CompuServe Inc. v. Patterson, 89 F. 3D 1257 (6th Cir. 1996)

Note: This was a case of first impression for the Sixth Circuit Court of Appeals. The Court stated, "The Internet represents the latest and greatest of these historical, globe-shrinking trends. It enables anyone with the right equipment and knowledge – that is, people like Patterson – to operate an international business cheaply, and from a desktop…. Thus, this case presents a situation where we must reconsider the scope of our jurisdictional reach."[1]

Facts

CompuServe was a proprietary information service network headquartered in Ohio where its main servers were located. Subscribers had access to the Internet and to proprietary information and software products on the CompuServe network. CompuServe and some members authored the software products, called "shareware," available to CompuServe subscribers. End users pay voluntarily for "shareware"; here, the end user paid CompuServe directly and CompuServe, after taking its 15% cut, would remit the balance of the payment to the shareware author.

Patterson, a Texas resident, was a CompuServe subscriber and shareware developer. Patterson entered into a "Shareware Registration Agreement" (SRA) with CompuServe authorizing Patterson to place his shareware on the CompuServe servers in Ohio where other CompuServe subscribers could access that shareware. The SRA incorporated by reference two standardized contracts: (1) the Service Agreement and (2) the Rules of Operation, published on the CompuServe information service. These documents specified that the contract between Patterson and CompuServe was entered into in Ohio and that disputes would be settled in Ohio. Patterson, sitting in Texas before his computer, assented to these terms by typing "Agree" at various points in creating his account.

Between 1991 and 1994, Patterson transmitted electronically 32 master software files to CompuServe. The files were stored on CompuServe's hardware in Ohio and the products descriptions displayed, that is, transferred from CompuServe servers to subscriber clients, to enable subscribers to download and pay for the software. Patterson claimed that he sold $650 worth of software to Ohio residents.

CompuServe developed software that competed with Patterson's. Patterson alleged that the software and product names of that software were unlawfully similar to his products, infringed his marks and constituted deceptive trade practices. In response, CompuServe changed the name of its software. However, Patterson stood on his legal interpretation and demanded a $100,000 settlement of his claims.

[1] The meaning of this statement is ambiguous; its suggestion is debatable. Just because technology levels the playing field must the law of jurisdiction make a paradigm shift to treat the lone and small entrepreneur as it would treat the multi-national corporation? This opening salvo did not bode well for Patterson.

Procedural History

CompuServe filed a declaratory judgment in the federal district court for the Southern District of Ohio demanding a declaration that it had not infringed Patterson's marks and had not violated any trade laws.

Patterson filed a motion to dismiss for lack of jurisdiction. The federal district court dismissed the case based mainly on Patterson's affidavit in support of his motion.

The Sixth Circuit Court of Appeals reversed and remanded the case to the lower court.

Issue

Were Patterson's contacts with Ohio: (1) electronic transmission of files from Texas to Ohio, (2) storage of files on an Ohio server and (3) dissemination of advertisement through a proprietary network based in Ohio support the assertion of specific jurisdiction?

Holding

Yes.

Reasoning

The Court began its analysis with the observation that the world is shrinking due to technological developments that make communication easier over vast distances. The court concluded, "there is less perceived need today for the federal constitution to protect defendants from "inconvenient litigation," because all but the most remote forums are easily accessible for the pursuit of both business and litigation."[2] The court noted, "the Internet represents perhaps the latest and greatest manifestation" of this globe-shrinking trend.

The Ohio long arm statute allowed an Ohio Court to exercise personal jurisdiction over nonresidents on claims arising out of the nonresident's business activities in Ohio consistent with the federal constitution. Since CompuServe based its claim on "specific jurisdiction," the court applied the three-part test: (1) purposeful availment, (2) action must arise out of the nonresident's forum activities and (3) the assertion of jurisdiction ultimately must be fair. It found that facts satisfied the test.

The question of whether a defendant has purposefully availed himself of the privilege of doing business in the forum state is the *sine qua non* for personal jurisdiction. The nonresident must create a substantial connection with the forum to foresee being

[2] Compare Justice Brennan's 1991 dissent in *Carnival Cruise* where he would have found a forum selection clause unenforceable because it would have required a Washington state couple to litigate in Florida against the world's largest cruise-line company.

subject to suit. That does not require physical presence in the forum as demonstrated by *Burger King*.

The court found that Patterson's contacts created a substantial connection with Ohio justifying the assertion of jurisdiction. He entered into a contract providing for the application of Ohio law, purposefully perpetuated his relationship with CompuServe over a period of years, and delivered his software for storage and marketing in Ohio on CompuServe's servers. These factors taken together showed that Patterson, though he physically remained in Texas, conducted business in Ohio. The *de minimus* revenue ($650) derived from conducting business in Ohio did not factor into the Court's decision. Rather, it was the quality of the "contacts" that mattered and the Court, without citing any dollar figure, said Patterson intended to make sales to non-Ohio subscribers.[3] The Court also noted as an additional "contact" factor Patterson's $100,000 settlement demand.

The Court found the cause of action arose from Patterson's activities in Ohio. "Any common law trademark or trade name which Patterson might have in his product would arguably have been created in Ohio, and any violation of those alleged trademarks or trade names by CompuServe would have occurred, at least in part, in Ohio." This followed from the fact that Patterson placed, marketed and sold his software exclusively through the CompuServe Ohio-based system. The declaratory action also arose out of his "threats," made in Ohio, to sue CompuServe.

In determining the question of reasonableness, the Court distinguished Patterson from the ordinary consumer entitled to the consumer protection law normally requiring foreign corporations to sue in the consumer's state. Patterson was an entrepreneur deliberating marketing his software in interstate commerce. The Court also cited Ohio's interest in protecting CompuServe, which stood to lose $10 million in income if Patterson prevailed on his trademark claims. Consequently, despite the burden of conducting foreign litigation, it was reasonable to compel Patterson to defend himself in Ohio

Conclusion

CompuServe is the first case decided by a federal court of appeals dealing with the Internet. However, it is not really an Internet case. The electronic contacts were the equivalent of mail or telephone calls. The storage of digital data on a server was the equivalent of storage of paper documents in a filing cabinet. The advertisement of shareware on CompuServe's proprietary network was the equivalent of print advertisement. Patterson signed a contract providing for the application of Ohio law.

The key factor, and one that permeates subsequent cases, is that the nonresident sought to make a profit using the medium of the Internet. If a nonresident defendant uses the Internet, particularly a Web site, to make money, then the Web site is deemed active subjecting the nonresident to the jurisdiction of the targeted forum.

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[3] Lack of empirical data does not hinder judicial decision-making. E.g., the majority in *Carnival Cruise* stated that standard form contracts lead to lower ticket prices without citing one shred of empirical data.

However, all Web sites are active. They transmit data according to the Open Systems Interface Model. The data starts from the application layer of one computer, drills through the seven layers of the OSI, leaves the computer through its network interface card, travels across wires and routers to reach the network interface card of another computer, rises up through the seven layers of the OSI model to reach the application layer of the destination computer. Even though the recipient may not be able to buy something on the Web site, the recipient is able to identify the origin of the data and send information back to the sender.

Important is the fact that the courts, as did the Court in CompuServe, treat an amateur programmer as it would treat a multi-national corporate software vendor. The logical result of CompuServe is to subject Patterson to suit in any jurisdiction where he obtained financial gain on the ground that he reached out to those forums and deliberately availed himself of the benefits of doing business there.