


EXHIBIT 2 (3)

(Continued)

EXHIBIT A

Benjamin v. KPMG Barbados, Not Reported in N.E.2d (2005)
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 **KeyCite Yellow Flag - Negative Treatment**
Distinguished by *Maui Toys v. Brown*, Ohio App. 7 Dist., February 13, 2014
2005 WL 995589

CHECK OHIO SUPREME COURT RULES FOR REPORTING OF OPINIONS AND WEIGHT OF LEGAL AUTHORITY.

Court of Appeals of Ohio, Tenth District, Franklin County.

Ann H. Womer BENJAMIN, Plaintiff–Appellant,
v.
KPMG BARBADOS et al., Defendants–Appellees.

No. 03AP–1276.
|
April 28, 2005.

Synopsis

Background: Superintendent of Department of Insurance, in her capacity as liquidator of insurance companies, brought negligence action against off-shore accounting firms that provided services to off-shore reinsurers of insurance companies. The Court of Common Pleas, Franklin County, dismissed for lack of personal jurisdiction. Superintendent appealed.

Holdings: The Court of Appeals, Sadler, J., held that:

[1] affidavit did not lay adequate foundation for admission of documents attached to it, and


[2] trial court lacked personal jurisdiction over off-shore accounting firms.

Affirmed.

Procedural Posture(s): On Appeal; Motion to Dismiss.

West Headnotes (2)

[1] **Affidavits**


 Use in evidence


Affidavit by attorney who assisted in the liquidation of Ohio insurance companies failed

to lay an adequate foundation for the documents attached to the affidavit, and thus, the documents were not competent evidence of off-shore reinsurers' contacts with Ohio for purposes of defeating motion to dismiss claims against reinsurers by the Superintendent of the Department of Insurance based on lack of personal jurisdiction, where the affidavit did not establish that attorney had personal knowledge of the circumstances of the preparation, maintenance, and retrieval of the records or of the operation of the business of the insurance companies such that she could reasonably testify that the documents sought to be placed in the record were what they purported to be. R.C. § 2317.40.

7 Cases that cite this headnote

[2] **Courts**

 Insurers and insurance

Off-shore auditing firms that performed audits of off-shore reinsurance companies did not transact business in Ohio in the course of completing its auditing services so as to give Ohio courts personal jurisdiction over firms in negligence action brought by Superintendent of Department of Insurance, even though one firm took three trips to Ohio to collect information over the course of the four years the firm assisted with the off-shore audits, where the firms were located in Bermuda and did not maintain a place of business elsewhere, they were not licensed to do business in Ohio, and they did not market themselves in Ohio.  R.C. § 2307.382(A)(1).

11 Cases that cite this headnote

Appeal from the Franklin County Court of Common Pleas.

Attorneys and Law Firms

Jim Petro, Attorney General; Kegler, Brown, Hill and Ritter, Roger P. Sugarman, John P. Brody, Loriann E. Fuhrer, and Richard W. Schuermann, Jr., special counsel for appellant.



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Squire, Sanders & Dempsey, L.L.P., C. Craig Woods, Pamela H. Thurston, and Kristen J. Brown, for appellee KPMG Bermuda.

Bricker & Eckler, LLP, Randolph C. Wiseman, and Jennifer A. Goaziou, for appellee KPMG Barbados.

OPINION

SADLER, J.

*1 {¶ 1} This is an appeal by plaintiff-appellant, Ann H. Womer Benjamin ("appellant" or "the Liquidator"), Superintendent of the Ohio Department of Insurance, in her capacity as Liquidator of Credit General Insurance Company ("CGIC") and Credit General Indemnity Company ("CGIND"). The Liquidator appeals from a decision and entry of the Franklin County Court of Common Pleas in which that court granted the motions to dismiss, pursuant to Civ.R. 12(B)(2), filed by defendants-appellees, KPMG Barbados and KPMG Bermuda (collectively, "appellees"), two partnerships domiciled in Barbados and Bermuda, British Virgin Islands, respectively. Specifically, the court granted the motions to dismiss because it found that it lacked personal jurisdiction over appellees, which are accounting firms that provided auditing services to several foreign reinsurance companies that had insured some of CGIC and CGIND's risks.

{¶ 2} Appellant filed her complaint on December 11, 2002, and therein alleges that CGIC and CGIND are insurance companies domiciled in Ohio and are wholly owned by PRS Insurance Group, Inc. ("PRS Group"), a holding company whose principal place of business is located in Beachwood, Ohio. The complaint further alleges that PRS Group wholly or partially owns three Barbados-domiciled reinsurers and one Barbados-based insurance holding company (collectively, "the offshore affiliates") with which CGIC and CGIND entered into reinsurance agreements. Pursuant to those agreements, CGIC and CGIND ceded the risks of underlying insurance policies to the offshore affiliates in exchange for premiums paid.

{¶ 3} According to the complaint, the reinsurance agreements required that the offshore affiliates post collateral the value of which was at least equal to the risks for which they were obligated under the reinsurance agreements, so that CGIC and CGIND could take the reinsurance credit on their financial statements without having to increase their own loss

reserves. In paragraph 17 of the complaint, the Liquidator alleges that the offshore affiliates retained appellees to audit each of their financial statements. Both appellees prepared audited financials for each of the offshore affiliates, and KPMG Barbados principals signed and issued the same for the calendar years 1995, 1996, 1997 and 1998. The Liquidator alleges that, throughout the auditing process, appellees exchanged many pieces of correspondence with PRS Group officials located in Beachwood, Ohio, and that appellees sent copies of virtually all audit-related correspondence to a PRS Group representative in Ohio.

{¶ 4} According to the complaint, the offshore affiliates were insolvent by December 31, 1998, and possibly earlier, but that CGIC and CGIND were unaware of the problem because the offshore affiliates had forwarded to CGIC and CGIND copies of the KPMG-audited financials. The Liquidator alleges that CGIC and CGIND reasonably relied on the audited financials and that appellees "were aware and it was specifically foreseen by them" that the audits were being performed for the benefit of, inter alia, CGIC and CGIND, and that the offshore affiliates would supply copies of the financials to those entities for their use, including filing copies thereof with the Ohio Department of Insurance.

*2 {¶ 5} The Liquidator alleges that appellees owed a duty of reasonable care in the preparation and certification of the offshore affiliates' audited financials, not just to the offshore affiliates themselves, but to CGIC and CGIND as well, and that appellees breached this duty in preparing and certifying inaccurate and false financial statements. She further alleges that had CGIC and CGIND earlier been made aware of the insolvency of the offshore affiliates, these Ohio insurance companies could have increased their loss reserves or sought and obtained reinsurance from solvent reinsurers, but, instead, as a direct and proximate result of appellees' negligence, CGIC and CGIND have been damaged by the non-payment by the offshore affiliates of reinsurance claims due to those entities' insolvency and eventual bankruptcy.

{¶ 6} On February 25, 2003, KPMG Bermuda filed its motion to dismiss, arguing the dual grounds of lack of personal jurisdiction, pursuant to Civ.R. 12(B)(2), and failure to state a claim for relief, pursuant to Civ.R. 12(B)(6). KPMG Bermuda attached to its motion the affidavit of Robert D. Steinhoff, who identified himself therein as the Senior and Managing partner at KPMG Bermuda.

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{¶ 7} KPMG Bermuda argued that it had not engaged in activity that could be deemed “transacting business” in Ohio, as that term is used in R.C. 2307.382(A)(1), Ohio’s long-arm statute. It further argued that the exercise of jurisdiction over KPMG Bermuda would offend traditional notions of fair play and justice because of the absence of the “minimum contacts” necessary to pass muster under the Due Process Clause of the Fourteenth Amendment to the United States Constitution. According to KPMG Bermuda, it did not “purposely avail itself” of the privilege of conducting activities in Ohio and it was not reasonably foreseeable to KPMG Bermuda that its auditing services provided in Bermuda to Barbados-based entities would subject it to the jurisdiction of Ohio courts.

{¶ 8} For her response to KPMG Bermuda’s motion, the Liquidator relied primarily upon the affidavit of Kathleen McCain, an attorney retained by the Ohio Department of Insurance to assist with its pre-liquidation efforts to supervise and rehabilitate CGIC and CGIND. Ms. McCain averred that she has continued rendering her services during the liquidation of these two entities, and has served as the custodian of the records thereof since the beginning of the liquidation. Attached to Ms. McCain’s affidavit were over 250 pages of documents that Ms. McCain averred are records of CGIC and CGIND. Ms. McCain detailed, in her affidavit, the nature and content of each such record.

{¶ 9} The Liquidator argued that the materials attached to the McCain affidavit prove that KPMG Bermuda had substantial, purposeful contacts with the State of Ohio. Relying on the McCain documents, she argued that KPMG Bermuda sent at least 25 pieces of correspondence directly to persons in Ohio, and communicated by telephone with persons in Ohio. Also relying on the attachments to the McCain affidavit, the Liquidator argued that KPMG Bermuda personnel knew that CGIC and CGIND were closely integrated with the other PRS-owned entities, including the offshore reinsurers it had been engaged to audit, and also knew that CGIC and CGIND were “[d]ependant [sic]” upon these offshore reinsurers.

*3 {¶ 10} In its reply memorandum, KPMG Bermuda argued that all of the records attached to the McCain affidavit are inadmissible hearsay and cannot be admitted under the “business records exception” to the hearsay rule, which exception is found at Evid.R. 803(6). It also argued that, with or without the documents attached to the McCain affidavit, the Liquidator had not made out a prima facie case that the court could properly exercise jurisdiction over it.

{¶ 11} On June 19, 2003, KPMG Barbados filed its own motion to dismiss. It, too, argued both that the trial court lacked jurisdiction over its person, pursuant to Civ.R. 12(B)(2), and that the complaint failed to state a claim for relief, pursuant to Civ.R. 12(B)(6). KPMG Barbados attached to its motion the affidavit of Jeffrey Gellineau, who identified himself therein as the managing partner of KPMG Barbados.

{¶ 12} KPMG Barbados argued that there is no basis for Ohio courts to exercise jurisdiction over it pursuant to either Ohio’s long-arm statute or Civ.R. 4.3(A). It further argued that the exercise of jurisdiction over it would violate the Due Process clause of the Fourteenth Amendment because it not only has not purposely availed itself of the privilege of conducting activities in Ohio, but it has not conducted any activities whatsoever in Ohio. It also argued that it was not reasonably foreseeable to KPMG Barbados that its auditing services provided in Barbados to the offshore affiliates, in connection with which there was no communication with or travel to Ohio, would subject it to the jurisdiction of Ohio courts.

{¶ 13} In response, the Liquidator once again relied exclusively upon the documents attached to the McCain affidavit to argue that KPMG Bermuda personnel had substantial, purposeful contacts with PRS Group management in Ohio such that she could make out a prima facie case for the exercise of jurisdiction, both under Ohio’s long-arm statute and under Due Process principles. As with her opposition to KPMG Bermuda, the Liquidator sought to demonstrate, with the McCain affidavit and attachments, that KPMG Barbados knew that CGIC and CGIND were so closely related to the offshore entities being audited that CGIC and CGIND depended upon the results of the audit for their solvency and viability.

{¶ 14} On November 25, 2003, the trial court issued a decision and entry that, inter alia, granted the motions to dismiss of both KPMG Bermuda and KPMG Barbados. First, the court ruled that the documents attached to the McCain affidavit were inadmissible hearsay and that they do not qualify for the exception for authenticated business records contained in Evid.R. 803(6). Specifically, the court found that appellant had failed to lay a proper foundation for the admissibility of the documents because Ms. McCain testified only to having reviewed the records. The court found that this did not show that Ms. McCain possessed personal knowledge of all of the foundational requisites of Evid.R. 803(6).

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*4 {¶ 15} The court found that the Liquidator had failed to make out a prima facie case for the exercise of jurisdiction over either defendant under both the Ohio long-arm statute and under federal Due Process standards. Accordingly, the court granted the motions to dismiss. This appeal timely followed, and the Liquidator assigns two errors for our review:

1. The trial court erred in concluding it could not properly exercise personal jurisdiction over KPMG Bermuda.
2. The trial court erred in concluding it could not properly exercise personal jurisdiction over KPMG Barbados.

{¶ 16} Before proceeding to our discussion of the assignments of error, we must resolve the preliminary issue, fully briefed by the parties though not separately assigned as error, whether the trial court abused its discretion in excluding from the record the McCain affidavit and the documents attached thereto.

[1] {¶ 17} Appellant argues that the trial court abused its discretion in excluding the affidavit and its attachments pursuant to Evid.R. 803(6) because there is no support in the text of Civ.R. 12(B)(2) for excluding hearsay evidence in passing upon a motion brought thereunder. Appellant directs our attention to several decisions of the federal trial and intermediate appellate courts in which those courts considered affidavits containing hearsay in passing upon motions to dismiss for lack of personal jurisdiction.

{¶ 18} Appellees argue that the trial court correctly concluded that the McCain affidavit lacks reliability because the affiant did not aver that she possesses the requisite personal knowledge to lay an appropriate foundation for any of the attached documents. Appellees direct our attention to decisions wherein federal courts have applied the rules of evidence to affidavits submitted in support of a defense of lack of personal jurisdiction.

{¶ 19} In reply, appellant argues that the documents attached to the McCain affidavit should be considered because they “bear circumstantial indicia of reliability” and could “very well be admissible at trial” as business records and, because many of the documents appear to have been generated by appellees themselves, as admissions of a party-opponent. (Reply Brief of Appellant, at 2.)

{¶ 20} Generally, the admission of evidence is within the discretion of the trial court, and the court's decision will be reversed only upon a showing of an abuse of discretion.

State ex rel. Sartini v. Yost, 96 Ohio St.3d 37, 2002–Ohio–3317, 770 N.E.2d 584, ¶ 21. “ ‘Abuse of discretion’ implies that the court acted in an unreasonable, arbitrary, or unconscionable manner.” *Ibid*.

{¶ 21} Our research has revealed no case in which a state court in Ohio has passed upon the question whether the rules of evidence and, specifically, Evid.R. 803(6), apply when a court considers a Civ.R. 12(B)(2) motion. The civil rule itself is silent on the issue. However, section 2317.40 of the Ohio Revised Code provides in pertinent part, “[a] record of an act, condition, or event, in so far as relevant, is *competent evidence* if the custodian or the person who made such record or under whose supervision such record was made testifies to its identity and the mode of its preparation, and if it was made in the regular course of business, at or near the time of the act, condition, or event, and if, in the opinion of the court, the sources of information, method, and time of preparation were such as to justify its admission.” (Emphasis added.) “Competence,” with respect to business records, has been defined to mean “authenticity.” *Black’s Law Dictionary* (8 Ed.2004) 302.

*5 {¶ 22} Thus, assuming without deciding, that Evid.R. 803(6) does not operate to bar hearsay evidence from consideration of a Civ.R. 12(B)(2) motion to dismiss filed in an Ohio trial court, R.C. 2317.40 nonetheless imposes basic foundational requirements upon a party seeking to introduce documents into evidence for the purpose of demonstrating that the court's exercise of personal jurisdiction would be proper. The statute contains no limitation as to the type of pretrial motion practice to which it applies. Because we decline to engage in judicial amendment of the statute by reading such a limitation into it, we hold that, pursuant to R.C. 2317.40, the trial court was correct in requiring that the McCain affidavit itself contain statements sufficient to authenticate the documents attached thereto before the same could be considered.

{¶ 23} In her affidavit Ms. McCain averred, in relevant part:

1. The following statements are based on my personal knowledge, information and belief.

* * *

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3. * * * I spent many months on site at Credit General's offices prior to the liquidation. During that time I developed a substantial familiarity with Credit General's records by examining the records and speaking with Credit General employees.

4. For several months after [appellant's predecessor] was appointed [as liquidator], I continued working at the Credit General offices to assemble, review and organize Credit General's records. Eventually we transferred the records to a warehouse in Columbus, where most are housed today. Some of the records are kept at the office of the Liquidator. I work at the warehouse, and have continued to assemble, review and organize these records.

5. Among the records I have reviewed are statements, memoranda, letters and facsimile transmissions between and among accountants or auditors of the PRS corporate family ("PRS"). * * * These records typically bear the signatures of one or more persons who, according to the records, had participated in the audits and/or the preparation of the financial statements and had attended meetings concerning the same in which some of the documents were recorded, and who signed to indicate that they had participated in the audits and/or meetings concerning the same, and/or had authored and/or reviewed and approved the records. It is evident from a review of such records that they were kept in the course of Credit General's regularly conducted business activity, and that it was Credit General's regular practice to make such records.

(McCain's aff. at 1-2.)

{¶ 24} The foregoing statements fail to establish the identity and mode of the documents' preparation, or whether the documents were made in the regular course of business, at or near the time of the act, condition, or event with which they are concerned, such as would qualify the documents as "competent" under R.C. 2317.40. Ms. McCain's review of the records does not establish that she had personal knowledge of the circumstances of the preparation, maintenance and retrieval of the records, or of the operation of the business of CGIC and CGIND such that she could reasonably testify that the documents appellant sought to place in the record are what they purport to be. Because the McCain affidavit fails to lay an adequate foundation for the documents attached thereto, and because appellant offered no affidavit of any person who did have the requisite personal knowledge of the authenticity of the documents, under R.C. 2317.40, the

documents were not competent evidence for purposes of defeating the motions to dismiss. Accordingly, the trial court did not abuse its discretion in refusing to consider the contents of the documents in passing upon appellees' motions.

*6 {¶ 25} We now turn to the issue of personal jurisdiction raised by the assignments of error. Because a trial court's determination as to whether it has personal jurisdiction over a party is a question of law, an appellate court reviews de novo a decision granting a Civ.R. 12(B)(2) motion. *Cardinal Distribution v. Reade*, 10th Dist. No. 02AP-1204, 2003-Ohio-2880, at ¶ 26.

{¶ 26} When determining whether a state court has personal jurisdiction over a nonresident defendant, the court is obligated to (1) determine whether the state's "long-arm" statute and the applicable Civil Rule confer personal jurisdiction, and if so, (2) whether granting jurisdiction under the statute and rule would deprive the defendant of the right to due process of law pursuant to the Fourteenth Amendment to the United States Constitution. *U.S. Sprint Communications Co. v. Mr. K's Foods, Inc.* (1994), 68 Ohio St.3d 181, 183-184, 624 N.E.2d 1048, 1051.

{¶ 27} Once appellees challenged the trial court's jurisdiction with their motions to dismiss, appellant bore the burden of establishing that the trial court had jurisdiction over appellees. *Robinson v. Koch Refining Co.* (June 17, 1999), 10th Dist. No. 98AP-900. Absent an evidentiary hearing, the trial court was permitted to dismiss the complaint pursuant to Civ.R. 12(B)(2) only if appellant failed to establish a prima facie case for the court's personal jurisdiction over appellees. *KB Circuits, Inc. v. BECS Technology, Inc.* (Jan. 18, 2001), 10th Dist. No. 00AP-621. If appellant produced sufficient evidence to allow reasonable minds to conclude that the trial court had personal jurisdiction over appellees, then the trial court could not dismiss the complaint without holding an evidentiary hearing. *Ibid.* Moreover, because the trial court did not hold an evidentiary hearing, it was required to "(1) view the allegations in the pleadings and the documentary evidence in the light most favorable to the nonmoving party, and (2) resolve all reasonable competing inferences in favor of the nonmoving party." *Goldstein v. Christiansen* (1994), 70 Ohio St.3d 232, 236, 638 N.E.2d 541; *Cardinal Distribution*, supra, at ¶ 24.

{¶ 28} Given, however, that the trial court properly refused to consider the McCain affidavit and accompanying documents,

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the only evidence that was before the court on the issue of personal jurisdiction were the Steinhoff and Gellineau affidavits offered by appellees in support of their motions to dismiss. If these unrebutted affidavits support the conclusion that appellees never transacted any business in Ohio, then the Liquidator failed to meet her burden. See *Upright Robotics v. Legacy Marketing Group, Inc.* (Sept. 3, 1992), 10th Dist. No. 92AP-374. Thus, the next step in our analysis is to examine the Steinhoff and Gellineau affidavits, in light of the requirements of Ohio's long-arm statute and federal due process principles, to determine whether the affidavits contain facts sufficient to demonstrate that Ohio courts cannot properly exercise jurisdiction over appellees.

*7 {¶ 29} Jurisdiction may be general, in cases in which a defendant's "continuous and systematic" activities within the forum state render that defendant amenable to the jurisdiction of the forum state's courts. *Perkins v. Benguet Consol. Mining Co.* (1952), 342 U.S. 437, 445-447, 72 S.Ct. 413, 96 L.Ed. 485. Jurisdiction may also be specific, in cases wherein the causes of action subject of the complaint arise out of or are related to the defendant's specific activity within the forum state. *Nationwide Mut. Ins. Co. v. Tryg Internatl. Ins. Co.* (C.A.6, 1996), 91 F.3d 790, 793.

{¶ 30} In contrast with general jurisdiction, specific jurisdiction may be premised upon a single act of the defendant. *Id.* at 794, citing *McGee v. Internatl. Life Ins. Co.* (1957), 355 U.S. 220, 222, 78 S.Ct. 199, 2 L.Ed.2d 223. "The nature and quality of the act, as well as the circumstances surrounding its commission, must be examined to determine whether personal jurisdiction exists in each case." *Ibid.*, citing *Internatl. Shoe Co. v. Washington* (1945), 326 U.S. 310, 66 S.Ct. 154, 90 L.Ed. 95. In the present case, the Liquidator bases the Ohio courts' jurisdiction over appellees upon appellees' alleged actions taken in connection with a specific transaction, namely, their performance of audit services for the offshore affiliates. The Liquidator argues that, in the course of their performance of those services, appellees took actions that constitute "transacting business" in Ohio such that they are amenable to this lawsuit.

{¶ 31} Ohio's long-arm statute provides "[a] court may exercise personal jurisdiction over a person who acts directly or by an agent, as to a cause of action arising from the person's * * * [t]ransacting any business in this state [.]" R.C.

2307.382(A)(1). The applicable rule of civil procedure is Civ.R. 4.3(A), which states, in pertinent part:

Service of process may be made outside of this state, as provided in this rule, in any action in this state, upon a person who, at the time of service of process, is a nonresident of this state or is a resident of this state who is absent from this state. "Person" includes an individual, an individual's executor, administrator, or other personal representative, or a corporation, partnership, association, or any other legal or commercial entity, who, acting directly or by an agent, has caused an event to occur out of which the claim that is the subject of the complaint arose, from the person's * * * [t]ransacting any business in this state[.]

{¶ 32} The phrase "transacting any business" is broad and encompasses more than "contract." *Clark v. Connor* (1998), 82 Ohio St.3d 309, 312, 695 N.E.2d 751. The term "transacting" as utilized in the phrase "transacting any business" encompasses "carrying on business" and "having dealings." *Goldstein*, supra, at 236, 638 N.E.2d 541. "With no better guideline than the bare wording of the statute to establish whether a nonresident is transacting business in Ohio, the court must, therefore, rely on a case-by-case determination." *U.S. Sprint*, supra, at 185, 624 N.E.2d 1048.

*8 {¶ 33} If a defendant is found amenable to suit in Ohio under the long-arm statute and applicable civil rule, then jurisdiction is properly exercised so long as the same would not offend due process principles applicable to the states through the Fourteenth Amendment to the United States Constitution. "The Due Process clause protects an individual's liberty interest in not being subject to the binding judgments of a forum with which he has established no meaningful 'contacts, ties, or relations.'" *Burger King Corp. v. Rudzewicz* (1985), 471 U.S. 462, 471-472, 105 S.Ct. 2174, 85 L.Ed.2d 528.

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{¶ 34} In *Internatl. Shoe Co. v. Washington* (1945), 326 U.S. 310, 66 S.Ct. 154, 90 L.Ed. 95, the United States Supreme Court held that a state may assert personal jurisdiction over a nonresident defendant if the nonresident has “ * * * certain minimum contacts with it such that maintenance of the suit does not offend ‘traditional notions of fair play and substantial justice.’ ” *Id.* at 316. (Citation omitted.) The court emphasized that the analysis under the “minimum contacts” rule “cannot simply be mechanical or quantitative,” but, rather, whether due process is satisfied depends “upon the quality and nature of the activity.” *Id.* at 319.

{¶ 35} Later, in *Burger King*, *supra*, the court concluded that “ * * * the constitutional touchstone remains whether the defendant purposefully established ‘minimum contacts’ in the forum State.” *Id.* at 474, quoting *Internatl. Shoe*, *supra*, at 316. The “minimum contacts” standard serves two functions. First, it protects the nonresident defendant “against the burdens of litigating in a distant or inconvenient forum.” *World-Wide Volkswagen Corp. v. Woodson* (1980), 444 U.S. 286, 292, 100 S.Ct. 559, 62 L.Ed.2d 490. Second, it ensures that the states do not encroach on each other’s sovereign interest. *Ibid.*

{¶ 36} The nonresident defendant has purposefully established minimum contacts where:

the contacts proximately result from actions by the defendant *himself* that create a ‘substantial connection’ with the forum State * * * where the defendant ‘deliberately’ has engaged in significant activities within a State * * * or has created ‘continuing obligations’ between himself and residents of the forum * * * he manifestly has availed himself of the privilege of conducting business there, and because his activities are shielded by ‘the benefits and protections’ of the forum’s laws it is presumptively not unreasonable to require him to submit to the burdens of litigation in that forum as well.

Burger King, *supra*, at 475–476. (Emphasis sic.) (Citations omitted.)

{¶ 37} Furthermore, minimum contacts are satisfied when the defendant foreseeably causes injury in the forum state if “ * * * the defendant’s conduct and connection with the forum State are such that he *should reasonably anticipate being haled into court there.* ” * * * *Id.* at 474, quoting *World-Wide Volkswagen Corp.*, *supra*, at 297. (Emphasis added.) The *Burger King* court explained the contours of the “reasonably anticipate” notion in the following manner:

*9 The unilateral activity of those who claim some relationship with a nonresident defendant cannot satisfy the requirement of contact with the forum State. The application of that rule will vary with the quality and nature of the defendant’s activity, but it is essential in each case that there be some act by which the defendant purposefully avails itself of the privilege of conducting activities within the forum State, thus invoking the benefits and protections of its laws. This “purposeful availment” requirement ensures that a defendant will not be haled into a jurisdiction solely as a result of “random,” “fortuitous,” or “attenuated” contacts[.] * * *

Burger King, *supra*, at 474–475. (Citations omitted.)

{¶ 38} The exercise of personal jurisdiction over a nonresident defendant will not offend due process principles when the defendant’s activities within the state are systematic and continuous. *Internatl. Shoe*, *supra*, at 319.

And while the casual presence of a corporate agent or a single or isolated act is not enough, “other such acts, because of their nature and quality and the circumstances of their commission, may be deemed sufficient to render the corporation liable to suit. Thus where the defendant ‘deliberately’ has engaged in significant activities within a State * * *, he manifestly has availed himself of the

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privilege of conducting business there, and because his activities are shielded by 'the benefits and protections' of the forum's laws it is presumptively not unreasonable to require him to submit to the burdens of litigation in that forum as well. * * * [D]ue process is satisfied when a foreign corporation has certain minimum contacts with Ohio such that it is fair that a defendant defend a suit brought in Ohio and that substantial justice is done.

¹⁰ U.S. *Sprint*, supra, at 186–187, 624 N.E.2d 1048. (Citations omitted.)

{¶ 39} Personal jurisdiction is not automatically defeated by a lack of physical presence in the forum state. See, e.g., ¹¹ *Kentucky Oaks Mall Co. v. Mitchell's Formal Wear, Inc.* (1990), 53 Ohio St.3d 73, 559 N.E.2d 477; *Cardinal Distribution v. Reade*, 10th Dist. No. 02AP–1204, 2003–Ohio–2880, at ¶ 32.

{¶ 40} The United States Supreme Court in the *Burger King* case also stated:

Once it has been decided that a defendant purposefully established minimum contacts within the forum State, these contacts may be considered in light of other factors to determine whether the assertion of personal jurisdiction would comport with 'fair play and substantial justice.' * * * Thus courts in 'appropriate cases[s]' may evaluate 'the burden on the defendant,' 'the forum State's interest in adjudicating the dispute,' 'the plaintiff's interest in obtaining convenient and effective relief,' 'the interstate judicial system's interest in obtaining the most efficient resolution of controversies,' and the 'shared interest of the several States in furthering fundamental substantive social policies.' * * * These considerations sometimes serve to establish the reasonableness of jurisdiction upon a lesser showing of minimum contacts than would otherwise be required. * * * On the other hand, where a defendant who purposefully has directed his activities at forum residents seeks to defeat jurisdiction, he must present a compelling case that the presence of some other considerations would render jurisdiction unreasonable. * * *

*10 *Id.* at 476–477. (Citations omitted.)

{¶ 41} The United States Supreme Court has made it clear that "all assertions of state-court jurisdiction must be evaluated according to the standards set forth in *Internatl. Shoe* and its progeny." ¹² *Shaffer v. Heitner* (1977), 433 U.S. 186, 212,

97 S.Ct. 2569, 53 L.Ed.2d 683. Therefore, guided by the foregoing principles, we must decide whether the Liquidator established a prima facie case that the trial court could properly exercise personal jurisdiction over appellees.

[2] {¶ 42} With respect to the motion of KPMG Bermuda, the trial court had before it the affidavit of Mr. Steinhoff. Therein, Mr. Steinhoff avers that KPMG Bermuda is a Bermuda partnership operating in Hamilton, Bermuda, and wholly owned by its partners, all of whom are residents of Bermuda. He states that KPMG Bermuda is a dues-paying member of KPMG International, a Swiss association that does not perform professional services but distributes practice and other guidelines that all members voluntarily follow. KPMG Bermuda is a signatory to a license agreement and a membership agreement with KPMG International, but KPMG Bermuda is solely responsible for its own day-to-day operations.

{¶ 43} Mr. Steinhoff states that KPMG Bermuda has only one office, located in Bermuda, and maintains no other place of business anywhere. It is not licensed to do business in Ohio. It has no operations, bank accounts or assets in Ohio, and does not advertise or market its services to Ohio-based entities. It has "from time to time," provided professional services in Bermuda to Bermuda-based affiliates or subsidiaries of Ohio-based corporations. But none of its employees or partners resides in, or routinely performs work in, the United States. KPMG Bermuda has never performed any accounting or other services to PRS Group, CGIC or CGIND.

{¶ 44} According to Mr. Steinhoff, in 1995, Barbados-based Captech Management Services (Barbados) Ltd., which managed the offshore affiliates, retained KPMG Bermuda to assist KPMG Barbados in auditing the offshore affiliates. KPMG Bermuda did not render an opinion on the offshore affiliates' financial statements. Mr. Steinhoff avers that KPMG Bermuda has never had a contractual relationship with PRS Group, CGIC or CGIND, and has never made oral or written assurances to any Ohio-based PRS-related entity with respect to the audits of the offshore affiliates.

{¶ 45} Over the four years it assisted with the offshore affiliates' audits, KPMG Bermuda personnel took three trips to the Beachwood, Ohio offices of an entity called PRS Management Group, Inc. The trips lasted from one to two days each, and involved one or two KPMG Bermuda personnel. The trips involved the review of systems and data at PRS Management Group, Inc.

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{¶ 46} Mr. Steinhoff states that most of the correspondence originating from KPMG Bermuda respecting the offshore affiliates' audits was sent to local independent managers of KPMG Barbados, but that KPMG personnel corresponded "on several occasions" with PRS Management Group, Inc., employees. But these contacts "were infrequent and were initiated primarily for the limited purpose of obtaining information regarding balances and reserves. This is standard operating procedure during any audit of a reinsurer regardless of whether the insured is an affiliated company or not." (Steinhoff Affidavit, at ¶ 16.) Mr. Steinhoff avers that KPMG Bermuda personnel sent fewer than 20 pieces of written correspondence (including faxes) to individuals in Ohio.

*11 {¶ 47} Finally, Mr. Steinhoff states that it would be difficult and costly for KPMG Bermuda to defend the instant lawsuit in Ohio because its partners and employees involved with the subject matter of the case would be required to travel between Bermuda and Ohio for pretrial and trial proceedings, perhaps for extended periods of time, which would impose a hardship on these individuals, their families and on KPMG Bermuda's business operations.

{¶ 48} Given all of these facts, we find that KPMG Bermuda did not "transact business" in Ohio in the course of completion of its auditing services for the offshore affiliates. Twenty pieces of correspondence with Ohio-based PRS Group personnel over four years does not establish that KPMG Bermuda transacted business in this state. As a general rule, the use of interstate lines of communication such as mail, facsimiles and telephones, does not automatically subject a defendant to the jurisdiction of the courts in the forum state. *Fritz-Rumer-Cooke Co., Inc. v. Todd & Sargent* (Feb. 8, 2001), 10th Dist. No. 00AP-817, discretionary appeal not allowed in (2001), 92 Ohio St.3d 1418, 748 N.E.2d 550.

{¶ 49} The several trips that KPMG Bermuda personnel made to Ohio over a four-year period, for the purpose of gathering information about balances and reserves, when such information-gathering is standard procedure for the type of audit KPMG Bermuda was performing, likewise do not constitute the kind of dealings that would render KPMG Bermuda amenable to suit in Ohio. These trips were undertaken by KPMG Bermuda solely in order to perform its obligations under its contracts with the offshore affiliates, and should not be considered in determining whether personal

jurisdiction exists. See *Nationwide Mutual Ins. Co. v. Tryg Internatl. Ins. Co.* (C.A.6, 1996), 91 F.3d 790, 796.

{¶ 50} We also find, from the facts adduced, that KPMG Bermuda did not purposely establish minimum contacts in Ohio such as would create a substantial connection with the state sufficient to ensure that Ohio courts' exercise of jurisdiction over KPMG Bermuda would not offend traditional notions of fair play and substantial justice. The quality and nature of KPMG Bermuda's contacts with Ohio do not establish a substantial connection with Ohio such that it was reasonably foreseeable to KPMG Bermuda that it would be haled into court here.

{¶ 51} Moreover, there is no competent evidence of record that KPMG Bermuda could have reasonably foreseen that its activities in Ohio would directly result, as the Liquidator alleges, in the insolvency and ultimate liquidation of CGIC and CGIND. It is unreasonable to subject a foreign auditor to the jurisdiction of courts in a state in which it solicits no business, is not licensed to perform professional accounting services, maintains no assets or property, has not been retained to perform professional accounting services, and visited only a handful of times over a four-year period in connection with its performance of a contract with an entity not domiciled in that state, simply because the foreign reinsurance company that it audited happens to have reinsured the risks of an insurance company domiciled in the state.

*12 {¶ 52} Absent evidence from which reasonable minds could conclude that KPMG Bermuda knew or should have known that its offshore professional activities would harm CGIC or CGIND, the exercise of Ohio courts' jurisdiction in the instant case would offend due process principles. Because the Steinhoff affidavit was the only competent evidence before the trial court, and this affidavit contains no evidence from which reasonable minds could conclude that KPMG Bermuda foresaw or should have foreseen that it would cause harm in this state, the trial court correctly concluded that it lacked jurisdiction over KPMG Bermuda. Accordingly, appellant's first assignment of error is overruled.

{¶ 53} With respect to the motion of KPMG Barbados, the trial court had before it the affidavit of Mr. Gellineau. Therein, he avers that KPMG Barbados is a partnership organized under the laws of Barbados and whose principal place of business is in Hastings, Barbados. The firm also maintains offices in St. Lucia, St. Vincent and Antigua. It is owned by partners who reside in Barbados or in one of the branch

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office locations, and is affiliated with KPMG International in the same fashion as is KPMG Bermuda. Like KPMG Bermuda, KPMG Barbados has no office in the United States, is not authorized to do business or to practice accounting in Ohio, does not advertise or market its services in Ohio, and maintains no operations, bank accounts or assets in Ohio.

{¶ 54} Mr. Gellineau further avers that no KPMG Barbados employees reside in or routinely undertake work in the United States, and that KPMG Barbados has never rendered auditing or other accounting services to PRS Group, CGIC or CGIND. Captech Management Services (Barbados), Ltd., (a Barbados-based entity) and Captech Management Services (Bermuda), Ltd., (a Bermuda-based entity) engaged KPMG Barbados in 1995 to perform audits for the offshore affiliates. KPMG Barbados did not enter into any contractual relationships with PRS Group, CGIC or CGIND in connection with the rendering of accounting services to the offshore affiliates.

{¶ 55} Mr. Gellineau states that KPMG Barbados' primary contacts, for purposes of auditing the offshore affiliates, were with the independent managers of the Barbados-based reinsurers. KPMG Barbados employees never sent any correspondence to individuals in Ohio, and never traveled outside of Barbados or the branch office locations, in connection with the four years of accounting services performed for the offshore affiliates. Finally, Mr. Gellineau states that it would difficult and costly for KPMG Barbados to defend this lawsuit in Ohio, due to its lack of any facilities or business contacts in Ohio and in the United States.

{¶ 56} From these facts, we readily conclude that the trial court lacked jurisdiction over KPMG Barbados. That entity directed no correspondence to Ohio, sent no personnel to Ohio, performed no services in Ohio, had no contractual relations with Ohio entities or persons, maintains no offices in Ohio or any other state, is not authorized to do business or to practice accounting in Ohio, does not advertise or market its services in Ohio, and maintains no operations, bank accounts or assets in Ohio. There is no evidence that KPMG Barbados had reason to believe that its conduct outside of Ohio would directly harm CGIC or CGIND. Thus, we find that the exercise of Ohio courts' jurisdiction over KPMG Barbados would be improper both under Ohio's long-arm statute and under federal due process principles. For the all of the foregoing reasons, appellant's second assignment of error is overruled.

*13 {¶ 57} Having overruled both of appellant's assignments of error, we affirm the judgment of the Franklin County Court of Common Pleas.

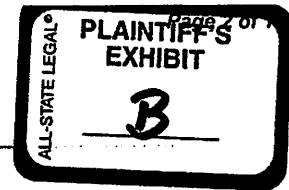
Judgment affirmed.

BROWN, P.J., and LAZARUS, J., concur.

All Citations

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EXHIBIT B



Beverly Hills Fan Co. v. Royal Sovereign Corp., 21 F.3d 1558 (1994)
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KeyCite Yellow Flag - Negative Treatment
 Declined to Extend by *Lacebark, Inc. v. Sakata Seed America, Inc.*,
 W.D.Okla., January 16, 2013

21 F.3d 1558
 United States Court of Appeals,
 Federal Circuit.

BEVERLY HILLS FAN
 COMPANY, Plaintiff-Appellant,
 v.
 ROYAL SOVEREIGN CORP. and Ultec
 Enterprises Co., Ltd., Defendants-Appellees.

No. 92-1326.

March 8, 1994.

Synopsis

Holder of design patent for ceiling fans brought patent infringement action against manufacturer and importer of allegedly infringing fans. The United States District Court for the Eastern District of Virginia, James C. Cacheris, Chief Judge, dismissed action for lack of personal jurisdiction, and patent holder appealed. The Court of Appeals, Plager, Circuit Judge, held that: (1) exercise of personal jurisdiction over defendants under stream of commerce theory did not violate due process, and (2) defendants were subject to personal jurisdiction under Virginia's long-arm statute.

Reversed and remanded.

Procedural Posture(s): On Appeal; Motion to Dismiss.

West Headnotes (13)

[1] Patents

↔ Record; supplementation and additional proofs

Patents

↔ Briefs

Failure of notice of appeal to state that appeal was being taken from denial of motion for reconsideration of order dismissing patent infringement action for lack of personal jurisdiction did not bar appellate review of order denying reconsideration and record pertaining to that decision, where second

sentence of notice of appeal expressly referred to decision on reconsideration, parties briefed and argued merits of that decision, and there was a substantial connection between judgment referred to in notice and decision on reconsideration. F.R.A.P.Rule 3(c), 28 U.S.C.App.(1988 Ed.).

[2] Federal Civil Procedure

↔ Relief from Judgment

Requirements of rule governing relief from judgment or order on grounds of newly discovered evidence did not apply to declaration submitted in support of motion seeking reconsideration of judgment dismissing patent infringement action for lack of personal jurisdiction, where motion for reconsideration met requirements of motion to alter or amend judgment. Fed.Rules Civ.Proc.Rules 59(e), 60(b)(2), 28 U.S.C.A.

5 Cases that cite this headnote

[3] Patents

↔ Scope, Standard, and Extent of Review

Hearsay nature of evidence presented in support of motion to reconsider judgment dismissing patent infringement action for lack of personal jurisdiction did not preclude consideration of such evidence on appeal, where evidence bore circumstantial indicia of reliability so that it may have been admissible at trial notwithstanding its hearsay nature, and defendants were given opportunity to challenge such evidence. Fed.Rules Evid.Rule 803(24), 28 U.S.C.A.

13 Cases that cite this headnote

[4] Patents

↔ Determination of Jurisdiction

Evidence relating to alleged infringers' contacts with forum state after patent infringement action was filed would be considered in determining whether to dismiss action for lack of personal jurisdiction, where patent holder's claims of direct and inducing infringement involved continuous infliction of injury.

Beverly Hills Fan Co. v. Royal Sovereign Corp., 21 F.3d 1558 (1994)

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60 Cases that cite this headnote

[5] Courts

⚡ Particular questions or subject matter

Federal Circuit was not required to apply law of circuit in which patent infringement action arose in determining whether due process clause and state long-arm statute permitted district court to exercise personal jurisdiction over alleged infringers under stream of commerce theory; creation and application of uniform body of Federal Circuit law would promote judicial efficiency and would not create undue conflict and confusion at district court level. U.S.C.A. Const.Amend. 14.

229 Cases that cite this headnote

[6] Constitutional Law

⚡ Manufacture, distribution, and sale

Patents

⚡ Tortious act, conduct, or injury

Allegations that manufacturer and importer of allegedly infringing ceiling fan purposely shipped accused fan into Virginia through established distribution channel satisfied purposeful minimum contacts requirement of due process and supported exercise of personal jurisdiction under stream of commerce theory in patent infringement action allegedly arising from such activity. U.S.C.A. Const.Amend. 14.

257 Cases that cite this headnote

[7] Constitutional Law

⚡ Manufacture, distribution, and sale

Patents

⚡ Tortious act, conduct, or injury

Exercise of personal jurisdiction in Virginia through application of stream of commerce theory over manufacturer and importer of allegedly infringing ceiling fan sold in Virginia did not violate due process concepts of fair play and substantial justice, despite inconvenience to foreign defendant of litigating in Virginia. U.S.C.A. Const.Amend. 14.

121 Cases that cite this headnote

[8] Patents

⚡ Personal jurisdiction in general

That it was to patent holder's advantage to adjudicate patent infringement action in district court for the Eastern District of Virginia, based on that court's rapid case disposition time, did not militate against its right to have access to that court, in determining whether court could exercise personal jurisdiction over foreign defendants. U.S.C.A. Const.Amend. 14.

29 Cases that cite this headnote

[9] Patents

⚡ Tortious act, conduct, or injury

Provision of Virginia's long-arm statute permitting exercise of personal jurisdiction over person causing tortious injury by act or omission in Virginia did not apply to patent infringement action against manufacturer and importer of allegedly infringing ceiling fans that were sold in Virginia; action was based on commission of affirmative act, and there was nothing suggesting that either defendant necessarily committed any affirmative act in Virginia. Va.Code 1950, § 8.01-328.1.

24 Cases that cite this headnote

[10] Patents

⚡ Tortious act, conduct, or injury

Sale of infringing ceiling fans in Virginia satisfied "tortious injury" requirement of Virginia's long-arm statute in patent infringement action brought by patent holder; injury occurred in state where infringing fans were sold, rather than state of patent holder's residence. Va.Code 1950, § 8.01-328.1.

61 Cases that cite this headnote

[11] Patents

⚡ Tortious act, conduct, or injury

For purposes of state long-arm statute, situs of injury is location, or locations, at which

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infringing activity directly impacts on interest of patentee.

57 Cases that cite this headnote

[12] Patents

↔ Regular and Established Place of Business; Doing Business

Sales of infringing ceiling fans in Virginia satisfied "substantial revenue" requirement of Virginia's long-arm statute in patent infringement action brought against manufacturer and importer of the fans, although it was uncertain whether sales in Virginia were substantial on percentage terms. Va.Code 1950, § 8.01-328.1.

9 Cases that cite this headnote

[13] Patents

↔ Design

US Patent D304,229. Cited.

1 Cases that cite this headnote

Attorneys and Law Firms

*1559 G. Franklin Rothwell, Rothwell, Figg, Ernest & Kurz, P.C., of Washington, DC, argued for plaintiff-appellant. With him on the brief were Raymond A. Kurz and Celine M. Jimenez.

Jeffrey G. Sheldon, Sheldon & Mak, of Pasadena, CA, argued for defendants-appellees. With him on the brief was Elizabeth L. Swanson.

Before NEWMAN, Circuit Judge, SMITH, Senior Circuit Judge, and PLAGER, Circuit Judge.

Opinion

PLAGER, Circuit Judge.

This is a patent infringement case in which we are called upon to determine whether the district court properly declined to exercise personal jurisdiction over foreign (from the standpoint of the forum) accused infringers or whether, applying the stream of commerce theory, plaintiff made the required jurisdictional showing. Beverly Hills Fan Company

(Beverly) appeals the judgment of the United States District Court for the Eastern District of Virginia (Civil Action No. 91-1834-A), dated March 6, 1992, dismissing Beverly's complaint for lack of personal jurisdiction over defendants Royal Sovereign Corp. (Royal) and Ultec Enterprises Co., Ltd. (Ultec). That judgment was entered upon defendants' motion brought pursuant to Rule 12(b)(2) of the Federal Rules of Civil Procedure. We *1560 reverse and remand for further proceedings consistent with this opinion.

BACKGROUND

Beverly is the current owner of U.S. Design Patent No. 304,229 (the '229 patent), which issued on October 24, 1989. That patent is directed to the design of a ceiling fan. Beverly is incorporated in Delaware and has its principal place of business in California.

Ultec is the manufacturer of a ceiling fan which Beverly alleges infringes the '229 patent. Ultec is incorporated in the People's Republic of China (PRC) and manufactures the accused fan in Taiwan. Royal imports into and distributes the accused fan in the United States. It is incorporated in New Jersey.

On December 11, 1991, Beverly filed suit against Ultec and Royal in the United States District Court for the Eastern District of Virginia. Beverly's complaint alleged in relevant part that both defendants are infringing and inducing infringement of the '229 patent by selling the accused fan to customers in the United States, including customers in Virginia; and that defendants are selling the accused fan to the Virginia customers through intermediaries.

Ultec and Royal subsequently filed a motion to dismiss for lack of personal jurisdiction pursuant to Rule 12(b)(2) of the Federal Rules of Civil Procedure. In support of their motion, defendants submitted several declarations. A first declaration was from James Cheng (the Cheng Declaration), the President of Ultec. In that declaration, Mr. Cheng stated that Ultec has no assets or employees located in Virginia; has no agent for the service of process in Virginia; does not have a license to do business in Virginia; and has not directly shipped the accused fan into Virginia. A second declaration was from T.K. Lim (the Lim Declaration), the President of Royal. In that declaration, Mr. Lim stated that Royal, as well, has no assets or employees in Virginia; has no agent for the service of process in Virginia; does not have a license to do business in

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Virginia; made a one-time sale of unrelated goods to Virginia in 1991 which represented less than three percent of Royal's total sales that year; and has not sold the accused fan to distributors or anyone else in Virginia.

Beverly then submitted several declarations in opposition to the motion. A first declaration was from Lyndal L. Shaneyfelt (the first Shaneyfelt Declaration), a private investigator. In that declaration, Mr. Shaneyfelt stated that, on December 4, 1991, he purchased one of the accused fans from the Alexandria, Virginia outlet of a company known as Builder's Square; that a manual accompanying the fan identified Royal as the source of the fan; that the fan was accompanied by a warranty which Royal would honor; and that Builder's Square has approximately six retail outlets located throughout Virginia. A second declaration was from Shelley A. Greenberg (the Greenberg Declaration), the President of Beverly. In that declaration, Mr. Greenberg stated that Beverly does a substantial amount of business in Virginia; that Beverly's Virginia customers include all six Builder's Square outlets; and that Beverly sells a commercial embodiment of the '229 patent to customers in Virginia through these outlets.

The trial court, after argument from the parties and consideration of their written submissions, ruled on the motion. The court correctly recognized that there were two limits to its jurisdictional reach: Virginia's long-arm statute and the Due Process Clause of the U.S. Constitution.¹ The court found its analysis of the limits imposed by the Due Process Clause conclusive of the matter.

Relying on Supreme Court precedent as interpreted by the Fourth Circuit in *Chung v. NANA Development Corp.*, 783 F.2d 1124 (4th Cir.), cert. denied, 479 U.S. 948, 107 S.Ct. 431, 93 L.Ed.2d 381 (1986), the court concluded that the relevant inquiry was whether defendants' contacts with the forum were sufficiently purposeful that litigation in the forum could reasonably have been foreseen. The only purposeful contact the court considered relevant was the one-time shipment of unrelated goods referred to in the Lim Declaration.² Finding that such contact was not sufficient to make litigation in Virginia reasonably foreseeable, the court granted the motion to dismiss. On March 6, 1992, an order granting judgment for defendants was entered consistent with the court's ruling.

Beverly subsequently filed a motion for reconsideration of the March 6 judgment. In support of that motion, Beverly submitted a second declaration by Mr. Shaneyfelt (the second Shaneyfelt Declaration). In that declaration, Mr. Shaneyfelt stated that, as of March 17, 1992, based on telephone conversations with unnamed employees at the six Builder's Square outlets, fifty-two of the accused fans were available for sale at these outlets. Defendants then moved to strike this evidence, and opposed the motion for reconsideration. On April 8, 1992, the court denied the motion for reconsideration, presumably denying the motion to strike.³ This appeal followed.

DISCUSSION**1.**

During the pendency of this appeal, defendants moved in this court to strike the second Shaneyfelt Declaration on the grounds that it is not properly before us. A motions panel of this court denied defendants' motion, deferring the matter to the merits panel. We turn to this issue first. When appropriate, we are guided by Fourth Circuit law on the purely procedural aspects of this question.⁴

[1] Defendants make several arguments why we cannot consider the second Shaneyfelt Declaration. Their first argument is premised on a purported deficiency in Beverly's papers. The first sentence in Beverly's notice of appeal refers only to the March 6 Order and Judgment:

Notice is hereby given that [Beverly] hereby appeals ... from the Order and Judgment dated March 6, 1992, granting Defendants' Motion to Dismiss for Lack of Personal Jurisdiction in Civil Action No. 91-1834-A.

Thus, argue defendants, as to the April 8 decision on the motion for reconsideration, the notice fails to comply with Fed.R.App.P. 3(c), which states in relevant part: "The notice of appeal ... shall designate the judgment, order or part thereof appealed from." Defendants further argue that since a failure to comply with Fed.R.App.P. 3(c) is a fatal jurisdictional

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defect. *Torres v. Oakland Scavenger Co.*, 487 U.S. 312, 314, 108 S.Ct. 2405, 2407, 101 L.Ed.2d 285 (1988), this court would lack jurisdiction to review the April 8 decision, and thus the power to consider the record pertaining to that decision, including the second Shaneyfelt Declaration.

Defendants' focus is misplaced and too narrow; the proper focus is on the record as a whole. See *Foman v. Davis*, 371 U.S. 178, 181, 83 S.Ct. 227, 229, 9 L.Ed.2d 222 (1962); 9 James W. Moore et al., *Moore's Federal Practice*, ¶203.17[2], at 3-79 to -82 (2d ed. 1993). The second sentence of Beverly's notice expressly refers to the April 8 decision.⁵ The parties briefed and argued the merits of that decision. And there is a substantial connection between the March 6 judgment, which is referred to in the first sentence of the notice, and the April 8 decision. Under similar circumstances, courts have not hesitated to exercise jurisdiction over a judgment or decision not expressly referred to in the notice of appeal.

See **1562 Trust Co. Bank v. United States Gypsum Co.*, 950 F.2d 1144, 1147-48 (5th Cir.1992); *Lockman Found. v. Evangelical Alliance Mission*, 930 F.2d 764, 772 (9th Cir.1991); *Matute v. Procoast Navigation Ltd.*, 928 F.2d 627, 629-30 (3d Cir.), cert. denied, 502 U.S. 919, 112 S.Ct. 329, 116 L.Ed.2d 270 (1991); *Matarese v. LeFevre*, 801 F.2d 98, 105-06 (2d Cir.1986), cert. denied, 480 U.S. 908, 107 S.Ct. 1353, 94 L.Ed.2d 523 (1987).

[2] Defendants next argue that we cannot consider the second Shaneyfelt Declaration because there has been no showing that the information therein was "newly discovered evidence which by due diligence could not have been discovered [earlier]" as required by Fed.R.Civ.P. 60(b)(2).

But Rule 60(b)(2) is not governing. The universal rule is that "if a post-judgment motion is filed within ten days of the entry of judgment and calls into question the correctness of that judgment it should be treated as a motion under Rule 59(e), however it may be formally styled." *Dove v. CODESCO*, 569 F.2d 807, 809 (4th Cir.1978); see also *Lavespere v. Niagara Mach. & Tool Works, Inc.*, 910 F.2d 167, 173 (5th Cir.1990); *Tylo Sauna. S.A. v. Amerec Corp.*, 826 F.2d 7, 8 (Fed.Cir.1987); *Vreeken v. Davis*, 718 F.2d 343, 345 (10th Cir.1983); *Lyell Theatre Corp. v. Loews Corp.*, 682 F.2d 37, 40-41 (2d Cir.1982). Since Beverly's motion for reconsideration meets these criteria, it is

considered to have been brought under Rule 59(e) rather than Rule 60(b). Defendants' argument is thus off point.⁶

[3] Defendants next argue that the second Shaneyfelt Declaration cannot be considered because it is based on hearsay and thus inadmissible. However, defendants have not cited any authority in support of such a rule. And we are unaware of any, either in the Federal Rules of Civil Procedure⁷ or elsewhere.⁸ Moreover, such a rule would be particularly inappropriate under the circumstances of this case since the evidence bears circumstantial indicia of reliability so that it very well could be admissible at trial notwithstanding its hearsay nature. See Fed.R.Evid. 803(24).⁹

Defendants were given the opportunity to challenge this evidence. Although the specific employees who provided the information were not named, the addresses of the Builder's Square outlets where these employees worked were provided. Defendants have not shown why they could not have independently surveyed the number of accused fans available for sale at these outlets. They can thus be said to have acquiesced in the trustworthiness of the evidence. For all the foregoing reasons, we decline to adopt the rule advanced by defendants.

[4] The final evidentiary argument made by defendants is that the evidence cannot be considered since it relates to contacts with the forum occurring subsequent to the events giving rise to this litigation, and thus is irrelevant to whether specific jurisdiction can be exercised over the defendants.¹⁰ The information *1563 in the second Shaneyfelt Declaration was obtained about 3 months after the complaint was filed. In conjunction with the first Shaneyfelt Declaration, it indicates that, contemporaneously with the filing of the complaint, defendants were engaged in continuous shipment of substantial numbers of the accused fan into Virginia. These shipments are the basis for Beverly's allegations that defendants infringed and induced infringement of the '229 patent.

The sole case on this point relied on by defendants, *Farmers Insurance Exchange v. Portage La Prairie Mutual Insurance Co.*, 907 F.2d 911, 913 (9th Cir.1990), is inapposite. That case involved a single tortious act which inflicted discrete injury on the victim. Defendant's contacts with the forum after the commission of the tort had no relation to the cause of action, and thus were irrelevant to whether specific jurisdiction could be exercised over the

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defendant. Here, by contrast, the two causes of action, direct infringement and inducing infringement, both involve the continuous infliction of injury upon the victim. See Wilden Pump & Eng'g Co. v. Versa-Matic Tool, Inc., 20 USPQ2d 1788, 1790-91, 1991 WL 280844 (C.D.Cal.1991). The case is thus fundamentally different from that involving a single tort. In a case involving a continuous tort, it would be arbitrary to identify a single moment after which defendant's contacts with the forum necessarily become irrelevant to the issue of specific jurisdiction. Cf. Bruno Wessel, Inc. v. McCourt, No. C92-079TEH, 1992 U.S.Dist. LEXIS 6230, at * 6-* 11 (N.D.Cal. May 4, 1992).

For all of the above reasons, we find defendants' arguments on this issue unpersuasive; the second Shaneyfelt Declaration is properly a part of the record before us in this case.

2.

Paragraph 6 of the complaint alleges:

6. Ultec has for a time past and still is infringing and inducing infringement of the ['229 patent] by selling ceiling fans embodying the patented invention to customers in the United States including customers in the Eastern District of Virginia through intermediaries and will continue to do so unless enjoined by this Court. (Emphasis added)

The thrust of this paragraph, insofar as it relates to jurisdiction in Virginia, is that Ultec is purposefully shipping and selling, through intermediaries, the accused fan to customers in Virginia, and that the shipping and selling are ongoing and continuous.

The evidence which, according to defendants, rebuts these allegations is paragraph 4 of the Cheng Declaration. But that paragraph only denies direct shipments and sales by Ultec into Virginia.¹¹

4. Ultec has not imported nor directly sold any of its fans to importers or anyone else in Virginia. (Emphasis added) Thus, there is not even direct contravention of the allegation, as the plaintiff's paragraph speaks only in terms of shipments through intermediaries. Since they are not directly controverted, plaintiff's factual allegations are taken as true for purposes of determining jurisdiction in the Virginia district court.

Paragraph 7 of the complaint alleges:

7. [Royal] has for a time past and still is infringing and inducing infringement of the ['229 patent] by selling ceiling fans through an intermediary to customers in the Eastern District of Virginia. such fans embodying the patented invention, and [Royal] will continue to do so unless enjoined by this Court. (Emphasis added)

The thrust of this paragraph, insofar as it relates to jurisdiction in Virginia, is that Royal is placing the accused fans into the chain of commerce, which includes shipping the fans into Virginia for sale to customers through an intermediary (Builder's Square). Defendants' response is Paragraph 2 of the Lim Declaration. Paragraph 2, however, is either inartfully phrased or craftily written. It states:

2. [Royal] imports ceiling fans from [Ultec]. [Royal] has never sold a fan to distributors *1564 or to anyone else in Virginia. (Emphasis added)

The phrase "in Virginia" may modify either the verb "sold" or the nouns "distributors" or "anyone else." Either way, Ultec's response does not directly contravene plaintiff's allegations; again, plaintiff's factual allegations must be taken as true.

Defendants next argue that Beverly has submitted no evidence showing that defendants' shipments into Virginia were purposeful or knowing. However, Beverly has shown by the two Shaneyfelt Declarations that the commercial relationship with Builder's Square was ongoing, and obviously intentional.

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It is undisputed that at least fifty-two Ultec fans were present in Virginia bearing Royal's warranty, reflecting an ongoing relationship with the Virginia retailer and customers. See *Kearns v. Wood Motors, Inc.*, 204 USPQ 485, 491 (E.D.Mich.1978). From these ongoing relationships, it can be presumed that the distribution channel formed by defendants and Builder's Square was intentionally established, and that defendants knew, or reasonably could have foreseen, that a termination point of the channel was Virginia.

3.

In light of the trial court's conclusion to the contrary, based in part on a failure to draw the proper inferences from the undisputed facts, we must disapprove the court's granting of the motion to dismiss. No additional development of the record is necessary for a decision on defendants' jurisdictional motion. The matter presents a pure question of law. The specific question on which the matter turns is whether the Due Process Clause of the Federal Constitution or specific limiting provisions in Virginia's long-arm statute preclude the exercise of jurisdiction in a case in which an alleged foreign infringer's sole contact with the forum resulted from indirect shipments through the stream of commerce.

[5] As a preliminary matter, we consider whether we are bound to apply Fourth Circuit law to this question. As previously noted, the Fourth Circuit is where the case arose; under *Panduit Corp. v. All States Plastic Manufacturing Co.*, 744 F.2d 1564, 1574-75, 223 USPQ 465, 471 (Fed.Cir.1984), we apply the law of the Fourth Circuit to procedural matters that are not unique to patent law. Beverly argues that we are not bound to apply Fourth Circuit law in this case because the issue here is intimately related to substantive patent law. Thus, argues Beverly, we are free to develop our own law on this issue.

Beverly is correct. Although in one sense the due process issue in this case is procedural, it is a critical determinant of whether and in what forum a patentee can seek redress for infringement of its rights. As we explain more fully below, the stream of commerce theory has achieved fairly wide acceptance in the federal courts. But even when followed, the theory comes in several variants. The regional circuits have not reached a uniform approach to this jurisdictional issue. See, e.g., *Max Daenvyler Corp. v. R. Meyer*; 762 F.2d 290, 226 USPQ 305 (3d Cir.), *cert. denied*, 474 U.S.

980, 106 S.Ct. 383, 88 L.Ed.2d 336 (1985) (no jurisdiction found); *Honeywell, Inc. v. Metz Apparatewerke*, 509 F.2d 1137, 184 USPQ 387 (7th Cir.1975) (jurisdiction found). Nor is there any apparent uniformity on the issue within the Fourth Circuit.¹² The application of an assumed Fourth Circuit law, or for that matter, the law of any particular circuit, would thus not promote our mandate of achieving national uniformity in the field of patent law. See *Panduit*, 744 F.2d at 1574, 223 USPQ at 470.

The creation and application of a uniform body of Federal Circuit law in this area would clearly promote judicial efficiency, *1565 would be consistent with our mandate, and would not create undue conflict and confusion at the district court level.¹³ Under circumstances such as these, we have held we owe no special deference to regional circuit law. See, e.g., *Biodex Corp. v. Loredan Biomedical, Inc.*, 946 F.2d 850, 855-59, 20 USPQ2d 1252, 1256-61 (Fed.Cir.1991), *cert. denied*, 504 U.S. 980, 112 S.Ct. 2957, 119 L.Ed.2d 579 (1992).

4.

[6] The Supreme Court stated in *International Shoe Co. v. Washington*, 326 U.S. 310, 66 S.Ct. 154, 90 L.Ed. 95 (1945), "due process requires ... that in order to subject a defendant to a judgment *in personam*, if he be not present within the territory of the forum, he have certain *minimum contacts* with it such that the maintenance of the suit does not offend 'traditional notions of fair play and substantial justice.'" *Id.* at 316, 66 S.Ct. at 158 (quoting *Milliken v. Meyer*, 311 U.S. 457, 463, 61 S.Ct. 339, 343, 85 L.Ed. 278 (1940)) (Second emphasis added). Later cases have clarified that the minimum contacts must be 'purposeful' contacts. *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 474, 105 S.Ct. 2174, 2183, 85 L.Ed.2d 528 (1985) (purposeful minimum contacts the 'constitutional touchstone' of the due process analysis). The requirement for purposeful minimum contacts helps ensure that non-residents have fair warning that a particular activity may subject them to litigation within the forum. See *Burger King*, 471 U.S. at 472, 105 S.Ct. at 2182; see also *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 297, 100 S.Ct. 559, 567, 62 L.Ed.2d 490 (1980). Fair warning is desirable for non-residents are thus

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able to organize their affairs, alleviate the risk of burdensome litigation by procuring insurance and the like, and otherwise plan for the possibility that litigation in the forum might ensue. See *World-Wide Volkswagen*, 444 U.S. at 297, 100 S.Ct. at 567.

Defendants argue that their contacts with Virginia were insufficient to give them warning that litigation in Virginia might ensue. We disagree. The allegations are that defendants purposefully shipped the accused fan into Virginia through an established distribution channel. The cause of action for patent infringement is alleged to arise out of these activities. No more is usually required to establish specific jurisdiction.

See *Burger King*, 471 U.S. at 472-73, 105 S.Ct. at 2182; *Keeton v. Hustler Magazine, Inc.*, 465 U.S. 770, 774-75, 104 S.Ct. 1473, 1478-79, 79 L.Ed.2d 790 (1984).¹⁴

Defendants argue that the exercise of jurisdiction over them is foreclosed by the holding in *World-Wide Volkswagen*. In *World-Wide Volkswagen*, jurisdiction did not lie over an alleged foreign tortfeasor whose product was transported into the forum state through the unilateral actions of a third party having no pre-existing relationship with the tortfeasor. 444 U.S. at 298, 100 S.Ct. at 567. There was thus no purposeful contact by the tortfeasor with the forum, and thus no basis for exercising personal jurisdiction over the defendants. Here, by contrast, the allegations are that the accused fan arrived in Virginia through defendants' purposeful shipment of the fans through an established distribution channel.¹⁵ The Court in **1566 World-Wide Volkswagen* specifically commented on the significance of this factual pattern: "[I]f the sale of a product of a manufacturer or distributor ... is not simply an isolated occurrence, but arises from the efforts of the [defendants] to serve, directly or indirectly, the market for its product ..., it is not unreasonable to subject it to suit." *Id.* at 297, 100 S.Ct. at 567. And "[t]he forum State does not exceed its powers under the Due Process Clause if it asserts personal jurisdiction over a corporation that delivers its products into the stream of commerce with the expectation that they will be purchased by consumers in the forum State." *Id.* at 297-98, 100 S.Ct. at 567.

Since the decision in *World-Wide Volkswagen*, lower courts have split over the exact requirements of the stream of commerce theory. See *Vermeulen v. Renault, U.S.A., Inc.*,

985 F.2d 1534, 1548 & n. 17 (11th Cir.1993). In *Asahi Metal Industry Co. v. Superior Court*, 480 U.S. 102, 107 S.Ct. 1026, 94 L.Ed.2d 92 (1987), the Supreme Court reflected that split in the context of a case in which jurisdiction in California state courts was asserted for the purpose of requiring a Japanese corporation to indemnify a Taiwanese corporation on the basis of a sale made in Taiwan and a shipment of goods from Japan to Taiwan.

All of the Justices agreed that on the facts of the case before them, jurisdiction did not lie in California; and apparently all of the Justices agreed that the stream of commerce theory provides a valid basis for finding requisite minimum contacts. The split was over the exact requirements for an application of the theory.

Four Justices were of the view that an exercise of personal jurisdiction requires more than the mere act of placing a product in the stream of commerce. As Justice O'Connor expressed it, there must be in addition "an action of the defendant purposefully directed toward the forum State." *Asahi*, 480 U.S. at 112, 107 S.Ct. at 1032. (Emphasis in original) But four of the Justices considered the showing of 'additional conduct' unneeded:

"The stream of commerce refers not to unpredictable currents or eddies, but to the regular and anticipated flow of products from manufacture to distribution to retail sale.... A defendant who has placed goods in the stream of commerce benefits economically from the retail sale of the final product in the forum State, and indirectly benefits from the State's laws that regulate and facilitate commercial activity."

Id. at 117, 107 S.Ct. at 1034-35 (Brennan, White, Marshall, & Blackmun, JJ., concurring in part and concurring in the judgment). Justice Brennan, writing for these Justices, considered this view to be the prevalent view among most courts and commentators. *Id.* at 117-18 & n. 1, 107 S.Ct. at 1034-35 & n. 1 (Brennan, J., concurring in part and concurring in the judgment).¹⁶

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We need not join this debate here, since we find that, under either version of the stream of commerce theory, plaintiff made the required jurisdictional showing. When viewed in the light of the allegations and the uncontroverted assertions in the affidavits, plaintiff has stated all of the necessary ingredients for an exercise of jurisdiction consonant with due process: defendants, acting in consort, placed the accused fan in the stream of commerce, they knew the likely destination of the products, and their conduct and connections with the forum state were such that they should reasonably have anticipated being brought into court there.

We are aware of five appellate decisions that address the stream of commerce theory in the context of intellectual property interests. In four cases, the courts found proper the exercise of personal jurisdiction over foreign defendants under circumstances not unlike *1567 those present here.

In *Stabilisierungsfonds Fur Wein v. Kaiser Stuhl Wine Distributors Pty. Ltd.*, 647 F.2d 200, 209 USPQ 633 (D.C.Cir.1981), in an action for trademark infringement, two German plaintiffs sought to hale an Australian wine producer, its Australian subsidiary, a New York importer, and a District of Columbia liquor store into the District Court for the District of Columbia. The district court held that it lacked personal jurisdiction over the Australian defendants. It then declared that those defendants were indispensable parties, and thus dismissed the action against the other defendants.

The Court of Appeals for the District of Columbia reversed, holding that the district court could properly exercise jurisdiction over the Australian defendants. The court first considered the limits imposed by the Due Process Clause, and concluded they did not prohibit the exercise of jurisdiction. "The Australian defendants ... arranged for introduction of their wine into the United States stream of commerce with the expectation (or at least the intention and hope) that their products will be shelved and sold at numerous local outlets in diverse parts of the country. (Citations omitted.) As defendants recognize, therefore, the links between the claims in suit and the Australian defendants' arrangements to develop and serve a market in the United States make the district court here a fair and reasonable forum, within due process constraints, for the action plaintiffs have brought." *Id.* at 203, 209 USPQ at 636.

The court next considered the limits imposed by subsection A.4 of the District of Columbia's long-arm statute, a

subsection modeled after subsection A.4 of Virginia's long-arm statute, discussed *infra. Id.* at 206-07 & n. 16, 209 USPQ at 638 & n. 16. Even though the plaintiffs were not residents of the forum, the court concluded that the 'injury' requirement was met because plaintiffs were selling their wine in the forum side-by-side with the wines of defendants. *Id.* at 206, 209 USPQ at 638. The 'act or omission' requirement was deemed met by defendants' activities in attaching the disputed mark to their wine in Australia and then injecting the wine into the stream of commerce for sale in the United States. *Id.*¹⁷

The other three cases, *Dakota Industries, Inc. v. Dakota Sportswear, Inc.*, 946 F.2d 1384, 20 USPQ2d 1450 (8th Cir.1991), *Horne v. Adolph Coors Co.*, 684 F.2d 255, 217 USPQ 15 (3rd Cir.1982), and *Honeywell, Inc. v. Metz Apparatewerke*, 509 F.2d 1137, 184 USPQ 387 (7th Cir.1975), reach the same result on similar facts. These cases are arguably distinguishable from the present one in that the owner of the intellectual property at issue in those cases was a resident of the forum. The Supreme Court, however, has made it clear that is not a determinative distinction:

[W]e have not to date required a plaintiff to have 'minimum contacts' with the forum State before permitting that State to assert personal jurisdiction over a nonresident defendant.... [Although] plaintiff's residence in the forum may, because of defendant's relationship with the plaintiff, enhance defendant's contacts with the forum ...[,] plaintiff's residence in the forum State is not a separate requirement, and lack of residence will not defeat jurisdiction established on the basis of defendant's contacts.

Keeton v. Hustler Magazine, Inc., 465 U.S. 770, 779-80, 104 S.Ct. 1473, 1480-81, 79 L.Ed.2d 790 (1984).

Another arguable difference between *Dakota*¹⁸ and *Honeywell*¹⁹ and the present case is the intentional nature of the foreign defendants' conduct in those cases. However, several months before the lawsuit was filed, and presumably before the fans referred to in the Shaneyfelt Declarations were shipped into Virginia, Ultec and Royal were notified of *1568 Beverly's charge that the accused fan infringed the '229 patent. Thus it can be said that the defendants' conduct in this case was equally intentional.

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A third potential difference between *Stabilisierungsfonds* and *Honeywell* and the present case is that the local retailer was not named in the present case as a defendant. However, that is a distinction without significance: in both *Dakota* and *Horne* the foreign manufacturer was subjected to the jurisdiction of the court even though the local retailer was not joined as a defendant.

The fifth case, the only one not supporting the outcome we reach, is *Max Daetwyler Corp. v. R. Meyer*, 762 F.2d 290, 226 USPQ 305 (3rd Cir.), cert. denied, 474 U.S. 980, 106 S.Ct. 383, 88 L.Ed.2d 336 (1985). In that case the foreign manufacturer's shipments of its products into the forum were described as "sporadic." *Id.* at 298–99, 226 USPQ at 312. There also was doubt whether the manufacturer knew of such shipments—the status, as an authorized distributor, of the entity responsible for bringing such shipments into the forum was in dispute. *Id.* at 298, 226 USPQ at 311. That is not the case here. We find this Third Circuit decision unpersuasive on the point.

5.

[7] Notwithstanding the existence of purposeful minimum contacts, a due process determination requires one further step. As Justice Stevens put it in his concurrence in *Asahi*, " 'minimum requirements inherent in the concept of "fair play and substantial justice" may defeat the reasonableness of jurisdiction even if the defendant has purposefully engaged in forum activities.' " 480 U.S. at 121–22, 107 S.Ct. at 1037 (Stevens, J., concurring in part and concurring in the judgment) (quoting *International Shoe*, 326 U.S. at 320, 66 S.Ct. at 160). In other words, even if the requisite minimum contacts have been found through an application of the stream of commerce theory or otherwise, if it would be unreasonable for the forum to assert jurisdiction under all the facts and circumstances, then due process requires that jurisdiction be denied.²⁰

In general, these cases are limited to the rare situation in which the plaintiff's interest and the state's interest in adjudicating the dispute in the forum are so attenuated that they are clearly outweighed by the burden of subjecting the defendant to litigation within the forum. See *Burger King*, 471 U.S. at 477, 105 S.Ct. at 2185 (must be 'compelling case'

of unreasonableness); *Keeton*, 465 U.S. at 774–75, 104 S.Ct. at 1478–79 (purposeful minimum contacts 'ordinarily' enough).

We conclude this is not one of those rare cases. Virginia's interests in the dispute are significant. Virginia has an interest in discouraging injuries that occur within the state. See *Keeton*, 465 U.S. at 776, 104 S.Ct. at 1479. That interest extends to design patent infringement actions such as the one here.

Virginia also has a substantial interest in cooperating with other states to provide a forum for efficiently litigating plaintiff's cause of action. See *id.* at 777, 104 S.Ct. at 1479. Beverly will be able to seek redress in Virginia for sales of the accused fan to consumers in these other states.²¹ These other states will thus be spared the burden of providing a forum for Beverly to seek redress for these sales. And defendants will be protected from harassment resulting from multiple suits. See *id.*

[8] That it is to plaintiff's advantage to adjudicate the dispute in the district court for the Eastern District of Virginia does not militate against its right to have access to that court. The court is part of the exclusive mechanism established by Congress for the vindication of patent rights. The fact that it has unique attributes of which plaintiff apparently *1569 has an interest in taking advantage does not change the case.²²

The burden on Royal does not appear particularly significant. Royal, being incorporated in New Jersey, is not located that far from Virginia. This is not a burden sufficiently compelling to outweigh Beverly's and Virginia's interests. See *Keeton*, 465 U.S. at 774–75, 104 S.Ct. at 1478–79. Ultec, on the other hand, will be required to traverse the distance between its headquarters in the PRC and the district court in Virginia, and will also be required to submit itself to a foreign nation's judicial system. See *Asahi*, 480 U.S. at 114, 107 S.Ct. at 1033. However, it is recognized that " 'progress in communications and transportation has made the defense of a lawsuit in a foreign tribunal less burdensome.' " *World-Wide Volkswagen*, 444 U.S. at 294, 100 S.Ct. at 565 (quoting *Hanson v. Denckla*, 357 U.S. 235, 251, 78 S.Ct. 1228, 1238, 2 L.Ed.2d 1283 (1958)). And Ultec, through its business dealings with Royal, cannot profess complete ignorance of the judicial system of the United States. Accordingly, we

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conclude that the burden on Ultec, as well, is not sufficiently compelling to outweigh Beverly's and Virginia's interests.

6.

[9] The final issue we must address is the applicability of Virginia's long-arm statute.²³ Federal courts apply the relevant state statute when determining whether a federal court, sitting in a particular case, has personal jurisdiction over a defendant, even when the cause of action is purely federal. See Fed.R.Civ.P. 4(e)-(f).

Subsections A.3 and A.4 of the Virginia statute read:

A. A court may exercise personal jurisdiction over a person, who acts directly or by an agent, as to a cause of action arising from the person's:

3. Causing tortious injury by an act or omission in this Commonwealth;

4. Causing tortious injury in this Commonwealth by an act or omission outside this Commonwealth if he ... derives substantial revenue from goods used or consumed or services rendered, in this Commonwealth.

Beverly first argues that subsection A.3, the 'single act' provision²⁴ of Virginia's long-arm statute, applies. That provision requires "an act or omission in this Commonwealth," i.e., a tortious act or omission within Virginia. But jurisdiction here cannot be based on a tortious omission, since active inducement of infringement requires the commission of an affirmative act.²⁵ Nor is there support for ¹⁵⁷⁰ finding such an affirmative act to have occurred in Virginia—there is nothing in the record suggesting that either defendant necessarily committed any affirmative act there.

[10] The other relevant subsection of Virginia's long-arm statute, subsection A.4, also requires that a tortious injury occur in the state, but here the act or omission causing the injury can take place outside the state. The question, then, in determining whether subsection A.4 is applicable to the facts of this case, is whether a 'tortious injury' occurred in the Commonwealth of Virginia.

Beverly contends that ¹⁵⁷³ *Honeywell, Inc. v. Metz Apparatewerke*, 509 F.2d 1137, 184 USPQ 387 (7th Cir.1975) supports jurisdiction over defendants. In *Honeywell*, plaintiff brought suit in the Northern District of Illinois against a U.S. retailer, two U.S. distributors, and the foreign manufacturer of a product the sale of which in Illinois was alleged to infringe Honeywell's patent. The district court, applying the Illinois statute, dismissed the suit against the foreign manufacturer. On appeal, the Seventh Circuit reversed, holding that Honeywell had suffered a tortious injury in Illinois and, under that state's statute, jurisdiction was proper. ¹⁵⁷⁴ *Id.* at 1142, 184 USPQ at 390-91.

The *Honeywell* decision can be read as holding that the injury occurred where infringing sales were made. Alternatively, however, *Honeywell* can also be read to mean that the situs of the injury is the situs of the intangible property interest, which is determined by where the patent owner resides (Honeywell's principal place of business was in Illinois). The law is unsettled on this question; the district courts have read the case both ways.²⁶

As noted, in a case such as this some courts consider the legal situs of an injury to intellectual property rights to be the residence of the owner of the interest.²⁷ The theory is that, since intellectual property rights relate to intangible property, no particular physical situs exists. If a legal situs must be chosen, it is not illogical to pick the residence of the owner.

At first glance this rule may not seem illogical, but there are good arguments against it. Among the most important rights in the bundle of rights owned by a patent holder is the right to exclude others. This right is not limited to a particular situs, but exists anywhere the patent is recognized. It seems questionable to attribute to a patent right a single situs. A patent is a federally created property right, valid throughout the United States. Its legal situs would seem to be anywhere it is called into play. This point is illustrated by the fact that, when an infringement occurs by a sale of an infringing product, the right to exclude is violated at the situs where the sale occurs.²⁸

Other courts have avoided the problems created by the single-situs/place of residence idea, and found the situs of injury to intellectual property in an appropriate case to be the place of the infringing sale.²⁹ Although economic harm to the interests of the patent holder is conceptually different from

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the tortious injury to the patent holder's right to exclude others, recognizing the relationship between these concepts permits the court to assess realistically the legal situs of injury *1571 for purposes of determining jurisdiction over the patent holder's infringement claim.

Economic loss occurs to the patent holder at the place where the infringing sale is made because the patent owner loses business there. This loss is immediate when the patent holder is marketing a competing product. Even if the patent holder is not, the loss may be no less real since the sale represents a loss in potential revenue through licensing or other arrangements. Furthermore, analysis of long-arm jurisdiction has its focus on the conduct of the defendant. Plaintiff's contacts with the forum—such as where the plaintiff resides—as a general proposition are not considered a determinative consideration.³⁰ Additionally, a focus on the place where the infringing sales are made is consistent with other areas of intellectual property law—it brings patent infringement actions into line with the rule applied in trademark³¹ and copyright³² cases.

[11] As we observed earlier in connection with the stream of commerce theory, we believe a uniform body of Federal Circuit law in this area would clearly promote judicial efficiency, would be consistent with our mandate, and would not create undue conflict and confusion at the district court level. Accordingly we hold that, in a case such as this, the situs of the injury is the location, or locations, at which the infringing activity directly impacts on the interests of the patentee, here the place of the infringing sales in Virginia.³³

We conclude that the 'tortious injury' requirement of subsection A.4 has been met. The 'act or omission outside this Commonwealth' requirement is likewise satisfied given our previous conclusion that defendants purposefully shipped the accused fan into Virginia through an established distribution channel.

[12] This leaves the 'substantial revenue' requirement. We conclude that this requirement is also satisfied. It can be inferred from plaintiff's allegations that defendants, by making through distribution channels ongoing and continuous shipments into Virginia, have derived substantial revenue, at least in absolute terms, from sales in Virginia.

Although it is uncertain whether these sales have been substantial in percentage terms, the statute does not require that. See *Ajax Realty Corp. v. J.F. Zook, Inc.*, 493 F.2d 818, 821–22 (4th Cir.1972), cert. denied, 411 U.S. 966, 93 S.Ct. 2148, 36 L.Ed.2d 687 (1973). In *Ajax*, for example, which concerned the 'substantial revenue' requirement in a companion subsection of Virginia's long-arm statute dealing with causes of action based on a breach of warranty, a one-time sale which yielded gross revenue of \$37,000 (representing only one-half of one percent of the defendant's total sales) was held to meet the requirement. *Id.* at 821–22.

Similarly, in *Jackson v. National Linen Service Corp.*, 248 F.Supp. 962 (W.D.Va.1965), a one-time sale which yielded gross revenue of \$25,000 was held to meet the requirement even though the defendant's average annual sales for the period in question were between four and five million dollars. *Id.* at 963.

Furthermore, there is no requirement in subsection A.4 that the revenue derived have any connection to the pleaded causes of action. See *Robinson*, 699 F.Supp. at 1212. Royal derived revenue from the one-time sale referred to in the Lim Declaration. *1572 There is evidence in the record that this revenue was substantial given that the underlying sale represented something in the range of 3% of Royal's total sales in 1991.³⁴ This revenue is relevant even though it resulted from the sale of unrelated goods.

For all the foregoing reasons, we conclude that the requirements of subsection A.4 have been satisfied, and that defendants were subject to personal jurisdiction under Virginia's long-arm statute.³⁵

CONCLUSION

The judgment granting the motion to dismiss for lack of jurisdiction is reversed.

REVERSED AND REMANDED**All Citations**

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Footnotes

- 1 See *Peanut Corp. of Am. v. Hollywood Brands, Inc.*, 696 F.2d 311, 313 (4th Cir.1982). The Due Process
 Clause that is at issue here is the Due Process Clause of the *Fifth Amendment*. See, e.g., *Dakota
 Indus., Inc. v. Dakota Sportswear, Inc.*, 946 F.2d 1384, 1389 n. 2, 20 USPQ2d 1450, 1453 n. 2 (8th Cir.1991).
 2 The court inferred that the accused fan referred to in the first Shaneyfelt Declaration arrived in Virginia through
 an unknown third-party, and thus was not a purposeful contact.
 3 The docket in case # 91-CV-1834 shows no entry disposing of the motion.
 4 The Fourth Circuit is where the case arose; under *Panduit Corp. v. All States Plastic Mfg. Co.*, 744 F.2d
 1564, 1574-75, 223 USPQ 465, 471 (Fed.Cir.1984), we apply the law of the Fourth Circuit to procedural
 matters that are not unique to patent law.
 5 That sentence reads:
 Plaintiff's request for reconsideration of the Order and Judgment entered on March 6, 1992 was filed within
 ten business days of the entry of the Judgment (on March 20, 1992) and was denied on April 8, 1992.
 6 The text of Rule 59(e) contains no requirement that the grounds must be based on newly-discovered
 evidence. For a discussion of that factor and others to be considered in a 59(e) motion, see *Lavespere*,
 910 F.2d at 174-75. We need not consider this aspect of the question further since it was not raised or
 argued by defendants.
 7 Compare Fed.R.Civ.P. 12(b) with Fed.R.Civ.P. 56(e).
 8 Compare *Theunissen v. Matthews*, 935 F.2d 1454 (6th Cir.1991) (hearsay evidence can be considered
 in conjunction with a Rule 12(b)(2) motion) with *Kamen v. American Tel. & Tel. Co.*, 791 F.2d 1006, 1011
 (2d Cir.1986) (hearsay evidence cannot be considered in conjunction with a Rule 12(b)(1) motion).
 9 The second Shaneyfelt Declaration is based on statements of Builder's Square employees having no
 apparent motive to overstate the number of accused fans available for sale at their places of employment.
 If unaware of the litigation and Shaneyfelt's involvement, they might simply be responding to a potential
 customer inquiring about the quantity of available inventory that was on hand. Alternatively, if aware of the
 litigation and Shaneyfelt's identity, these employees would have had a motive to understate the number
 of available fans and thus decrease their employer's exposure to liability for patent infringement. See also
 Fed.R.Evid. 804(b)(5). See generally Michael H. Graham, *Handbook of Federal Evidence*, § 804.5 (3d ed.
 1991).
 10 "Specific" jurisdiction refers to the situation in which the cause of action arises out of or relates to the
 defendant's contacts with the forum. See *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 473 n. 15, 105
 S.Ct. 2174, 2182 n. 15, 85 L.Ed.2d 528 (1985). It contrasts with "general" jurisdiction, in which the defendant's
 contacts have no necessary relationship to the cause of action.
 11 It is undisputed that Ultec does not make direct shipments anywhere within the United States.
 12 For example, the district court, interpreting the Fourth Circuit's *Chung* decision, 783 F.2d 1124, concluded
 the Fourth Circuit had not fully embraced the stream of commerce theory. In a case subsequent to *Chung*,
 however, *Federal Insurance Co. v. Lake Shore, Inc.*, 886 F.2d 654 (4th Cir.1989), the Fourth Circuit
 specifically declined to reject the stream of commerce theory, and considered in detail its applicability to the
 case at hand. *Id.* at 659. And district court cases, both before and after *Federal Insurance*, indicate that
 various iterations of the theory are very much alive in the Fourth Circuit. See *Abel v. Montgomery Ward Co.*,
 798 F.Supp. 322, 324 (E.D.Va.1992); *Weight v. Kawasaki Motors Corp.*, 604 F.Supp. 968 (E.D.Va.1985).
 13 Only in a very few jurisdictions would there be deviation from the law of personal jurisdiction already applied

to foreign tortfeasors in the stream of commerce context. See *Asahi Metal Indus. Co. v. Superior Court*,
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480 U.S. 102, 118 n. 2, 107 S.Ct. 1026, 1035 n. 2, 94 L.Ed.2d 92 (1987) (Brennan, J., concurring in part and concurring in the judgment). Since an important role of the Federal Circuit is to eliminate forum shopping on either substantive or procedural grounds, consistency in this area would advance that role.

14 Plaintiff attempts to support this point by arguing that defendants were on notice of its infringement claim, and thus had fair warning that a lawsuit for patent infringement could result. This is not the point; there is no requirement that the non-resident be on notice that a specific type of litigation might ensue.

15 The presence of an established distribution channel is a significant factor in the cases cited by the parties involving the stream of commerce theory. In plaintiff's cases, in which jurisdiction over the non-resident was found to exist, there was an established distribution channel into the forum. See *Dakota Indus., Inc. v. Dakota Sportswear, Inc.*, 946 F.2d 1384, 20 USPQ2d 1450 (8th Cir.1991); *Honeywell*, 509 F.2d 1137, 184 USPQ 387; *Kearns*, 204 USPQ 485; *Engineered Sports Prods. v. Brunswick Corp.*, 362 F.Supp. 722, 179 USPQ 486 (D. Utah 1973). In defendants' cases, in which jurisdiction was found not to exist, there was no such channel in place. See *Gould v. P.T. Krakatau Steel*, 957 F.2d 573 (8th Cir.), cert. denied, 506 U.S. 908, 113 S.Ct. 304, 121 L.Ed.2d 227 (1992); *Marston v. Gant*, 351 F.Supp. 1122, 176 USPQ 180 (E.D.Va.1972).

16 Justice Stevens joined in the judgment of the Court, but did not join either of the conflicting opinions on the stream of commerce theory.

17 The 'substantial revenue' requirement was likewise deemed met, even though the revenue derived from sales in the forum was negligible in absolute and percentage terms, because that revenue was greater than the District's per capita share of the revenue derived from defendants' eastern United States wine sales. *Stabilisierungsfonds*, 647 F.2d 200, 206, 209 USPQ 633, 638.

18 946 F.2d 1384, 1391, 20 USPQ2d 1450, 1454-55.

19 509 F.2d 1137, 1144, 184 USPQ 387, 390.

20 Five of the Justices considered *Asahi* "one of those rare cases" in which this rule defeated minimum contacts jurisdiction. *Asahi*, 480 U.S. at 116, 121, 107 S.Ct. at 1034, 1036 (Brennan, Stevens, White, Marshall, & Blackmun, JJ., concurring in part and concurring in the judgment).

21 Beverly is not precluded from bringing suit in Virginia just because the bulk of the harm inflicted on it may occur through sales in these other states. See *Keeton*, 465 U.S. at 779-80, 104 S.Ct. at 1480-81.

22 Beverly has submitted evidence showing that in 1991, the district court for the Eastern District of Virginia had the fastest mean time from filing to disposition (5 months) in civil cases, and the fastest mean time from issue to trial in civil cases (again 5 months) amongst all the district courts in the country. The following colloquy is from the March 6, 1992 hearing:

THE COURT: Don't you all want this case here because it's a speedy docket and you can get a quicker trial?
[PLAINTIFF'S COUNSEL]: Well, that is another point.

23 Va.Code Ann. § 8.01-328.1 (Michie 1992). The Virginia legislature intended Virginia's long-arm statute to extend the jurisdiction of the Virginia courts as far as due process would allow. *E.g.*, *Weight*, 604 F.Supp. at 969-70. Thus, some courts, having completed the due process inquiry, have not considered it necessary to undertake an analysis under the long-arm statute. *E.g.*, *Chung*, 783 F.2d at 1127 n. 2. On the other hand, the Virginia legislature also intended the particulars of the long-arm statute to be satisfied even though it could be argued that a lesser standard would meet due process. See *Robinson v. Egnor*, 699 F.Supp. 1207, 1211 (E.D.Va.1988). Thus, other courts have considered it more prudent to undertake a separate analysis. *E.g.*, *Loral Fairchild Corp. v. Victor Co. of Japan*, 803 F.Supp. 626, 629 n. 5, 25 USPQ2d 1701, 1702 n. 5 (E.D.N.Y.1992). We believe the latter is the proper course.

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- 24 So-called because a single act can subject the tortfeasor to jurisdiction under this provision without offending due process. See *Darden v. Heck's, Inc.*, 459 F.Supp. 727, 731 (W.D.Va.1978); *Navis v. Henry*, 456 F.Supp. 99, 100 (E.D.Va.1978).
- 25 Under 35 U.S.C. § 271(a) (1988), only an affirmative act (making, using, or selling the patented design) can give rise to the tort of direct infringement. Likewise, under governing case law, "[a] person induces infringement under § 271(b) by actively and knowingly aiding and abetting another's direct infringement." *C.R. Bard, Inc. v. Advanced Cardiovascular Sys.*, 911 F.2d 670, 675, 15 USPQ2d 1540, 1544 (Fed.Cir.1990) (citing *Water Technologies Corp. v. Calco, Ltd.*, 850 F.2d 660, 669, 7 USPQ2d 1097, 1103 (Fed.Cir.), cert. denied, 488 U.S. 968, 109 S.Ct. 498, 102 L.Ed.2d 534 (1988)).
- 26 See 6 Donald S. Chisum, *Patents* § 21.02[3], at 21–182 (1993): "Two issues are left either implicitly or explicitly unresolved by the *Honeywell* decision. One concerns the 'place of injury' in a patent infringement situation.... Should any state were (sic) such acts occur constitute a place of injury even though it is not the patent owner's domicile?" The cases are gathered and the competing rules are discussed in David Wille, *Personal Jurisdiction over Aliens in Patent Infringement Actions: A Uniform Approach Toward the Situs of the Tort*, 90 Mich.L.Rev. 658 (1991).
- 27 See, e.g., *Acrison, Inc. v. Control & Metering Ltd.*, 730 F.Supp. 1445, 1448, 14 USPQ2d 1833, 1836 (N.D.Ill.1990).
- 28 Other problems with the patent holder's residence rule, including the question of determining in a given case the location of the holder's 'residence,' are described in Wille, *supra* note 26, at 672–73.
- 29 See, e.g., *Interface Biomedical Lab. Corp. v. Axiom Medical, Inc.*, 600 F.Supp. 731, 740, 225 USPQ 146, 152 (E.D.N.Y.1985); *Amburn v. Harold Forster Indus., Ltd.*, 423 F.Supp. 1302, 1303, 200 USPQ 36, 37 (E.D.Mich.1976).
- 30 See *Keeton*, 465 U.S. at 779–80, 104 S.Ct. at 1480–81; see also *Rush v. Savchuk*, 444 U.S. 320, 332–33, 100 S.Ct. 571, 579, 62 L.Ed.2d 516 (1980).
- 31 See, e.g., *Keds Corp. v. Renee Int'l Trading Corp.*, 888 F.2d 215, 218, 12 USPQ2d 1808, 1810 (1st Cir.1989); *Tefal, S.A. v. Products Int'l Co.*, 529 F.2d 495, 496 n. 1, 189 USPQ 385, 385 n. 1 (3d Cir.1976); *Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633, 639, 109 USPQ 438, 442 (2d Cir.), cert. denied, 352 U.S. 871, 77 S.Ct. 96, 1 L.Ed.2d 76 (1956); *Schieffelin & Co. v. Jack Co. of Boca*, 725 F.Supp. 1314, 1319, 13 USPQ2d 1704, 1706 (S.D.N.Y.1989).
- 32 See, e.g., *Arbitron Co. v. E.W. Scripps, Inc.*, 559 F.Supp. 400, 404 (S.D.N.Y.1983).
- 33 See also *Loral Fairchild Corp. v. Victor Co. of Japan*, 803 F.Supp. 626, 25 USPQ2d 1701 (E.D.N.Y.1992) (patentee, Loral Fairchild, sued Murata Machinery Ltd. of Japan, in Virginia district court under subsection A.4 of Virginia's long-arm statute. Loral Fairchild is a Delaware corporation with a principal place of business in New York and an unspecified 'presence' in Virginia. *Id.* at 628, 25 USPQ2d at 1701. The court concluded that all the requirements of subsection A.4 were met. *Id.* at 630, 25 USPQ2d at 1704.)
- 34 That evidence shows that Royal had \$10,000,000 in gross sales in 1991. Assuming that figure is correct, in dollar terms, the 3% figure represents \$300,000.
- 35 *Gordonville Industries, Inc. v. American Artos Corp.*, 549 F.Supp. 200 (W.D.Va.1982) is not necessarily at odds. In *Gordonville*, a one-time sale which generated revenue of approximately \$14,000 was determined not to meet the requirement. *Id.* at 203. However, it was also held that the exercise of jurisdiction would violate due process requirements. *Id.* Thus, the discussion pertaining to the requirements of Virginia's long-arm statute was unnecessary to the holding in the case.

Beverly Hills Fan Co. v. Royal Sovereign Corp., 21 F.3d 1558 (1994)

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EXHIBIT C

Dawson v. Pepin, Not Reported in F.Supp.2d (2001)

KeyCite Yellow Flag - Negative Treatment
Distinguished by *Alisoglu v. Central States Thermo King of Oklahoma, Inc.*,
E.D.Mich., May 11, 2012

2001 WL 822346

Only the Westlaw citation is currently available.

United States District Court, W.D.
Michigan, Southern Division.

Richard A. DAWSON, Plaintiff,

v.

Mario PEPIN, Defendant.

No. 1:99-CV-316.

|

March 29, 2001.

Attorneys and Law Firms

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Roegge, PC, Grand Rapids, MI, for Vfm, Vfm, mediator.

ORDER

QUIST, J.

*1 In accordance with the Opinion filed on this date,

IT IS HEREBY ORDERED that Defendant's Motion To
Dismiss For Lack Of Personal Jurisdiction (docket no. 19) is
DISMISSED.

OPINION

Plaintiff, Richard A. Dawson ("Dawson"), has sued
Defendant, Mario Pepin ("Pepin"), alleging that Pepin
infringed Dawson's patent on a combustible material used to
attract animals and cover human scent. Now before the Court
is Pepin's motion to dismiss pursuant to Fed.R.Civ.P. 12(b)
(2) for lack of personal jurisdiction. For the reasons set forth
below, the Court will grant the motion and dismiss the case.

I. Background

Pepin is a resident of Quebec, Canada. Pepin has
manufactured and sold various products designed for hunting
since approximately 1990. One of these products is a scent
product called "Sniffs" which Pepin markets and sells under
the assumed name of "Buck Expert." The "Sniffs" product is
a stick of combustible material that gives off an odor when
burned. The purpose of the odor is to attract animals and
mask a hunter's human scent. Dawson, a resident of Michigan,
also sells a scent product under the name "Deer Sense." On
April 8, 1997, Dawson obtained U.S. Patent No. 5,618,548 on
his scent product. Shortly after obtaining his patent, Dawson,
through his attorney, informed Pepin that he was infringing
Dawson's patent by selling his scent product in the United
States. Dawson filed his complaint in this suit on April 29,
1999, alleging that Pepin infringed Dawson's patent by selling
the "Sniffs" products in the United States.

II. Motion Standard

In determining whether personal jurisdiction exists in a
patent infringement case, courts must apply the law of the
Federal Circuit rather than the law of the regional circuits.

Akro Corp. v. Luker, 45 F.3d 1541, 1543 (Fed.Cir.1995);

Beverly Hills Fan Co. v. Royal Sovereign Corp., 21 F.3d
1558, 1564-65 (Fed.Cir.1994); *A. Meyers & Sons Corp. v.
Clippis, Inc.*, No. 00 CIV. 7191(HB), 2001 WL 125586, at

* 1 (S.D.N.Y. Feb. 13, 2001). For purposes of a motion to
dismiss under Fed.R.Civ.P. 12(b)(2), a court must construe
pleadings and affidavits in the light most favorable to the

party asserting personal jurisdiction. See *Graphic Controls
Corp. v. Utah Med. Prods., Inc.*, 149 F.3d 1382, 1383
n. 1 (Fed.Cir.1998). Where a motion to dismiss for lack of
personal jurisdiction is decided without an evidentiary
hearing, the plaintiff need only make out a prima facie

showing of personal jurisdiction. See *United States v. Ziegler
Bolt & Parts Co.*, 111 F.3d 878, 880 (Fed.Cir.1997); see also

Dean v. Motel 6 Operating L.P., 134 F.3d 1269, 1272 (6th
Cir.1998)(quoting *CompuServe, Inc. v. Patterson*, 89 F.3d
1257, 1262 (6th Cir.1996)). In contrast to a motion under Rule

56, a court may consider hearsay in a Rule 12(b)(2) motion
if "the evidence bears circumstantial indicia of reliability so



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that it very well could be admissible at trial notwithstanding its hearsay nature.” *Beverly Hills Fan Co.*, 21 F.3d at 1562.

III. Discussion

*2 The determination of whether an out-of-state defendant is subject to personal jurisdiction in a particular state involves a two-step inquiry: (1) whether the forum's long-arm statute permits the assertion of jurisdiction; and (2) whether the assertion of personal jurisdiction over the defendant comports with the requirements of federal due process. *Graphic Controls Corp.*, 149 F.3d at 1385; *Red Wing Shoe Co. v. Hockerson-Halberstadt, Inc.*, 148 F.3d 1355, 1358 (Fed.Cir.1998).¹ In performing the first inquiry, the Federal Circuit defers to the interpretations of the state's long-arm statute by that state's courts and regional federal courts that have interpreted the statute. *Graphic Controls Corp.*, 149 F.3d at 1385-86; see also *Akro Corp.*, 45 F.3d at 1544 (adopting Sixth Circuit's interpretation of Ohio long-arm statute). With regard to the second inquiry, however, the law of the Federal Circuit applies. *Beverly Hills Fan Co.*, 21 F.3d at 1564-65.

The Michigan long-arm statute granting limited jurisdiction over individuals provides:

The existence of any of the following relationships between an individual or his agent and the state shall constitute a sufficient basis of jurisdiction to enable a court of record of this state to exercise limited personal jurisdiction over the individual and to enable the court to render personal judgements against the individual or his representative arising out of an act which creates any of the following relationships:

- (1) The transaction of any business within the state;
- (2) The doing or causing an act to be done, or consequences to occur, in the state resulting in an action for tort.
- (3) The ownership, use, or possession of real or tangible personal property situated within the state.
- (4) Contracting to insure a person, property, or risk located within this state at the time of contracting.

(5) Entering into a contract for services to be rendered or for materials to be furnished in the state by the defendant.

(6) Acting as a director, manager, trustee, or other officer of a corporation incorporated under the laws of, or having its principal place of business within this state.

(7) Maintaining a domicile in this state while subject to a marital or family relationship which is the basis of the claim for divorce, alimony, separate maintenance, property settlement, child support, or child custody.

M.C.L. § 600.705.

The Michigan Supreme Court has construed Michigan's long-arm statute to extend to the limits imposed by the due process clause of the federal constitution. See *Sifers v. Horen*, 385 Mich. 195, 199, 188 N.W.2d 623, 623-24 (1971). Thus, the two questions merge so that the only determination is whether assertion of personal jurisdiction violates the due process clause. See *Nationwide Mut. Ins. Co. v. Tryg Int'l Ins. Co.*, 91 F.3d 790, 793 (6th Cir.1996); *Mich. Coalition of Radioactive Mat. Users, Inc. v. Griepentrog*, 954 F.2d 1174, 1176 (6th Cir.1992).

*3 To satisfy the requirements of federal due process, a defendant not present within the forum state must have “certain minimum contacts with it such that the maintenance of the suit does not offend ‘traditional notions of fair play and substantial justice.’” *Int'l Shoe Co. v. Wash.*, 326 U.S. 310, 316, 66 S.Ct. 154, 158 (1945)(quoting *Milliken v. Meyer*, 311 U.S. 457, 463, 61 S.Ct. 339, 343 (1940)). A defendant's contact with a state must be “purposeful,” meaning that a defendant must intend to avail himself of the privilege of conducting activities in the forum state, invoking the “‘benefits and protections’” of the forum's laws. *Burger King Corp. v. Rudzewicz*, 471 U.S. 475-76, 105 S.Ct. 2174, 2183-84 (1985)(quoting *Hanson v. Denckla*, 357 U.S. 235, 253, 78 S.Ct. 1228, 1239-40 (1958)). This requirement ensures that non-residents will have fair notice that their actions may subject them to suit in the forum state. See *id.* at 472, 105 S.Ct. at 2181-82. In addition, the plaintiff's claim must either arise out of or relate to the defendant's activities in the forum state. See *Helicopteros Nacionales De Colombia, S.A. v. Hall*, 466 U.S. 408, 414, 104 S.Ct. 1868, 1872 (1984). Finally, even if the minimum

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contacts requirement is satisfied, a court must determine whether assertion of personal jurisdiction over the defendant would be fair under the circumstances of the case. See *Burger King*, 471 U.S. at 476-78, 105 S.Ct. at 2184-85. "In general, [] cases [holding that minimum contacts exist but that jurisdiction does not] are limited to the rare situation in which the plaintiff's interest and the state's interest in adjudicating the dispute in the forum are so attenuated that they are clearly outweighed by the burden of subjecting the defendant to litigation within the forum." *Beverly Hills Fan Co.*, 21 F.3d at 1568. The Federal Circuit determines the sufficiency of personal jurisdiction under federal due process by applying a three-prong minimum contacts test: (1) whether the defendant purposefully directed its activities at residents of the forum; (2) whether the claim arises out of or relates to those activities; and (3) whether assertion of personal jurisdiction is reasonable and fair. See *3D Sys., Inc. v. Arotech Labs., Inc.*, 160 F.3d 1373, 1378 (Fed.Cir.1998).

A. Purposeful Availment

In support of his argument that Pepin has directed his activities toward Michigan residents, Dawson cites the fact that Pepin has appeared at a number of trade shows in the United States at which he has displayed and promoted his Sniffs product. (Dawson Decl. ¶¶ 3, 6, 7, Pl.'s Mem. Opp'n Ex. 1; Martine Decl. ¶ 3, Pl.'s Mem. Opp'n Ex. 3.)² Such activity does not support Dawson's argument because nothing in the evidence submitted by Dawson indicates that the trade shows occurred in Michigan. Instead, those shows are alleged to have occurred in Indiana, Ohio, Kentucky, Texas, and Nevada. (Dawson Decl. ¶ 2; Martine Decl. ¶ 3.)

*4 Dawson also points to a sale of a Sniffs product in Michigan that occurred on December 7, 2000, approximately one week before the instant motion was filed, as indicating that Pepin has purposefully directed his activities toward Michigan. Specifically, Debra Hamilton-Dawson, Dawson's wife, states that on or about December 7, 2000, she ordered a Sniffs product from a business known as Old Town Trading Post located in Maine. (Hamilton-Dawson Decl. ¶ 3, Pl.'s Mem. Opp'n Ex. 2.) Ms. Dawson states that she purchased the Sniffs product by calling an "800" telephone number which she received from her brother in the state of Washington, who also purchased a Sniffs product by calling the "800" number. (*Id.* ¶¶ 2-3.) The "800" number is the telephone number that appears on Pepin's Buck Expert website. (*Id.* ¶ 2.)

Dawson contends that the sale of a single accused product in the forum state is sufficient to establish minimum contacts in a patent infringement case. In addition, Dawson argues that because patent infringement is a continuous tort, a court may consider acts of infringement occurring after the suit was filed for purposes of determining personal jurisdiction. With regard to the latter point, Dawson's reliance on *Beverly Hills Fan Co. v. Royal Sovereign Corp.* misses the mark. The court in that case was addressing whether, in determining personal jurisdiction in a patent infringement case, a court is limited to considering only the defendant's conduct before the complaint was filed or whether a court may also consider the defendant's conduct after the complaint was filed as bearing on the issue

of continuous and systematic contacts. See *Beverly Hills Fan Co.*, 21 F.3d at 1562-63. The plaintiff in *Beverly Hills Fan Co.* submitted evidence that the defendants were engaged in continuous shipment of substantial numbers of the accused fan into Virginia both at the time the complaint was filed and after the complaint was filed. See *id.* at 1563. The court found that the post-complaint evidence should be considered because "[i]n a case involving a continuous tort, it would be arbitrary to identify a single moment after which defendant's contacts with the forum necessarily become irrelevant to the issue of specific jurisdiction." *Id.* Unlike that case, Dawson has not presented any evidence that Pepin had made or was making any sales of the accused product in Michigan at the time the complaint was filed.

Moreover, while a single sale might suffice for personal jurisdiction, see *Maxwell Chase Techs., L.L.C. v. KMB Produce, Inc.*, 79 F.Supp. 1364, 1372-73 (N.D.Ga.1999), a plaintiff may not manufacture jurisdiction by engaging in a sale merely to confer jurisdiction in a particular forum.

ESAB Group, Inc. v. Centricut, LLC, 34 F.Supp.2d 323, 332-33 (D.S.C.1999)(stating that "[h]ere, the transaction purportedly supporting personal jurisdiction post-dated the accrual of the cause of action and appears to be manufactured by Plaintiff for the sole purpose of providing Plaintiff with a preferred forum for litigation"); *Edberg v. Neogen Corp.*, 17 F.Supp.2d 104, 112 (D.Conn.1998)(noting that "the courts have repeatedly held that jurisdiction may not be manufactured by the conduct of others"). There is no dispute that the sale Dawson alleges occurred in Michigan was instigated by Ms. Dawson solely for the purpose of manufacturing jurisdiction. Given these circumstances, it was Dawson, acting through his wife, rather than Pepin, who sought to bring the accused product into the state. Thus, the Court will not consider the sale to Ms. Dawson as evidence

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bearing on Pepin's contacts with Michigan. ⁵ *Edberg*, 17 F.Supp.2d at 112 (“Only those contacts with the forum that were created by the defendant, rather than those manufactured by the unilateral acts of the plaintiff, should be considered for due process purposes”).

*5 Dawson also argues that Pepin's website on the internet is a basis for imposing personal jurisdiction. While the internet has now become firmly ingrained as part of our country's economic, social, cultural, and political systems, the law of personal jurisdiction based upon internet activities is still relatively new. However, courts that have considered internet activities in the personal jurisdiction analysis have evaluated the sufficiency of such activities by applying traditional concepts of personal jurisdiction, requiring the defendant to have reached out beyond its own state to engage in transactions with residents of the forum state. In doing so, courts have refused to find minimum contacts based solely upon the maintenance of an internet website. As the Ninth Circuit has stated,

so far as we are aware, no court has ever held that an Internet advertisement alone is sufficient to subject the advertiser to jurisdiction in the plaintiff's home state. Rather, in each, there has been “something more” to indicate that the defendant purposefully (albeit electronically) directed his activity in a substantial way to the forum state.

⁶ *Cybersell, Inc. v. Cybersell, Inc.*, 130 F.3d 414, 418 (9th Cir.1997) (citation omitted).

Many courts have followed the “sliding scale” analysis employed by the court in ⁷ *Zippo Manufacturing Co. v. Zippo Dot Com, Inc.*, 952 F.Supp. 1119 (W.D.Pa.1997), to evaluate the quality of internet contacts with the forum state. The *Zippo* court described activities as falling into three different categories or areas along the spectrum of usage. At one end of the spectrum are situations where the defendant clearly subjects itself to a state's personal jurisdiction by “enter[ing] into contracts with residents of a foreign jurisdiction that involve the knowing and repeated transmission of computer files over the internet.” *Id.* at 1124.

At the other end of the spectrum are “passive” websites, which merely contain information about a company and its products but do not allow the transaction of business. The maintenance of such a site is not a basis for the exercise of personal jurisdiction. *Id.* In the middle are websites which allow the user to exchange information with the host. “In these cases, the exercise of jurisdiction is determined by examining the level of interactivity and commercial nature of the exchange of information that occurs on the Web site.” *Id.*

In addition to the *Zippo* “sliding scale” analysis, courts have examined “whether the defendant intentionally reached beyond its own state to engage in business with residents of the forum state.” ⁸ *Edberg*, 17 F.Supp.2d at 114. In *Edberg*, the defendant maintained a web site which contained information about the company's products and research, a literature request form, and information for ordering products, including an “800” number for telephone orders. *See id.* at 113. The court concluded that the defendant's website was insufficient to confer personal jurisdiction over the defendant because there was no evidence that any user in the forum state (Connecticut) accessed the site or purchased products over the site, the website was not directed at residents of the forum state any more than any other state, and users could not order products directly from the website but instead could only do so by calling the “800” number or writing to the defendant. *Id.* at 114.

*6 In ⁹ *Neogen Corp. v. Neo Gen Screening, Inc.*, 109 F.Supp.2d 724 (W.D.Mich.2000), a case from this district, Judge Bell, using the *Zippo* rule, concluded that the defendant's website was more passive in nature and thus did not support personal jurisdiction over the defendant. The court noted that the website contained some interactive functions, such as an e-mail directory of employees, the ability to print blood sample collection forms which had to be mailed along with blood samples to the defendant, and the availability for customers who had received a password from the defendant to access test results. ¹⁰ *Id.* at 729-30. However, no orders were taken over the website and there was no evidence that it was targeted at Michigan residents more than residents of any other state. ¹¹ *Id.* at 730. Similarly, the Eighth Circuit in ¹² *Soma Medical International v. Standard Chartered Bank*, 196 F.3d 1292 (10th Cir.1999), held that the plaintiff failed to carry its “relatively light burden” of making a prima facie showing of personal jurisdiction where the defendant's website in a passive manner merely

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contained information about the defendant. *Id.* at 1297; see also *Mink v. AAAA Dev. LLC*, 190 F.3d 333, 337 (5th Cir.1999)(concluding that a website containing e-mail access, a printable mail-in order form, and a toll-free telephone number did not provide a basis for personal jurisdiction).

The court in *Winfield Collection, Ltd. v. McCauley*, 105 F.Supp.2d 746 (E.D.Mich.2000), held that the defendant's maintenance of a website was insufficient to support personal jurisdiction, even though the website was "interactive." While noting the existence of the *Zippo* analysis, the court refused to hold, as urged by the plaintiff, that the maintenance of an internet website with interactive features is alone sufficient to confer personal jurisdiction. See *id.* at 750-51. Instead, the court looked to the nature and quality of the defendant's contacts with the forum state regardless of the existence of the website. *Id.* The court concluded that except for two online auction sales at issue in the case to two Michigan residents, there was no evidence indicating that the plaintiff had any continuing relationship with anyone in Michigan or purposefully availed herself of the benefits of Michigan law. *Id.* at 751.

In contrast to the cases mentioned above, the court in *Sports Authority Michigan, Inc. v. Justballs, Inc.*, 97 F.Supp.2d 806 (E.D.Mich.2000), concluded that the defendant's website provided a basis for exercising personal jurisdiction over the defendant. In particular, the court observed that the website did more than just advertise because it enabled customers to purchase products by placing them in a "virtual shopping cart" and paying for them at the "checkout counter." *Id.* at 814. The evidence also demonstrated that the defendant did not have any retail stores, sold its products primarily through the internet, and sold products specifically aimed at Michigan residents. Moreover, the plaintiff presented evidence showing that the defendant admitted to selling products to customers in all 50 states. *Id.* at 812.

*7 In this case, Dawson has identified two websites which he contends support personal jurisdiction over Pepin. The first website is the Buck Expert website maintained by Pepin. Pepin does not deny that he is directly connected with this site. The Buck Expert website contains pictures and descriptions of various Buck Expert products, company history and information, and dealer information, including the

names and addresses of three dealers located in Michigan. (Buck Expert Webpages, attached to Dawson Decl. as Exs. D4-D27.) The website also contains a telephone number for United States orders, but orders cannot be placed directly through the website. Thus, the website is what is referred to as a "passive" site under the *Zippo* analysis, which, alone, is an insufficient basis for personal jurisdiction. This web site is not unlike other sites which merely provide information about products but do not allow customers to purchase products online. See *S. Morantz, Inc. v. Hang & Shine Ultrasonics, Inc.*, 79 F.Supp.2d 537, 541 (E.D.Pa.1999). Furthermore, in spite of the fact that the Buck Expert website lists three dealers in Michigan, the Court finds nothing in the record indicating that Pepin intended to target his Buck Expert website specifically at Michigan residents and Dawson has not shown that any sales occurred in Michigan as a result of the Buck Expert website. That the website lists Michigan dealers is no different than listing those dealers in a national publication with circulation in Michigan, which alone would be insufficient to establish sufficient minimum contacts. See *Jet-Pro Co. v. Sweet Mfg. Co.*, No. 93-4059-SAC, 1993 WL 463512, at *6 (D.Kan.1993)(stating that "the mere fact that a defendant advertises in a national trade journal or magazine that is circulated in Kansas, does not, in and of itself, establish minimum contacts"). Thus, the Buck Expert website does not support Dawson's argument for personal jurisdiction.

Dawson also points to a website called The Hunter's Store, which not only contains information about Buck Expert products but also allows customers to purchase the products online, making the site "interactive." While this web site could conceivably provide some basis for personal jurisdiction, Dawson has not shown that Pepin is connected with this site, as Dawson concedes in his brief that he is not sure of the relationship between Pepin and The Hunter's Store web site. (Pl.'s Mem. Opp'n at 5.) On the other hand, Pepin states by declaration that he has no connection with The Hunter's Store site and does "not sponsor, edit, or control this website." (Pepin 2/15/01 Decl. ¶ 7 (docket no. 35).)³ Thus, nothing in the record suggests that Pepin has any connection to The Hunter's Store site. Furthermore, even if Pepin had some connection with the site, there has been no showing that Pepin has used the site to carry on any systematic or continuous business with residents of Michigan because Dawson has not shown that the Sniffs product was sold in Michigan through the website or by any other means.

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*8 Finally, Dawson contends that jurisdiction is proper under the “effects test” of *Calder v. Jones*, 465 U.S. 783, 104 S.Ct. 1482 (1984), and under the stream of commerce theory of *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 100 S.Ct. 559 (1980). Dawson contends that personal jurisdiction is appropriate under either or both of these theories because Pepin has an established distribution channel in Michigan through his three Michigan dealers. The Court disagrees with this assessment.

In *World-Wide Volkswagen Corp.*, the Court held that where a defendant intentionally inserts its products into the stream of commerce expecting that they will find their way to another state, due process is not offended by the exercise of jurisdiction by that state over the defendant:

When a corporation “purposefully avails itself of the privilege of conducting activities within the forum State,”

Hanson v. Denckla, 357 U.S., at 253, 78 S.Ct., at 1240, it has clear notice that it is subject to suit there, and can act to alleviate the risk of burdensome litigation by procuring insurance, passing the expected costs on to customers, or, if the risks are too great, severing its connection with the State. Hence if the sale of a product of a manufacturer or distributor such as Audi or Volkswagen is not simply an isolated occurrence, but arises from the efforts of the manufacturer or distributor to serve directly or indirectly, the market for its product in other States, it is not unreasonable to subject it to suit in one of those States if its allegedly defective merchandise has there been the source of injury to its owner or to others. The forum State does not exceed its powers under the Due Process Clause if it asserts personal jurisdiction over a corporation that delivers its products into the stream of commerce with the expectation that they will be purchased by consumers in the forum State.

Id. at 297-98, 100 S.Ct. at 567. In *Calder v. Jones*, the plaintiff, an entertainer who lived in California, sued two Florida residents in California for libel based upon an article written and published by the defendants in a magazine with national circulation. Although neither defendant had performed any act within California in connection with the libelous story, the Court held that personal jurisdiction was proper based on the intended effects of the story. The Court observed:

The allegedly libelous story concerned the California activities of a California resident. It impugned the professionalism of an entertainer whose television career was centered in California. The article was drawn from California sources, and the brunt of the harm, in terms both of respondent's emotional distress and the injury to her professional reputation, was suffered in California. In sum, California is the focal point both of the story and of the harm suffered. Jurisdiction over petitioners is therefore proper in California based on the “effects” of their Florida conduct in California. *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 297-298, 100 S.Ct. 559, 567-568, 62 L.Ed.2d 490 (1980); Restatement (Second) of Conflicts of Law § 37 (1971).

*9 465 U.S. at 788-89, 104 S.Ct. at 1486-87.

Dawson has failed to present any basis for applying the “stream of commerce” theory or the “effects test” because Dawson has failed to present any evidence showing that any of the accused products actually entered or were sold in Michigan by Pepin or the distributors identified on Pepin's Buck Expert website. In fact, Pepin states in his affidavit that he has no record of smoking scent products being sold to any United States distributor, including those in Michigan. (Pepin 2/15/01 Decl. ¶ 6.) Thus, Dawson has failed to show that a product Pepin placed in the stream of commerce entered Michigan and caused injury here. In addition, there is no basis for applying the *Calder* “effects test” because that test applies only where the defendant expressly aims his conduct at the forum state such that the forum state is the focal point of the injury. *IMO Indus., Inc. v. Kiekert AG*, 155 F.3d 254, 265-66 (3d Cir.1998). “[T]he mere allegation that the plaintiff feels the effect of the defendant's tortious conduct in the forum because the plaintiff is located there is insufficient to satisfy *Calder*.” *Id.* at 263. Here, all that is presented

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is Dawson's claim that whatever injury occurred outside of Michigan has affected Dawson. This is insufficient to satisfy the requirements of the "effects test."

B. Forum-Related Activities

In addition to showing that Pepin has purposefully availed himself of the benefits of doing business in Michigan, Dawson must also show that Dawson's claim arises out of Pepin's activities in Michigan. See *3D Sys.*, 160 F.3d at 1378. Because Dawson has failed to demonstrate a sufficient level of activity by Pepin in Michigan to establish "minimum contacts" with Michigan, Dawson also fails to satisfy the second prong of the personal jurisdiction test.

C. Fairness

Finally, Dawson makes several arguments under the "reasonable and fair" prong of the "minimum contacts" test explaining why it would be reasonable for a Michigan court to assert jurisdiction over Pepin. Those arguments do not help Dawson because Dawson has failed to show that Pepin purposefully directed his activities at Michigan residents. The additional factors identified in *Burger King* for determining

whether personal jurisdiction would be reasonable come into play only if the defendant has established "minimum contacts" with the forum state. *Burger King*, 471 U.S. at 476, 105 S.Ct. at 2184 ("Once it has been decided that a defendant purposefully established minimum contacts within the forum State, these contacts may be considered in light of other factors to determine whether the assertion of personal jurisdiction would comport with 'fair play and substantial justice'")(quoting *International Shoe*, 326 U.S. at 320, 66 S.Ct. at 160).

IV. Conclusion

For the foregoing reasons, the Court will grant Pepin's motion to dismiss for lack of personal jurisdiction and dismiss the case without prejudice.

*10 An Order consistent with this Opinion will be entered.

All Citations

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Footnotes

- 1 The Court will consider only the issue of limited personal jurisdiction as the parties both agree that there is no basis for general personal jurisdiction over Pepin.
- 2 In support of his motion, Pepin submitted an affidavit dated December 15, 2000. The affidavit was signed by Pepin but was unsworn and Pepin did not subsequently file a sworn affidavit. Therefore, the Court cannot consider the December 15, 2000, affidavit because it does not comply with Federal Rule of Civil Procedure 56(e). See *Steinle v. Warren*, 765 F.2d 95, 100 (7th Cir.1985). Furthermore, although an unsworn affidavit is permissible under 28 U.S.C. § 1746, the affidavit must be subscribed to as true under penalty of perjury. 28 U.S.C. § 1746; *Bonds v. Cox*, 20 F.3d 697, 702 (6th Cir.1994). Pepin's affidavit did not contain such a statement and thus cannot be considered by the Court.
- 3 Pepin submitted an unsigned and unsworn declaration with his reply brief. However, Pepin subsequently filed a signed and sworn declaration on February 26, 2001. Therefore, the Court may consider that declaration.