

person whose mind conceives the relevant shape, configuration, pattern or ornamentation. The position in respect of employees is similar to that of the Copyright Act. Section 19(3) of the Designs Act states 'where a design is made by a person in the course of his employment with an employer, the employer is the owner of the design'. Although the Designs Act does not draw on the distinction between a contract of service or a contract for service the assessment again turns on whether the work is created by an employee or an independent contractor and whether it was made within the scope of employment.

The position for independent contractors is however different to that of copyright and patent ownership for the Designs Act vests ownership of commissioned designs in the commissioner. Section 19(2) of the Designs Act essentially provides that where an agreement for valuable consideration is entered for the creation of the design the

commissioner will own the design. The Designs Act is silent as to whether the agreement must be in writing. Therefore as long as there is an agreement between the business and designer together with payment of consideration for the design then the business will own the design regardless of the absence of express contractual provisions as to ownership.

### Conclusion

In order to ensure that your business owns the intellectual properties of its employees and independent contractors the following check list sets out the more important points that should be covered or considered.

1. Check that all agreements with employees and/or independent contractors are carefully drafted and that all intellectual property rights are assigned to the business.
2. Ensure that the business obtains appropriate warranties as to ownership of any intellectual property developed by external

contractors and that there is no "embedded" intellectual property that may restrict your future use or ownership.

3. Ensure that the business maintains an appropriate intellectual property register and that its intellectual property is regularly audited for ownership purposes.
4. Ensure that where a business is engaging "employees" for the purposes of creation of intellectual property that they are being engaged pursuant to a contract of service.

---

1 23 IPR 269

2 69 RPC 10

3 50 IPR 565

4 *Redrock Holdings Pty Ltd and Hotline Communications Ltd v. Adam Hinkley* [2001] 50 IPR 565.

5 see *Sterling Engineering Co Ltd v. Patchett* [1955] AC 534.

6 see for example *Electrolux Ltd v. Hudson* [1977] FSR 312.

---

## Purposeful availment required for US jurisdiction

*Laura Seeto, Freehills*

---

Laura Seeto is a solicitor in Freehills' Corporate group.

---

On 27 January 2003, the United States Court of Appeals for the Third Circuit ruled that a court may not exercise specific personal jurisdiction over a website operator outside the jurisdiction unless there is evidence that the operator purposely availed itself of conducting activity in the forum state.<sup>1</sup>

The US companies, Toys "R" Us Inc and Geoffrey Inc (Toys), claimed that two Spanish companies, Step Two SA and Imaginarium Net SL (Step Two), had used their internet websites to engage in trademark infringement, unfair competition, misuse of the trademark notice symbol and unlawful cybersquatting. Toys owned a network

of Imaginarium stores selling educational toys and games, a number of Imaginarium trademarks, and the domain names, [www.imaginarium.com](http://www.imaginarium.com), registered in 1995, and [www.imaginarium.net](http://www.imaginarium.net), which was registered in April 1999 and offered Imaginarium merchandise for sale.

Step Two owned 165 stores operating under the name Imaginarium in Spain and nine other countries, with the same façade and logo, and similar merchandise, as Toys' stores. Step Two did not operate any stores in the US, nor did it have any US bank accounts or employees. Step Two first registered the Imaginarium mark in

Spain in 1991, and subsequently registered the mark in several other countries where its stores were located. In 1996, Step Two registered the domain name [www.imaginarium.es](http://www.imaginarium.es). In June 1999, two additional domain names, [www.imaginariumworld.com](http://www.imaginariumworld.com) and [www.imaginarium-world.com](http://www.imaginarium-world.com), were registered, followed by [www.imaginariumnet.com](http://www.imaginariumnet.com), [www.imaginariumnet.net](http://www.imaginariumnet.net) and [www.imaginariumnet.org](http://www.imaginariumnet.org) in May 2000. In February 2001, four of the Step Two websites allowed customers to purchase merchandise online.

The District Court denied Toys' jurisdictional discovery request and

---

## Purposeful availment required for US jurisdiction

---

dismissed the case for lack of personal jurisdiction. Toys appealed to the Court of Appeals.

In concluding that specific personal jurisdiction could not be exercised over Step Two, the Court, relying on previous decisions,<sup>2</sup> stated that the exercise of jurisdiction requires minimum contacts, that is, the defendant must have purposefully availed itself of the privilege of conducting activities within the forum state, thus invoking the benefits and protections of its laws. The mere operation of a commercially interactive website is insufficient to subject a website operator to jurisdiction anywhere in the world, 'something more' is required. The website operator must have intentionally and directly targeted its website to the forum state and/or knowingly conducted business with forum state residents via its website. The Court also noted that the defendant's non-internet activities may be included as part of the purposeful availment calculus.

Although the exact mix of internet and non-internet contacts required to support an exercise of personal jurisdiction was not considered, the Court commented that determination should be made on a case-by-case basis by assessing the nature and quality of the contacts, and that non-internet contacts such as serial business trips to the forum state, telephone and fax communications directed to the forum state, purchase contracts with forum state residents, contracts that apply the law of the forum state and advertisements in local newspapers, may form part of the 'something more' needed to establish personal jurisdiction.

The Court identified a number of factors demonstrating that Step Two's websites were not designed or intended to reach US customers, and thus failed to satisfy the purposeful availment requirement:

1. The websites were in Spanish;

2. Prices on the websites were listed in pesetas and euros; and
3. Goods ordered on the websites could only be shipped to addresses in Spain. More importantly, the websites were not designed to accommodate addresses within the US.

Toys produced evidence of two sales to US residents conducted via the Step Two websites. These purchases were orchestrated by Toys, and the goods shipped to a Spanish address. The Court concluded that the sales were fortuitous, random, and attenuated contacts, constituting only inconclusive circumstantial evidence that Step Two had targeted its website to US residents, or purposefully availed itself of any effort to conduct activity in the US.

Toys also asserted that the electronic newsletter and 'Club Imaginarium' emails that customers could register to receive on the Step Two websites constituted purposeful availment. The Court disagreed, stating that email correspondence by itself or even in conjunction with a single purchase, does not constitute sufficient minimum contacts.

Finally, Toys argued that personal jurisdiction could also be based on the effects in the forum state of a defendant's tortious actions elsewhere. The Court dismissed this argument on the grounds that Toys had not established that Step Two engaged in tortious behaviour expressly aimed at the US. Ultimately, Toys' inability to show intention on the part of Step Two was the key missing component in its case.

However, the Court of Appeals ruled that the District Court erred in denying Toys' request for jurisdictional discovery. Unless a plaintiff's claim is clearly frivolous or does not suggest with reasonable particularity the possible existence of the requisite contacts between the defendant and the forum state, discovery must be allowed before the District Court

dismisses the case for lack of personal jurisdiction. Toys' request for jurisdictional discovery was, in the Court's opinion, a specific and reasonable follow up based on Toys' allegations of Step Two's mimicry of its marketing developments and intellectual property. The District Court's approach of focusing on Step Two's websites and its related activities precluded consideration of other internet and non-internet contacts, which, if explored, might provide the 'something more' required to bring Step Two within jurisdiction. In particular, further discovery into the fact that some of Step Two's merchandise was purchased from US vendors, and that the President of Step Two, Mr Felix Tena, attended the New York Toy Fair once each year, might shed light on Step Two's intentions with respect to the US market or the extent of its US business contacts. Discovery might also indicate whether these contacts directly facilitated Step Two's alleged exploitation of Toys' marketing techniques by supplying it with items identical to Toys' inventory to sell on its websites. The Court therefore ruled that jurisdictional discovery be allowed on the limited issue of Step Two's business activities in the US, including business plans, marketing strategies, sales and other commercial interactions, information exclusively possessed by Step Two and capable of speaking to an essential element of the personal jurisdiction calculus.

---

<sup>1</sup> Toys "R" Us Inc v Step Two SA, 3d Cir., No 01-3390, 27/1/03.

<sup>2</sup> Asahi Metal Indus Co Ltd v Superior Court of California 480 US 102 (1987); Zippo Mfg Co v Zippo Dot Com Inc 952 F Supp 1119 (WD Pa 1997); Desktop Technologies Inc v Colorworks Rerpod & Design 1999 WL 98572 (ED Pa Feb 25, 1999); ALS Scan v Digital Service Consultants Inc 293 F 3d 707 (4<sup>th</sup> Cir 2002); Cybersell Inc v Cybersell Inc 130 F 3d 414 (9<sup>th</sup> Cir 1997); Euromarket Designs Inc v Crate and Barrel Ltd 96 F Supp 2d 824 (ND Ill 2000).