in so many words.

The District Court found that “Plaintiff ... does not allege that defendant’s activities have resulted in infringement of the copyrights ... by anyone other than defendant, or even that such activity is likely.” *O&O 2, A-202*. However, the record shows that Penguin did not “fail[] to allege the threatened loss of New York customers.” In the complaint Penguin alleged that American Buddha “has engaged in infringing activities that injure plaintiff in this district.” *A-6 (Complaint ¶ 5)*.

And in opposition to American Buddha's 12(b)(2) motion, Penguin averred that its counsel in New York

downloaded from the Naderlibrary.com website complete copies of four literary works in which Penguin owns exclusive publishing rights ... and saved the copies to the hard drive of my office computer There were no technological or other measures in place controlling access to the Penguin works, or any of the copyrighted works of third parties, available on the Naderlibrary.com site.

A-51 (Kjellberg Decl. ¶ 8). Those allegations may readily, and should, be construed to allege the actual and potential loss of customers including New York customers for the Penguin books American Buddha tortiously copies and distributes for free.⁶ The requirement apparently imposed by the District Court that a plaintiff plead "the threatened loss of New York customers" *in haec verba* violates the requirement, on a 12(b)(2) motion, that the pleadings and affidavits be construed in the light most favorable to plaintiff, and all doubts resolved in plaintiff's favor, *Cutco Indus., Inc. v. Naughton*, 806 F.2d 361, 365 (2d Cir. 1986), as well as the spirit of Rule 8.

⁶ As noted above, in *Andy Stroud* the court found that analogous allegations sufficiently pled infringement/injury in New York even under the *Freeplay Music* line of cases. 2009 U.S. Dist. LEXIS 18725, *22-23.

VII. American Buddha Has Not Rebutted Penguin's Jurisdictional Allegations, Which Are Sufficient to Defeat American Buddha's Motion

As set forth in Penguin's Main Brief at 24-41, Penguin has alleged in good faith facts sufficient to make a *prima facie* case of personal jurisdiction under CPLR 302(a)(3)(ii) by an analysis of the totality of the circumstances. American Buddha cannot refute Penguin's *prima facie* showing that (1) American Buddha committed a tortious act outside the state, and the cause of action arose from that act; (2) the act caused injury to a person or property within the state; (3) American Buddha expected or should reasonably have expected the act to have consequences in the state; and (4) American Buddha derives substantial revenue from interstate or international commerce. *LaMarca v. Pak-Mor Mfg. Co.*, 95 N.Y.2d 210, 214, 713 N.Y.S.2d 304 (N.Y. 2000).

Royalty Network, supra, provides additional support for the foreseeability element. The *Royalty Network* court found that in that case

[t]he jurisdictional inquiry breaks down ... with respect to the third element because plaintiff proffers insufficient evidence to support a finding that it was reasonably foreseeable to defendants that their conduct would cause such injury in New York.

Royalty Network, 2009 U.S. Dist. LEXIS 65394, *30. The court's finding is instructive by its contrast to this case, for in *Royalty Network*

there is nothing in the record to indicate defendants had knowledge that a New York company held copyright interests

in any of the music at issue in this action. ... Defendants' website is the home of *Indian* music, providing access primarily to music produced by Indian artists and Indian companies. Thus, while it might be reasonably foreseeable to defendants that operation of their website would cause harm in India ... there is nothing in the record to indicate defendants' knowledge that an American company, let alone a New York company, had been assigned those interests, and thus that harm in New York was a reasonably foreseeable consequence of their conduct.

Id., *31-32. Here, by contrast, each of the Penguin books American Buddha scanned and distributes on its websites contains multiple references to Penguin's location in New York—a fact of which American Buddha, itself a publisher and professed “library,” may reasonably be presumed to be aware.

American Buddha's opposition is replete with misrepresentations apparently intended to rebut Penguin's substantial pre-discovery showing that American Buddha derives substantial revenue from interstate or international commerce. They are belied by the record.⁷

⁷ American Buddha's non-profit status does not immunize it under this factor. *Energy Brands*, 571 F. Supp. 2d at 468 (“There is no bright-line rule regarding when a specific level of revenue becomes substantial for purposes of 302(a)(3)(ii). Courts will instead assess either (1) the percentage of a party's overall revenue derived from interstate commerce, or (2) the absolute revenue generated by a defendant's interstate commerce activities. Each case will, however, be decided on its own unique set of facts. Irrespective of the approach chosen, the main concern is the overall nature of the defendant's business and the extent to which he can fairly be expected to defend lawsuits in foreign forums.”).

American Buddha states that “Penguin submitted no evidence that American Buddha had derived any income from any source” Opp. Br. 17. Penguin in fact submitted evidence that American Buddha is the publisher of at least nine literary works sold on Amazon.com, of which several have an “Amazon.com Sales Rank” in or near the top quarter in sales among the approximately quarter-million Kindle books sold on Amazon.com. *See* A-101, A-107, A-112, A-118, A-123. American Buddha rankly mischaracterizes this unrefuted evidence as “evidence of counsel’s own authorial activities,” Opp. Br. 14, and “opposing counsel’s literary works offered for sale through ... Amazon,” Opp. Br. 23. American Buddha’s attempted misdirection cannot obscure the fact that Penguin has submitted evidence of American Buddha’s commercial publishing activities that is more than sufficient at the present stage to show that American Buddha is far from a “purely local” enterprise, and derives substantial income from interstate commerce.⁸

The record also refutes American Buddha’s contentions that it “has no commercial activities, and there are no links from any of its websites, from which it is possible to make a purchase of any product,” App. Br. 4. A-145-148

⁸ Penguin has not asserted that Charles Carreon is a director of American Buddha, Opp. Br. 3. Public records show Mr. Carreon to be an incorporator, and his spouse and daughter the current and former officers, of American Buddha, whose principal place of business is the Carreons’ residence in Tucson, where Mr. Carreon’s law practice is also located. A-73-83.

(Naderlibrary.com site links users to Amazon.com site where *The Sex.Com Chronicles* may be purchased at retail).

Also false are American Buddha's contentions that "[t]he website does not advertise on other websites anywhere, and specifically does not advertise on websites directed toward New York residents"; and that "[t]he website has never been used to market or sell anything to anyone, and specifically, has never been used to market or sell to anyone in the State of New York," Opp. Br. 4. *See* A-62-67, A-69-71. Moreover, American Buddha's relevant activities are not limited to "the websites," and include the sending of a spam emailing to an undisclosed number of recipients including Penguin's counsel in New York (whose address American Buddha apparently obtained when counsel was perusing "the websites" for this case), promoting a book on which "we have collaborated Click here to buy it on Amazon"; and "inviting" all "Friends of American Buddha" to "Enjoy Your Online Library at Two Locations," to "come visit," and to "spread the word." *See* ADD-1.

CONCLUSION

Penguin has shown (1) American Buddha's tortious activity outside New York, (2) causing injury to Penguin in New York, (3) that was reasonably

foreseeable to American Buddha, which (4) is not merely local, and derives substantial revenue from interstate commerce.

For the reasons given above and in Penguin's Main Brief, the judgment below should be reversed, and American Buddha's motion to dismiss the complaint for lack of personal jurisdiction denied.

Dated: New York, N.Y.
October 9, 2009

Respectfully submitted,

Richard Dannay (rxd@cll.com)
Thomas Kjellberg (txk@cll.com)
COWAN, LIEBOWITZ & LATMAN, P.C.
1133 Avenue of the Americas
New York, New York 10036-6799
(212) 790-9200
Attorneys for Plaintiff-Appellant
Penguin Group (USA) Inc.

Rule 32(a)(7)(C) Certificate

I certify that this brief complies with the type-volume limitation of Federal Rule of Appellate Procedure 32(a)(7)(B) and contains 6,982 words, exclusive of the table of contents and table of authorities, as measured by the word processing system used to prepare it.

Richard Dannay
Attorney for Plaintiff-Appellant

Date: October 9, 2009