

UNITED STATES DISTRICT COURT
DISTRICT OF RHODE ISLAND

CATHEDRAL ART METAL CO. :
 :
 v. : C.A. No. 06-465S
 :
 GIFTCO, INC., et al. :

REPORT AND RECOMMENDATION

Lincoln D. Almond, United States Magistrate Judge

This matter is presently before the Court on an Amended Motion to Dismiss (Document No. 149) (the “Motion”) filed by Defendants John Breslin and Johnny M. Johnson. Breslin and Johnson seek dismissal pursuant to Fed. R. Civ. P. 12(b)(2) on the ground that this Court lacks personal jurisdiction over them. Plaintiff, Cathedral Art Metal Co. (the “Plaintiff”), filed an Opposition to the Motion to Dismiss (the “Opposition”). (Document No. 154).

The Motion has been referred to me for preliminary review, findings and recommended disposition. See 28 U.S.C. § 636(b)(1)(B); LR Cv 72. After reviewing the Motion and Opposition, in addition to performing independent research, this Court recommends that the Defendants’ Motion to Dismiss for Lack of Personal Jurisdiction pursuant to Fed. R. Civ. P. 12(b)(2) (Document No. 149) be DENIED.

Background

On September 22, 2009, Cathedral Art filed its Third Amended Verified Complaint which, among other amendments, added Breslin and Johnson as Defendants. (Document No. 86). Defendants Johnson and Breslin responded by filing Motions to Dismiss. (Document Nos. 107, 108). A hearing was held on January 7, 2010. At the hearing, Cathedral Art referenced certain

newly discovered facts and evidence it claimed was relevant to Breslin and Johnson's ties to Rhode Island and thus personal jurisdiction in this District. As a result, the Court granted Cathedral Art leave to supplement its brief to present the new evidence to the Court. (See Document No. 124). On February 12, 2010, Cathedral Art moved to amend its Complaint to plead such allegations. (Document No. 134). The Court granted the Motion to Amend, which mooted the pending dispositive Motions. Cathedral Art, in turn, filed its Fourth Amended Complaint (Document No. 142), and the present Motion to Dismiss by Breslin and Johnson followed shortly thereafter. Breslin and Johnson have each submitted three Affidavits in connection with their claims that they are not subject to personal jurisdiction in Rhode Island and each sequential affidavit aims to rebut or clarify new evidence revealed or claims set forth by Cathedral Art. (See Breslin Affidavits, Document Nos. 149-2, 149-4, 149-5 and Johnson Affidavits, Document Nos. 149-3, 149-6, 149-7).

Facts

The Fourth Amended Complaint alleges copyright infringement under the United States Copyright Act, 17 U.S.C. § 101 et. seq., trademark infringement under the Lanham Act, 15 U.S.C. § 1125 et. seq., and common law claims related to Defendants' alleged intentional copying, marketing and sale of Cathedral Art's work. Fourth Amended Complaint, ¶ 1. Cathedral Art, a Rhode Island corporation with its principal place of business in Providence, Rhode Island, designs, manufacturers and sells inspirational, religious and special occasion giftware and jewelry. Id., ¶ 2. Defendant Giftco, an Illinois corporation, sold and distributed fund-raising gift items for schools, religious organizations and civic groups. Id. ¶ 4. Breslin is a former Vice President, Secretary and Treasurer of Giftco. Id. ¶ 11. Johnson was a Senior Vice President, and Director of Giftco. Id. ¶ 12.

Giftco sold items through independent distributors, many of whom were also named as Defendants in this action. Id. ¶¶ 5,10. In April 2009, Giftco assigned all of its assets to a pre-selected assignee, Patrick Cavanaugh of High Ridge Partners (the “Assignee”). Id. ¶ 14, 15. The purpose of the assignment of its assets was to liquidate Giftco’s assets. Id. ¶ 17. The Assignee retained Breslin and Johnson to assist it in marketing and selling Giftco’s former assets and inventory. Id. ¶ 19. Shortly after the assignment of assets took place, the Assignee sold Giftco’s former assets, including inventory, to Rhode Island Novelty, a company based in Cumberland, Rhode Island. Id. ¶ 20.

Cathedral Art maintains that Breslin and Johnson directed or permitted the marketing and sale of allegedly infringing items into Rhode Island during their tenure with Giftco and thereafter. Id. ¶¶ 25, 46. According to the Fourth Amended Complaint, Breslin, for example, personally participated in Giftco’s defense of this claim by executing Interrogatory Answers, providing information concerning the allegedly infringing pieces and identifying the inventory sold and retained by Giftco. Id. ¶¶ 30, 31. Breslin ceased his employment at Giftco in March 2009, and was then retained as an independent contractor by the Assignee. Id. ¶¶ 37, 38. Additionally, Breslin was thereafter employed by Rhode Island Novelty as an independent contractor. Id. ¶ 41. Breslin assisted the Rhode Island Novelty by providing it, *inter alia*, with Giftco customer lists, earnings information, and sales data. Id. ¶ 43. Breslin submitted a proposed business plan to Rhode Island Novelty and received compensation from it. Id. ¶¶ 44-45.

Similarly, Cathedral Art maintains that Johnson knew or should have known about this lawsuit in October 2006 because a Summons and Complaint was served on Giftco with his name listed as the recipient. Id. ¶ 51. Johnson was also a distributor of Giftco products, and purchased,

marketed and resold at least some the allegedly infringing items. Id. ¶ 53. Johnson ceased his employment with Giftco in March 2009, and was thereafter retained as an independent contractor by the Assignee. Id. ¶ 57. Additionally, Cathedral Art maintains that Johnson was employed by Rhode Island Novelty as an independent contractor. Id. ¶ 59. Johnson traveled to Rhode Island to assist Rhode Island Novelty in its efforts to establish a new fund-raising division. Id. ¶ 60. Johnson solicited new business for Rhode Island Novelty and received significant compensation from it. Id. ¶¶ 61, 62.

Standard of Review

It is well established that the burden rests with the plaintiff to make a prima facie showing to withstand a challenge to personal jurisdiction. Barrett v. Lombardi, 239 F.3d 23, 26 (1st Cir. 2001) (citing Rodriguez v. Fullerton Tires Corp., 115 F.3d 81, 83-84 (1st Cir. 1997)). See also Daynard v. Ness, Motley, Loadholt, Richardson & Poole, P.A., 290 F.3d 42, 50 (1st Cir. 2002). In assessing the plaintiff's prima facie case, the Court must accept as true the "plaintiff's (properly documented) evidentiary proffers" and construe them "in light most congenial to plaintiff's jurisdictional claim." See Mass. Sch. of Law at Andover, Inc. v. Am. Bar Ass'n, 142 F.3d 26, 34, 51 (1st Cir. 1998). See also Trio Realty, Inc. v. Eldorado Homes, Inc., 350 F. Supp. 2d 322, 325 (D.P.R. 2004) (citing Ticketmaster-New York, Inc. v. Alioto, 26 F.3d 201, 203 (1st Cir. 1994)) (the court "draw[s] the facts from the pleadings and the parties' supplementary filings, including affidavits, taking facts affirmatively alleged by plaintiff as true and construing disputed facts in the light most hospitable to plaintiff."). In setting forth the prima facie case, the plaintiff is required to bring to light credible evidence and "cannot rest upon mere averments, but must adduce competent evidence of specific facts." Barrett, 239 F.3d at 26 (citing Foster-Miller, Inc. v. Babcock & Wilcox

Canada, 46 F.3d 138, 145 (1st Cir. 1995)). Moreover, “facts put forward by the defendant become part of the mix only to the extent that they are uncontradicted.” Adelson v. Hananel 510 F.3d 43, 48 (1st Cir. 2007)

Breslin and Johnson are subject to personal jurisdiction in this Court only if they have certain minimum contacts with the forum “such that maintenance of the suit does not offend ‘traditional notions of fair play and substantial justice.’” Int’l Shoe Co. v. Washington, 326 U.S. 310, 316 (1945) (citation omitted). Whether sufficient minimum contacts exist depends on the quality and nature of the activity of Breslin and Johnson, but it is essential that there be some act by which Defendants purposefully availed themselves of the privilege of conducting activities within the forum state, thus invoking its benefits and protections. Sawtelle v. Farrell, 70 F.3d 1381, 1391 (1st Cir. 1995). The “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 Corp. v. Rudzewicz, 471 U.S. 462, 475 (1984). In applying the minimum contacts analysis, the courts recognize two types of jurisdiction – general and specific. “General jurisdiction exists when the litigation is not directly founded on the defendant’s forum-based contacts, but the defendant has nevertheless engaged in continuous and systematic activity, unrelated to the suit, in the forum state.” United Elec. Workers v. 163 Pleasant St. Corp., 960 F.2d 1080, 1088 (1st Cir.1992). Specific jurisdiction, on the other hand, exists “where plaintiff’s claims ‘arise out’ of or are ‘directly related’ to defendant’s contacts with the forum state....” Helicopteros Nacionales de Colombia, S.A. v. Hall, 466 U.S. 408, 414, n.8 (1984). However, “[f]or either type of jurisdiction, in addition to the existence of sufficient ‘minimum contacts,’ the defendant’s contacts with the state must be purposeful and the exercise of jurisdiction must be reasonable under the circumstances.” Auburn

Mfg. v. Steiner Indus., 493 F. Supp. 2d 123, 127 (D.Me. 2007) (citing Harlow v. Children’s Hosp., 432 F.3d 50, 57 (1st Cir. 2005)).

A. Specific Jurisdiction

The Court first considers whether it can exercise specific jurisdiction over Defendants. In the analysis of specific jurisdiction, the Court applies two general rules. First, the forum in which the Federal District Court sits must have a long-arm statute that grants jurisdiction over the defendant. See Barrett, 239 F.3d at 26. Second, “the plaintiff must...show sufficient minimum contacts such that ‘the exercise of jurisdiction pursuant to that statute comports with the strictures of the Constitution.’” LaVallee v. Parrot-Ice Drink Prod. of Am., Inc., 193 F. Supp. 2d 296, 302 (quoting Pritzker v. Yari, 42 F.3d 53, 60 (1st Cir. 1994)). Rhode Island’s long-arm statute, R.I. Gen. Laws § 9-5-33, authorizes a court to exercise jurisdiction over non-resident defendants to the fullest extent permitted by the United States Constitution. See Donatelli v. Nat’l Hockey League, 893 F.2d 459, 461 (1st Cir. 1990); see also Morel ex rel. Moorehead v. Estate of Davidson, 148 F. Supp. 2d 161 (D.R.I. 2001). Accordingly, the Court need only decide whether the assertion of personal jurisdiction over Defendants Breslin and Johnson comports with due process principles.

The First Circuit has developed a three-prong test for analyzing the due process considerations for the existence of specific personal jurisdiction:

First, the claim underlying the litigation must directly arise out of, or relate to, the defendant’s forum-state activities. Second, the defendant’s in-state contacts must represent a purposeful availment of the privilege of conducting activities in the forum state, thereby invoking the benefits and protections of that state’s laws and making the defendant’s involuntary presence before the state’s courts foreseeable. Third, the exercise of jurisdiction must, in light of the Gestalt factors, be reasonable.

United Elec. Radio and Mach. Workers of Am. v. 163 Pleasant St. Corp., 960 F.2d 1080, 1089 (1st Cir. 1992). In order for a court to exercise specific personal jurisdiction, all three factors – relatedness, purposefulness and reasonableness – must be satisfied.

1. Relatedness

The first prong of the due-process test is a consideration of relatedness. To meet the relatedness requirement of specific personal jurisdiction, “the claim underlying the litigation must directly arise out of, or relate to, the defendant’s forum-state activities.” United Elec. Radio, 960 F.2d at 1089. Relatedness is intended to be a “flexible, relaxed standard.” Sawtelle, 70 F.3d at 1389 (citing Pritzker, 42 F.3d at 61). However, “a defendant need not be physically present in the forum state to cause injury (and thus ‘activity’ for jurisdictional purposes) in the forum state.” Northern Laminate Sales, Inc. v. Davis, 403 F.3d 14, 25 (1st Cir. 2005).

As to the first element, Defendants assert that they “had no Rhode Island activities” and that any allegedly infringing activity was not carried out by Breslin or Johnson, but instead by High Ridge Partners or Giftco. (Document No. 149-1 at 16). The concept that an individual cannot be held liable for conduct undertaken in the individual’s capacity as an officer of a corporation is referred to as the “fiduciary shield doctrine” and is a central issue in this Motion. Thus, the parties’ conflicting interpretations of the fiduciary shield doctrine and its applicability in the present case warrant clarification at the outset.

Breslin and Johnson describe the fiduciary shield doctrine as a “judicially created principle that precludes the exercise of personal jurisdiction over nonresident corporate agents or employees who are acting in the forum state in their role as corporate agents or employees.” (Document No. 159 at 13). Although Johnson and Breslin accurately describe the general theory behind the

fiduciary shield doctrine, the rule is not unyielding. For example, in Global 360, Inc. v. Spittin' Image Software, Inc., No A3:04-CV-1857-L, 2005 WL 625493, *7 (N.D. Tex. 2005), the court noted that the fiduciary shield doctrine does not apply to corporate officers that “injure persons by virtue of their ‘tortious activity even if such acts were performed within the scope of their employment as corporate officers.’” Moreover, the Sixth Circuit Court of Appeals has stated that, “the mere fact that the actions connecting defendants to the state were undertaken in an official rather than personal capacity does not preclude the exercise of personal jurisdiction over those defendants.” Balance Dynamics Corp. v. Schmitt Indus., Inc., 204 F.3d 683, 698 (6th Cir. 2000) (collecting cases concerning Lanham Act violations of individuals acting as corporate agents). The Sixth Circuit concluded that “where an out-of-state agent is actively and personally involved in the conduct giving rise to the claim, the exercise of personal jurisdiction should depend on traditional notions of fair play and substantial justice....” Id. These cases reveal that the fiduciary shield doctrine is not a brightline rule, but instead requires a consideration of the specific facts at issue and the application of general principles considered in every analysis of personal jurisdiction.

Having determined that Breslin and Johnson cannot avoid this Court’s jurisdiction merely by pointing to their role as corporate officers, this Court examines the relatedness prong in the context of the contacts of Breslin and Johnson with this forum. The Court determines that it is clear that both Breslin and Johnson engaged in activities in Rhode Island. Cathedral Art claims, for example, that Breslin and Johnson were involved in liquidating the assets of Giftco in Rhode Island, including the allegedly infringing pieces. (See, e.g., Counts I-III and V-VIII of Fourth Amended Complaint, Document No. 142). The claims underlying the litigation directly relate to Breslin and Johnson’s activities in Rhode Island because Plaintiff contends Breslin and Johnson published and

sold one or more of the three infringing pieces which violated Cathedral Art's copyright and trademark protections. Accordingly, the relatedness prong has been satisfied.

2. Purposeful Availment

The second prong of the due process test considers whether a defendant has “engaged in any purposeful activity related to the forum that would make the exercise of jurisdiction fair, just, or reasonable.” Sawtelle, 70 F.3d at 1391 (quoting Rush v. Savchuk, 444 U.S. 320, 329 (1980)). Two factors are considered in the purposeful availment analysis: voluntariness and foreseeability. See Ticketmaster, 26 F.3d at 207. “To demonstrate purposeful availment, the plaintiff must proffer ‘evidence that the defendant[s] actually reached out to the plaintiff’s state of residence to *create* a relationship – say, by solicitation, – the mere fact that the defendant[s] willingly entered into a tendered relationship does not carry the day.’” PFIP, LLC v. Planet Fitness Enter., Inc., No. 04-250-JD, 2004 WL 2538489, at *7 (D.N.H. Nov. 10, 2004) (quoting Phillips Exeter Acad. v. Howard Phillips Fund, 196 F.3d 284, 292 (1st Cir. 1999)). The requirement “depends upon the extent to which the defendants voluntarily took action that made it foreseeable they might be required to defend themselves in court in [the forum state].” Id. (citing Jet Wine & Spirits, Inc. v. Bacardi & Co., 298 F.3d 1, 11 (1st Cir. 2002)). The issue of foreseeability “ensures that a defendant will not be haled into a jurisdiction solely as a result of ‘random,’ ‘fortuitous,’ or ‘attenuated’ contacts, or of the ‘unilateral activity of another party or a third person.’” Burger King, 471 U.S. at 475.

Defendants argue it is “neither voluntary nor foreseeable that Breslin and Johnson would be haled into this Court in their personal capacities in connection with [their employment by Giftco, an Illinois corporation].” Document No. 149-1 at 17. In their Fourth Amended Complaint, Cathedral Art contends that Breslin and Johnson, while employed by Giftco, failed to halt the sale

of the infringing pieces after learning of the original claims in this matter. Cathedral Art contends this constituted intentional tortious conduct, and that both Breslin and Johnson’s “participation as independent contractors working for the Assignee to sell Giftco’s inventory in 2009 was likewise purposefully directed at Cathedral Art in Rhode Island.” Document No. 154 at 22. Further, both Breslin and Johnson were allegedly compensated for their later contract work on behalf of Rhode Island Novelty in efforts to sell Giftco’s inventory, another action that was purposefully directed at Rhode Island. Given these contacts, the purposeful availment prong has been satisfied.

3. Gestalt Factors

Next, the Court considers whether the exercise of jurisdiction is reasonable. In determining whether the exercise of jurisdiction would be reasonable, the Court considers the so-called Gestalt factors. “The Gestalt factors measure reasonableness: even ‘if such [requisite] contacts exist,’ the court’s exercise of jurisdiction ‘must comport with ‘fair play and substantial justice.’” Phillips v. Prairie Eye Ctr., 530 F.3d 22, 29-30 (1st Cir. 2008) (citation omitted).

(a) Defendants’ Appearance

In order for a defendant to show that he is unduly burdened by appearing in the forum state, he must “...demonstrate some kind of special or unusual burden.” Pritzker v. Yari, 42 F.3d 53, 64 (1st Cir. 1994). Courts have recognized, however, that it is almost always inconvenient and costly for a party to litigate in a foreign jurisdiction. See id. Thus, absent a showing of a special or undue burden, mere economic considerations are insufficient. Defendants allege no special or undue burden.

(b) Forum State's Interest

In order to determine the forum state's interest in hearing the dispute, this Court should "not...compare [its] interest to that of some other jurisdiction...." Foster-Miller, Inc. v. Babcock & Wilcox Canada, 46 F.3d 138, 151 (1st Cir. 1995) (citing Burger King, 471 U.S. at 483 and n.26. Accordingly, even though Defendants may have an interest in having the matter litigated in their home states, this Court is not called on to weigh the forums' respective interests. Defendants are alleged to have violated federal copyright and trademark laws. Cathedral Art is located in Rhode Island, and this state has an interest in litigating the matter. This factor weighs in favor of exercising jurisdiction over Defendants Breslin and Johnson.

(c) Plaintiff's Interest in Relief

This factor clearly weighs in Plaintiff's favor. The goal is to ensure that a plaintiff is able to obtain "convenient and effective relief." Pritzker, 42 F.3d at 64. Central to this goal is that the court "accord plaintiff's choice of forum a degree of deference in respect to the issue of its own convenience." Id. (citing Ticketmaster-New York, Inc. v. Alioto, 26 F.3d 201, 211 (1st Cir. 1994)). Here, it is readily apparent that Plaintiff wishes to litigate in this forum.

(d) Judicial System's Interests

The focus of this factor is on the "judicial system's interest in obtaining the most effective resolution of the controversy...." Nowak v. Tak How Inv., Ltd., 94 F.3d 708, 718 (1st Cir. 1996). This case also involves claims against Giftco and its distributors. The most effective resolution of this controversy would be to hear these related claims together in Rhode Island.

(e) States' Common Interest

The last Gestalt factor "addresses the interests of the affected governments in substantive social policies." Id. at 719. In considering this factor, "the most prominent policy implicated is the

ability of a state to provide a convenient forum for its residents to redress injuries inflicted by out-of-forum actors.” Sawtelle, 70 F.3d at 1395 (quoting Burger King, 471 U.S. at 473). Rhode Island does have an interest in permitting companies to seek resolution of legal disputes at home. Accordingly, this factor weighs in favor of this Court exercising jurisdiction over Defendants Breslin and Johnson.

Thus, all of the Gestalt factors support the exercise of personal jurisdiction over Defendants Breslin and Johnson. Accordingly, the exercise of personal jurisdiction over Breslin and Johnson is warranted. Although Defendants proclaim they lack ties to Rhode Island, their claims are belied by the evidence revealed during discovery, which continues to emerge.¹

B. General Jurisdiction

“It is well-established that the standard for finding general jurisdiction ‘is considerably more stringent than that applied to specific jurisdiction questions.’” Negron-Torres v. Verizon Commc’ns, Inc., 478 F.3d 19, 27 (1st Cir. 2007) (citation omitted). In order to find general jurisdiction, the Court considers a defendant’s non-suit related contacts with a forum, and if those contacts are continuous and systematic, the Court may exercise general jurisdiction over the party. See Harlow v. Children’s Hosp., 432 F.3d 50, 64 (1st Cir. 2005). The “‘continuous and systematic’ requirement has been characterized as being satisfied when the defendant’s forum contacts are ‘extensive and pervasive.’” Barry v. Mort. Servicing Acquisition Corp., 909 F. Supp. 65, 75 (D.R.I. 1995) (citation omitted).

¹ While this Motion was pending, Cathedral Art filed a Motion to Supplement the Record (Document No. 169) with additional details concerning Johnson’s ties to Rhode Island. The Motion to Supplement the Record is DENIED as moot in light of the Court’s determination that further briefing is unnecessary to determination of the legal issue presented.

In this case, there is no evidence that the Defendants “maintained a continuous and systematic linkage with the forum state” as is required for the Court to find the exercise of general jurisdiction to be proper. N. Laminate, 403 F.3d at 24, citing Phillips Exeter Acad., 196 F.3d at 288. In short, the Complaint fails to allege any of the traditional contacts that would support a finding of general jurisdiction. Thus, the Court’s recommendation that the Motion to Dismiss be denied is based upon the Court’s determination that a finding of specific jurisdiction is justified while general jurisdiction is not.

Conclusion

For the reasons discussed above, this Court recommends that Defendants Johnson and Breslin’s Amended Motion to Dismiss for Lack of Personal Jurisdiction pursuant to Fed. R. Civ. P. 12(b)(2) (Document No. 149) be DENIED. In addition, Plaintiff’s Motion to Supplement the Record (Document No. 169) is DENIED as moot. Any objection to this Report and Recommendation must be specific and must be filed with the Clerk of the Court within fourteen (14) days of its receipt. See Fed. R. Civ. P. 72(b); LR Cv 72. Failure to file specific objections in a timely manner constitutes waiver of the right to review by the District Court and the right to appeal the District Court’s decision. See United States v. Valencia-Copete, 792 F.2d 4, 6 (1st Cir. 1986); Park Motor Mart, Inc. v. Ford Motor Co., 616 F.2d 603, 605 (1st Cir. 1980).

/s/ Lincoln D. Almond

LINCOLN D. ALMOND
United States Magistrate Judge
September 21, 2010