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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

CLOSED CORPORATION, a California Corporation Plaintiff, v. OPEN SESAME USERS' GROUP, DOES 1-1000, and SCAPE GOAT, Defendants.	CASE NO. CT-0001-DFO **CLOSED CORPORATION'S REPLY IN OPPOSITION TO OPEN SESAME'S MOTION TO DISMISS** Date: October 23, 1999 Time: 9:00 am Court: Ramo Auditorium

Plaintiff Closed Corporation, by its undersigned attorneys, hereby submits its Reply in Opposition to Defendants' Motion to Dismiss:

Defendants in their Motion to Dismiss contend that Open Sesame is not an unincorporated association within the meaning of 28 U.S.C. § 1391(c). Accordingly, Defendants suggest that venue in this case is improper since they believe Open Sesame is not a proper defendant. Similarly, Defendants argue that this Court lacks personal jurisdiction over not only Open Sesame as whole, but also its individual members, since Defendants analogize the Open Sesame Usenet group to a "passive" Internet Web site. Finally, Defendants argue that service of process cannot be effected on any of Open

Sesame's Usenet group's individual members in any manner other than by personal service, even though Defendants appear to concede that Open Sesame's members are deliberately cloaking themselves in anonymity.

However, both the law and the facts are contrary to what Defendants indicate. Closed Corporation can readily meet its burden of proof of demonstrating by a preponderance of the evidence that personal jurisdiction and venue are proper. By contrast, Open Sesame cannot meet its burden of proving that Closed Corporation's methods of service were improper.[1]

0 Open Sesame Is an Unincorporated Association.

As a threshold matter, contrary to what Defendants argue, Open Sesame clearly meets the definition of "unincorporated association" for purposes of establishing personal jurisdiction, and for purposes of establishing venue under 28 U.S.C. §§ 1391(c) and 1400. In that regard, Open Sesame mistakenly relies upon Rule 17(b)(1), Fed. R. Civ. P., to argue that Federal law controls this issue since this case involves patent infringement. *See Committee for Idaho's High Desert, Inc. v. Yost*, 92 F.3d 814 (9th Cir. 1996).

However, Open Sesame utterly ignores the fact that Rule 17(b)(1) applies to situations where the unincorporated association already lacks capacity to sue under the laws of the State where the action exists (*e.g.*, such as where it is a suspended corporation). *See Committee for Idaho's High Desert, Inc. v. Yost*, 92 F.3d 814, 819-820 (9th Cir. 1996). Under such circumstances, Federal law may preempt state law such that the entity otherwise lacking capacity to sue under state law nonetheless can sue and be sued for purposes of a federal statute or constitutional provision. *Sierra Ass'n for*

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[1] Closed Corporation acknowledges it bears the burden of proof of proving both personal jurisdiction and venue. *Butcher's Union Local No. 498, United Food & Commercial Workers v. SDC Investment, Inc.*, 788 F.2d 535, 538 (9th Cir. 1986) (personal jurisdiction); *Piedmont Label Co. v. Sun Garden Packing Co.*, 598 F.2d 491, 496 (9th Cir.1979) (venue). Moreover, because this court has elected to resolve Open Sesame's motion by use of an evidentiary hearing, Closed Corporation further concedes it will need to meet its burden of establishing personal jurisdiction and venue "by a preponderance of the evidence." *Metropolitan Life Ins. Co. v. Robertson-Ceco Corp.*, 84 F.3d 560, 567 (2d Cir. 1996). *See also Whiteman v. Resort*, No. C98-04442 MMC (N.D. Cal. Mar. 17, 1999), 1999 WL 163044, at *1-2. On the other hand, the burden remains with Defendants to prove that Closed Corporation's methods of service were insufficient. *Bally Export Corp. v. Balicar, Ltd.*, 804 F.2d 398, 404 (9th Cir. 1986). *See also* 2 *Moore's Federal Practice* § 12.33[1], at 12-52 (3d ed. 1999) ("In all challenges to the sufficiency of either the process or service of process, the burden of proof lies with the party raising the challenge").

Environment v. Federal Energy Regularity Commission, 744 F.2d 661, 662 (9th Cir. 1984). Here, by contrast, because Open Sesame already readily meets California's own broad definition of an unincorporated association, the Usenet group has the capacity to be sued even without resorting to the "safe harbor" of Rule 17(b)(1).

In California, "[t]he criteria applied to determine whether an entity is an unincorporated association are no more complicated than (1) a group whose members share a common purpose, and (2) who function under a common name under circumstances where fairness requires the group be recognized as a legal entity." *Barr v. United Methodist Church*, 90 Cal. App.3d 259, 266, 153 Cal. Rptr. 322, 328 (1979). As the California Courts recognize, such "[f]airness includes those situations where persons dealing with the association contend their legal rights have been violated," and to that end "[f]ormalities of quasi-corporate organization are not required." *Id.*, 90 Cal. App.3d at 266-267, 153 Cal. Rptr. at 328. Not surprisingly, therefore, Federal Courts applying California's definition of an unincorporated association have described this definition to be very "broad." *Coscarart v. Major League Baseball*, No. C96-1426 FMS (Jul. 11, 1996), 1996 WL 400988, at *3. That broad definition clearly applies here.

In particular, Defendants' arguments related both as to venue and to personal jurisdiction are premised upon the incorrect factual position that Open Sesame does not have a charter, does not possess any structure, and is largely a "passive" Internet web site. However, at the hearing scheduled for October 23, 1999, Closed Corporation will present evidence that any Usenet group like Open Sesame that belongs to one of the eight Usenet primary hierarchies necessarily possesses a charter and has significant structure. More importantly, Closed Corporation will show that "fairness" requires Open Sesame be recognized as an unincorporated association under California law, because its very existence is devoted to violating Closed Corporation's legal rights.

Significantly, Closed Corporation will prove that as a member of the *"comp"* Usenet hierarchy, in addition to possessing a charter, Open Sesame also necessarily possesses the following additional characteristics of unincorporated association structure: (1) as a condition of becoming a Usenet group, members of Open Sesame not only had to reach a consensus as to what its charter would be, but also as to how the newsgroup would be administered; (2) as a result of this consensus, Open Sesame

created within its membership a select subgroup of members who exclusively determine which proposed software developments are useful and should be made available for downloading at a File Transfer Protocol ("FTP") and related Web site; and (3) pursuant to the charter for Open Sesame, all group members must agree not to charge third parties for the use of the *Open* source code, and must further attribute its source. This last condition is particularly critical. The evidence will show that while Closed Corporation currently knows of no action having ever been taken by Open Sesame against any individual who was alleged either to have charged a third party for the use of *Open* or to have failed to attribute the code's source, it nonetheless is contemplated that Open Sesame can take such action should the situation ever arise. That is to say, Open Sesame was created with the understanding that it can sue and be sued. Open Sesame thus is an unincorporated association.

While not controlling, Defendants' arguments also have problems even in the context of Rule 17(b)(1). For instance, Defendants erroneously read *Hecht v. Malley*, 265 U.S. 144 (1923) as requiring unincorporated associations to follow the forms of a corporation. First of all, as already noted, under California law "formalities of quasi corporate structure are not required" to establish an unincorporated association. *Barr v. United Methodist Church,* 90 Cal. App.3d 267, 153 Cal. Rptr. 328. Second, even if Rule 17(b)(1) applied, Defendants' argument fails under their own authority. Specifically, although *Hecht* quotes a Webster's New International Dictionary definition that includes language suggesting a need to follow corporate formalities, and the court looked to such structures as possible indicia of unincorporated association status, the Court nonetheless expressly held as follows: "We think that the word 'association' as used in the Act clearly includes 'Massachusetts Trusts' such as those herein involved, having quasi-corporate organizations under which they are engaged in carrying on business enterprises. ***What other form of 'associations', if any, it includes, we need not, and do not, determine.*****"** *Id.* at 157 (emphasis added). Thus, *Hecht* is not as limiting as defendants suggest.

Indeed, the need for a corporate formalities was not required in *United States of America v. The Rainbow Family,* 695 F. Supp. 294 (E.D. Texas 1988), to satisfy the requirements of Rule 17(b)(1). There, the court focused on whether there was a "combination of persons with common interests, goals, and purposes." *Id*. at 298 (quoting the Report and Recommendation of United States Magistrate, May 27, 1998). To that end, the Rainbow Family were an alternative lifestyle group which was

"informal and loosely knit" and that made decisions collectively, but which had a recognized decision-making structure and methods of disseminating decisions and other information and which met annually in a voluntary "Summer Gathering" to "share many common interests and political values or ideals, and express those shared ideas." *Id.*

The Rainbow Family, which was held to be an unincorporated association, is analogous to the Open Sesame Users' Group. Admittedly, the Open Sesame Users' Group uses a more technically sophisticated method to meet and share the common ideas and work toward the common goals than did the Rainbow Family. Nonetheless, the level of organization and the existence of a voluntary decision making body between Open Sesame and the Rainbow Family are coterminous. For these reasons, even under Rule 17(b)(1), and notwithstanding California's broader definition, the Open Sesame Users' Group still qualifies as an unincorporated association for purposes of both venue and personal jurisdiction.

1 Defendant's Use of Usenet Is An Active Internet Presence Targeted at the Forum with Significant Commercial Impact

In attempting to defeat personal jurisdiction, Defendants' also mistakenly argue that the creation of the Usenet newsgroup *comp.os.opensesame* is analogous to a passive web site that does little more than make information accessible to those who access it. However, by their own admission, the Defendants created the newsgroup to facilitate and aid the development of the *Open* software as part of an open systems development. Closed Corporation will present evidence as to the important role that the Internet plays in allowing this development to occur over a large physically distributed area.

The Open Sesame newsgroup was not merely created to allow people who were interested in the development of *Open* to find out information about the development; instead, the Usenet Group was created to enable those who were so interested to participate in the software's development. Therefore, any jurisdiction in which it is reasonably foreseeable that a developer might reside is a target site for Open Sesame's activity. In that regard, Closed Corporation will present evidence of the disproportionate size of the California Internet community and the critical role that California plays in

the computer industry. This evidence will lead to the conclusion that the use of the *comp.os.opensesame* newsgroup was an active presence targeted at California, sufficient to establish personal jurisdiction. *Cf. Avery Dennison Corp. v. Sumpton,* ___ F.3d ___, 51 U.S.P.Q.2d 1801, 1803 (9th Cir. Aug. 23, 1999) ("A website can be programmed for multiple purposes. Some merchants maintain a form of 'electronic catalog" on the Internet, permitting Internet users to review products and services for sale.")

In arguing to the contrary, Defendants rely, in part, on the alleged inability of any identifiable person to control who may post to an unmoderated Usenet newsgroup as proof that there is no targeting of the newsgroup to any forum, and as evidence of the unfairness of finding jurisdiction here. The Defendants, however, ignore the fact that anyone setting up newsgroup for a distributed development could readily take steps to control the number of forums which the newsgroup will contact by: (1) setting up a local newsgroup which will not be widely distributed; or (2) setting up the newsgroup as a moderated newsgroup in which participation can be directly controlled and limited to participants of known and desirable jurisdictions. Open Sesame was created to reach the widest possible evidence, with the express knowledge a significant portion of that audience resides in California. *See Cool Savings.Com, Inc. v. IQ.Commerce Corp.*, 51 U.S.P.Q.2d 1136, 1138 (N.D. Ill. June 10, 1999) (patent infringement defendant purposefully established minimum contacts with forum state sufficient to establish personal jurisdiction where defendant set up interactive World Wide Web site "directed at entire country, knowing and hoping that residents of all states would use it," and by using a forum-based marketing firm to promote its capabilities using the disputed technology).

Defendants also argue that Open Sesame's activity is noncommercial because the members of the Users' Group do not receive direct remuneration for their efforts. Defendants' argument ignores the fact that Defendants specifically developed their software to provide a *free* alternative to a commercial product – namely, *Views*™. The intentional introduction of an alternative competitive product into the stream of commerce, knowing of Closed Corporation's position in that market, and by Defendants' own admission in response to Closed Corporation's legitimate licensing practices, was intended to have, and has had, a direct commercial effect on Closed Corporation. Indeed, Closed Corporation has already lost sales and been forced to refund purchase prices to customers who have

opted to use the Defendant's software. Such activity is commercial in nature, and supports a finding of personal jurisdiction.

2 Jurisdiction Under the "Effects Doctrine" is Proper, As the Defendant Did Have Contacts within the Forum and the Relationship Between the Forum and the Plaintiff is the Same as in *Panavision Int'l L.P. v. Toeppen.*

Defendants further argue that the "effects doctrine" of personal jurisdiction is inapplicable here, and in support of that proposition they rely upon *IMO Industries, Inc. v. Kiekert,* 155 F.3d 254 (3rd Cir. 1998) contending both that (1) for jurisdiction to be proper more is required than that the harm be felt in the forum; and (2) that *Panavision Int'l L.P. v. Toeppen,* 141 F.3d 1316 (9th Cir. 1998), is limited to its facts. As to the latter point, Defendants claim the Court found jurisdiction under the facts of *Panavision* because of the unique relationship between Panavision and the State of California, and because the importance of the entertainment industry in that forum focused the resulting harm in California.

Yet, even if *Panavision* is limited to its facts in connection to the relationship between the forum, Closed Corporation, and Closed Corporation's harm, the effects doctrine still is applicable here. First of all, Closed Corporation alleges that Defendants' patent infringement is "willful" under 35 U.S.C. § 284, which is intentional action for purposes of the effects doctrine inasmuch as "[w]illfullness is a determination as to a state of mind." *Read Corp. v. Portee, Inc.*, 970 F.2d 816, 828 (Fed. Cir. 1992). Second, the relationship between Closed Corporation, the computer industry of which it is a dominant software distributor, and the State of California, all mirror the circumstances set forth in *Panavision* to a startling degree. In *Panavision,* the brunt of the harm was felt by the plaintiff within California, because California was plaintiff's primary place of business and a concentrated center of the entertainment industry. This was particularly true because the entertainment industry is a global business with an extremely large share of its business and its operations occurring within California. The computer industry is identically situated. Just as Los Angeles serves as the focus of the entertainment industry and caused the harm to Panavision to be felt most acutely within California, so too Silicon Valley and Southern California are the United States' leading situses for the computer and software development industries and serve to focus the harm felt by Closed Corporation in that

state. The facts of this case thus directly mimic those of *Panavision,* and therefore even under a narrow reading of that case those facts will still support a finding of personal jurisdiction under the "effects doctrine." *See also Indianapolis Colts, Inc. v. Metropolitan Baltimore Football Club Ltd. Partnership*, 34 F.3d 410, 411 (7th Cir. 1994).

Finally the Defendants' erroneously argue that they have no contacts within the forum. To the contrary, by Defendants' own admission access to the Open Sesame software distribution web and file servers are available in California, and *comp.os.opensesame* is carried on Usenet servers within the forum. As argued above, and as set out more fully in Closed Corporation's Opening Brief, these activities were targeted at Internet software developers, a group disproportionately found within California. By way of comparison, in *Indianapolis Colts*, the mere television broadcast of Canadian Football League games was deemed a sufficient "contact" with Indiana to support a finding that the Baltimore Colts CFL franchise had entered that state. Therefore, Defendants frequent contacts within California in this case coupled with the fact California is the location of the brunt of Closed Corporation's injuries, supports a finding of personal jurisdiction.

3 The Court Should Order Service by E-mail, Posting to the *comp.os.opensesame* Newsgroup, and Publication in the Open Source On-Line Newsletter Pursuant to California Code of Civil Procedure §413.30.

California Code of Civil Procedure §413.30 allows a Court to "direct that summons be served in a manner which is reasonably calculated to give actual notice to the party to be served and that proof of such service be made as prescribed by the court[.]" When, as here, the defendants have endeavored to remain anonymous and use only the Internet, service by the methods that they have chosen to communicate among themselves is the only effective method of communicating the pendency of the action to the defendants. Defendants simply contend that this is not a method calculated to give actual notice, when in fact this is the method that defendants *rely on* to give notice to each other concerning the *Open* software. The defendants also argue that since the notice may go to those who only read the newsgroup, then this defeats the intent of the statute. By similar logic, publication of notice in a traditional newspaper would never be valid, since people other than the defendants subscribe and

presumably read the legal notices. In fact, no other method is as calculated to give actual notice, to these defendants, under these circumstances than the methods that the Plaintiffs propose.

4 Even if the Court Has Not Found Sufficient Basis for Validity of Jurisdiction, Proper Venue, or Service of Process the Court Should Allow This Action To Continue Through Discovery To Allow for the Determination of Defendant's Identity.

Finally, inasmuch as it is undisputed that personal jurisdiction venue, and service were all established over at least one defendant, Ms. Scape Goat, this Court should allow discovery to proceed as to any unidentified defendants. In that regard, in order to ameliorate the harsh consequences of granting motions to dismiss under Rule 12(b)(2) or 12(b)(3), a trial court also retains the discretion to allow the plaintiff to proceed with discovery to ascertain whether the plaintiff can demonstrate the existence of personal jurisdiction or venue. *Butcher's Union Local No. 498, United Food & Commercial Workers v. SDC Investment, Inc.*, 788 F.2d at 540. To that end the Ninth Circuit has noted that "[d]iscovery should ordinarily be granted where `pertinent facts bearing on the question of jurisdiction are controverted or where a more satisfactory showing of the facts is necessary.'" *Id.* (quoting D*ata Disc, Inc. v. Systems Technology Associates, Inc.*, 557 F.2d 1280, 1285 n.1 (9th Cir. 1977)). Similarly, "the trial court may permit discovery on … a motion [to dismiss for lack of venue], and indeed should do so where discovery may be useful in resolving issues of fact presented by the motion, particularly since the necessity of resolving such issues is created by the movant himself and the relevant evidence is properly within the movant's possession." *Hayashi v. Red Wing Peat Corp.*, 396 F.2d 13, 14 (9th Cir. 1968). Here, discovery at minimum should uncover the identities of Open Sesame's anonymous members, and for that reason alone the case should not be dismissed in light of Ms. Scape Goat's being properly identified as a Defendant.

Nor should lack of service, if indeed there is such a deficiency, be used by Defendants as a sword to mask their patent infringement. Instead, discovery should be allowed to ascertain where they may properly be served, and to the end, "[t]he standards set in Rule 4(d) for service on individuals and corporations are to be liberally construed, to further the purpose of finding personal jurisdiction in cases in which the party has received actual notice." *Grammenos v. Lemos*, 457 F.2d 1067, 1070 (2d Cir. 1972). Accordingly, "the fact of invalidity of one attempt at service does not automatically require

dismissal of the complaint," and the trial court therefore ordinarily should allow a plaintiff the opportunity to remedy any defective service before dismissing the complaint. *Id.*, at 1071. Such a permissive standard clearly is warranted here, given Defendants' intentional reliance upon anonymity to preclude discovery of their whereabouts.

5 Conclusion

Personal jurisdiction can be found in California, the Northern District of California is proper venue, and the service upon the Defendants is proper for the reasons stated above and in the Plaintiff's brief. Even if the Court should find Plaintiff's arguments unconvincing, there is sufficient evidence to allow the Plaintiff's to continue with discovery to identify the Defendants sufficient to make more specific arguments concerning jurisdiction, venue, and service.

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