

No. 73716-3-I

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**IN THE COURT OF APPEALS  
OF THE STATE OF WASHINGTON  
DIVISION I**

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REMIGIUS G. SHATAS,

*Plaintiff/Appellant,*

v.

ANDREW M. SNYDER AND JANE DOE SNYDER; CAMBRIDGE  
INFORMATION GROUP I, LLC; CAMBRIDGE INFORMATION  
GROUP, INC.,

*Defendant/Respondents,*

BLUCORA, INC.

*Nominal Defendant/Respondent.*

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## I. INTRODUCTION

Plaintiff/Appellant, Remigius Shatas, filed this derivative action against Andrew Snyder (“Snyder”), Cambridge Information Group (“CIG”), and Cambridge Information Group I LLC (“CIG I”), for insider trading in breach of their fiduciary duties to Blucora, Inc. Appellant/Nominal Defendant, Blucora, moved to dismiss the action under Civil Rule 12(b)(3). Blucora argued that Shatas filed suit in the wrong venue in light of Blucora’s forum selection bylaw.

The trial court granted Blucora’s motion concluding that venue lies in Delaware. This was erroneous for two independent reasons:

- **First**, pursuant to Blucora’s forum selection bylaw, if an indispensable party is not subject to Delaware jurisdiction, then venue shall lie in another forum that has jurisdiction. Here, CIG is an indispensable party. It is not subject to jurisdiction in Delaware. And, it is subject to jurisdiction in King County Superior Court. This was and remains undisputed.
- **Second**, pursuant to Blucora’s forum selection bylaw, Blucora may agree in writing to a forum other than Delaware. It has done so here. Blucora entered into three shareholder investment agreements with CIG in which King County is designated irrevocably as the exclusive venue for suits that “relat[e] to or aris[e] out of” those agreements. And here, it is only by virtue of those agreements that Shatas is able to bring this derivative suit. This suit therefore relates to and arises out of the agreements.

For these reasons, Shatas asks this Court to reverse the trial court’s Rule 12 decision and remand this action for further proceedings in King County Superior Court.

## **II. ASSIGNMENTS OF ERROR**

### **A. Assignments of Error**

1. The trial court erred in dismissing this case under CR 12(b)(3) for improper venue.
2. The trial court erred in denying Shatas' motion for reconsideration regarding the dismissal.

### **B. Issues Pertaining to Assignments of Error**

1. Whether, under the Blucora forum selection bylaw, venue is proper in King County Superior Court because CIG is an indispensable party, is not subject to Delaware jurisdiction, and is subject to jurisdiction in King County. (Assignments of Error 1 & 2.)
2. Whether, under the Blucora forum selection bylaw, venue is proper in King County Superior Court because Blucora agreed in writing that King County is the proper forum for claims, like this insider trading claim, that "relat[e] to or aris[e] out" of three shareholder investment agreements. (Assignments of Error 1 & 2.)

## **III. STATEMENT OF THE CASE**

### **A. Nature of Case and Parties**

#### **1. Appellant/Derivative Plaintiff Shatas**

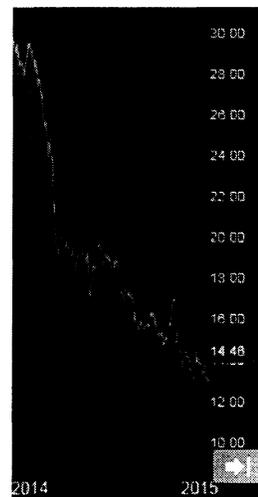
As a Blucora shareholder, Shatas filed this common law insider trading derivative claim in King County Superior Court. CP 1-24. Shatas seeks to recover insider trading profits on behalf of Blucora pursuant to Delaware law.

Specifically, Shatas seeks to assert Blucora's rights against CIG, CIG I, and Snyder for their breach of fiduciary obligations to Blucora.

These breaches occurred when CIG, through its proxy CIG I, sold over one million Blucora shares for more than \$28 million based on non-public inside information. This extraordinarily well-timed stock sale occurred after an unprecedented run-up in Blucora's stock price to a 14-year high and just two months before the onset of a sustained and dramatic stock price decline, as depicted in the following charts:



(Price before sale.)



(Price after sale.)

CP 7-9.

When an officer or director of a corporation breaches a fiduciary duty to the corporation an individual shareholder generally lacks standing “at law” to remedy the breach. *Lewis v. Knutson*, 699 F.2d 230, 237-38 (5th Cir. 1983) (quoting *Cohen v. Beneficial Loan Corp.*, 337 U.S. 541, 548, 69 S.Ct. 1221, 1226, 93 L.Ed. 1528 (1949)). This is because the corporation has suffered the injury, not the shareholder himself. *Id.*

A derivative action is different because of its equitable nature. *Id.* In a derivative action, an individual shareholder is allowed to “to step into the corporation’s shoes and to seek in its right the restitution he could not demand on his own.” *Id.* Here, Shatas has stepped in to Blucora’s shoes to enforce Blucora’s rights against CIG, CIG I, and Snyder.

### **2. Appellee/Nominal Defendant Blucora**

Blucora is headquartered in Bellevue, Washington. CP 148; CP 2 ¶ 1. On June 5, 2012, the Company changed its name from InfoSpace to Blucora. CP 2 ¶ 1; CP 199. For ease of reference, we refer herein to both Blucora and InfoSpace as “Blucora.” Blucora was named as a nominal defendant only. Any and all net recovery in this matter would inure to the benefit of Blucora and its shareholders.

### **3. Appellees/Defendants CIG, CIG I, and Snyder**

CIG I is the reported owner and seller of the Blucora shares, which are the subject of this insider trading claim. CP 2 ¶ 3; CP 205-06. CIG owns, controls, and makes all investment decisions for CIG I. CP 2 ¶ 4; CP 208-20. At all relevant times, Snyder was a member of the board of directors of Blucora as the designated representative of CIG. CP 2 ¶ 5; CP 224-25. Snyder has, at all relevant times, also been the CEO or president of both CIG and CIG I. CP 2-3 ¶ 5.

**B. Blucora’s Motion to Dismiss for Improper Venue**

Blucora filed a motion to dismiss under CR 12(b)(3). It argued that King County was an improper forum for this insider trading derivative claim. CP 28-45. Specifically, Blucora asserted that Shatas “filed this action in the wrong court.” CP 32. Blucora relied on a forum selection provision set forth in a Blucora corporate bylaw to support its argument, but ignored the first and last clauses of the bylaw. Shatas did not, and still does not, dispute the validity of that bylaw when read in its entirety.

The full forum selection provision, with emphasis on the two pertinent clauses ignored by Blucora, is as follows:

**Unless the corporation consents in writing to the selection of an alternative forum**, the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any Director, officer, or other employee of the corporation to the corporation or the corporation’s stockholders, (iii) any action asserting a claim arising pursuant to any provision of the DGCL, or (iv) any action asserting a claim governed by the internal affairs doctrine shall be a state or federal court located within the state of Delaware, **in all cases subject to the court’s having personal jurisdiction over the indispensable parties named as defendants.**

CP 61 (emphasis added).

**C. CIG as Real Party in Interest**

In conformity with the last clause of the Blucora bylaw, Shatas filed in King County because CIG is the real party in interest as to every

aspect of the alleged insider trading. Additionally, King County courts, not Delaware courts, had personal jurisdiction over CIG. Specifically, the undisputed facts show:

(1) As sole owner of CIG I, CIG makes all investment decisions on behalf of CIG I. CP 2 ¶ 4; CP 217.

(2) CIG merely uses CIG I as a tax pass-through entity to hold Blucora shares. In that regard, CIG has represented in filings with the Securities and Exchange Commission (“SEC”) that: “CIG makes all investment decisions for CIG I . . . CIG I does not have any executive officers or managers and is managed entirely by CIG.” CP 217.

(3) CIG’s website makes no mention of CIG I and includes Blucora as part of its own stock portfolio holdings. CP 227-30.

(4) In beneficial ownership reports filed with the SEC, both CIG and Snyder identify themselves as “Reporting Persons” with respect to all Blucora shares held in the name of CIG I.<sup>1</sup> CIG and Snyder further

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<sup>1</sup> “Reporting Persons” are the persons or entities legally required to report stock holdings and stock transactions to the SEC and the public. *See* U.S. Securities and Exchange Commission, FORM 3 - INITIAL STATEMENT OF BENEFICIAL OWNERSHIP OF SECURITIES, *available at* <https://www.sec.gov/about/forms/form3data.pdf> (last visited Sept. 24, 2015); U.S. Securities and Exchange Commission, FORM 4 - STATEMENT OF CHANGES OF BENEFICIAL OWNERSHIP OF SECURITIES, *available at* <https://www.sec.gov/about/forms/form4data.pdf> (last visited Sept. 24, 2015).

represent themselves as having shared voting and dispositive power as beneficial owners of all Blucora shares held in the name of CIG I. CP 232-47.

(5) Consistent with CIG I being a mere shell corporation, Blucora's August 23, 2011, press release announcing the appointment of Snyder to its Board of Directors makes no mention of CIG I. Additionally, the press release names CIG, not CIG I, as the investor in Blucora, the recent purchaser of 764,192 Blucora shares, and the holder of the warrant to purchase an additional one million Blucora shares. CP 195.

These undisputed facts show that CIG is the real party in interest with respect to the alleged insider trading.

**D. CIG Is Not Subject to Delaware Court Personal Jurisdiction**

At the time suit was filed, Delaware courts lacked (and even today lack) personal jurisdiction over CIG. CP 2 ¶ 4; CP 143 ¶ 7; CP 230. CIG is a Maryland corporation with offices in New York, New York and Bethesda, Maryland. CP 2 ¶ 4. CIG does not transact business in Delaware. CP 143 ¶ 7.

In its reply to the motion to dismiss, Blucora did not dispute that Delaware courts lacked personal jurisdiction over CIG at the time of filing. Blucora merely stated that CIG was "prepared to consent to jurisdiction in Delaware." CP 273 n.5. This preparedness does not

change the fact that Delaware could not, and cannot presently, exercise personal jurisdiction over CIG.

**E. Blucora Irrevocably Consented in Writing to Exclusive Jurisdiction and Venue of King County Superior Court**

In conformity with the first clause of the Blucora forum selection bylaw, Shatas filed this action in King County because Blucora had submitted in writing to King County as a proper forum for litigation related to certain agreements.

On August 23, 2011, Blucora entered into the three inter-related agreements<sup>2</sup> (“Shareholder Agreements”) with CIG, through CIG’s tax pass-through proxy, CIG I. CP 149. Through the Shareholder Agreements: (a) CIG purchased 764,192 shares of Blucora shares and received a warrant to purchase one million additional shares from Blucora (CP 149); (b) Snyder (CEO of CIG) became a member of Blucora’s board of directors as CIG’s designated representative (CP 149); and (c) Snyder became chair of the Blucora board’s newly-created Mergers and Acquisitions (“M&A”) Committee (CP 195). CIG was the real party in interest in each of the three agreements.

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<sup>2</sup> None of the three shareholder investment agreements would exist without the others. They are part of a comprehensive deal struck between Blucora and one of its largest shareholders, CIG. Throughout this brief, Shatas refers to the three agreements collectively as the “Shareholder Agreements.”

The Shareholder Agreements contain broad venue provisions that select King County as the chosen venue for “any” lawsuit “relating to or arising out of” the agreements. CP 167, 178, 192-93. The Shareholder Agreements state that the parties’ choice of venue is “irrevocable.” *Id.* They also state each party irrevocably waived any objection to venue in King County Superior Court. *Id.*

For example, the Stockholder Agreement—the most pertinent of the three Shareholder Agreements—provides:

This Agreement shall be governed by, and construed in accordance with, the internal laws of the State of Delaware without regard to the choice of law principles thereof. **Each of the parties hereto irrevocably submits to the exclusive jurisdiction of the courts of the State of Washington located in King County and the United States District Court for the Western District of Washington for the purpose of any suit, action, proceeding or judgment relating to or arising out of this Agreement and the transactions contemplated hereby.** Service of process in connection with any such suit, action or proceeding may be served on each party hereto anywhere in the world by the same methods as are specified for the giving of notices under this Agreement. **Each of the parties hereto irrevocably consents to the jurisdiction of any such court in any such suit, action or proceeding and to the laying of venue in such court. Each party hereto irrevocably waives any objection to the laying of venue of any such suit, action or proceeding brought in such courts and irrevocably waives any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.**

CP 192-93 ¶ 8(g) (emphasis added). The other two agreements contain provisions which are identical in all material respects. CP 167 ¶ 8.9; CP 178 § 16.

**F. CIG, Snyder, and CIG I Engaged in Prohibited Insider Trading**

On November 20, 2013, CIG used Snyder's inside information to sell—through CIG I—approximately one million Blucora shares for more than \$28 million. CP 5-14 ¶¶ 14-32. At the time of the sale, Snyder was sitting on the Blucora board as the designated representative of CIG. As mandated under the Shareholder Agreements, Snyder was also the chair of Blucora's newly-formed M&A Committee. CP 2-3 ¶ 5. That position gave him unvarnished access to material non-public information regarding the performance—or underperformance—of Blucora's recent acquisition of Monoprice, Inc. Blucora had touted Monoprice as key to its growth and diversification strategies. CP 9-10 ¶¶ 24-25. CIG's extraordinarily well-timed sale of Blucora stock occurred at the peak of a run-up in Blucora's stock price to a 14-year high and just prior to disclosures concerning the underperformance of Monoprice and the collapse of Blucora's stock price. CP 7-10.

**G. Procedural History**

Shatas filed this derivative action in King County Superior Court on March 5, 2015. CP 1. He alleged a breach of fiduciary duty based on insider trading, as described above. CP 1-24.

**1. Blucora's CR 12(b)(3) Motion to Dismiss**

Blucora filed its motion to dismiss under CR 12(b)(3) on March 25, 2015. CP 28. CIG, CIG I, and Snyder joined Blucora's motion. Blucora argued that Shatas had "filed this action in the wrong court" because Blucora's bylaw specified Delaware courts as the venue for derivative actions. CP 32.

Shatas opposed the motion by pointing to the two pertinent clauses in the forum selection provision that are exceptions to the Delaware forum designation. CP 111-38. Specifically, Shatas asserted: (1) based on the initial clause of the bylaw, the Shareholder Agreements **required** him to file this action in King County; and (2) based on the final clause of the bylaw, CIG, as an indispensable party, was subject to jurisdiction in King County, but not Delaware, which also negated the Delaware forum designation. *Id.*

Because it had not mentioned them in its opening brief, Blucora first presented its arguments regarding the two pertinent clauses in its reply brief. It argued that (1) Shatas' breach of fiduciary duty claim was

not related to the writings in which Blucora agreed to venue in King County, and (2) suggested CIG was “prepared to consent to jurisdiction in Delaware” in an effort to create proper venue there. CP 268-275.

Oral argument was held on May 8, 2015. RP 1. The trial court granted Blucora’s motion to dismiss on May 15, 2015. CP 310-19. The trial court relied heavily on arguments raised for the first time in Blucora’s reply. *See id.*

### **2. Shatas’ Motion for Reconsideration**

Shatas moved for reconsideration. CP 276-85. This was Shatas’ first opportunity to respond in writing to Blucora’s arguments regarding the relevant clauses in the bylaw. Blucora opposed the motion for reconsideration. CP 288-96. Shatas filed a reply. CP 297-304. The trial court denied Shatas’ motion for reconsideration in a one-paragraph decision. CP 321-23.

### **3. Shatas’ Notice of Appeal**

Shatas timely appealed. CP 305-08. Shatas seeks reversal of both the trial court’s order dismissing this case for improper venue and the order denying reconsideration. Shatas seeks to have this Court remand the action for further proceedings in King County Superior Court because King County was at the time of filing, and remains, a proper venue for this action.

#### IV. ARGUMENT

The trial court erred in dismissing this action and denying reconsideration. The trial court should be reversed because King County is the proper venue. This Court should reverse and remand for further proceedings in King County Superior Court.

##### A. Standard of Review

The standard of review of the order dismissing this case is de novo.<sup>3</sup> *Dix v. ICT Group, Inc.*, 160 Wn.2d 826, 833-34, 161 P.3d 1016 (2007) (discussing the standard of review for decision regarding forum selection clauses). Where there is a purely legal question, the Court reviews the decision de novo. *Id.* at 833-34. Here, the facts were not in dispute. The trial court decided the motion regarding venue purely on legal grounds.<sup>4</sup>

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<sup>3</sup> The standard of review is likewise de novo for a motion for reconsideration based on a question of law. *Ramey v. Knorr*, 130 Wn. App. 672, 686, 124 P.3d 314 (2005). Here, Shatas' motion for reconsideration was brought under CR 59(a)(7) and (8)—the remedies for legal errors.

<sup>4</sup> Where a trial court exercises its discretion regarding a "fact-specific determination on enforceability of a forum selection clause" the abuse of discretion standard applies. *Dix*, 160 Wn.2d at 833. Even if the abuse of discretion standard applied here, the result would still be the same. Specifically, a trial court abuses its discretion where "its decision is manifestly unreasonable or based on untenable grounds." *Id.* An error of law is an abuse of discretion. *Id.* Here, Shatas does not assert the facts were misunderstood by the trial court. Rather, the trial court misapplied the law to the facts of the case.

**B. The Plain Language of the Blucora Forum Selection Bylaw Applies**

Blucora's bylaws include a forum selection provision for derivative suits. The plain language of that forum selection bylaw controls.

It reads:

**Unless the corporation consents in writing to the selection of an alternative forum,** the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the corporation, (ii) any action asserting a claim of breach of a fiduciary duty owed by any Director, officer, or other employee of the corporation to the corporation or the corporation's stockholders, (iii) any action asserting a claim arising pursuant to any provision of the DGCL, or (iv) any action asserting a claim governed by the internal affairs doctrine shall be a state or federal court located within the state of Delaware, **in all cases subject to the court's having personal jurisdiction over the indispensable parties named as defendants.**

CP 61 (emphasis added).

Language in a corporate bylaw is enforced as written. *DeLuca v. KKAT Mgmt., L.L.C.*, No. CIV.A. 1384-N, 2006 WL 224058, at \*2 (Del. Ch. Jan. 23, 2006) (interpreting corporate advancement bylaw). This remains true even when the corporate drafters subsequently "seek to escape the consequences of their own contractual freedom." *Id.* Courts do not "ignore the plain language of their contracts and generate an after-the-fact judicial contract that reflects [the corporation's] current preference."

*Id.* “[I]t is not the job of a court to relieve sophisticated parties of the burdens of contracts they wish they had drafted differently but in fact did not.” *Id.* “Rather, it is the court’s job to enforce the clear terms of contracts.” *Id.*

Here, Shatas seeks to enforce the plain language of the bylaw. Specifically, the clauses at issue, emphasized above, provide that: (1) Blucora’s consent in writing to a King County venue may control, as it does here; and (2) in the event an indispensable party, such as CIG, is not subject to Delaware jurisdiction, another forum applies. Under both clauses, King County is the proper forum for this action. Accordingly, the trial court’s dismissal was in error and should be reversed.

**C. Indispensable Party**

Under the final clause of the forum selection bylaw, King County is the proper venue because CIG is an indispensable party not subject to the jurisdiction of Delaware courts. The trial court misapplied the law when it concluded otherwise based on Blucora’s suggestion that CIG was prepared to consent to the jurisdiction of Delaware. For this reason alone, this Court should reverse the trial court’s dismissal and reinstate this action in King County Superior Court.

The determination of whether a party is indispensable is governed by CR 19(b). “The doctrine of indispensability is rooted in equitable

principles.” *Auto. United Trades Org. v. State*, 175 Wn.2d 214, 227, 285 P.3d 52 (2012). “The proper application of CR 19(b) involves a careful exercise of discretion and defies mechanical application.” *Id.* at 229. The rule is designed to avoid the harsh results of rigid application. *Makah Indian Tribe v. Verity*, 910 F.2d 555, 558 (9th Cir. 1990).

Factors to be considered in determining whether a party is indispensable include: (1) the extent to which a judgment rendered in the person’s absence might be prejudicial to him or her or to those who are already parties; (2) to what extent “by protective provisions in the judgment, by shaping of relief, or by other measures,” prejudice is avoided or lessened; (3) “whether a judgment rendered in the person’s absence will be adequate”; and (4) whether an adequate remedy is available to the plaintiff if the action is dismissed for nonjoinder. CR 19(b). Additionally, a court may consider a plaintiff’s interest in having at least one forum for an action. *Orion Corp. v. State*, 109 Wn.2d 621, 635-36, 747 P.2d 1062 (1987).

**1. CIG is the Beneficial Owner of the Stock at Issue**

CIG I is the record owner of the Blucora shares at issue in this insider trading action. CP 2 ¶ 3; CP 205-06. However, CIG is the beneficial owner of those shares. A beneficial owner is defined as:

[A]ny person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares:

- (1) Voting power which includes the power to vote, or to direct the voting of, such security; and/or,
- (2) Investment power which includes the power to dispose, or to direct the disposition of, such security.

SEC Rule 13d-3; 17 CFR § 240.13d-3.

CIG's beneficial ownership report filed with the SEC states that CIG has shared voting power and dispositive power over every share of Blucora common stock held by CIG I. CP 232-47. CIG also represented in filings with the SEC that: (1) "CIG is the managing member of CIG I and, in such capacity, CIG makes all investment decisions for CIG I"; and (2) "CIG is the sole holder of common units of CIG I." CP 217.

In concert with CIG's position, CIG I, as the record owner, lacks actual voting or dispositive power over the Blucora shares held in its name. This is similar to most shareholders in the United States. *See* U.S. Securities and Exchange Commission, *Researching & Managing Investments: Shareholder Voting*, available at <http://investor.gov/researching-managing-investments/shareholder-voting/what-registered-owner-what-beneficial-owner> (last visited Sept. 24, 2015). Generally, shares are held in "street name" through brokerage

accounts that vote or dispose of shares at the direction of the beneficial owner. *Id.*

Here, as beneficial owner, CIG directs and controls the purported CIG I investments in Blucora, and CIG ultimately retains the benefits of those investments.

## **2. CIG Is An Indispensable Party**

Because CIG is the beneficial owner of the Blucora stock at issue, it is an indispensable party to this action. Shatas' claims are based on "principles of restitution and equity." *Kahn v. Kolberg Kravis Roberts & Co., L.P.*, 23 A.3d 831, 837 (Del. 2011). "The real beneficial owners [of corporate stock] are the essential parties to a suit in equity." *Schenck v. Salt Dome Oil Corp.*, 37 A.2d 64, 65 (Del. Ch. 1944).

Moreover, Shatas ultimately seeks disgorgement of profit made by and at the direction of CIG. CP 21. A fiduciary acquiring property through confidential information "holds the property so acquired upon a constructive trust for the beneficiary." RESTATEMENT (FIRST) OF RESTITUTION § 200 (1937). Here, CIG is the sole owner of CIG I. CIG made all investment decisions regarding the Blucora shares. CIG is the entity that controls the disposition of the profits of which this litigation seeks disgorgement. Thus, any resulting judgment would have to name

CIG to ensure that such insider trading profits are properly returned to Blucora.

The factors regarding whether a party is indispensable focus closely on the ability of the plaintiff to obtain practical relief. All four factors point to the indispensability of CIG here because it controls the profits realized from the insider trading. Without CIG as a party, Shatas risks recovering a worthless judgment against a shell entity with no assets if practical relief requires imposition of a constructive trust on insider trading profits in CIG's possession. *See* RESTATEMENT (FIRST) OF RESTITUTION § 215 cmt. (a) (1937) (where “the property [sought to be recovered] or its proceeds have been dissipated so that no product remains, [the plaintiff's] claim is only that of a general creditor,” and the plaintiff “cannot enforce a constructive trust of or an equitable lien upon other property of the [defendant].”).

Ultimately, CIG is an indispensable party because CIG is the beneficial owner of the Blucora shares at issue, and any judgment resulting from this action would require disgorgement from CIG.

### **3. Delaware Courts Lack Personal Jurisdiction Over CIG**

CIG is, and at all relevant times has been, a Maryland corporation with offices only in New York and Maryland. CP 2 ¶ 4; CP 227-30. CIG does not transact business in Delaware and is not registered with the

Delaware Secretary of State. CP 143 ¶ 7. Accordingly, CIG is not subject to personal jurisdiction in Delaware courts. *See Daimler AG v. Bauman*, \_\_\_ U.S. \_\_\_, 134 S.Ct. 746, 754, 187 L.Ed.2d 624 (2014) (following traditional *International Shoe* analysis that state courts only have personal jurisdiction over out-of-state defendant if defendant has “certain minimum contacts with [the state] such that the maintenance of the suit does not offend traditional notions of fair play and substantial justice”).

At the time of filing, CIG was not subject to jurisdiction in Delaware. Critically, neither Blucora nor the CIG/Snyder defendants—which joined in Blucora’s motion and subsequent filings—have ever disputed this point. In fact, had Shatas filed suit in Delaware, he would have risked dismissal on account of a necessary party **not** being subject to the court’s jurisdiction.

#### **4. CIG’s Post-Filing Willingness to Consent to Delaware Jurisdiction Does Not Avoid the Bylaw Provision**

Despite CIG’s status as an indispensable party, the trial court concluded that CIG’s post-filing willingness to consent to Delaware jurisdiction was sufficient to disregard the fact that venue is proper in King County. CP 318. This was erroneous.

Blucora’s motion to dismiss was based on the premise that Shatas “filed this action in the wrong court.” CP 32. The facts prove otherwise.

CIG, an indispensable party, was not subject to Delaware jurisdiction.

And, CIG undisputedly had not consented to jurisdiction in Delaware prior to filing, nor has it done so to date.

The trial court cited *Worden v. Smith*, 178 Wn. App. 309, 328, 314 P.3d 1125 (2013), for the proposition that “[a] party can consent to personal jurisdiction.” CP 318. This is true when defendant’s post-filing conduct amounts to consent, as in *Worden*. Such consent can serve as a basis to deny a defendant’s motion to dismiss for lack of jurisdiction. The applicable principle is that a defendant cannot affirmatively appear and use the power of the court and then subsequently contest the court’s jurisdiction. In cases like *Worden*, the consent to jurisdiction by affirmative appearance cures the jurisdictional defect that existed at the time of filing.

This is distinct from what CIG proposed below. CIG represented that it “is prepared to” affirmatively consent to personal jurisdiction in Delaware. Unlike in *Worden*, CIG wanted to use consent as a sword—a post-filing litigation tactic—to dismiss claims otherwise properly brought in King County. In other words, CIG proposed to **create** the defect in venue by consenting to jurisdiction in Delaware. Use of consent as a sword in this manner is not supported by *Worden*.

Shatas has been unable to find a single case where a court has allowed a defendant to “consent” to personal jurisdiction in the same or similar way as CIG did below. This is likely because the facts regarding personal jurisdiction are generally determined at the time suit is filed. *Central States, Southeast and Southwest Areas Pension Fund v. Phencorp Reinsurance Co., Inc.*, 440 F.3d 870, 877–78 (7th Cir. 2006) (existence of personal jurisdiction determined at time of filing); *Allen v. Russian Fed'n*, 522 F. Supp. 2d 167, 193–94 (D.D.C. 2007) (same—citing cases); *Quest Sports Surfacing, LLC v. 1st Turf, Inc.*, No. 1:07-CV-0907-DFH-WGH, 2008 WL 3853385, at \*3 (S.D. Ind. Aug. 15, 2008) (same—citing cases); *Rankel v. Kabateck*, No. 12 CV 216 VB, 2013 WL 7161687, at \*3 (S.D.N.Y. Dec. 9, 2013) (same—citing cases); *Villalobos v. Castaneda*, No. 12 C 8218, 2013 WL 5433795, at \*6 (N.D. Ill. Sept. 27, 2013) (same—citing cases); *Travelers Cas. & Sur. Co. of Am. v. Telstar Const. Co., Inc.*, 252 F. Supp. 2d 917, 935 n.9 (D. Ariz. 2003) (same—citing cases).

Post-filing conduct is deemed irrelevant to personal jurisdiction determinations in situations even remotely similar to what CIG has done in this case. *Id.* Here, it is undisputed that, at the time Shatas filed suit, Delaware courts lacked jurisdiction over CIG, whether by consent or otherwise. CP 2 ¶ 4; CP 143 ¶ 7; CP 227-30.

Blucora's citation below to *Sales v. Weyerhaeuser*, 163 Wn.2d 14, 177 P.3d 1122 (2008), regarding this issue is likewise inapposite. CP 273. In that case, the Washington Supreme Court analyzed a forum non conveniens issue, explaining that a court could condition dismissal for this reason on a stipulation to jurisdiction in another forum. *Sales*, 163 Wn.2d at 22. *Sales* is distinguishable because the forum non conveniens doctrine presumes another forum exists, at the time of filing, where the case could properly be brought, and which, at the time of filing, satisfied the conditions as a more convenient forum. *Id.* at 20-21. Here, at the time of filing, Shatas could not have properly filed in Delaware. Again, neither Blucora nor the CIG entities and Snyder have in any filing argued otherwise. Thus, unlike the forum non conveniens cases, here conditioning dismissal creates the very disability that would destroy an otherwise valid forum by establishing—post-filing—the existence of another forum in which to bring the action. This is not the appropriate use of such a conditional dismissal.

In sum, CIG, as the beneficial owner of the Blucora shares at issue, is an indispensable party to this action. It is undisputed that CIG was not subject to personal jurisdiction in Delaware at the time this action was filed. Accordingly, Shatas properly filed this case in King County. And, CIG's post-filing use of consent as a sword is improper. On this ground

alone, the trial court erred in dismissing this case for improper venue and should be reversed. Moreover, the trial court's improper application of the consent case law warranted reconsideration, and its denial was in error.

**D. Agreement in Writing to King County Venue**

There is a separate basis for reversal. Under the first clause of the Blucora forum selection bylaw, Blucora consented in writing to insider trading claims, such as this one, being brought in King County Superior Court. The Shareholder Agreements between Blucora and CIG irrevocably set King County Superior Court as a proper venue for claims "relat[ed] to or arising out of" those agreements. The breach of fiduciary duty claim here against CIG "relat[es] to [and] aris[es] out of" the agreements because a breach of fiduciary duty claim against CIG would not exist without those agreements.

**1. The Shareholder Agreements Require Only That the Claim Relate To the Subject Matter of the Agreements**

The Shareholder Agreements contain broad forum selection provisions selecting Washington courts in King County. Each of the three inter-related agreements provides that the parties "irrevocably" submit to the "exclusive" jurisdiction of Washington courts in King County "for the purpose of any suit, action, proceeding or judgment relating to or arising out of this Agreement." CP 192-93 ¶ 8(g); CP 167 ¶ 8.9; CP 178 § 16.

## 2. “Relating to” Is Broadly Interpreted

The phrase “relating to” is broad in scope. It has been interpreted numerous times in the analogous context of courts determining whether a particular lawsuit is covered by an arbitration provision in a contract. *See also Nat'l Indus. Grp. (Holding) v. Carlyle Inv. Mgmt. L.L.C.*, 67 A.3d 373, 380 (Del. 2013) (noting forum selection and arbitration clauses are “analogue[s]”). When the clause includes the phrase “relating to,” courts have held that breach of fiduciary duty claims and other claims independent of the contract may be covered. *See, e.g., McClure v. Tremaine*, 77 Wn. App. 312, 314-15, 890 P.2d 466 (1995) (claims “relating to” contract may include common law breach of fiduciary claims); *Ashall Homes Ltd. v. ROK Entm't Grp. Inc.*, 992 A.2d 1239, 1245 (Del. Ch. 2010) (“Forum selection clauses can be applied not only to contract-based claims but also tort claims arising out of, or depending upon, the contractual relationship in question.”) (citing cases).

A lawsuit may “relate to” an agreement without alleging breach of contract or raising claims about a party’s performance of the contract, as here. *See Cape Flattery Ltd. v. Titan Maritime, LLC*, 647 F.3d 914, 922 (9th Cir. 2011); *Mediterranean Enters., Inc. v. Ssangyong Corp.*, 708 F.2d 1458, 1464 (9th Cir.1983). In fact, the phrase “arising in connection with”—a phrase of narrower scope—still covers common law claims

whose factual allegations “only ‘touch matters’ covered by the contract” containing the clause. *See Simula, Inc. v. Autoliv, Inc.*, 175 F.3d 716, 721 (9th Cir. 1999) (citing cases).

Courts use nearly identical reasoning in regards to the phrase “with respect to” when used in forum selection clauses. *See Carlyle Inv. Mgmt. LLC v. Moonmouth Co. SA*, 779 F.3d 214, 220 (3d Cir. 2015). In *Carlyle*, the Third Circuit applied Delaware law and held that a forum selection clause with this phrase would “broadly” mean any claim, including a non-contract claim, that is somehow connected to the contract containing the clause. *Id.* “If this were not the rule, a plaintiff could easily avoid a forum selection clause by artfully pleading non-contract claims that stem from the contractual relationship.” *Id.*

### **3. This Litigation Relates to the Shareholder Agreements**

Shatas’ insider trading claim “relates to” the Shareholder Agreements. It is only by virtue of the Shareholder Agreements that Snyder and the CIG entities became insiders and corporate fiduciaries. Without the Shareholder Agreements, the equitable claim raised by Shatas would not exist.

#### **a. The CIG Entities’ Fiduciary Duty Arises From the Shareholder Agreements**

CIG is a director by deputization, thus a fiduciary, because—and only because—of the Shareholder Agreements. Under the director by

deputization theory, companies become a “virtual director” and thus a corporate insider “by deputizing a natural person to perform [their] duties on the board.” *Dreiling v. Am. Exp. Co.*, 458 F.3d 942, 952 (9th Cir. 2006) (defining director by deputization in another insider trading case involving Blucora); *see also Feder v. Martin Marietta Corp.*, 406 F.2d 260, 263 (2d Cir. 1969) (“[T]he validity of the deputization theory, presumed to be valid here by the parties and by the district court, is unquestionable.”).

Here, CIG was a director by deputization at the time of the sale at issue by virtue of the Shareholder Agreements. The Shareholder Agreements provide:

1. Board Representation. (a) Until the earlier of (i) August 23, 2017 and (ii) such date and time as the Investor, together with the Investor’s Affiliates, no longer beneficially hold at least 1,000,000 shares (as adjusted for stock splits, stock dividends and the like) of Common Stock (the “Representation End Date”), the Investor shall be entitled to designate one (1) person to serve as a member of the Board of Directors (the “Board”) of the Company (***the “Investor Representative”***). Initially, the Investor Representative shall be Andrew Snyder (“Snyder”), who shall be appointed by the Board immediately following the Closing to fill an existing vacancy. If at any time the Investor desires to remove, with or without cause, an Investor Representative, the Investor shall be entitled to designate a replacement Investor Representative to serve as a member of the Board, in accordance with Section 1(b).

CP 184 (emphasis added); *see also* CP 117-18 (detailing CIG’s total control over tax pass-through entity CIG I, including as “reporting persons” in SEC filings with voting and dispositive power over all CIG I-held shares). As explained above, CIG I is the record owner and CIG is the beneficial owner of the Blucora shares. The provision allowing the “Investor” to appoint a representative allowed CIG to appoint Snyder as its representative on the Blucora board. CIG thereby became a director by deputization and a corporate insider with fiduciary duties. This was entirely a function of the Shareholder Agreements.

**b. Shatas’ Fiduciary Breach Claim Against the CIG Entities<sup>5</sup> Would Not Exist Without the Shareholder Agreements**

Shatas’ claim for insider trading arises only by virtue of the Shareholder Agreements which made the CIG entities a fiduciary at the time of the massive stock sale at issue. Shatas’ claim for restitution of improperly-gained profit is equitable in nature. *Kahn*, 23 A.3d at 837. The first and most basic element of the claim is that a fiduciary/insider status exists. *See In re Galena Biopharma, Inc. Derivative Litig.*, 83 F. Supp. 3d 1047, 1070 (D. Or. Feb. 4, 2015) (applying Delaware insider

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<sup>5</sup> As set forth in § III.C, *supra*, CIG I was at all relevant times wholly owned and controlled proxy for CIG. However, to avoid any suggestion that Shatas is drawing a distinction between the two for purposes of this argument, he refers to the two as the “CIG entities” in this section of the brief.

trading law); *see also Kahn*, 23 A.3d at 838. The CIG entities owed a fiduciary duty to Blucora because they were directors by deputization. It is only by virtue of the Shareholder Agreements that the CIG entities were a fiduciary—and thus an insider—at the time of the stock sale at issue. This goes directly to the first and most basic element of Shatas’ insider trading claim.

**c. There is No Breach of Contract Claim Under the Shareholder Agreements—Only a Breach of Fiduciary Duty Claim**

The only claim assertable against the CIG entities for their insider trading is a breach of fiduciary duty claim. The CIG entities’ insider trading does not give rise—either directly or derivatively—to a breach of contract claim or any other claim independently grounded in Delaware law. This is because Blucora did not suffer any loss or harm from the insider trading alleged. But, under Delaware law, a fiduciary duty claim may nonetheless be asserted. *Kahn*, 23 A.3d at 837 (“actual harm to the corporation is not required for a plaintiff to state a claim . . . .”); *see also Brophy v. Cities Serv. Co.*, 70 A.2d 5, 8 (Del. Ch. 1949) (breach of fiduciary duty claim for insider trading does not require a loss to the corporation). Accordingly, neither Blucora (directly) nor Shatas (derivatively) would have any remedy against the CIG entities for the

insider trading but for the fiduciary relationship established in the Shareholder Agreements.

In short, because this derivative action against the CIG entities could not exist without the Shareholder Agreements (which established the CIG defendants as a director by deputization—an insider), the relationship between this derivative claim and the Shareholder Agreements goes far beyond the “relating to or arising out of” threshold under the venue provision of the Shareholder Agreements. Accordingly, under the explicit terms of Blucora’s bylaw “the courts of the State of Washington located in King County and the United States District Court for the Western District of Washington” are the “exclusive” forums for the adjudication of this case.

**d. The Trial Court Misapplied the Relevant Case Law**

The trial court’s analysis of this case under *Parfi Holding AB v. Mirror Image Internet, Inc.*, 817 A.2d 149 (Del. 2002) was erroneous. CP 317. The trial court found that the Shareholder Agreements were not the source of the fiduciary duty owed to Blucora. It reasoned that the Shareholder Agreements “merely restate[ ] obligations imposed by federal and state securities laws or state corporations laws.” CP 317. Thus, the trial court concluded that, under *Parfi*, the forum selection

clause in the Shareholder Agreements does not extend to the fiduciary duty claims here. *Id.* In its analysis, the trial court focused exclusively on Snyder as a sitting board member. It ignored CIG as a director by deputization. *Id.*

This was an incorrect analysis as to Snyder and was clearly erroneous as to CIG. The core question in *Parfi*, as here, is whether the fiduciary duty claim could have been asserted absent the underlying contract. The *Parfi* court made this point repeatedly: “the analysis must turn on the issue of whether the fiduciary duty claims would be assertable had there been no agreement.” *Parfi*, 817 A.2d at 157; *see also id.* at 155 (“Stated differently, do the fiduciary duty claims depend on the existence of the Underwriting Agreement?”); *id.* at 156 n.24 (“Generally, purported independent actions do not touch matters implicated in a contract if the independent cause of action could be brought had the parties not signed a contract.”).

In *Parfi*, the fiduciary duty claims were assertable absent the contract at issue—an underwriting agreement. Significantly, the underwriting agreement in *Parfi* did not create the fiduciary status on which the plaintiffs’ claims were based. *See also OTK Associates, LLC v. Friedman*, 85 A.3d 696, 721 (Del. Ch. 2014) (noting the agreement in *Parfi* did not govern “defendants’ status as fiduciaries”). Nor did the

contract create the fiduciary obligations over which the plaintiffs were suing. The court noted that the obligations under the underwriting agreement were “short-lived” in contrast to the “lasting” fiduciary duty claims that the plaintiffs brought. *Parfi*, 817 A.2d at 157-58.

In stark contrast to *Parfi*, Shatas would not have an insider trading claim absent the Shareholder Agreements. For an insider trading claim (a form of fiduciary duty claim), the plaintiff must establish that the defendant is an insider, i.e., a corporate fiduciary. *See In re Galena*, 83 F. Supp. 3d at 1070; *see also Kahn*, 23 A.3d at 838. Here, it is only by virtue of the Shareholder Agreements that Snyder was an insider and corporate fiduciary. At the time of the stock sale at issue, Snyder held his status as a Blucora director only by virtue of the Shareholder Agreements. He had not been voted in as a director by Blucora’s shareholders. It also is only by virtue of the Shareholder Agreements that the CIG entities were a director by deputation, thus a corporate insider with a fiduciary duty at the time of the stock sale. Unlike the underwriting agreement in *Parfi*, the Shareholder Agreements are vital to Shatas’ claims.

In short, the Shareholder Agreements were essential to the first element of Shatas’ claim—fiduciary/insider status.<sup>6</sup> But for the

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<sup>6</sup> Notably, this is the reason—whether the contract gives rise to the fiduciary relationship—that the court in *OTK* contrasted *Parfi*:

Shareholder Agreements which established that status, Shatas' claim for insider trading would not exist. Accordingly, the trial court's dismissal and denial of reconsideration based on *Parfi* are not legally supported. Under the Blucora forum selection bylaw, the first clause of the bylaw governs. Blucora agreed in writing to a forum other than Delaware. The Shareholder Agreements signed by Blucora "irrevocably" set King County as the "exclusive" venue for claims "relating to or arising out of" the Agreements. It is only by virtue of the Shareholder Agreements that Shatas' claim for insider trading exists. Thus, this Court should reverse on this additional and independent ground.

#### V. CONCLUSION

The plain language of the Blucora forum selection bylaw controls here. The Court should enforce that language, both the first clause and the last clause, and reverse the trial court's dismissal for improper venue.

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This situation [the facts of *Parfi*] contrasts with an arbitration provision or other forum selection clause that appears in the document that gives rise to the fiduciary relationship, which will govern fiduciary duty claims. *See Elf Atochem N. Am., Inc. v. Jaffari*, 727 A.2d 286, 294–95 (Del.1999) (requiring arbitration of claims for breach of fiduciary duty by manager when LLC agreement giving rise to manager's status and duties contained mandatory arbitration clause).

*OTK*, 85 A.3d at 721.

As set forth in detail above, there are two independent bases for such a ruling:

First, CIG is the beneficial owner of the Blucora shares at issue. It is an indispensable party, and it was not subject to Delaware jurisdiction at the time this action was filed (nor is it now). Therefore, under the last clause of the bylaw, this is a sufficient reason to conclude that King County Superior Court is the proper venue for this action.

Second, Blucora expressly agreed to King County as the exclusive forum for disputes related to the Shareholder Agreements. The insider trading claim here would not exist, but for the insider/fiduciary status created by the Shareholder Agreements. Accordingly, under the first clause of the bylaw, King County Superior Court is the proper venue for this action.

For either of these reasons, or both, the trial court's decisions should be reversed, and the case should be remanded for further proceedings in King County Superior Court.



**DECLARATION OF SERVICE**

The undersigned declares under penalty of perjury under the laws of the State of Washington that on the below date, I caused a true and correct copy of this document to be delivered via email (per agreement of the parties) to:

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DATED this 25th day of September, 2015, at Seattle, Washington.



Cathy L. Swanson, Legal Assistant  
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No. 73716-3-I

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**IN THE COURT OF APPEALS  
OF THE STATE OF WASHINGTON  
DIVISION I**

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REMIGIUS G. SHATAS,

*Plaintiff/Appellant,*

v.

ANDREW M. SNYDER AND JANE DOE SNYDER; CAMBRIDGE  
INFORMATION GROUP I, LLC; CAMBRIDGE INFORMATION  
GROUP, INC.,

*Defendant/Respondents,*

BLUCORA, INC.

*Nominal Defendant/Respondent.*

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**UNPUBLISHED AUTHORITY**

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Pursuant to GR 14.1(b), attached are copies of the following unpublished authorities:

1. *DeLucca v. KKAT Mgmt., L.L.C.*, No. CIV.A. 1384-N, 2006 WL 224058 (Del. Ch. Jan. 23, 2006).
2. *Quest Sports Surfacing, LLC v. 1st Turf, Inc.*, No. 1:07-cv-0907-DFH-WGH, 2008 WL 3853385 (S.D. Ind. Aug. 15, 2008).
3. *Rankel v. Kabateck*, No. 12 CV 216 (VB), 2013 WL 7161687 (S.D.N.Y. Dec. 9, 2013).
4. *Villalobos v. Castaneda*, No. 12 C 8218, 2013 WL 5433795 (N.D. Ill. Sept. 27, 2013).
5. *W. Licensing Corp. v. Eastlaw, LLC*, No. CIV. 00-2645 JRT/FLN, 2001 WL 501200 (D. Minn. May 9, 2001).

DATED this 25th day of September, 2015.

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**DECLARATION OF SERVICE**

The undersigned declares under penalty of perjury under the laws of the State of Washington that on the below date, I caused a true and correct copy of this document to be delivered via email (per agreement of the parties) to:

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# EXHIBIT 1

KeyCite Yellow Flag - Negative Treatment

Declined to Extend by Aleynikov v. Goldman Sachs Group, Inc.,  
D.N.J., December 14, 2012

2006 WL 224058

Only the Westlaw citation is currently available.

UNPUBLISHED OPINION. CHECK  
COURT RULES BEFORE CITING.

Court of Chancery of Delaware.

Joyce C. DELUCCA, Plaintiff,

v.

KKAT MANAGEMENT, L.L.C., KKAT Acquisition  
Company, II, L.L.C., KKAT Acquisition Company,  
III, L.L.C., KKAT Acquisition Company, IV, L.L.C.,  
KKAT Acquisition Company, V, L.L.C., KKAT  
Acquisition Company, VI, L.L.C., Defendants.

No. Civ.A. 1384-N. | Submitted  
Dec. 7, 2005. | Decided Jan. 23, 2006.

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#### MEMORANDUM OPINION

STRINE, Vice Chancellor.

\*1 Joyce DeLucca, a former employee and principal of  
Katonah Capital, L.L.C. (“Katonah”), brought this action  
seeking to enforce the advancement provisions in the  
“Operating Agreements” of the defendants in this case, the  
so-called “KKAT Companies.” DeLucca wants the KKAT  
Companies to advance her legal fees and expenses in  
defending a lawsuit brought by affiliates of the KKAT  
Companies. Those affiliates—DeLucca's former employer,  
Katonah, and Kohlberg Capital, L.L.C. (“Kohlberg”)—sued

DeLucca in New York (the “New York Action”). DeLucca  
also requests an award of “fees on fees” incurred in bringing  
this action to enforce the mandatory advancement provision.

The case before me involves contractual advancement  
provisions that differ from those typically used by publicly-  
listed corporations in providing advancement rights to their  
officers and directors. Those provisions track the authorizing  
statute, 8 *Del. C.* § 145, and often extend advancement rights  
to persons who are sued by reason of the fact that they  
took action in a specified corporate capacity. Indeed, our  
Supreme Court recently provided useful guidance regarding  
the interpretation of such provisions in its decision in  
*Homestore, Inc. v. Tafeen*,<sup>1</sup> a decision that affirmed the  
approach that had been taken by this court in its prior  
opinions.<sup>2</sup>

Unlike the typical corporate advancement case, the present  
dispute involves limited liability companies and a different  
business context. Here, the KKAT Companies are affiliates  
of the controlling stockholder of Katonah, which is Kohlberg.  
Katonah was the investment manager for six structured  
investment funds (the “Katonah Funds” or “Funds”) and  
DeLucca was the key money manager associated with the  
Funds. The KKAT Companies were formed by Kohlberg  
and DeLucca to invest in those same Funds, using monies  
of Kohlberg and DeLucca. In their Operating Agreement,  
each KKAT Company promised to indemnify affiliates of  
Kohlberg for any loss in “connection with or arising out of or  
related to” the Operating Agreement, the operations or affairs  
of a KKAT Company or Katonah Fund, or the operations, or  
affairs of Kohlberg if the loss was attributable to a KKAT  
Company or Katonah Fund so long as the affiliate did not  
act with fraud, gross negligence, or willfully violate the law.  
As to any claim that might give rise to indemnification, the  
KKAT Companies promised advancement.

On these cross-motions for judgment on the pleadings,  
DeLucca and the KKAT Companies duel over whether  
the New York Action implicates the contractual pledge of  
advancement. The New York Action involves claims that  
DeLucca breached fiduciary and contractual obligations she  
owed to Katonah and Kohlberg by, among other things,  
failing to hire another key money manager to help her  
manage the Katonah Funds, and then using that failure as  
leverage against Katonah and Kohlberg in negotiations with  
them. When those negotiations did not bear fruit, DeLucca  
allegedly exploited her own refusal to hire a qualified  
successor by, among other things, forming her own money

management firm and seeking to use the absence of a successor to force Katonah into losing its status as portfolio manager of the Katonah Funds and to secure business for her new venture. In the course of that conduct, DeLucca is alleged to have improperly used proprietary information of not only Katonah, but of the KKAT Companies, on whose behalf Kohlberg brought a claim in the New York Action. Not only that, the complaint in the New York Action (the "New York Complaint") repeatedly says that DeLucca misused confidential information regarding the Katonah Funds' investors, investments, and investment strategies and put her selfish concerns ahead of her duties to the investors in the Katonah Funds. At bottom, however, the claims against DeLucca in the New York Action are based on harm she supposedly caused to Katonah and Kohlberg, as her employers, rather than to the investors in the Katonah Funds or the KKAT Companies.

\*2 Because of that, the KKAT Companies say it is absurd to think that they are bound to advance funds to DeLucca. They ground this argument in a reading of the relevant Operating Agreements that superimposes the typical "corporate capacity" analysis on those Agreements despite its absence from the contractual text.

In this opinion, I agree with DeLucca that the KKAT Companies' disavowal of the plain language of the Operating Agreements is unconvincing. Because the Katonah Funds did not act through their own employees, but through Katonah, it is understandable that the Operating Agreements did not hinge the right to advancement on the entity for which the party seeking advancement acted. Instead, the Operating Agreements articulate a capacious and generous standard by providing indemnified parties with a right to advancement as to any claim in connection with, arising out of, or related to the Operating Agreements or operations or affairs of either the KKAT Companies or the Katonah Funds. By the plain terms of the New York Complaint, DeLucca is accused of misconduct that relates to operations or affairs of the Katonah Funds and the KKAT Companies. She is alleged to have wrongly refused to hire another competent manager for the Katonah Funds, thereby leaving the Funds with only one qualified key-person. She is charged with misusing confidential information of both the KKAT Companies and the Funds, including information regarding the accounts of Katonah Fund investors and investment strategies used by the Funds.

Although the KKAT Companies would like me to read their Operating Agreements as including a requirement that any claim relating to the KKAT Companies and the Funds involve a claim for damages by those entities or one of their investors, the Operating Agreements do not contain any limiting language of that kind. That type of more limited indemnification would have been easy to draft and would have been crafted in far less expansive terms than were used in the Operating Agreements.

In other words, this is yet another case in which defendants in an advancement case seek to escape the consequences of their own contractual freedom. Regretting the broad grant of mandatory advancement they forged on a clear day, they seek to have the judiciary ignore the plain language of their contracts and generate an after-the-fact judicial contract that reflects their current preference. But it is not the job of a court to relieve sophisticated parties of the burdens of contracts they wish they had drafted differently but in fact did not. Rather, it is the court's job to enforce the clear terms of contracts. Here, that duty requires that DeLucca's motion for judgment on the pleadings as to her entitlement to advancement be granted.

In this opinion, I reject the other arguments of the KKAT Companies against DeLucca's motion and also find that she is, per the teaching of *Stifel v. Cochran* and its progeny,<sup>3</sup> entitled to an award of fees on fees. The amount of past expenses she is owed is an issue for later determination.

## ***I. Factual Background***

### ***A. The Relationships Among DeLucca, Kohlberg, The KKAT Companies, And The Katonah Funds***

\*3 Unfortunately, resolving this dispute requires an explanation of the relationship among a series of affiliates of Kohlberg, which is the eponymous creation of its controlling person, James Kohlberg. Allegedly, Kohlberg has a variety of business interests. This case focuses on only one: the interest of Kohlberg connected to the Katonah Funds.

Kohlberg sought to make money in two ways from the Katonah Funds, which are structured investment funds specializing in collateral debt obligations that were each established by it and DeLucca.

First of all, Kohlberg sought to receive fees for acting as the investment manager of the Katonah Funds. To that end, Kohlberg established Katonah itself and owns a controlling interest in that firm. Katonah was the entity that was a party to the Fund Services Agreements (“FSAs”)<sup>4</sup> regarding the Katonah Funds and made the investment decisions for the Funds. DeLucca was employed, beginning in late 1999 or early 2000, as a Portfolio Manager and Managing Principal of Katonah. The parties do not dispute that DeLucca was critical to the success of the Funds, as she was the principal face to the Funds' investors and the sole key-person under the FSAs. Indeed, as we shall see, it was DeLucca's uniquely important role at the Funds that in large measure ultimately inspired the events giving rise to the current dispute.

The second way in which Kohlberg sought to make money out of the Funds was by investing its own cash in them. To that end, the KKAT Companies were established. Each KKAT Company was established to invest in a particular Katonah Fund.<sup>5</sup> Kohlberg is the principal owner and investment manager of each of the KKAT Companies. James Kohlberg is their Managing Member. In connection with her employment at Katonah, DeLucca became a Member of and contributed capital to each of the KKAT Companies.

Distilled down, then, DeLucca was the Managing Member of Katonah. Katonah was the entity that served as the portfolio manager for each of the Katonah Funds. Meanwhile, the KKAT Companies were investors in the Katonah Funds. A majority of Katonah and the KKAT Companies is owned by Kohlberg, which was in turn controlled by James Kohlberg.

### ***B. The New York Action***

The New York Action for which DeLucca seeks advancement of her defense costs was filed by Kohlberg and Katonah as plaintiffs. In the New York Complaint, a claim is also asserted on behalf of the KKAT Companies by Kohlberg and Katonah through authority delegated by James Kohlberg, who is authorized to prosecute claims as its Managing Member. The following recitation drawn from the New York Complaint summarizes the conduct that DeLucca allegedly engaged in that gave rise to the claims against her in the New York Action.

According to that Complaint, the dispute between DeLucca and her former employer arises out of apparent success. By 2003, there were six Katonah Funds. Kohlberg became

concerned that the managerial ranks at Katonah were too thin to responsibly manage the Funds. As things stood, DeLucca was the sole “key-person” at Katonah designated under the terms of the FSAs between Katonah and the Katonah Funds.<sup>6</sup> In the event that she became incapacitated or left Katonah's employment, the Katonah Fund investors in all but one of the Funds would have the ability to terminate the FSAs for cause unless an approved replacement was proposed by Katonah within a specified time period and was not objected to by a majority of the investors. Kohlberg sought to remedy this vulnerability. Under the terms of the FSAs, Katonah was provided sixty days to propose a replacement for DeLucca that was acceptable to the investors, and the investors were not permitted to unreasonably withhold their approval.<sup>7</sup> But, if a certain number of investors objected, a default would result that would allow the trustees of the Katonah Funds to appoint a new fund manager.

\*4 Therefore, Kohlberg suggested that Katonah add a second key-person with strong portfolio management capabilities. DeLucca was given the responsibility of conducting the search for this key-person. According to the New York Complaint, DeLucca “failed to search for anyone.”<sup>8</sup> In the summer of 2004, Katonah and Kohlberg informed DeLucca that if she failed to begin a search, then they would conduct the search without her. DeLucca retained a personnel search firm but interviewed none of the candidates identified by the firm. She formally suspended the search in December 2004.<sup>9</sup>

The basic premise of the New York Action is that DeLucca “secretly formulated and attempted to implement a scheme to seize control of Katonah's assets for her own benefit”<sup>10</sup> and subsequently resigned from Katonah, creating a risk of a default that would allow the Katonah Funds to replace Katonah as investment manager. This scheme allegedly began shortly after Katonah and Kohlberg expressed dissatisfaction with DeLucca's search in the summer of 2004. Her first action in furtherance of this scheme was an alleged “economic equivalent of a demand for the surrender of Katonah's assets.”<sup>11</sup> In November 2004, Katonah and Kohlberg allege that she issued an ultimatum in the form of alternative ways to run Katonah, all of which would have enhanced her control over Katonah and some of which would have required major additional capital investments by Kohlberg. Kohlberg rejected the alternatives.

During this same period in 2004, Katonah and Kohlberg were approached by two entities interested in purchasing Katonah. Because of its frustration with DeLucca, Kohlberg was interested in the possibility of extricating itself from involvement with the Katonah Funds. Katonah therefore entered into confidential negotiations with the prospective buyers and ultimately forged a letter of intent involving a possible sale of Katonah for approximately \$40 million. Consistent with the objective of selling, Kohlberg informed DeLucca that she and the other Katonah employees should focus on negotiating their employment deals with the prospective buyers. DeLucca met with the prospective buyers on three occasions. But, she allegedly interfered with the ability of other Katonah employees to meet with the prospective buyers by canceling a meeting with the prospective buyers and then establishing conditions for meetings between the prospective buyers and Katonah employees. DeLucca purportedly also made disparaging remarks to the employees and others about the consequences of the proposed sale of Katonah. The sale of Katonah ultimately fell apart, and the prospective buyers terminated their letter of intent with Kohlberg in February 2005.

Katonah and Kohlberg further allege that DeLucca went much further than simply scuttling the sale of Katonah. During the period when she was thwarting the sale, DeLucca also is alleged to have plotted to form a venture that would compete with Katonah and—worst of all—usurp Katonah's place as manager of its own babies, the Katonah Funds. To accomplish this end, DeLucca supposedly shared confidential and proprietary information with a third-party while she was “sitting at her desk in Katonah's offices .”<sup>12</sup> This information included Katonah's income, management fee estimates, cash flow data, employee salaries, business plans and budgets, and interest accrued on Kohlberg promissory notes. The third party with whom she shared this information ultimately provided financial support for her competing venture, Kingsland. To further support her desire to start her own asset management firm, DeLucca allegedly approached a group of Katonah employees to gain their support, having already discouraged them from forging a relationship with the party to which Kohlberg wanted to sell Katonah.

\*5 Eventually, on January 25, 2005, DeLucca resigned from Katonah without notice. Shortly after her resignation, six other Katonah employees followed suit. In the wake of her resignation, Katonah alleges that DeLucca made offers to all Katonah employees to join Kingsland, her new firm.

DeLucca's resignation created the risk of a key-person default under the terms of the FSAs between Katonah and the Funds.

Katonah further alleges that DeLucca began to solicit Katonah Fund investors, which she was able to do as a result of her access to confidential Katonah information. Through her employment at Katonah, she was privy to certain non-public information, including key investor contacts and the terms under which investors invested in the Katonah Funds. Additionally, Katonah alleges that DeLucca has misused other Katonah trade secrets in the operation of Kingsland, including information about the quality of Katonah Fund investments made, the results of proprietary research and analysis, and Katonah's credit models that are used to project risk in investment opportunities. Not only that, the New York complaint alleges that DeLucca misused information of the KKAT Companies in violation of the terms of the Operating Agreements of each of the KKAT Companies—a violation that James Kohlberg, as Managing Member of the KKAT Companies, authorized Katonah and Kohlberg to assert.

The New York Complaint pleads several specific counts, styled as “Causes of Action” in apparent New York parlance, against DeLucca arising out of this course of conduct:

- Count One alleges that DeLucca breached confidentiality agreements with Katonah and the KKAT Companies.
- Count Two alleges that DeLucca breached her contractual obligations to Katonah by engaging in competing activities while still employed at Katonah.
- Count Three alleges that DeLucca's course of conduct violated fiduciary duties she owed to Katonah and Kohlberg.
- Count Four alleges that DeLucca misappropriated trade secrets, including the terms under which investors participate in the Katonah Funds.
- Count Five alleges that DeLucca tortiously interfered with Kohlberg's and Katonah's prospective relationship with the party to which they were seeking to sell Katonah and has more generally injured their ability to sell Katonah.
- Finally, Count Six alleges that DeLucca tortiously interfered with Katonah's and Kohlberg's relationship with the investors in the Katonah Funds.

Although the New York Complaint does not seek damages on behalf of investors in the Katonah Funds, it does make the following relevant allegations:

- “Kohlberg is the ... largest investor in the Katonah Funds.”<sup>13</sup>
- “In flagrant breach of her contractual and fiduciary duties to Katonah, and Katonah's investors, and Kohlberg, DeLucca has secretly formulated and attempted to implement a scheme to seize control of Katonah's assets for her own benefit.”<sup>14</sup>
- “Katonah and Kohlberg, the largest investor in the Katonah Funds ... came to believe that adding an additional key-person was in the best interests of all Katonah investors, because this addition would provide greater stability and continuity in the management of the Katonah Funds. [They], therefore, asked DeLucca to conduct a search for a portfolio manager or assistant portfolio manager of sufficient stature to be approved by Katonah investors as a second key-person....”<sup>15</sup>
- \*6 • “DeLucca's assault on Katonah is also impeding Katonah's ability to attract a high quality portfolio manager suitable to serve as the new contractually designated key-person and to attract supporting staff to replace the defectors who followed DeLucca out of the firm. DeLucca's scheme is thus contrary to the interests of the investors in Katonah's Funds.”<sup>16</sup>
- “DeLucca's [refusal to hire a new key-person was intentional because she] had plans to use that leverage ... to take control of Katonah's assets, and that plan took priority over her duties to Kohlberg, Katonah, and the investors in the funds managed by Katonah. Rather than lose her opportunity to take control, DeLucca simply failed to execute the task she had been assigned by senior management, placing her personal interests ahead of her duties to Kohlberg, Katonah and investors in the funds managed by Katonah.”<sup>17</sup>

It also bears repeating that the New York Complaint specifically alleges that DeLucca misused information regarding the Katonah Funds. This information allegedly included, among other things, the identity of and terms of investment by Fund investors, the nature and quality of investments made by the Funds, and the results of proprietary research done for the Funds by Katonah.

## II. Procedural Framework

This matter is before me now on cross-motions for judgment on the pleadings. DeLucca argues that the plain language addressing advancement in the Operating Agreements of the KKAT Companies entitles her to advancement of her reasonable costs in defending the New York Action. The KKAT Companies argue just the opposite, that the Operating Agreements clearly foreclose DeLucca's advancement claim.

The procedural framework for addressing these motions is familiar. Advancement cases are particularly appropriate for resolution on a paper record, as they principally involve the question of whether claims pled in a complaint against a party (such as the New York Complaint against DeLucca) trigger a right to advancement under the terms of a corporate instrument (such as the Operating Agreements of the KKAT Companies).<sup>18</sup> And although advancement provisions in corporate instruments often are of less than ideal clarity, rarely is resort to parol evidence appropriate or even helpful, as corporate instruments addressing advancement rights are often crafted without the involvement of the parties who later seek advancement and often with little negotiation between any contending parties at all. Those factors are not problematic, however, as they tend to reinforce the legal policy of this State, which strongly emphasizes contractual text as the overridingly important guide to contractual interpretation.<sup>19</sup>

On this motion under Rule 12(c), that means I must examine closely the terms of the Operating Agreements that were incorporated by reference into DeLucca's complaint.<sup>20</sup> Under Delaware law, the “proper interpretation of language in a contract, while analytically a question of fact, is treated as a question of law both in the trial court and on appeal,”<sup>21</sup> and “judgment on the pleadings ... is a proper framework for enforcing unambiguous contracts.”<sup>22</sup> I will “initially focus solely on the language of the contract itself,”<sup>23</sup> and if the contract language in dispute is unambiguous, then its “plain meaning alone dictates the outcome.”<sup>24</sup> For the reasons I have mentioned, the existence of ambiguity in the advancement context usually has a different consequence than in a situation when the court is trying to interpret a bilaterally negotiated commercial contract. Here, for example, neither of the parties suggests that useful parol

evidence exists anywhere, and, further, neither of the parties argues that the contract language is ambiguous.

\*7 Moreover, another interpretative principle comes into play. Delaware has a strong public policy in favor of assuring key corporate personnel that the corporation will bear the risks resulting from performance of their duties on the grounds that such a policy best encourages responsible persons to occupy positions of business trust, so Delaware courts have read indemnification contracts to provide coverage when that is reasonable.<sup>25</sup>

### III. Legal Analysis

As will be discussed next, this advancement dispute differs from those that typically arise under the Delaware General Corporation Law (“DGCL”).<sup>26</sup> In § 145 of the DGCL, corporations are authorized to “indemnify any person who was or is a party or is threatened to be made a party ... by reason of the fact that the person is or was a director, officer, employee, or agent of the corporation.” Corporate charters and bylaws providing for indemnification and advancement rights therefore have tended to track the statute and often hinge the right to advancement on whether a corporate officer is being sued by reason of the fact that she took action in her official corporate capacity. Several recent decisions of this court dilated on the meaning to be given to provisions of that sort, a line of cases that was recently affirmed in the Supreme Court's decision in *Tafeen*.<sup>27</sup>

Here, however, DeLucca is claiming a right to advancement under the Operating Agreements of limited liability companies, the KKAT Companies. The Operating Agreements of the KKAT Companies that I will now discuss do not employ the same “by reason of the fact ...” provisions as were at issue in *Tafeen* and its predecessors. The basic task of the court is, however, the same as in a corporate advancement case.

I must determine: 1) whether DeLucca is within the class of persons who are generally covered by the Operating Agreement's advancement provisions; 2) whether she has suffered losses of the kind that are generally eligible for advancement; and 3) whether those losses were incurred in connection with a legal proceeding for which advancement is due her under the Operating Agreements. The contractual provision to which that three-part analysis applies is § 4.4 of

the Operating Agreements<sup>28</sup> and reads in pertinent part as follows:

The Company shall, to the full extent permitted by applicable laws, indemnify and hold harmless each of the Indemnified Persons from and against any and all Losses to which such Indemnified Person may become subject ... in connection with or arising out of or related to: (A) this Agreement or the operations or affairs of the Company or the Target Company; or (B) the operations or affairs of the Investment Manager to the extent that such Losses are attributable to the Company or the Target Company or their respective operations or affairs; in each case, whether or not an Indemnified Person continues to serve in the capacity giving rise to its or his or her status as an Indemnified Person at the time any such Losses are paid or incurred; *provided*, that the foregoing indemnification shall not include or apply to the extent that any Losses are determined by a final decision ... of a court ... to have resulted from the fraud, gross negligence or willful violation of law of or by such Indemnified Person. In the event that any Indemnified Person becomes involved in any capacity in any action, proceeding or investigation in connection with any matter that may result in the indemnification contemplated above, the Company will periodically advance to or reimburse such Indemnified Person for its legal and other expenses ... as incurred in connection therewith ... [ ] to the extent that any Indemnified Person may be entitled to indemnification with respect to any Loss, such Indemnified Person first shall be required to seek indemnification and/or insurance benefits from the Target Company before seeking indemnification from the Company pursuant to this Section 4.4.

\*8 More precisely, tracking § 4.4, I must ascertain whether: 1) DeLucca is an “Indemnified Person,” 2) who has become subject to “Losses” that 3) are connected with, arise out of, or relate to the operations and affairs of the KKAT Companies or the Katonah Funds. DeLucca and the KKAT Companies argue about each one of these issues and therefore I take them in turn.

#### A. DeLucca Is An Indemnified Person Under The Operating Agreements

Section 1.1 of the Operating Agreements states that “Indemnified Person ... has the meaning ascribed thereto

in Section 4.3.” The pertinent portion of § 4.3 defines “Indemnified Persons” as the “Managing Member, the Investment Manager, any Affiliate ... or any ... director, officer, employee ... or Affiliate of any of the foregoing Persons.”

In order to accurately determine whether DeLucca qualifies as an Indemnified Person, it is important to trace the defined terms. First, in § 1.1 the “Managing Member” is defined as “James A. Kohlberg” and the “Investment Manager” is defined as “Kohlberg & Co., L.L.C.” The key term “Affiliate” is defined as “with respect to any Person, any Person directly or indirectly controlling, controlled by or under common control with, such first Person.”<sup>29</sup> Control, for the purposes of an affiliate, is “the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of Securities, by contract or otherwise.”<sup>30</sup>

Despite the KKAT Companies' frivolous argument to the contrary, DeLucca is clearly an Indemnified Person for purposes of the Operating Agreements. By the plain words of the New York Complaint, DeLucca was Katonah's Portfolio Manager and Managing Principal until her resignation. The New York Complaint thus strongly suggests that, as Managing Principal, she was also an officer, if not a director, of that LLC. In any event, DeLucca was clearly an employee of an Affiliate of Kohlberg, the Investment Manager under the Operating Agreements. The New York Complaint alleges that Kohlberg is the majority stockholder in Katonah, and Katonah therefore easily qualifies as an Affiliate of Kohlberg because of its voting control.

The KKAT Companies' argument that Katonah is not an affiliate of Kohlberg because Katonah's FSAs with the Funds placed limits on its discretion fails the straight face test in light of the plain language of the Affiliate definition in the Operating Agreements. According to the New York Complaint, Kohlberg could unilaterally decide to sell Katonah. But when seeking to avoid advancement, Kohlberg has the KKAT Companies argue to this court that Katonah is not even an Affiliate of Kohlberg. And lest the KKAT Companies disclaim responsibility for this clear inconsistency, it must be remembered that the New York Complaint asserts a claim on their behalf at the instance of Katonah and Kohlberg, which alleged that they were authorized to act in the name of the Managing Member of the KKAT Companies, i.e., in the name of James Kohlberg. In

that same complaint, Kohlberg expressly identifies the KKAT Companies as being its affiliates.

\*9 Why the KKAT Companies bothered to make this argument is even less clear when one recognizes that DeLucca also qualifies as an Affiliate of their Managing Member, James Kohlberg. In their answer in this case, the KKAT Companies admitted that “Katonah is controlled directly or indirectly by James Kohlberg, a principal of Kohlberg and the Managing Member of each of the Defendants.”<sup>31</sup> Therefore, DeLucca is indisputably an Indemnified Person.

### ***B. Must DeLucca Prove She Suffered Losses Before She Is Entitled To Advancement?***

DeLucca, as an Indemnified Person, must have “legal and other expenses,” i.e., Losses, in order to seek advancement. The KKAT Companies contend that DeLucca's legal fees have been paid by her company, Kingsland, rather than by her, and that the payment of the fees by Kingsland therefore prevents DeLucca from now seeking those fees from them. The argument advanced by the KKAT Companies is not one consistent with the policy underlying Delaware law.<sup>32</sup> By the plain terms of the New York Complaint, the KKAT Companies admit that Kingsland is a company owned by DeLucca. She has caused that company to bear her expenses in a situation when the KKAT Companies owed her advancement rights and is thereby suffering the economic costs of that decision.

As important, to embrace the KKAT Companies' argument would provide a perverse incentive. If a person owed advancement rights could find an affluent aunt, best friend, or other third party to front her defense costs, she would thereby forfeit her right to seek recompense from the party that should have been advancing those costs on the grounds that she was not “out of pocket” herself even though she was obliged to repay her benefactor. That would be inequitable and reward the refusal to honor promises of advancement. The incentives for such refusal are already abundant, as the *Tafeen* line of cases well illustrates, and there is no legal or equitable justification for adding to them by embracing the KKAT Companies' present argument. To do so would encourage indemnitors to use the leverage of a denial of advancement to deprive indemnitees of appropriate legal advice, putting them under pressure to settle disputes not because of the merits, but because of doubts about whether they could obtain competent defense counsel.

***C. Are DeLucca's Losses Being Incurred  
In Connection With Legal Claims For  
Which Advancement Is Owed Under § 4.4?***

DeLucca rests her justification for advancement on § 4.4 of the Operating Agreements, which describes the circumstances when the various KKAT Companies will “indemnify and hold harmless each of the Indemnified Persons.”

The language of § 4.4 requires the KKAT Companies to “periodically advance to or reimburse such Indemnified Person for its legal and other expenses ... as incurred in connection” with “any matter that may result in the indemnification contemplated” earlier in § 4.4. That, of course, leads to the key question: what indemnification is contemplated? Section 4.4 contemplates indemnification for losses “in connection with or arising out of or related to: (A) [the Operating] Agreement[s] or the operations or affairs of the [KKAT Companies] or the [Katonah Funds]; or (B) the operations or affairs of [Kohlberg] to the extent that such Losses are attributable to the [KKAT Companies] or the [Katonah Funds] or their respective operations or affairs.”

\*10 DeLucca rests her claim for advancement on the plain words of § 4.4 and the New York Complaint. She points out that § 4.4 uses capacious terms in defining the scope of indemnification it grants. For starters, § 4.4 constitutes a promise to indemnify “to the fullest extent permitted by law,” an expression of the intent for the promise of indemnity to reach as far as public policy will allow. Likewise, § 4.4 uses far-reaching terms often used by lawyers when they wish to capture the broadest possible universe. To wit, § 4.4 covers Losses arising out of, connecting with or simply relating to:<sup>33</sup>

- The Operating Agreements; OR
  - The operations of the KKAT Companies; OR
  - The affairs of the KKAT Companies; OR
  - The operations of the Katonah Funds; OR
  - The affairs of the Katonah Funds; OR

- The operations of Kohlberg to the extent that the loss is attributable to the KKAT Companies or the Katonah Funds or their operations or affairs; OR
- The affairs of Kohlberg to the extent that the loss is attributable to the KKAT Companies or the Katonah Funds or their operations or affairs.

Equally notable is the use of the broad terms “operations” and “affairs.”<sup>34</sup> Not only that, it is not required by the language of § 4.4 that Losses connect with, arise out of, or relate to both the “operations and affairs” of the KKAT Companies or the Katonah Funds, or Kohlberg to the extent that loss was attributable to the KKAT Companies or the Katonah Funds or their respective “operations and affairs.” Rather, it is sufficient that the Losses connect with, arise out of, or relate to either the “operations” or the “affairs” of either the KKAT Companies or the Katonah Fund.

From this plain text of § 4.4, DeLucca proceeds to the plain words of the New York Complaint. By any measure, she says, she is incurring Losses to defend against claims connected, arising out of, or at the very least, related to the “affairs” of the Katonah Funds. After all, the New York Complaint alleges that she: 1) failed to hire another key-person to manage the Katonah Funds, to the detriment of its investors; and 2) misused confidential information regarding the Funds, including information regarding its investments, investment strategies, and investors. These same allegations, she also avers, would relate to the operations of the Katonah Funds. Indeed, DeLucca accurately points out that the New York Complaint is permeated with allegations indicating that her entire scheme of supposedly wrongful conduct was conjured up and executed at the very time when she was on duty as the key-person at the Katonah Funds. All of the information and expertise she possessed and supposedly misused related to the Katonah Funds themselves.

Likewise, by its plain terms, the New York Complaint also contains a claim that connects with, arises out of, and relates to the KKAT Companies. Count One of the New York Complaint alleges that DeLucca's misuse of information relating to the Katonah Funds breached confidentiality obligations she owed to the KKAT Companies under their Operating Agreements. For that reason, DeLucca argues she has experienced Losses with a sufficient relation to the KKAT Companies themselves to justify advancement, especially given that the misuse of confidential information is so pervasive to all of the claims in the New York Complaint.<sup>35</sup>

\*11 Finally, DeLucca notes that Kohlberg, in the New York Complaint, alleges that it suffered harm as a result of DeLucca's conduct related to the operations or affairs of the Katonah Funds and the KKAT Companies. As such, she claims that she is facing losses that, at the very least, relate to the "affairs" of Kohlberg "to the extent that such Losses are attributable to the [KKAT Companies] or [Katonah Funds] or their respective operations or affairs."

In the face of this plain reading of § 4.4, the KKAT Companies raise two principal arguments. The first argument essentially consists in the proposition that § 4.4 cannot be read in a plain and literal manner lest an absurd result ensue. To support that argument, the KKAT Companies argue that it is a "startling proposition" that § 4.4 could be read to indemnify DeLucca against claims that she "ruined her employer by, for example, unlawfully stealing ... information ... or tortiously interfering with and scuttling a \$40 million transaction."<sup>36</sup> That sort of writing, however, does not involve cogent argumentation; it simply involves an attempt to avoid the hard task of contract interpretation by smearing the party seeking indemnity. As the Supreme Court just made clear in *Tafeen*, the right to advancement does not go away simply because the entity from which advancement is sought is alleging that the plaintiff has committed perfidious acts against it. Indeed, it is precisely in the circumstance when a business official is accused of serious wrongdoing that the right to advancement is critical, as that right secures the funds for the official to defend herself.

Underneath the KKAT Companies' overheated rhetoric is a more serious, non-textual argument. They argue that § 4.4 must be read as implicitly incorporating a requirement that Losses derive from a claim of harm filed on behalf of the Katonah Funds or the KKAT Companies, or by their stockholders or members, acting as plaintiffs in that precise capacity. That is, even if a claim relates to the operations or affairs of the Katonah Funds or the KKAT Companies, DeLucca is not entitled to advancement unless the claim specifically seeks relief for those entities or their owners in that capacity. Because the New York Complaint does not seek any relief for the Katonah Funds themselves, or on behalf of the investors in those Funds in that specific capacity, the KKAT Companies say that no advancement is due to DeLucca. And, although the KKAT Companies reluctantly concede that the New York Complaint does seek relief on behalf of the KKAT Companies themselves, they argue that their claim in the New York Action is such a trifling part of

that litigation that only a de minimis amount of advancement, if any at all, is actually due. In pressing this point, the KKAT Companies try to lean on jurisprudence from the corporate context that explicates what it means for a person to be sued "by reason of" her official corporate capacity.

\*12 At first blush, there is some appeal to the KKAT Companies' argument. The mind does initially recoil at the notion that the KKAT Companies could have an obligation to advance funds for DeLucca to defend herself against claims by her former employer, Katonah, and its controlling stockholder, Kohlberg, when those claims do not seek monetary damages on behalf of the Katonah Funds or the KKAT Companies. But after deeper consideration, that immediate reaction is mistaken.

Several reasons justify that conclusion. First and most important, § 4.4 is simply not written in a manner consistent with the KKAT Companies' argument. It would have been easy to make advancement contingent and available to DeLucca only in a situation when she is accused of causing injury to the KKAT Companies themselves or to the Katonah Funds. Section 4.4 is not written in that manner. Likewise, § 4.4 is not written so as only to capture claims brought against DeLucca when she was acting specifically in some official capacity on behalf of either the KKAT Companies or the Katonah Funds. It is not necessary, then, that DeLucca be acting in her capacity at the Katonah Funds, only that the Losses have the necessary relationship to one of the named entities, such as the Katonah Funds. That is, § 4.4 recognizes that Indemnified Persons could be involved in conduct that relates to or connects with the KKAT Companies or the Katonah Funds through their employment with an Affiliate of Kohlberg, such as Katonah. That is altogether natural because it was Katonah, as an entity, and Kohlberg, as an entity, that were the investment managers of the Funds and the KKAT Companies, respectively. For that reason, both Katonah and Kohlberg fit within the definition of Indemnified Persons.

In this respect, it must be remembered that the KKAT Companies were specific purpose vehicles that invested in particular Katonah Funds. The broad rights of advancement and indemnification they provide run to James Kohlberg, Kohlberg, and Katonah, perhaps as a method for Kohlberg, which has broader interests, to concentrate its risks and costs for its overall Katonah Funds initiative in its Affiliates involved in that initiative. In that vein, it is worth mentioning that § 3.1(p) of the Operating Agreements provides James

Kohlberg, as Managing Member, with the broad right to purchase insurance to cover:

any Person individually against all claims and liabilities of every nature arising by reason of being, holding, having held, or having agreed to hold office as, a partner, member, officer, employee, agent, investment adviser or manager, or independent contractor of or consultant to the [KKAT Companies], the [Katonah Funds] or any of their respective Affiliates ... including any action ... that may constitute negligence ... *whether or not* the [KKAT Companies], the [Katonah Funds] or their respective Affiliates would have the power to indemnify such Person against such liability.

\*13 Although the KKAT Companies argue that it is absurd to think that they would have promised money managers like DeLucca advancement rights in cases like this, the absurdity is not at all obvious to me. Because there might be limitations on the extent to which the Katonah Funds themselves could indemnify Katonah and its key personnel, it would have been rational for Kohlberg to provide coverage of that kind itself, through the entities whose capital it had devoted to those same Funds. By this means, Kohlberg could provide a form of self-insurance and provide protection that would help its Katonah affiliate attract quality talent. In other words, it is conceivable that Kohlberg did not want to obligate itself at the parent company level to provide indemnity and insurance to the employees of Katonah and wished to upstream the cash flow from Katonah so that Katonah itself would retain relatively little capital, and therefore used the KKAT Companies as the provider of coverage for itself and for the employees it attracted to work for Katonah. Such an approach might not be optimal—that is for businesspersons to judge—but it is certainly not irrational.

Also undercutting the absurdity argument is the protection built into § 4.4. That section is not a blank check. If, in the end, DeLucca is found liable for implementing an intentional scheme to harm Katonah and Kohlberg by intentionally breaching her contractual and fiduciary duties and by concealing her conduct from them, she will be required to repay the funds advanced to her by the KKAT Companies. Given that and the prior considerations identified, it is hardly

absurd for the KKAT Companies to have promised persons like DeLucca a right of advancement when accused of misconduct relating to the affairs or operations of the Katonah Funds.

In saying so, I, of course, eschew the KKAT Companies' post-hoc approach. Instead, in addressing their absurdity contention, I consider what a rational controller of an investment fund complex might have believed prudent in setting up the complex. As an inducement to employment, it is not illogical for a controller like Kohlberg to promise employees of Katonah that the entities established by the controller to invest in the Katonah Funds would provide them with advancement so that they could defend themselves against charges of misconduct relating to the Funds. That would offer employees confidence that they could fairly defend against charges of misconduct relating to the Funds, but reserve to the KKAT Companies a right of reimbursement if the employee was found to have acted in a manner that disentitles her to ultimate indemnity. One cannot reasonably assess contracts such as these by adopting the after-the-fact posture of an angry employer, furious that it might have to pay the turncoat's defense, which adamantly believes that it has been betrayed by someone it trusted and rewarded.

Time and again, this court, and recently our Supreme Court in *Tafeen*, has pointed out that sage businesspersons who wish to avoid situations like this must exercise the contractual freedom afforded to them under Delaware law to delimit the circumstances in which they are obliged to advance funds to, or ultimately indemnify, employees and other officials. There is no requirement that advancement provisions be written broadly or in a mandatory fashion. But when an advancement provision is, by its plain terms, expansively written and mandatory, it will be enforced as written. Section 4.4 is such a provision and its terms encompass the claims in the New York Complaint. That Complaint alleges a concerted plan by DeLucca in which all of the conduct relates to the affairs of the Katonah Funds. Because the improper scheme DeLucca is accused of executing is an integrated one that relies on various accusations of misconduct, all of which relate to the affairs of the Katonah Funds (e.g., refusing to hire another key-person to manage the Funds, misusing confidential information about the Fund's investors, investments, and investment strategy, and refusing to negotiate in good faith with a person who hoped to continue to employ her as the key-person for the Funds), there is no rational basis for concluding that DeLucca should not receive advancement for all of the claims against

her. All of them accuse her of misconduct during office hours when her duties were to act as the key-person at the Funds.

\*14 Lastly, I must address the KKAT Companies' other argument against advancement. This consists in the proposition that the indemnification provided for in § 4.4 does not extend to direct claims filed by Kohlberg or the KKAT Companies against otherwise Indemnified Persons. The reason for this is that § 4.3 states that:

Indemnified Persons shall not be liable to the Company, any Member or the Target Company or any ... member ... of any of them for any claims, damages, losses, expenses or liabilities of any nature whatsoever, including, but not limited to, legal fees and expenses (collectively, "Losses"), to which the Company, any Member or the Target Company or any ... member ... of any of them may become subject in connection with or arising out of or related to this Agreement or the operation and affairs of the Company or the Target Company, unless and only to the extent that it is determined by a final decision ... of a court ... that such Losses resulted from the fraud, gross negligence or willful violation of law of or by such Indemnified Person....

According to the KKAT Companies, DeLucca can only receive indemnification under § 4.4 if the claims against her fall within the liability exclusion of § 4.3. Candidly, I cannot grasp the KKAT Companies' argument because, frankly, it does not have any foundation in the text of the Operating Agreements. The only dependence of § 4.4 on § 4.3 is in the definition of Losses, which simply refers to the terms "claims, damages, losses, expenses or liabilities of any nature, whatsoever, including, but not limited to, legal fees and expenses...." By using the defined term Losses, § 4.4 does not limit an Indemnified Person to receiving advancement or indemnification only for Losses incurred in connection with Losses covered by the liability exclusion of § 4.3. Rather, § 4.4 plainly grants advancement and indemnification for Losses to which an Indemnified Person becomes subject that fit within the categories in § 4.4(A) and § 4.4(B).

That § 4.3 and § 4.4 might provide overlapping protections to Indemnified Persons as to certain classes of claims does not mean that § 4.4 should not be given the independent significance its own words clearly contemplate. Rather, it appears that the drafters of the Operating Agreements sought to give the broadest possible protection to Indemnified Persons by according them both immunity from certain liability claims made by entities and persons within the Kohlberg family of entities, by promising broad indemnification rights in an even larger classes of disputes, and by authorizing the KKAT Companies to purchase insurance to cover Indemnified Persons for an even broader universe of possible claims. Had the drafters intended to make the indemnity rights granted by § 4.4 of the Operating Agreements precisely co-extensive with the liability immunity rights granted in § 4.3, they would have said so. They did not.

For all these reasons, I conclude that DeLucca is an Indemnified Person who is incurring Losses that qualify for advancement under § 4.4.

***D. Was DeLucca Required To Seek Advancement From The Katonah Funds Before Seeking Advancement From The KKAT Companies?***

\*15 Based on § 4.4 of the Operating Agreements, the KKAT Companies allege that DeLucca was required to seek advancement from the Katonah Funds before looking to the KKAT Companies. In pertinent part, § 4.4 provides: "To the extent that any Indemnified Person may be entitled to indemnification ... such Indemnified Person first shall be required to seek indemnification ... from the Target Company...."

The problems with this argument are two-fold. First, although the subject of advancement is dealt with in § 4.4, which deals generally with indemnification, advancement is generally considered to be "legally quite distinct."<sup>37</sup> The terms of § 4.4 do not conflate the right to ultimate indemnification and the right to advancement in a clear manner that obligates DeLucca to first seek advancement from the Katonah Funds or from an insurance policy before looking to the KKAT Companies. Moreover, because of the time-sensitive nature of the advancement right, and the distinctive nature of that right from the right of ultimate indemnity, one would expect there to be explicit language expressing the duty of a party

otherwise entitled to advancement to look to other sources first.

Second, the KKAT Companies have not cited to any provision of the relevant instruments of the Katonah Funds suggesting that they provide DeLucca with a right to advancement. I have little doubt that DeLucca would be happy to receive advancement from the Funds if Katonah wishes to provide it to her because there is a legal requirement for the Funds to do so. Having provided no basis for me to believe that DeLucca had a rational justification for seeking advancement under the Funds' governing instruments, the KKAT Companies are not entitled to defer their own advancement obligation. DeLucca cannot be required to perform an act that is, from the get-go, futile.

***E. Is DeLucca Entitled To "Fees On Fees" Incurred In Bringing This Action To Enforce The Advancement Provision?***

In addition to seeking advancement and reimbursement of fees associated with the New York Action, DeLucca also seeks her reasonable legal fees and expenses associated with bringing this action to enforce the advancement provision. As discussed below, DeLucca is entitled to an award of fees on fees due to the success of her advancement claim.

Under Delaware law as articulated in *Stifel*, DeLucca is entitled to an award of litigation expenses for bringing this advancement action.<sup>38</sup> The only way out of the *Stifel* "fees on fees" award was for the KKAT Companies "to tailor their indemnification ... to exclude 'fees on fees,' if that [was] a desirable goal."<sup>39</sup> The Operating Agreements clearly did not limit indemnification in the manner required by *Stifel*; in fact, § 4.4 uses precisely the expansive language used in *Stifel*—"The Company shall, to the full extent permitted by applicable laws, indemnify and hold harmless." Oddly, the KKAT Companies contend that this was not expansive, but rather limiting, language. That is simply not the case. The KKAT Companies chose to indemnify certain Persons for certain Losses "to the full extent" of Delaware law. This provision in no way suggests that without the "to the full extent" language, the KKAT Companies would somehow be indemnifying much more conduct; rather, it evinces a

clear intent to extend coverage as broadly as the law allows. And, although the KKAT Companies argue that their status as LLCs counsels for not following *Stifel* here, I discern no rational basis for creating a conflict between the default rules of construction between corporations and LLCs on this question, which arises regularly in both contexts.

\*16 The KKAT Companies also argue that an award of fees on fees is dependent upon the outcome of the New York Action, which indicates a fundamental misunderstanding of the nature of this action to enforce the advancement provision. The pertinent question now is not whether DeLucca may later be found to have engaged in fraud, gross negligence or willful conduct that would require her to return advanced funds, but rather whether she has succeeded in this action by demonstrating that the KKAT Companies denied her advancement to which she was entitled. The merits of the underlying New York Action are irrelevant to whether fees on fees must be awarded here and now.<sup>40</sup> She is entitled to indemnification for fees on fees by proving her entitlement to advancement in this litigation.<sup>41</sup> Therefore, an award of fees on fees will be complete at the end of the advancement litigation.

***IV. Conclusion***<sup>42</sup>

For the foregoing reasons, DeLucca's motion for judgment on the pleadings as to her entitlement to advancement and fees on fees is GRANTED, and the KKAT Companies' motion is DENIED. The parties shall meet and confer within the next thirty days in a good faith attempt to determine the amount of Losses that DeLucca has reasonably incurred and to establish an efficient procedure for ongoing advancement. Delaware counsel shall be directly involved in that process. In the event that the parties cannot reach agreement—which should be unlikely if the subject is approached with rational and objective business and legal judgment—the parties shall report to the court on their proposal for how the remaining disputes should be resolved. IT IS SO ORDERED.

**All Citations**

Not Reported in A.2d, 2006 WL 224058

**Footnotes**

1 *Homestore, Inc. v. Tafeen*, 886 A.2d 502 (Del.2005) (hereinafter, "*Tafeen*").

- 2 See, e.g., *Reddy v. Elec. Data Systems Corp.*, 2002 WL 1358761 (Del. Ch. June 18, 2002); *Perconti v. Thornton Oil Corp.*, 2002 WL 982419 (Del. Ch. May 3, 2002).
- 3 *Stifel Financial Corp. v. Cochran*, 809 A.2d 555, 561 (Del.2002) (hereinafter, “*Stifel*”); *Weaver v. ZeniMax Media, Inc.*, 2004 WL 243163, at \*7 (Del. Ch. Jan. 30, 2004); *Fasciana v. Electronic Data Systems Corp.*, 829 A.2d 178, 181–3 (Del. Ch.2003).
- 4 The actual agreements entered into by the parties have a variety of names.
- 5 KKAT Management is an exception. It was established to act as the general partner in KKAT Acquisition. All parties agree that exception is immaterial here.
- 6 The FSAs for Katonah Funds I, III, IV, V, and VI contained provisions allowing for termination of the FSA if DeLucca left Katonah for specified reasons and no adequate replacement was hired. These termination provisions have been termed “key-person provisions” in this litigation.
- 7 These were the “key-person provisions” for Katonah Funds III, IV, V, and VI. The terms in the FSA for Katonah Fund I differ slightly, providing 30 days and not placing limits on investors withholding approval. The FSA for Katonah Fund II does not have a key-person provision.
- 8 NY Compl. ¶ 6.
- 9 NY Compl. ¶ 36.
- 10 NY Compl. ¶ 3.
- 11 NY Compl. ¶ 37.
- 12 *Id.*
- 13 NY Compl. ¶ 2.
- 14 NY Compl. ¶ 3.
- 15 NY Compl. ¶ 5.
- 16 NY Compl. ¶ 13.
- 17 NY Compl. ¶ 34.
- 18 *Weinstock v. Lazard Debt Recovery GP, LLC*, 2003 WL 21843254, at \*2 (Del. Ch. Aug. 8, 2003) (“[a]s in most advancement disputes ... the relevant question turns on the application of the relevant terms of the corporate instruments setting forth the purported right to advancement and the pleadings in the proceedings for which advancement is sought”).
- 19 See, e.g., *Twin City Fire Ins. Co. v. Delaware Racing Ass’n*, 840 A.2d 624, 628 (Del.2003) (“[u]nder standard rules of contract interpretation, a court must determine the intent of the parties from the language of the contract”); *City Investing Co. Liquidating Trust v. Continental Cas. Co.*, 624 A.2d 1191, 1198 (Del.1993) (“If a writing is plain and clear on its face ... the writing itself is the sole source for gaining an understanding of intent”); *Demetree v. Commonwealth Trust Co.*, 1996 WL 494910, at \*3–4 (Del. Ch. Aug. 27, 1996).
- 20 See *McMillan v. Intercargo Corp.*, 768 A.2d 492, 500 (Del. Ch.2000); *In re Lukens Inc. Shareholders Litig.*, 757 A.2d 720, 727 (Del. Ch.1999).
- 21 *Pellaton v. Bank of New York*, 592 A.2d 473, 478 (Del.1991) (citation omitted).
- 22 *Paxson Comm.*, 2005 WL 1038997, at \*5.
- 23 *Chambers v. Genesee & Wyoming, Inc.*, 2005 WL 2000765, at \*5 (Del. Ch. Aug. 11, 2005).
- 24 *Id.*
- 25 *Perconti*, 2002 WL 982419, at \*3. See, e.g., *VonFeldt v. Stifel Financial Corp.*, 714 A.2d 79, 84 (Del.1998) (disregarding an attempt to narrowly construe DGCL § 145).
- 26 8 Del. C. § 101 *et seq.*
- 27 See, e.g., *Reddy*, 2002 WL 1358761; *Perconti*, 2002 WL 982419.
- 28 This provision is identical in the various Operating Agreements at issue, except for the provision in the Operating Agreement of KKAT Management, which differs in a non-material way.
- 29 *Id.*
- 30 *Id.*
- 31 Answ. ¶ 3.
- 32 See *Stifel*, 809 A.2d at 561 quoting DGCL § 145 (“[t]he invariant policy of Delaware legislation on indemnification is to ‘promote the desirable end that corporate officials will resist what they consider unjustified suits and claims, secure in the knowledge that their reasonable expenses will be borne by the corporation ... if they are vindicated’ ”); *Weaver v. ZeniMax Media Inc.*, 2004 WL 243163, at \*7 (Del. Ch. Jan. 30, 2004) (applying the *Stifel* indemnification language to advancement by stating the policy is intended to encourage “corporate officers to defend suits they consider unjustified

without the worry of how to fund their defense"); see also *Tafeen v. Homestore, Inc.*, 2005 WL 1314782, \*3 (Del. Ch. May 26, 2005), *aff'd*, 886 A.2d 502 (Del.2005) (discussing the concern that wrongful denial of advancement by a corporation can compromise an officer or director's ability to defend herself in litigation due to cost concerns).

33 In the context of arbitration, both the Supreme Court and this court have found, on several occasions, this precise type of language to be broad in scope. See *Parfi Holding AB v. Mirror Image Internet, Inc.*, 817 A.2d 149, 155 (Del.2002) (finding that an arbitration clause requiring the parties to submit "any dispute, controversy, or claim arising out of or in connection with" the agreement to arbitration was broad in scope); see also *CAPROC Manager, Inc. v. Policemen's & Firemen's Retirement System of the City of Pontiac*, 2005 WL 937613, at \*2 (Del. Ch. Apr. 18, 2005) (finding an arbitration clause requiring "[a]ny dispute or controversy arising under [the] Agreement" to be submitted to binding arbitration was broad in scope and noting that other Delaware courts have found "arising under" language to be broad in scope); *The Town of Smyrna v. Kent County Levy Court*, 2004 WL 2671745, at \*2 (Del. Ch. Nov. 9, 2004) ("there is no question that the arbitration clause found in the Agreement is broad, as it covers all claims 'arising out of' or 'related to' the Agreement").

34 In addition to the broad scope created by "in connection with," "relating to," and "arising out of," operations and affairs are, by definition, broad terms as well. "Operation" is defined to mean, among other things, "the act or process of operating or functioning." THE AMERICAN HERITAGE DICTIONARY OF THE ENGLISH LANGUAGE 1233 (4th ed.2000). "Affair" is defined even more broadly as "business dealings; a concern; a business; a matter to be attended to." THE CONCISE OXFORD DICTIONARY OF CURRENT ENGLISH 22 (9th ed.1995).

35 I also surface another connection here that raises a possible factual issue. The New York Complaint is ambiguous about whether Kohlberg's attempt to sell Katonah for \$40 million also contemplated the sale of the KKAT Companies. It seems more than plausible that it did, as otherwise Kohlberg would be left investing its capital in investment funds it no longer managed. I do not so find but note it as another reason that, after discovery, advancement by the KKAT Companies might be required. Because other reasons already exist, the factual exploration of that avenue in this litigation is unnecessary.

36 Def. Op. Br. at 26–7.

37 *Advanced Mining Sys. v. Fricke*, 623 A.2d 82, 84 (Del. Ch.1992) ("... I consider indemnification rights and rights to advancement of possibly indemnifiable expenses to be legally quite distinct types of legal rights"); see also *Kaung*, 884 A.2d at 509–10 ("[w]hile the rights to indemnification and advancement are correlative, they are still discrete and independent rights ...").

38 *Stifel*, 809 A.2d at 561 ("Allowing indemnification for the expenses incurred by a director in pursuing his indemnification rights gives recognition to the reality that the corporation itself is responsible for putting the director through the process of litigation").

39 *Id.* at 561–62.

40 *Weinstock*, 2003 WL 21843254, at \*7.

41 *Stifel*, 809 A.2d at 561; see also *Kaung*, 884 A.2d at 509; *Fasciana v. Electronic Data Systems Corp.*, 829 A.2d 178, 179 (Del. Ch.2003).

42 The KKAT Companies have raised a frivolous defense of laches. DeLucca sought advancement within three months of the filing of the New York Action. Moreover, the KKAT Companies have prematurely questioned the reasonableness of some of the legal expenses incurred by DeLucca. That subject is for later proceedings. In that regard, the KKAT Companies should be cautious about nitpicking reasonable tactical choices made by DeLucca's counsel in the New York Action. Unless they can show that those choices are unmistakably unreasonable, in the sense that they involve clear abuse, the KKAT Companies should be chary about raising concerns. To the extent that they press such arguments, discovery into the fees and expenses incurred by them and their affiliates in the New York Action and in this case will be permitted.

# EXHIBIT 2

2008 WL 3853385  
Only the Westlaw citation is currently available.  
United States District Court,  
S.D. Indiana,  
Indianapolis Division.

QUEST SPORTS SURFACING, LLC, an  
Indiana limited liability company, Plaintiff,  
v.  
1st TURF, INC., a Florida corporation,  
Prestige Sports North America, LLC, a  
Florida limited liability company, Michael G.  
McGraw, and Does 1-10, inclusive, Defendants.

No. 1:07-cv-0907-DFH-WGH. | Aug. 15, 2008.

#### Attorneys and Law Firms

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Plaintiff.

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#### ENTRY ON PENDING MOTIONS

DAVID F. HAMILTON, Chief Judge.

\*1 According to the Second Amended Complaint in this case, plaintiff Quest Sports Surfacing, LLC supplied and installed artificial turf for a high school in Seattle, Washington in 2000 and was never paid for its product or services. Plaintiff Quest filed this action on July 12, 2007. Its timing, choice of venue, and choice of defendants have presented a host of procedural issues. The three defendants have filed a combined motion that seeks to dismiss the case on multiple grounds, or to transfer of the case to either Florida or Washington, or to require a more definite statement, and to strike portions of the complaint. Plaintiff Quest has responded with its own motion seeking either permission to conduct discovery related to personal jurisdiction or a transfer to Florida. As explained below, the court finds: (a) that the issue of personal jurisdiction over one defendant was resolved conclusively by a state court in 2004, (b) that the state court's resolution also applies to the other two defendants, (c) that plaintiff is not entitled to discovery on personal jurisdiction, and (d) that the action should be transferred to the Middle District of Florida.

Plaintiff Quest is an Indiana limited liability company whose members are Indiana citizens. Defendant 1st Turf, Inc. is a Florida corporation with its principal place of business in Florida. Defendant Prestige Sports North America, LLC is a defunct Florida limited liability company whose members were and are Florida citizens. Defendant Michael G. McGraw is a citizen of Florida and is the sole or principal owner of the other two defendants. McGraw and the other defendants share a business address and telephone number in Florida. The complaint also refers to several "John Doe" defendants, but these unidentified and unserved defendants are only nominal parties and irrelevant in this diversity jurisdiction case. See *Howell v. Tribune Entertainment Co.*, 106 F.3d 215, 218 (7th Cir.1997).

For purposes of the pending motions, the court accepts as true the allegations in the complaint (actually the Second Amended Complaint), except to the extent that evidence relating to personal jurisdiction, venue, or service of process has been filed with the court. Where the evidence conflicts, the plaintiff receives the benefit of the dispute unless the court holds an evidentiary hearing and finds disputed facts, which is not necessary in this case. See generally *Purdue Research Foundation v. Sanofi-Synthelabo, S.A.*, 338 F.3d 773, 782 (7th Cir.2003) (discussing treatment of allegations and affidavits in deciding issues of personal jurisdiction).

According to the complaint, Hale High School in Seattle was undertaking a construction project involving sports facilities in 2000. The general contractor, Western Tricon, contracted with defendant 1st Turf for artificial turf on a playing field for \$558,348. 1st Turf contacted a Joe DiGeronimo in Massachusetts for help in locating suppliers to help 1st Turf meet its obligations on the Hale High School project. DiGeronimo recommended plaintiff Quest, and he contacted Quest on behalf of 1st Turf. On or about July 23, 2000, 1st Turf and Quest entered into a contract for installation of a synthetic turf playing field at Hale High School for a price of \$301,000. The turf was installed in August 2000.

\*2 According to Quest's complaint, Western Tricon paid 1st Turf approximately \$280,000 for the project in two payments in August and October 2000, but 1st Turf never paid Quest for its work on Hale High School. Quest wanted to be paid for its work. 1st Turf told DiGeronimo to tell Quest that Western Tricon was withholding payment because of various quality issues. In November 2000, as part of what plaintiff describes as a fraud, 1st Turf provided to

DiGeronimo, for Quest's reading, a draft of a letter that 1st Turf's McGraw said he intended to send to Western Tricon concerning the quality issues. Plaintiff alleges this draft was part of an effort to lull it into accepting delays in payment and to prevent Quest from seeking timely payment directly from Western Tricon, the school corporation, and/or the construction bonding company.

According to the complaint, the bonding company made a final payment of \$147,673 to 1st Turf on June 19, 2002. At some point, plaintiff sought payment from the construction bonding company. On June 13, 2003, the bonding company declined plaintiff Quest's request for payment. The bonding company told Quest that all payments had been made, and it provided documentation of all payments made to 1st Turf for the synthetic turf field, totaling more than \$427,000. This was all news to plaintiff Quest.

On January 30, 2004, plaintiff Quest filed suit in an Indiana state court against 1st Turf and McGraw. Both defendants moved to dismiss for lack of personal jurisdiction. Quest voluntarily dismissed the claims against McGraw without prejudice. On March 14, 2005, the state court granted 1st Turf's motion to dismiss for lack of personal jurisdiction. Def. Ex. G. Quest did not appeal that dismissal.

Instead, Quest waited more than two years, until July 2007, to file this federal lawsuit against 1st Turf, McGraw, and Prestige Sports North America. Plaintiff asserts the following six counts against all three defendants: I-breach of contract; II-breach of implied duty of good faith; III-unjust enrichment; IV-negligence; V-fraud; VI-conversion. The complaint also includes a count VII that alleges defendants should be estopped from relying on statutes of limitations.

All three defendants have moved to dismiss for lack of personal jurisdiction and improper venue. Prestige Sports North America has moved to dismiss for improper service of process, as well. All three defendants have also moved to dismiss under Rule 12(b)(6) on statute of limitations grounds, among others. Defendants have also moved to strike the negligence count and portions of the fraud allegations.

### ***Personal Jurisdiction***

A federal court exercising diversity jurisdiction has personal jurisdiction over a defendant to the same extent that a state court in the forum state would. *Citadel Group Ltd. v.*

*Washington Regional Medical Center*, ---F.3d ---, 2008 WL 2971807, at \*2 (7th Cir. Aug. 5, 2008); *RAR, Inc. v. Turner Diesel, Ltd.*, 107 F.3d 1272, 1275 (7th Cir.1997); *NUCOR Corp. v. Aceros y Maquilas de Occidente*, 28 F.3d 572, 579-80 (7th Cir.1994). Quest argues primarily that it can establish specific jurisdiction over the defendants based on the communications between 1st Turf and Quest that led to the Hale High School contract and 1st Turf's and McGraw's later alleged fraudulent efforts to conceal from Quest the fact that 1st Turf had been paid for the Hale High School work. Perhaps the most significant contact was that 1st Turf sent a faxed purchase order from Florida to Quest in Indiana, for work to be performed in Washington with materials manufactured in Georgia.

\*3 The starting point on personal jurisdiction, however, is the Indiana state court's dismissal of Quest's lawsuit against 1st Turf for lack of personal jurisdiction. Before digging into the nuances of when interstate communications can be sufficient to support personal jurisdiction in a case arising from a contract based on those communications, see generally *Purdue Research Foundation v. Sanofi-Synthelabo, S.A.*, 338 F.3d 773, 785 (7th Cir.2003), the court must address the threshold and decisive issue: whether the state court's dismissal of Quest's 2004 lawsuit against 1st Turf for lack of personal jurisdiction precludes Quest from re-litigating the issue.

In this diversity jurisdiction case, the court applies state law on issue preclusion and claim preclusion. *Jarrard v. CDI Telecommunications, Inc.*, 408 F.3d 905, 916 (7th Cir.2005); see generally *Kremer v. Chemical Construction Corp.*, 456 U.S. 461, 466 (1982). Under Indiana law, the doctrine of collateral estoppel or issue preclusion applies to bar later litigation of a fact or issue if that fact or issue was necessarily decided in an earlier lawsuit. *E.g., Indianapolis Downs, LLC v. Herr*, 834 N.E.2d 699, 704 (Ind.App.2005). The purpose of both issue preclusion and claim preclusion is to prevent repetitive litigation of the same dispute. *Small v. Centocor, Inc.*, 731 N.E.2d 22, 26 (Ind.App.2000). The doctrine of claim preclusion applies to issues that were actually litigated and determined, so long as the party to be estopped or precluded had a full and fair opportunity to litigate the issue and it would not be otherwise unfair to apply the doctrine. *Indianapolis Downs*, 834 N.E.2d at 705.

To avoid issue preclusion, Quest argues that the state court judge "failed to technically grasp the substance of the motion..." Pl. Br. 21. This argument is a non-starter. If a

party could avoid issue preclusion by arguing that the earlier decision was simply wrong, the doctrine would never apply.

Quest also argues that personal jurisdiction must be determined as of the time of filing, so that the issue of personal jurisdiction over 1st Turf in 2007 is different from the issue of personal jurisdiction over 1st Turf in January 2004. This argument requires closer attention. Personal jurisdiction depends on whether the trial court has jurisdiction over the defendant at the time the suit is filed. *Pohlmann v. Bil-Jax, Inc.*, 176 F.3d 1110, 1112 (8th Cir.1999) (applying Missouri law); *Klinghoffer, v. S.N.C. Achille Lauro*, 937 F.2d 44, 52 (2d Cir.1991); *Asarco, Inc. v. Glenara, Ltd.*, 912 F.2d 784, 787 n. 1 (5th Cir.1990) (dicta). Whether an Indiana court could exercise jurisdiction over 1st Turf in 2004 is not necessarily the same question as whether an Indiana court could do so in 2007.

Changes in intervening facts therefore can justify a fresh look at an earlier dismissal for lack of personal jurisdiction, as the Eighth Circuit explained in *Pohlmann*. See 176 F.3d at 1112-13 (discussing *Kitces v. Wood*, 917 F.Supp. 338, 340 (D.N.J.1996), noting that if the defendant had moved into the forum state before the later suit was filed, the earlier dismissal would not preclude a new look at the issue, and noting that jurisdictional decisions will ordinarily be entitled to preclusive effect); see also *Klinghoffer*, 937 F.2d at 52 (noting that changes in Palestine Liberation Organization's status and activities in New York might produce different conclusions on personal jurisdiction for complaints filed at different times). Without some change in the relevant facts, however, it is difficult to see why issue preclusion should not apply to an earlier court's decision on the issue. See *Deckert v. Wachovia Student Financial Services, Inc.*, 963 F.2d 816, 819 (5th Cir.1992) (affirming dismissal for lack of personal jurisdiction based on issue preclusion from earlier state court decision: "In light of the state court's finding, Deckert cannot now seek to relitigate in federal court the personal jurisdiction issue which was the basis of the state court's order of dismissal.").

\*4 Where the plaintiff relies on specific jurisdiction, as Quest does here-*i.e.*, jurisdiction based on the defendant's contacts with the forum state from which the dispute arises-it seems unlikely that delay will change the relevant facts. See *Steel v. United States*, 813 F.2d 1545, 1549 (9th Cir.1987) (when courts exercise specific jurisdiction, the "fair warning" required by due process arises at the time of the events giving rise to the suit, not when suit is filed; California could exercise

specific jurisdiction over defendant based on his actions in California, even though he had moved to Virginia before suit was filed)

If an Indiana court could exercise personal jurisdiction over 1st Turf with respect to claims arising from the Hale High School contract, it could do only based on communications between 1st Turf in Florida and Quest in Indiana that occurred before the 2004 state court lawsuit. None of those facts have changed in the interim, so there is no basis for this court to revisit the state court's determination.<sup>1</sup> The state court's determination might have been right and might have been wrong, but the state court had jurisdiction to make that decision and the parties had a full and fair opportunity to litigate the issue. Plaintiff Quest lost there and did not appeal. Nor is there anything unusual about the situation that would make it unfair to preclude Quest from re-litigating this issue. After all, if the state court had reached the opposite conclusion, that decision would have been binding on 1st Turf. See, *e.g.*, *Insurance Corp. of Ireland, Ltd. v. Compagnie des Bauxites de Guinee*, 456 U.S. 694, 706 (1982). This lawsuit is not an appropriate substitute for such an appeal.

The next question is whether issue preclusion also applies to personal jurisdiction over defendants McGraw and Prestige Sports. McGraw had been named as a defendant in the state court suit, but Quest had voluntarily dismissed without prejudice its claims against him. Prestige Sports was not a party to the state court suit. In fact, it did not exist until May 2001, after the alleged breach of contract, and it was dissolved on December 31, 2005, long before this suit was filed.

Under Indiana law, the doctrines of claim preclusion and issue preclusion apply to litigation between the same parties or their privies. *Glass v. Continental Assurance Co.*, 415 N.E.2d 126, 128 (Ind.App.1981), citing *Peterson v. Culver Educational Foundation*, 402 N.E.2d 448, 460 (Ind.App.1980). The term "privity" describes:

the relationship between persons who are parties to an action and those who are not parties to an action but whose interests in the action are such that they may nevertheless be bound by the judgment in that action. *Marsh v. Paternity of Rodgers by Rodgers*, 659 N.E.2d 171, 173 (Ind.Ct.App.1995). The term includes those who control an action, though not a party to it, and

those whose interests are represented by a party to the action. *Id.*

\*5 *Small v. Centocor, Inc.*, 731 N.E.2d 22, 27-28 (Ind.App.2000). The requirement of privity may be relaxed if the liability of a defendant asserting a defense of claim or issue preclusion is dependent on or derived from the liability of a party exonerated in an earlier suit by the same plaintiff on the same facts. *Glass*, 415 N.E.2d at 128, quoting *Mayhew v. Deister*, 244 N.E.2d 448, 454 (Ind.App.1969).

Quest's contract was only with 1st Turf. The problem for Quest in this case is that its theory for holding McGraw and/or Prestige Sports liable on the merits and for exercising personal jurisdiction over them is that they were both not only in privity with 1st Turf but also are both actually alter egos of 1st Turf. In paragraph 6 of the complaint, Quest alleges:

Plaintiff alleges that all times relevant hereto, Defendants, and each of them, were the agents, principals, servants, representatives, assigns, partners, members, officers, directors, employees and alter egos of each other; were directly or indirectly controlled by other Defendants; occupied similar status and performed similar functions; and that at all times mentioned, were acting with the purpose and scope of said agency, service, partnership, joint venture and employment and alter ego with the express and implied authority, consent, approval and ratification of each other, such that all are jointly, severally and individually liable for Plaintiff's damages, as set forth herein.

In footnote 2 of its brief, plaintiff writes: "Plaintiff also contends that the Defendants are alter egos of one another such that personal jurisdiction over one satisfies jurisdiction over all." Because Quest's basis for holding McGraw and Prestige Sports liable for the alleged wrongs by 1st Turf is that they were in privity with 1st Turf and were even alter egos of 1st Turf, the state court's determination that it lacked personal jurisdiction over 1st Turf should be equally applicable to McGraw and Prestige Sports.

In theory, of course, there might be different answers for personal jurisdiction for different defendants. For example,

if there were evidence that McGraw or Prestige Sports had established a residence or principal place of business or some other significant presence in Indiana that would support general jurisdiction over them in Indiana, the answers for them might be different. There is no such evidence here. Both are based in Florida, and neither resides, owns property, or regularly does business in Indiana. Their possible occasional business dealings in Indiana are not related to this lawsuit and could not support the exercise of general jurisdiction over them in Indiana. See *Purdue Research Foundation*, 338 F.3d at 787 (noting that "the constitutional requirement for general jurisdiction is 'considerably more stringent' than that required for specific jurisdiction" because a finding of general jurisdiction means that it would be fair to require the defendant to answer in the forum for any claims arising anywhere in the world).<sup>2</sup> Even if their contacts with Indiana (based on 1st Turf's contacts with Indiana) might arguably support specific jurisdiction in Indiana for Quest's claims, those contacts would present essentially the identical question that the state court already decided against Quest.

\*6 Accordingly, the court concludes that Indiana's doctrine of issue preclusion applies here to bar this court from exercising personal jurisdiction over Quest's claims against the three defendants in this case. The court does not reach the separate issues of venue or service of process on Prestige Sports, or defendants' motion to strike portions of the complaint.

The court has considered plaintiff's motion for leave to conduct discovery on personal jurisdiction or in the alternative for transfer to the Middle District of Florida. See generally *Ellis v. Fortune Seas, Ltd.*, 175 F.R.D. 308, 311 (S.D.Ind.1997) (denying motion for leave to conduct discovery on personal jurisdiction where plaintiff had not made colorable showing of basis for personal jurisdiction against defendant who had moved to dismiss on that basis). Facts relevant to specific jurisdiction were fully aired in the state court litigation in 2004. Plaintiff has not offered any plausible basis for believing that any defendant might be subject to general jurisdiction in Indiana based on more recent events. The court therefore denies plaintiff's motion for discovery.

That leaves the question of dismissal or transfer. Transfer under 28 U.S.C. § 1404(a) would not be appropriate here. That statute applies only if the case was properly in this district in the first place. Because the defendants are not subject to personal jurisdiction here, section 1404(a) does

not apply. Nevertheless, the court has the power to transfer the case to an appropriate venue pursuant to 28 U.S.C. § 1406(a).<sup>3</sup>

The fact that this dispute arises from events in 2000 weighs in favor of dismissal, and it is hard not to wonder about the delay of more than two years between the state court dismissal and the new filing in federal court. At the same time, the court must assume for these purposes that at least some of plaintiff's claims might have some merit, as alleged in the complaint. If plaintiff in fact performed under the contract and was entitled to \$301,000, and if in fact defendants were paid by the general contractor but simply refused to pay plaintiff and then misled plaintiff about the reasons that 1st Turf had not in turn paid

plaintiff, the interests of justice might point in the direction of deciding the case on the merits. Plaintiff Quest, by waiting as long as it has at various stages of this story, has allowed some tall and thorny obstacles to grow in its path toward a recovery. But the evaluation of those issues should occur in a court with proper jurisdiction over the parties. Accordingly, the court hereby orders the clerk of the court to TRANSFER this action to the Middle District of Florida, Tampa Division.

So ordered.

**All Citations**

Not Reported in F.Supp.2d, 2008 WL 3853385

**Footnotes**

- 1 McGraw's appearance in the state court to testify in support of dismissal for lack of personal jurisdiction cannot be used against him or 1st Turf or Prestige Sports to establish personal jurisdiction now. His appearance did not undermine his ability to dispute personal jurisdiction in that case. It would be strange if an opponent could prevail on personal jurisdiction by first disputing the issue and then losing it, and then claiming that the defendant's successful limited appearance to dispute the issue actually meant that he was subject to personal jurisdiction in a second lawsuit by the same opponent.
- 2 For this reason, Quest's suggestion that there is a disputed issue of fact as to whether Prestige Sports or 1st Turf installed synthetic turf fields at two locations in Indiana in recent years does not present a material dispute.
- 3 The difference could be important. If the transfer were under section 1404(a) for the convenience of parties or witnesses or in the interest of justice, the receiving court would be required to apply Indiana choice of law principles. See *Van Dusen v. Barrack*, 376 U.S. 612, 639 (1964).

# EXHIBIT 3

2013 WL 7161687

Only the Westlaw citation is currently available.

United States District Court,  
S.D. New York.

Christina RANKEL, Plaintiff,

v.

Brian S. KABATECK, Esq., and Kabateck  
Brown Kellner LLP, Defendants.

No. 12 CV 216(VB). | Dec. 9, 2013.

### **MEMORANDUM DECISION**

BRICCETTI, District Judge.

\*1 Plaintiff Christina Rankel, proceeding pro se, brings this action against defendants Brian S. Kabateck, Esq., and Kabateck Brown Kellner LLP, alleging constitutional violations and violations of federal and state law arising out of defendants' handling of the settlement of her products liability lawsuit concerning the prescription drug Zyprexa. Defendants move to dismiss the complaint for improper venue under Rule 12(b)(3) or, alternatively, to transfer this action under 28 U.S.C. §§ 1404(a) or 1406(a). (Doc. # 39).

For the following reasons, the Court holds venue in the Southern District of New York is improper and it is in the interests of justice to transfer the action. Accordingly, defendants' motion to dismiss is DENIED, and defendants' motion to transfer this action to the United States District Court for the Central District of California under 28 U.S.C. § 1406(a) is GRANTED.

The Court has subject matter jurisdiction pursuant to 28 U.S.C. §§ 1331 and 1332.

### **BACKGROUND**

For purposes of deciding the pending motion, the Court accepts as true all well-pleaded allegations in the complaint and draws all reasonable inferences in favor of plaintiff. The Court may also consider evidence outside of the complaint. *See, e.g., Gulf Ins. Co. v. Glasbrenner*, 417 F.3d 353, 355 (2d Cir.2005). The following facts are thus drawn from the

complaint and from affidavits submitted by the parties and are construed in the light most favorable to plaintiff.

Plaintiff, a New York resident, retained defendants, California resident Brian Kabateck and the California-based law firm Kabateck Brown Kellner LLP (“KBK”), to represent her in a multiple-plaintiff products liability action against Eli Lilly and Company (“Eli Lilly”) for injuries relating to the prescription drug Zyprexa (the “Zyprexa Action”). Plaintiff's claims (as well as the similar claims of other individuals) were originally brought in California Superior Court in San Francisco in March 2006. After removal to the Northern District of California and transfer to the Eastern District of New York for maintenance as a multidistrict litigation, the action was voluntarily dismissed without prejudice. Defendants then began negotiating a master settlement agreement with Eli Lilly on plaintiff and others' behalf in Los Angeles, California.

In February 2007, defendants commenced a new action on behalf of plaintiff and others in California Superior Court in Los Angeles for the purpose of approving the master settlement agreement negotiated by the parties, creating a settlement fund, and administering the fund by allocating it among the eligible claimants, including plaintiff. The California court appointed two special masters who “fully administered” the fund.

Plaintiff now alleges defendants committed malpractice and/or negligently failed to keep her informed about the settlement of her claims, settled without her knowledge or consent, and failed to turn over settlement proceeds. Plaintiff brings claims for “constitutional rights violations” and civil rights violations under 42 U.S.C. §§ 1983, 1985, and 1986. Plaintiff also brings claims for legal malpractice, breach of contract, breach of fiduciary duty, false and deceptive advertising under Section 43(a) of the Lanham Act, and deceptive business practices and false advertising under Sections 349 and 350 of the New York General Business Law.

### **DISCUSSION**

#### **I. Legal Standard**

\*2 Plaintiff bears the burden of establishing venue is proper. *Gulf Ins. Co. v. Glasbrenner*, 417 F.3d 353, 355 (2d Cir.2005). When deciding a Rule 12(b)(3) motion to dismiss for improper venue, the Court may rely on materials outside of the pleadings, such as affidavits. *Id.* When, as here, the

Court does not conduct an evidentiary hearing on the motion and makes a venue determination on the basis of pleadings and affidavits, the plaintiff must only make a *prima facie* showing of venue. *Id.* The Court “must take all allegations in the complaint as true, unless contradicted by the defendants’ affidavits.” *U.S. E.P.A. ex rel. McKeown v. Port Authority of N.Y. & N.J.*, 162 F.Supp.2d 173, 183 (S.D.N.Y.2001). The Court draws all reasonable inferences and resolves all factual conflicts in favor of plaintiff. See, e.g., *Jackson v. Am. Brokers Conduit*, 2010 WL 2034508, at \*1 (S.D.N.Y. May 13, 2010).

When a case has been brought in an improper district, the Court may transfer the case “to any district or division in which it could have been brought” under Section 1406(a) if transfer is “in the interest of justice.” 28 U.S.C. § 1406(a); see also *Daniel v. Am. Bd. of Emergency Medicine*, 428 F.3d 408, 435 (2d Cir.2005).<sup>1</sup> “Courts enjoy considerable discretion in deciding whether to transfer a case in the interest of justice.” *Daniel v. Am. Bd. of Emergency Medicine*, 428 F.3d at 435.

In support of their motion to dismiss, defendants submit publicly available federal and state court documents relating to the Zyprexa Action (Doc. # 42, Ex. 1), and the transcript of a conference held before the Honorable Kenneth M. Karas on January 10, 2013 (Doc. # 49, Ex. 1).<sup>2</sup> The Court takes judicial notice of these documents. See Fed.R.Evid. 201 (“The court may judicially notice a fact that is not subject to reasonable dispute because it: (1) is generally known within the trial court’s territorial jurisdiction; or (2) can be accurately and readily determined from sources whose accuracy cannot reasonably be questioned.”); see also *Global Network Commc’ns, Inc. v. City of N.Y.*, 458 F.3d 150, 157 (2d Cir.2006) (“A court may take judicial notice of a document filed in another court not for the truth of the matters asserted in the other litigation, but rather to establish the fact of such litigation and related filings.”(internal quotation marks omitted)).

## II. Defendants’ Motion to Strike

Defendants move to strike two affidavits in opposition to the motion, submitted by plaintiff and her father, Robert Rankel. Defendants’ motion is denied. It is well established that in deciding a Rule 12(b)(3) motion to dismiss for improper venue, the Court may rely on materials outside of the pleadings, such as affidavits. *Gulf Ins. Co. v. Glasbrenner*, 417 F.3d 353, 355 (2d Cir.2005).

However, in deciding defendants’ motion to dismiss, the Court does not rely on any information that is not directly relevant to the venue issue currently before it, nor does the Court take judicial notice of any facts outside the scope of what is permitted under Rule 201 of the Federal Rules of Evidence.<sup>3</sup>

## III. Venue Is Not Proper in This District

\*3 There are three bases of venue under 28 U.S.C. § 1391, the general venue statute. Under Section 1391(b), “[a] civil action may be brought in”:

- (1) a judicial district in which any defendant resides, if all defendants are residents of the State in which the district is located;
- (2) a judicial district in which a substantial part of the events or omissions giving rise to the claim occurred, or a substantial part of property that is the subject of the action is situated; or
- (3) if there is no district in which an action may otherwise be brought as provided in this section, any judicial district in which any defendant is subject to the court’s personal jurisdiction with respect to such action.

28 U.S.C. § 1391(b).

Here, plaintiff has not met her burden to show any of the three statutory grounds for venue exist in the Southern District of New York.<sup>4</sup>

### A. Venue Is Not Proper Under Section 1391(b)(1)

Under Section 1391(b)(1), venue is proper in “a judicial district in which any defendant resides, if all defendants are residents of the State in which the district is located.” 28 U.S.C. § 1391(b)(1). On its face, Section 1391(b)(1) does not apply here, because defendants reside in California. Plaintiff argues that defendants, nonetheless, should be deemed to “reside” in New York under Section 1391(c)(2), which provides: “an entity with the capacity to sue and be sued in its common name under applicable law, whether or not incorporated, shall be deemed to reside, if a defendant, in any judicial district in which such defendant is subject to the court’s personal jurisdiction with respect to the civil action in question.” 28 U.S.C. § 1391(c)(2). Because defendants did not move to dismiss under Rule 12(b)(2) for lack of

personal jurisdiction, plaintiff argues, defendants waived any objection to personal jurisdiction. According to plaintiff, the Court has personal jurisdiction over defendants via this waiver, defendants are thus “residents” of New York under Section 1391(c) (2), and venue is therefore proper under Section 1391(b)(1).<sup>5</sup> Plaintiff relies on *Frederick Goldman, Inc. v. Commemorative Brands, Inc.*, 2004 WL 954692 (S.D.N.Y. May 5, 2004), in which the court deemed the defendant corporation a “resident” under Section 1391(c)(2) after the defendant failed to object to personal jurisdiction, thus waiving it. Based on that waiver, the court concluded, venue was proper under what is now Section 1391(b)(1).*Id.* at \* 1.<sup>6</sup>

The Court is not persuaded by the reasoning of *Frederick Goldman* and declines to follow it. The Court instead follows *Bell v. Classic Auto Grp.*, 2005 WL 659196 (S.D.N.Y. Mar. 21, 2005). Bell observed that under Section 1391, the residence of a corporation is determined by analyzing whether the court has personal jurisdiction over the corporation “at the time an action is commenced.” 28 U.S.C. § 1391(d) (emphasis added); see also *Bell v. Classic Auto Grp.*, 2005 WL 659196, at \*5. Accordingly, “the existence of venue should be analyzed as of the time of filing, without regard to whether a defendant may waive a defense based on lack of personal jurisdiction by virtue of its conduct during litigation.” *Bell v. Classic Auto Grp.*, 2005 WL 659196, at \*5. Bell held that courts must therefore make “an independent inquiry into whether personal jurisdiction was appropriate at the time the plaintiff filed the lawsuit, not as of the time defendant failed to object to jurisdiction.” *Id.* (quoting *DSMC, Inc. v. Convera Corp.*, 273 F.Supp.2d 14, 19 (D.D.C.2002)); see also *Wine Markets Int'l, Inc. v. Bass*, 939 F.Supp. 178, 180 (E.D.N.Y.1996) (in deciding whether a case “might have been brought” in a particular district under Section 1404(a), courts should assess personal jurisdiction “as it existed when the complaint was filed, irrespective of subsequent consent or waiver”). The Court agrees.

\*4 Here, however, it is unnecessary to determine whether the Court had personal jurisdiction over defendants at the time this action was filed, because Section 1391(b)(1) only applies “if all defendants are residents of the State in which the district is located” and, here, there is no dispute that Mr. Kabateck is not domiciled in New York. See 28 U.S.C. § 1391(b)(1) (emphasis added). On its face, Section 1391(c) (2) only applies to “entit[ies] with the capacity to sue and be sued.” 28 U.S.C. § 1391(c)(2). Mr. Kabateck is not an “entity,” and thus Section 1391(c)(2) does not apply to him.

Rather, Mr. Kabateck is a “natural person” under Section 1391(c)(1), “deemed to reside in the judicial district in which [he] is domiciled.” 28 U.S.C. § 1391(c)(1). Because Mr. Kabateck is not a New York resident, and Section 1391(b) (1) only applies when “all defendants are residents of the State in which the district is located,” even assuming the Court had personal jurisdiction over defendants at the time this action was commenced, venue would not be proper under Section 1391(b)(1). See, e.g., *Daniel v. Am. Bd. of Emergency Medicine*, 428 F.3d 408, 431 (2d Cir.2005) (“Plaintiffs’ reliance on § 1391(b)(1) merits little discussion because all defendants do not reside in New York State.”); *Bell v. Classic Auto Grp.*, 2005 WL 659196, at \*4 (“Because Classic Auto Group does not reside in New York, all defendants do not reside in New York, and venue under [Section 1391(b)(1)] is not proper.”).<sup>7</sup>

#### **B. Venue Is Not Proper Under Section 1391(b)(2)**

Plaintiff’s reliance on Section 1391(b)(2) to show venue is also misplaced. Under Section 1391(b)(2), venue is proper in “a judicial district in which a *substantial* part of the events or omissions giving rise to the claim occurred.” 28 U.S.C. § 1391(b) (2) (emphasis added). Although “venue can be appropriate in more than one district ... [n]evertheless, the substantial events or omissions requirement does limit the forums available to plaintiffs.” *Daniel v. Am. Bd. of Emergency Medicine*, 428 F.3d 408, 432 (2d Cir.2005) (internal citations and quotation marks omitted).

The Second Circuit has cautioned district courts to “take seriously the adjective ‘substantial.’” *Gulf Ins. Co. v. Glasbrenner*, 417 F.3d 353, 357 (2d Cir.2005). In particular, “[i]t would be error ... to treat the venue statute’s ‘substantial part’ test as mirroring the minimum contacts test employed in personal jurisdiction inquiries.” *Id.* “Substantiality” in the venue context is a more qualitative than quantitative inquiry, “determined by assessing the overall nature of the plaintiff’s claims and the nature of the specific events or omissions in the forum, and not by simply adding up the number of contacts.” *Daniel v. Am. Bd. of Emergency Medicine*, 428 F.3d at 432–33.

Courts in this Circuit apply a two-part test to determine whether venue is proper under Section 1391(b)(2):

\*5 First, a court should identify the nature of the claims and the acts or omissions that the plaintiff alleges give rise to those claims. Second, the court

should determine whether a substantial part of those acts or omissions occurred in the district where suit was filed, that is, whether significant events or omissions material to those claims have occurred in the district in question.

*Daniel v. Am. Bd. of Emergency Medicine*, 428 F.3d at 432 (internal citations, quotation marks, and alterations omitted).

### **1. The Nature of Plaintiff's Claims and the Acts and Omissions Giving Rise to Those Claims**

Although the precise nature of plaintiff's claims has changed since she filed her complaint, the gravamen of her complaint is that defendants were negligent and/or committed malpractice with respect to the settlement of her products liability claims.

Plaintiff principally complains defendants "committed malpractice" by failing to keep her informed about the settlement of the Zyprexa Action, "settled [her] case without [her] knowledge or consent" and failed to pay her "after num [ ]erous demands." In addition to damages, plaintiff's complaint requests relief consisting of "court records showing what [her] case was settled for." In opposition to the instant motion, plaintiff alleges defendants: "never contacted her or her family after settling her case for a very large sum without her knowledge or consent," "falsified the records" relating to that settlement, and "ignored" plaintiff's requests "for an accounting of the settlement proceeds." The acts and omissions alleged by plaintiff thus principally relate to the settlement of the Zyprexa Action, which occurred in California.

As discussed above, on a Rule 12(b)(3) motion, the Court considers affidavits submitted by defendants. *See Gulf Ins. Co. v. Glasbrenner*, 417 F.3d 353, 355 (2d Cir.2005). The Court also considers the publicly available court records and hearing transcript submitted by defendants, which it has judicially noticed. *See Fed.R.Evid.* 201.

Plaintiff's claims were originally filed as part of a multi-plaintiff action in San Francisco Superior Court in March 2006, before being removed to the Northern District of California. The action was transferred to the Eastern District of New York the same year pursuant to a conditional transfer order issued by the Joint Panel for Multidistrict Litigation, where it was ultimately voluntarily dismissed from the

multidistrict litigation without prejudice in January 2007. It was not until after this dismissal that KBK "began discussing and negotiating at arm[s] length the potential resolution of [plaintiff's] claims with Eli Lilly Co." (Kellner Decl., ¶¶ 8(d)-(e) (Doc. # 40)). "All discussions and negotiations leading up to the drafting of [a] Master Settlement Agreement, and all conversations and correspondence to all of Defendants' clients regarding the settlement, including Plaintiff, occurred in Los Angeles, California." (*Id.*, ¶ 8(h)).

\*6 In February 2007, a new multiple-plaintiff complaint was filed in Los Angeles Superior Court in California for the purpose of approving the master settlement agreement entered into by the parties and establishing a settlement fund to administer the agreement. In March 2007, the California court issued an order creating a qualified settlement fund; appointing a settlement administrator to administer the fund, subject to the terms of the parties' settlement agreement; authorizing the fund to enter into individual releases with the plaintiffs subject to court approval; and authorizing the administrator to wind down the fund after the completion of the individual releases and the final distribution of the proceeds of the fund. In June 2008, the California court approved a stipulation in which the parties agreed to the appointment of two special masters to allocate the fund among the eligible claimants represented by KBK. The settlement "was fully administered" by the special masters, "and all appeals for the allocated settlement awards were handled by [one of the special masters]." (Kellner Decl., ¶ 8(m) (Doc. # 40)).

### **2. A Substantial Part of the Acts and Omissions Giving Rise to Plaintiff's Claims Did Not Occur in the Southern District of New York**

Plaintiff argues venue is proper in the Southern District of New York because: (i) defendants advertised about the Zyprexa Action in New York and plaintiff signed a retainer agreement in New York; (ii) the underlying Zyprexa Action was litigated in the Eastern District of New York and the "principal witnesses" relating to that action are in New York; (iii) plaintiff's doctors are in New York; and (iv) plaintiff resides in New York.

First, because "[i]t would be error ... to treat the venue statute's 'substantial part' test as mirroring the minimum contacts test employed in personal jurisdiction inquiries," *Gulf Ins. Co. v. Glasbrenner*, 417 F.3d at 357, defendants' New York advertisements and the execution of a retainer agreement with

plaintiff in New York, while perhaps evidence of defendants' contacts with New York for personal jurisdiction purposes, do not represent "a substantial part of the events or omissions" giving rise to plaintiff's claims, which relate to the *settlement* of the Zyprexa Action.

Second, plaintiff's reliance on the events surrounding the litigation of the Zyprexa Action is misplaced. Because the venue inquiry is district-specific, litigation in the Eastern District of New York does not support venue in the Southern District of New York. *See* 28 U.S.C. § 1391(b); see also *Gulf Ins. Co. v. Glasbrenner*, 417 F.3d at 357 (plaintiff's venue allegations held insufficient because "New York State encompasses four judicial districts, [and] the complaint does not specify in which one" the act in question occurred). Regardless, because the improper acts and omissions plaintiff asserts all concern the *settlement* of the Zyprexa Action—not the underlying Zyprexa Action—litigation of that action in the Eastern District of New York is not relevant to plaintiff's claims and does not support her venue arguments. Neither are the "principal witnesses" offered in connection with the Zyprexa Action relevant to plaintiff's claims regarding the settlement.

\*7 Third, whether plaintiff's doctors are in New York is similarly irrelevant, because the settlement of the Zyprexa Action is at issue here, not the merits of plaintiff's products liability litigation.

Fourth, the mere fact of plaintiff's New York residence does not render venue proper in the Southern District of New York. "[I]n most instances, the purpose of statutorily defined venue is to protect the *defendant* against the risk that a plaintiff will select an unfair or inconvenient place of trial." *Daniel v. Am. Bd. of Emergency Medicine*, 428 F.3d at 432 (emphasis in original) (quoting *Leroy v. Great W. United Corp.*, 443 U.S. 173, 183–84 (1979)). Therefore, in deciding whether plaintiff's choice of venue is proper, the Court focuses on the relevant acts and omissions of *defendants*, not plaintiff. *See id.* Standing alone, plaintiff's status as a New York resident (and the resulting convenience to her of litigating this action here) does not support venue in this district. If it did, analyzing and applying the three bases of venue Congress enumerated in Section 1391 would be a meaningless exercise.

Finally, because substantiality is "determined by assessing the overall nature of the plaintiff's claims and the nature of the specific events or omissions in the forum, and not by

simply adding up the number of contacts," *Daniel v. Am. Bd. of Emergency Medicine*, 428 F.3d at 432–33, the New York contacts rejected as individually insufficient above also do not support venue in this district when considered collectively. The venue inquiry is qualitative and, taken together, the events and omissions giving rise to plaintiff's claims relate to the settlement of the Zyprexa Action and, therefore, substantially occurred in California.

Accordingly, because a substantial part of the acts and omissions relied upon by plaintiff did not occur in the Southern District of New York, venue is not proper in this district on the basis of Section 1391(b)(2).

#### **C. Venue Is Not Proper Under Section 1391(b)(3)**

Under Section 1391(b)(3), "if there is no district in which an action may otherwise be brought as provided in this section, [venue is proper in] any judicial district in which any defendant is subject to the court's personal jurisdiction with respect to such action." 28 U.S.C. § 1391(b)(3). Venue can be based on this subsection "only if venue cannot be established in another district pursuant to any other venue provision." *Daniel v. Am. Bd. of Emergency Medicine*, 428 F.3d at 434. As discussed above, the settlement of the Zyprexa Action occurred in Los Angeles Superior Court, California. Because a substantial part of the acts or omissions out of which plaintiff's claims arose occurred in the Central District of California, this action could have been brought in that district. Accordingly, venue is not proper in this district under Section 1391(b)(3).

For the above reasons, venue is not proper in the Southern District of New York under Section 1391.<sup>8</sup>

#### **IV. Transfer to the Central District of California is Appropriate**

\*8 Having determined venue is not proper in the Southern District of New York, the Court must decide whether to dismiss the action or, instead, transfer it under Section 1406(a) to the Central District of California, the district in which plaintiff's claims of misconduct arose. *See* 28 U.S.C. § 1406(a) ("The district court of a district in which is filed a case laying venue in the wrong division or district shall dismiss, or if it be in the interest of justice, transfer such case to any district or division in which it could have been brought."); see also *Sheet Metal Workers' Nat'l Pension Fund v. Gallagher*, 669 F.Supp. 88, 91 (S.D.N.Y.1987) ("[T]he

court has power to transfer ... pursuant to 28 U.S.C. § 1406(a) if venue is improper.”(footnote omitted)). The Court has “considerable discretion” to decide whether it is “in the interest of justice” to “order transfer of the action to another district where jurisdiction and venue properly obtain.”*Daniel v. Am. Bd. of Emergency Medicine*, 428 F.3d at 435; *see also Minnette v. Time Warner*, 997 F.2d 1023, 1026 (2d Cir.1993).

Here, venue properly obtains in the Central District of California because the settlement of the Zyprexa Action, out of which plaintiff's claims of misconduct arose, took place in Los Angeles, California.<sup>9</sup>

“When determining whether transfer pursuant to Section 1406(a) is appropriate, a court may take into account the ultimate goal of the ‘expeditious and orderly adjudication of cases and controversies on their merits.’ “ *Morath v. Metro. Recovery Servs., Inc.*, 2008 WL 954154, at \*1 (S.D.N.Y. Apr. 8, 2008) (quoting *Goldlawr, Inc. v. Heinman*, 369 U.S. 463, 466–67 (1962)). “Dismissal is a severe penalty,” but may be appropriate when a case “was brought with knowledge that venue was improper, or would otherwise reward plaintiffs for their lack of diligence in choosing a proper forum,” *Deskovic v. City of Peekskill*, 673 F.Supp.2d 154, 172–73 (S.D.N.Y.2009) (internal citations and quotation marks omitted), or when the case “unquestionably lacks merit.” *Id.* at 173; *see also Daniel v. Am. Bd. of Emergency Medicine*, 428 F.3d at 436 (“[C]ourts will not waste judicial resources by transferring a case that is clearly doomed.” (internal quotation marks omitted)).

Nothing indicates plaintiff brought this action knowing venue was improper in this district. Moreover, the Court cannot conclude on the basis of the complaint and the parties' submissions that plaintiff's claims “unquestionably lack[ ] merit” or the action is “clearly doomed.” The Court must liberally construe submissions of a *pro se* litigant and interpret them “to raise the strongest arguments that they suggest.”*Triestman v. Fed. Bureau of Prisons*, 470 F.3d 471, 474 (2d Cir.2006) (per curiam) (internal quotation marks omitted). Further, “a *pro se* litigant should be afforded every reasonable opportunity to demonstrate that [s]he has a valid claim.”*Satchell v. Dilworth*, 745 F.2d 781, 785 (2d Cir.1984). Thus, plaintiff should be given the opportunity to demonstrate the validity of her claims on the merits, despite her procedurally incorrect forum choice. *See Bolar v. Frank*, 938 F.2d 377, 380 (2d Cir.1991) (observing “functional purpose of section 1406(a)... of removing whatever obstacles may impede an expeditious and orderly adjudication of cases

and controversies on their merits” (internal quotation marks omitted)).

\*9 Here, as reflected in the transcript of the status conference cited by defendants, plaintiff appears to allege defendants knew plaintiff was not competent to understand the terms of the settlement agreement being negotiated, failed to keep plaintiff informed about the negotiations, and failed to explain to plaintiff the terms of the settlement agreement that was ultimately reached. (*See* Doc. # 49, Ex. 1).

The Court rejects defendants' argument that because plaintiff's theory of wrongdoing has changed since she filed her complaint, the action should be dismissed because it is “clearly doomed.” Defendants rely on statements made during the status conference before Judge Karas on January 10, 2013, concerning the nature of plaintiff's claims of misconduct relating to the settlement authorization and release in the Zyprexa Action. According to defendants, because plaintiff's statements at that conference were inconsistent with the theories of relief she advanced prior to the conference, the case should be dismissed outright.

The fact that plaintiff has been contradictory in articulating her specific theory of relief in a status conference and in her submissions in opposition to the instant motion is not sufficient to compel the severe penalty of dismissal. Although the Court is troubled by plaintiff's differing representations, the Court cannot conclude on that basis that plaintiff's claims are devoid of merit.

Accordingly, the Court concludes it is in the interest of justice to transfer this action to the Central District of California.

## CONCLUSION

Defendants' motion to dismiss is DENIED, and defendants' motion to transfer this action to the Central District of California is GRANTED.

The Clerk is instructed to transfer the action to the United States District Court for the Central District of California.

The Clerk is further instructed to terminate the pending motion (Doc. # 39) and close this case.

The Court certifies under 28 U.S.C. § 1915(a)(3) that any appeal from this order would not be taken in good faith, and

therefore *in forma pauperis* status is denied for the purpose of an appeal. See *Coppedge v. United States*, 369 U.S. 438, 444–45 (1962).

## All Citations

Slip Copy, 2013 WL 7161687

SO ORDERED:

## Footnotes

- 1 If the Court instead finds venue is *proper*, it may still transfer the action under Section 1404(a), “[f]or the convenience of parties and witnesses.” Compare 28 U.S.C. § 1404(a) with *id.* § 1406(a); see also, e.g., *Sheet Metal Workers’ Nat’l Pension Fund v. Gallagher*, 669 F.Supp. 88, 91 (S.D.N.Y.1987) (“[T]he court has power to transfer pursuant to 28 U.S.C. § 1404(a) if venue is proper and pursuant to 28 U.S.C. § 1406(a) if venue is improper.”(footnotes omitted)).
- 2 This action was reassigned to the undersigned on September 23, 2013.
- 3 In her affidavit in opposition to defendants’ Rule 12(b)(3) motion, plaintiff requests that the Court impose Rule 11 sanctions. To the extent this informal request can be interpreted as a motion for sanctions, it is denied as both procedurally improper and without merit.
- 4 To the extent plaintiff relies on 28 U.S.C. § 1404(a) and cases interpreting it to argue venue is proper, those arguments are rejected because Section 1404(a) is not relevant to the question of whether venue is proper under Section 1391(b).
- 5 Plaintiff also appears to argue venue is proper under Section 1391(b)(3) for the same reason. Whether venue is proper under Section 1391(b)(3) is addressed below.
- 6 In 2011, Congress amended Section 1391 to remove the distinction formerly made between actions brought on the basis on federal question jurisdiction and those brought on the basis of diversity jurisdiction. See Federal Courts Jurisdiction and Venue Clarification Act of 2011, Pub.L. No. 112–63; see also generally *KM Enters., Inc. v. Global Traffic Techs., Inc.*, 725 F.3d 718, 724 (7th Cir.2013) (observing the 2011 amendment “eliminated a longstanding distinction between venue in civil cases brought under federal question jurisdiction and those brought under diversity jurisdiction and rearranged several subsections”). As a result, Section 1391(b) applies regardless of the basis of the Court’s subject matter jurisdiction. The Court applies the statute as amended and refers to all sections as currently numbered.
- 7 It is also well established that the Court may transfer venue under Section 1406(a) regardless of whether it has personal jurisdiction over defendants. See, e.g., *Sheet Metal Workers’ Nat’l Pension Fund v. Gallagher*, 669 F.Supp. 88, 91 (S.D.N.Y.1987) (“[I]t is clear that the court has power to transfer the case even if there is no personal jurisdiction over the defendants and whether or not venue is proper in this district.”(internal quotation marks omitted)).
- 8 In her opposition brief, plaintiff argues defendants are in default for failure to answer. A motion for a default judgment must be made in compliance with Rule 55(b) of the Federal Rules of Civil Procedure and Local Civil Rule 55.2. See *Triestman v. Fed. Bureau of Prisons*, 470 F.3d 471, 477 (2d Cir.2006) (per curiam) (“*pro se* status does not exempt a party from compliance with relevant rules of procedural and substantive law” (internal quotation marks omitted)). Even assuming plaintiff had properly moved for a default judgment, “motions for default judgments will be denied where a party appears to defend unless it is clear that under no circumstances could the defense succeed.” *Guangxi Nanning Baiyang Food Co., Ltd. v. Long River Int’l, Inc.*, 2010 WL 1257573, at \*3 (S.D.N.Y. Mar. 30, 2010) (internal quotation marks omitted). Here, defendants filed a partial motion to dismiss under Rule 12(b) (6) instead of an answer on July 17, 2012. (Doc. # 17). Additionally, when defendants filed the instant motion to dismiss under Rule 12(b)(3), Judge Karas stayed all deadlines pending the outcome of the motion. (Doc. # 37). Because defendants have clearly defended the instant action, the standard for entry of a default judgment has not been met. Thus, to the extent plaintiff’s arguments can be interpreted as a motion for a default judgment, that motion is denied.
- 9 It is also undisputed that defendants are residents of the Central District of California and are subject to that court’s personal jurisdiction.

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# EXHIBIT 4

2013 WL 5433795

Only the Westlaw citation is currently available.

United States District Court,  
N.D. Illinois, Eastern Division

Ramon Villalobos and Alberto Valencia, Plaintiffs,

v.

Jesus Tirado Castañeda, Eden Muñoz, Armando  
Ramos, Martin Lopez, Martin Augusto Guido,  
and UMG Recordings, Inc. Defendants.

No. 12 C 8218 | September 27, 2013

#### Attorneys and Law Firms

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#### OPINION AND ORDER

JOAN HUMPHREY LEFKOW, United States District Judge

\*1 Ramon Villalobos and Alberto Valencia<sup>1</sup> (together, “plaintiffs”) filed a six-count complaint alleging federal claims for trademark infringement and unfair competition in violation of Sections 32(a) and 43(a) of the Lanham Act, 15 U.S.C. §§ 1051 *et seq.*, and Illinois state law causes of action for unfair competition, violation of the Illinois Uniform Deceptive Trade Practices Act, 815 Ill. Comp. Stat. 510/2 *et seq.*, and violation of the Illinois Consumer Fraud and Deceptive Business Practices Act, 815 Ill. Comp. Stat. 505/2 *et seq.*, against Jesus Tirado Castañeda, Eden Muñoz, Armando Ramos, Martin Lopez, Martin Augusto Guido (“the individual defendants”), and UMG Recordings, Inc. (“UMG”).<sup>2</sup> Presently before the court are Ramos's motion<sup>3</sup> to dismiss for improper service of process pursuant to Federal Rule of Civil Procedure 12(b)(5), the individual defendants' motions to dismiss for lack of personal jurisdiction pursuant to Federal Rule of Civil Procedure 12(b)(2), and defendants' motion to transfer venue to the United States District Court for the Central District of California pursuant to 28 U.S.C. § 1404 [Dkt. 18]. For the reasons that follow, the motion to dismiss for improper service of process is granted without prejudice,

the motion to dismiss for lack of personal jurisdiction is denied, and the motion to transfer the case to the Central District of California is granted.

#### BACKGROUND<sup>4</sup>

##### I. Calibre Norteño

\*2 Villalobos is the founder and Valencia was the manager of Calibre Norteño, a musical group formed in 1999 that performed throughout the United States (specifically including the Northern District of Illinois) and in Mexico. Villalobos and Valencia reside in the Northern District of Illinois. Valencia had been the manager of Calibre Norteño since 2005 and promoter since 2010. Specifically, “calibre” is a Spanish words that means “caliber.” “Norteño” is a genre of Mexican music that is popular both in the United States and Mexico. The English translation of “Calibre Norteño” is “Northern Caliber.”

In 2000, Calibre Norteño made its first public performance in Illinois. In 2001, Calibre Norteño began touring nationally and, between 2001 and 2009, it performed in California, Texas, Colorado, Idaho, Nebraska, Georgia, and Florida. In 2002, 2003, and 2006, Calibre Norteño toured in Mexico. In 2007, Villalobos registered the Calibre Norteño logo as a design mark for live performances by a musical band, which issued as Registration Number 3,344,730. He did not register any other trademarks in connection with Calibre Norteño aside from the logo. Calibre Norteño released eight albums and its most recent album, SI REGRESAS, was released in 2012. Since its inception, Calibre Norteño has garnered a significant following among fans of Latin and Mexican-American music throughout the United States.

##### II. Calibre 50

Muñoz, Ramos, Lopez, and Guido are members of a band called Calibre 50. All of these individual defendants (“the band members”) reside in Mexico. Castañeda formed Calibre 50 and serves as its manager. In this role, Castañeda controls Calibre 50's business activities, which include scheduling performances and promoting the band. The band members are not involved in scheduling or promoting live performances. In addition to Calibre Norteño and Calibre 50, there are numerous other Spanish-language music artists who incorporate the word “Calibre” into their band name.<sup>5</sup> For example, Calibre Pesado is a Mexican regional band based in Kansas. On April 20, 2010, Castañeda filed U.S. Trademark

Application Serial No. 85/018,463 for the mark Calibre 50 with respect to “audio and video recordings featuring music and artistic performances” including “entertainment, namely, live performances by a musical band.” (Dkt. 56–1, Page ID 255.)<sup>6</sup>

\*3 UMG, through its subsidiary, Universal Music Latin Entertainment (“UMLE”), a Delaware corporation with its principal place of business in Santa Monica, California, markets, promotes, and distributes Calibre 50's album nationwide. Castañeda met with UMLE in Santa Monica and Woodland Hills, California to discuss marketing and promotions for Calibre 50. On December 7, 2010, Calibre 50 released a music album titled, “RENOVAR O MORIR” (“Renew or Die”). Disa Records label (“Disa”), which is owned by UMG, released the album and promoted and sold it throughout the United States. On March 22, 2011, Calibre 50 released another album, “DE SINALOA PARA EL MUNDO” (“From Sinaloa to the World”), which was released by Disa and promoted and sold throughout the United States. On January 17, 2012, Calibre 50 released an album titled, “MUJER DE TODO, MUJER DE NADIE” (“Woman of All, Woman of No One”), which was released by Disa and promoted and sold throughout the United States. On February 28, 2012, Calibre 50 released an album titled, “EL BUEN EJEMPLO” (“The Good Example”), which was released by Disa and promoted and sold throughout the United States. Castañeda travels from his home in Mexico to attend meetings in Santa Monica or Woodland Hills relating to the marketing and promotion of Calibre 50.

### III. Calibre 50's Performances in Illinois

In July 2012, Calibre 50 played three live music performances on consecutive nights in and around Chicago, Illinois. Calibre 50 promoted and advertised these shows in the Chicago area. On July 13, 2012, Valencia had his attorney send a cease and desist letter to an attorney representing defendants. The letter informed defendants' attorney that Valencia had owned the Calibre Norteño design mark for live performances by a musical band since 2007. The letter asserted that defendants were allegedly infringing that mark through the use of the term Calibre in their band name. The letter requested that defendants' attorney respond by July 20, 2012.

Valencia and Villalobos also submitted affidavits in response to defendants' motion to dismiss averring that they had seen written advertisements, television and radio advertisements,

compact discs, Internet YouTube video postings, and posters promoting Calibre 50 in Illinois. They further stated that he had seen and heard television and radio advertisements for Calibre 50 and that Calibre 50 performed in Illinois in 2013 after this law suit was filed. They attached printouts from Yahoo that returned “hits” for the search term “Calibre 50.” Among the hits returned by Yahoo included hyperlinks to YouTube postings of Calibre 50's performances and other pages advertising Calibre 50 performances in the Chicago area in 2013. Villalobos's declaration also stated that he is of limited financial resources and his sole source of income comes from his employment in Illinois. He further stated that Valencia had provided financial support for the present law suit (and that his estate may be unable to contribute future to litigation expenses for this case).

The band members submitted declarations stating that, prior to the filing of this law suit, none of them had heard of Calibre Norteño. They additionally stated that traveling to Chicago in connection with this matter would be burdensome. Castañeda also submitted a declaration stating that he was not aware of Calibre Norteño before he chose the Calibre 50 name. Castañeda learned of Calibre Norteño while he was in Monterrey, Mexico, sometime in 2010 after receiving a phone call from one of the plaintiffs. At that time, Castañeda was unaware that Calibre Norteño had any connection with Illinois. Castañeda believed that both bands had the right to use the word “Calibre” in their name as it was a commonly used word in the names of Mexican bands. Plaintiffs filed this law suit in October 2012 alleging that defendants' use of the Calibre 50 mark infringes their rights in the Calibre Norteño design mark and request damages and injunctive relief.

### LEGAL STANDARD

Rule 4(m) requires defendants to be served within 120 days of the filing of a complaint. Fed.R.Civ.P. 4(m). “[V]alid service of process is necessary to assert personal jurisdiction over a defendant.” *Mid-Continent Wood Prods., Inc. v. Harris*, 936 F.2d 297, 301 (7th Cir.1991). If service is not timely effectuated, Rule 12(b)(5) provides that a defendant may seek dismissal of a complaint based on insufficient service. Fed.R.Civ.P. 12(b)(5). The plaintiff has the burden of demonstrating that the court has jurisdiction over a defendant through effective service. *See Cardenas v. City of Chicago*, 646 F.3d 1001, 1005 (7th Cir.2011).

\*4 Rule 12(b)(2) permits dismissal of a claim based on lack of personal jurisdiction. *See* Fed.R.Civ.P. 12(b)(2). The burden of proof on jurisdictional challenges is on the party asserting jurisdiction. *United Phosphorous, Ltd. v. Angus Chem. Co.*, 322 F.3d 942, 946 (7th Cir.2003); *RAR, Inc. v. Turner*, 107 F.3d 1272, 1276 (7th Cir.1997). In considering a motion to dismiss for lack of personal jurisdiction, the court may review affidavits submitted by the parties. *Purdue Research Found. v. Sanofi–Synthelabo, S.A.*, 338 F.3d 773, 782 (7th Cir.2003). When the court rules on the motion without a hearing, however, the plaintiff need only establish a “*prima facie* case of personal jurisdiction.” *Id.* at 782 (quoting *Hyatt Int’l Corp. v. Coco*, 302 F.3d 707, 713 (7th Cir.2002)). The court will “read the complaint liberally, in its entirety, and with every inference drawn in favor of” the plaintiff. *Central States, Se. & Sw. Areas Pension Fund v. Phencorp Reinsurance Co.*, 440 F.3d 870, 878 (7th Cir.2006) (quoting *Textor v. Bd. of Regents of N. Ill. Univ.*, 711 F.3d 1387, 1393 (7th Cir.1993)). Disputes concerning relevant facts are resolved in favor of the plaintiff. *Purdue Research Found.*, 338 F.3d at 782 (citing *Nelson v. Park Indus.*, 717 F.2d 1120, 1123 (7th Cir.1983)).

## ANALYSIS

### I. Improper Service

Plaintiffs filed this law suit on October 12, 2012 and have served all defendants except Ramos. Although Ramos is aware of this law suit, plaintiffs provide no excuse for the delay in effectuating service, which is approaching the one-year mark. *See, e.g., Robinson Eng’g Co. Pension Plan & Trust v. George*, 223 F.3d 445, 453–54 (7th Cir.2000) (“Notice to a defendant that he has been sued does not cure defective service, and an appearance for the limited purpose of objecting to service does not waive the technicalities of the rule governing service.” (quoting *Grand Entm’t Grp. Ltd. v. Star Media Sales, Inc.*, 988 F.2d 476, 492 (3d Cir.1993)); *Mid–Continent Woods Prods., Inc.*, 936 F.2d at 301 (“[I]t is well recognized that a defendant’s actual notice of the litigation ... is insufficient to satisfy Rule 4’s requirements.” (internal quotation marks omitted)). Under Federal Rule of Civil Procedure Rule 4(m), “on motion ... the court must dismiss the action without prejudice against that defendant or order that service be made within a specified time.” Fed.R.Civ.P. 4(m). Inasmuch as this case will be transferred and because plaintiffs have not shown good cause for failure to effect service, the case will be dismissed without prejudice as to Ramos.

### II. Personal Jurisdiction

In a federal question case, the court “has personal jurisdiction over the defendant if either federal law or the law of the state in which the court sits authorizes service of process to that defendant.” *See Mobile Anesthesiologists Chicago, LLC v. Anesthesia Assoc. of Houston Metroplex, P.A.*, 623 F.3d 440, 443 (7th Cir.2010); *see also Merrill Lynch Bus. Fin. Servs., Inc. v. Marais*, No. 94 C 3316, 1995 WL 608573, at \*3 (N.D.Ill. Oct. 12, 1995) (“Though personal jurisdiction and service of process are distinguishable, they are closely related since service of process is the vehicle by which the court may obtain jurisdiction.” (internal quotation marks omitted)). Federal Rule of Civil Procedure 4(k)(1) permits nationwide service of process when authorized by a federal statute or if the defendant is subject to personal jurisdiction in the state where the district court sits. *See* Fed.R.Civ.P. 4(k)(1)(A) & (C).

If a defendant is amenable to personal jurisdiction in the United States, which the individual defendants do not contest, the question becomes whether the applicable federal statute permits nationwide service of process. *See Primack v. Pearl B. Polto, Inc.*, 649 F.Supp.2d 884, 887 (N.D.Ill.2009). The Lanham Act does not, *see* *2 LLC v. Ivanov*, 642 F.3d 555, 558 (7th Cir.2011), so the court must look to whether jurisdiction is proper under both Illinois law and the United States Constitution. *See* Fed.R.Civ.P. 4(k)(1)(A) & (C); 735 Ill. Comp. Stat. 5/2–209(d) (the Illinois long-arm statute provides that “[s]ervice of process upon any person who is subject to the jurisdiction of the courts of this State ... may be made by personally serving the summons upon the defendant outside this State.”). Illinois allows for personal jurisdiction to the extent authorized by the due process clause of the Fourteenth Amendment, which merges the federal constitutional and state statutory inquiries together. *Tamburo v. Dworkin*, 601 F.3d 693, 700 (7th Cir.2010); 735 Ill. Comp. Stat. 5/2–209(c). Under the Illinois long-arm statute, personal jurisdiction can be general or specific. *uBid, Inc. v. GoDaddy Grp., Inc.*, 623 F.3d 421, 425 (7th Cir.2010).

### A. General Jurisdiction

\*5 General jurisdiction is a demanding standard in which a defendant can be haled into an Illinois court if they have “‘continuous and systematic general business contacts’ with the forum state.” *uBid*, 623 F.3d at 425–26 (quoting *Helicopteros Nacionales de Colombia, S.A. v. Hall*, 466 U.S. 408, 415–16, 104 S.Ct. 1868, 80 L.Ed.2d 404 (1984)). In

determining whether general jurisdiction exists, court look to the following factors: “(1) whether defendants maintain offices or employees in Illinois; (2) whether defendants send agents into Illinois to conduct business; (3) whether defendants have designated an agent for service of process in Illinois; (4) whether defendants advertise or solicit business in Illinois; and (5) the extent to which defendants conduct business in Illinois.” *Richter v. INSTAR Enterp. Int'l, Inc.*, 594 F.Supp.2d 1000, 1006 (N.D.Ill.2009).

It is undisputed that the individual defendants have no offices or employees in Illinois, have never sent agents to Illinois to conduct business, and have no designated agent for service of process in Illinois. Rather, the individual defendants' contacts with Illinois are limited to playing three performances in the Chicago area in July 2012. The fleeting nature of those performances, however, are too attenuated to exercise personal jurisdiction under a general jurisdiction theory. *See, e.g., Purdue Research Found.*, 338 F.3d at 787 (contacts for general jurisdiction “must be so extensive to be tantamount to [the defendant] being constructively present in the state to such a degree that it would be fundamentally fair to require it to answer in [a court in the forum state] in any litigation arising out of any transaction or occurrence taking place anywhere in the world.”). Accordingly, plaintiffs must demonstrate that their claims arise out of the individual defendants' specific contacts with Illinois. *See Hyatt Int'l Corp.*, 302 F.3d at 713 (“But as [the plaintiff] has not asserted that Illinois can exercise general jurisdiction over the defendants, we consider only the propriety of specific jurisdiction, a more limited assertion of state power, in which personal jurisdiction exists for controversies that arise out of or are related to the defendant's forum contacts.”).

## B. Specific Jurisdiction

Specific jurisdiction grows out of a defendant's particular contacts with the state and is present when “(1) the defendant has purposefully directed his activities at the forum state or purposefully availed himself of the privilege of conducting business in that state, and (2) the alleged injury arises out of the defendant's forum-related activities.” *Tamburo*, 601 F.3d at 702; *see Mobile Anesthesiologists*, 623 F.3d at 444. The exercise of specific jurisdiction must also comport with the traditional notions of fair play and substantial justice, *see Felland v. Clifton*, 682 F.3d 665, 673 (7th Cir.2012), taking into account “the burden on the defendant, the forum State's interest in adjudicating the dispute, [and] the plaintiff's interest in obtaining relief.” *Burger King Corp. v. Rudzewicz*, 471 U.S. 462, 477, 105 S.Ct. 2174, 85 L.Ed.2d 528 (1985)

(internal quotation marks omitted). “Each defendant's contact with the forum State must be assessed individually.” *Keeton v. Hustler Magazine, Inc.*, 465 U.S. 770, 781 n.13, 104 S.Ct. 1473, 79 L.Ed.2d 790 (1984).

Plaintiffs argue that the individual defendants' three musical performances in Illinois, in addition to Castañeda's nationwide marketing, promotions, pamphlets circulating the dates and times of the shows, and posting of videos online of their performances make them amenable to personal jurisdiction in Illinois because these activities demonstrate that they purposefully availed themselves of the privilege of conducting business in Illinois.<sup>7</sup> They also allege that defendants committed intentional tortious acts in Illinois. The individual defendants rely on the effects test set out in *Calder v. Jones*, 465 U.S. 783, 789, 104 S.Ct. 1482, 79 L.Ed.2d 804 (1984), which requires that courts determine specific jurisdiction by considering whether the defendant engaged in (1) intentional conduct (or intentional and allegedly tortious conduct); (2) expressly aimed at the forum state; (3) with the knowledge that such conduct would injure the plaintiffs in the forum state. *Tamburo*, 601 F.3d at 703 (citing *Calder*, 465 U.S. at 789).

\*6 The individual defendants further argue that they did not engage in intentional conduct. Namely, the band members argue that they were unaware that Calibre Norteño existed before this law suit was filed; they did not know that there was a registered trademark associated with Calibre Norteño; and they had no knowledge that Calibre Norteño primarily operated out of Illinois. Castañeda argues that, although he became aware of Calibre Norteño and its trademark in 2010, it was after he had registered the mark associated with Calibre 50. Castañeda states that other musical groups in the United States employ the term “Calibre,” which is a common Spanish word. Indeed, a band in Kansas, Calibre Pesado, had a similar name. Because of the widespread use of the term “Calibre,” Castañeda believed that his band's incorporation of the term in its name was not infringing.<sup>8</sup>

The individual defendants' activities in Illinois—playing three concerts using the name Calibre 50 and promoting the band and those concerts—demonstrate that they purposefully availed themselves of the privilege of conducting business in Illinois. The present law suit stems from the band members' allegedly tortious conduct, the use and Castañeda's promotion of the name Calibre 50 in connection with the July 2012 performances. *See, e.g., Mercantile Cap. Partners v. Agenzia Sports, Inc.*, No. 04 C 5571, 2005 WL 351926, at \*2

(N.D.Ill. Feb. 10, 2005) (“[A] single tortious act occurring in Illinois will establish jurisdiction in Illinois even though the defendant has no other contact in Illinois and has never been to Illinois.”(internal quotation marks omitted)); *Int'l Star Registry of Ill. v. Bowman–Haight Ventures, Inc.*, No. 98 C 6823, 1999 WL 300285, at \*7 (N.D.Ill. May 6, 1999) (“Granted defendant's contacts were minimal, however, it is the quality of contacts, not their number that determined whether they amount to purposeful availment for jurisdiction purposes.”). These Illinois contacts make specific personal jurisdiction appropriate over the individual defendants. *See, e.g., Wise v. Williams*, No. 1–10–CV–02094, 2011 WL 2446303, at \*5 (M.D.Pa. May 18, 2011) (personal jurisdiction appropriate in copyright infringement suit over individual members of a band finding that “the band traveled to Pennsylvania for live concerts, and all defendants engaged in other types of advertising and promotional activities, making it reasonably foreseeable that they could be subject to suit here for claims arising out of or related to the song.”).<sup>9</sup>

\*7 Having found sufficient minimum contacts, the court must next consider traditional notions of fair play and substantial justice in determining whether jurisdiction is appropriate. *See Asahi Metal Indus. Co. v. Superior Court of Cal.*, 480 U.S. 102, 113, 107 S.Ct. 1026, 94 L.Ed.2d 92 (1987). In conducting this analysis, the court looks to the following factors: (1) the burden on the defendant; (2) the forum state's interest in adjudicating the dispute; (3) the plaintiff's interest in obtaining convenient and effective relief; (4) the interstate judicial system's interest in efficiently resolving controversies; and (5) the shared interest of the states in furthering fundamental substantive social policies. *See eBay, Inc.*, 623 F.3d at 432.

These factors do not overwhelmingly weigh in favor of finding personal jurisdiction over the individual defendants. Namely, the burden on the individual defendants is great as they are all residents of Mexico and have no connection with Illinois other than their performances in the state. Plaintiffs, however, are Illinois residents and their injuries stem from the individual defendants' Illinois performances. In addition, Illinois has an interest in adjudicating the present dispute as it concerns allegations of trademark infringement, unfair competition, consumer fraud, and deceptive practices with regard to the individual defendants' actions in this state. Fairness thus does not militate against finding personal jurisdiction.<sup>10</sup> Accordingly, the individual defendants' motion to dismiss for lack of personal jurisdiction is denied.

### III. Change of Venue

The court, in its discretion, may transfer a case “[f]or the convenience of parties and witnesses, [and] in the interest of justice ... to any other district or division where it might have been brought.” 28 U.S.C. § 1404(a). To transfer a case under section 1404(a), the party requesting the transfer must show that “(1) venue is proper in the transferor district; (2) venue and jurisdiction are proper in the transferee district; and (3) the transfer will serve the convenience of the parties and the witnesses and will promote the interest of justice.” *Ritchie Capital Mgmt., LLC v. Jeffries*, No. 09 C 7228, 2010 WL 768877, at \*2 (N.D.Ill. Mar. 4, 2010) (quoting *Amoco Oil Co. v. Mobil Oil Corp.*, 90 F.Supp.2d 958, 959 (N.D.Ill.2000)). “The party challenging venue using § 1404(a) has the burden of demonstrating that the requested venue is more convenient for the parties and that the transfer would serve the interest of justice.” *Id.* (citing *Coffey v. Van Dorn Iron Works*, 796 F.2d 217, 219–20 n.3 (7th Cir.1986)). “Transfer is inappropriate if it merely transforms an inconvenience for one party into an inconvenience for the other party.” *See Brandon Apparel Grp., Inc. v. Quitman Mfg. Co.*, 42 F.Supp.2d 821, 834 (N.D.Ill.1999) (internal quotation marks omitted). The court retains discretion to determine the amount of weight to give each factor in deciding whether transfer is appropriate. *See Habitat Wallpaper & Blinds, Inc. v. K.T. Scott Ltd.*, 807 F.Supp. 470, 474 (N.D.Ill.1992).

Venue is appropriate in a judicial district where (1) any defendant resides if all defendants are residents of the state in which the district is located; (2) a substantial part of the events or omissions giving rise to the claim occurred; or (3) any defendant is subject to personal jurisdiction at the time the action is commenced, if there is no district in which the action may otherwise be brought. 28 U.S.C. § 1391(b). Venue is appropriate in the Northern District of Illinois and the Central District of California as a substantial part of the events giving rise to the claims occurred in both districts. *See* 28 U.S.C. § 1391(b)(2); *see also Caldera Pharms., Inc. v. Los Alamos Nat'l Sec., LLC*, 844 F.Supp.2d 926, 929 (N.D.Ill.2012) (“For venue to be proper under § 1391(b)(2), a majority of the events giving rise to the claim need not occur in the venue, only a substantial part.”(internal quotation marks omitted)).

#### A. Convenience of the Parties and Witnesses

\*8 The court considers five factors when addressing the convenience of the parties: “ (1) the plaintiff's choice of forum; (2) the situs of the material events; (3) the relative

ease of access to sources of proof; (4) the convenience of the parties; and (5) the convenience of the witnesses.’ ” *Ritchie*, 2010 WL 768877, at \*3 (quoting *Amoco*, 90 F.Supp.2d at 960).

First, “[a] plaintiff’s choice of forum is entitled to substantial deference, particularly where the chosen forum is the plaintiff’s home forum.” *Brandon Apparel Grp., Inc.*, 42 F.Supp.2d at 833; see also *United Air Lines, Inc. v. Mesa Airlines, Inc.*, 8 F.Supp.2d 796, 798 (N.D.Ill.1998) (“[T]he balance must weigh strongly in the defendant’s favor before a plaintiff’s choice of forum will be disturbed.”). At the same time, a “plaintiff’s choice of forum has reduced value where the forum lacks any significant contact with the underlying cause of action.” *Hotel Constructors, Inc. v. Seagrave Corp.*, 543 F.Supp. 1048, 1050 (N.D.Ill.1982); *Childress v. Ford Motor Co.*, No. 03 C 3656, 2003 WL 23518380, at \*3 (N.D.Ill.Dec. 17, 2003) (“This deference is further minimized where the plaintiff’s choice of forum is not the site of material events.”(internal quotation marks omitted)). Although Calibre 50 performed three shows in Illinois, the crux of the instant claims center around UMG’s promoting Calibre 50 nationwide; all of these activities took place in California. Accordingly, plaintiffs’ choice of forum in the Northern District of Illinois does not preclude transfer.

Applying the second factor, the court looks to the situs of the material events. “Courts assessing whether to transfer intellectual property cases like this one often focus on the activities of the alleged infringer, its employees, and its documents; therefore, the location of the infringer’s place of business is often the critical and controlling consideration.” *S.C. Johnson & Son, Inc. v. Buzz Off Shield, LLC*, No. 05 C 1046, 2005 WL 1838512, at \*2 (N.D.Ill. July 28, 2005) (internal quotation marks omitted). UMG is headquartered in the Central District of California and it distributed and marketed the Calibre 50 brand nationwide out of that location. Castañeda, who lives in Mexico, travels to California and meets with UMG personnel at its headquarters concerning its promotion efforts for Calibre 50. Over the past three years, UMG, through its subsidiary Disa, has released and marketed four Calibre 50 albums. These activities—the marketing and promotion of Calibre 50—substantiate the material events giving rise to plaintiffs’ claims. See *Confederation des Brasseries de Belgique v. Coors Brewing Co.*, No. 99 C 7526, 2000 WL 88847, at \*3 (N.D.Ill. Jan. 20, 2000) (“In cases involving copyright and unfair competition claims, the material activities central to the claims occur where the

allegedly infringing products are designed, manufactured and marketed.”).

Plaintiffs also argue that material events occurred in Illinois, focusing on the three performances played by Calibre 50 in July 2012. These performances, they argue, evidence that they suffered harm in Illinois. Still, the events occurring in Illinois are minimal compared to the distribution efforts that UMG and Castañeda undertake in California. As both parties acknowledge, Calibre 50 plays performances nationwide and with the release of their recent albums, have a national reach. In addition, plaintiffs’ injury—the alleged confusion and competition between Calibre 50 and Calibre Norteño—is not isolated to Illinois and is indeed felt nationwide as both bands have a presence that spans several states and into Mexico. See *H.B. Sherman Mfg. Co. v. Rain Bird Nat’l Sales Corp.*, 979 F.Supp. 627, 630 (N.D.Ill.1997) (“Although the actual injury in a trademark infringement case occurs where the consumer is misled, here, the parties sell their products in similar markets nationwide.”(internal citation omitted)). Thus, the situs of material events remains in California even though plaintiffs allege injury from Calibre 50 playing three performances in Illinois. See *Jewel Am., Inc. v. Combine, Int’l Inc.*, No. 07 C 3596, 2007 WL 4300589, at \*3 (N.D.Ill. Nov. 30, 2007) (“In this case, the alleged infringers are both located in Michigan, the accused products were designed and manufactured either in Michigan or overseas, and all of the meetings between the defendants regarding the design, manufacture, purchase and sale of the accused products took place in Michigan. Michigan is, therefore, the situs of the material events underlying this suit.”(internal citation omitted)).

\*9 The third convenience factor is the ease of access to sources of proof. “In this day and age, transferring documents from one district to another is commonplace and, given the widespread use of digital imaging in big-case litigation, no more costly than transferring them across town.” *Rabbit Tanaka Corp. USA v. Paradises Shops, Inc.*, 598 F.Supp.2d 836, 840 (N.D.Ill.2009). Neither side disputes that the sources of proof are not as accessible in the Northern District of Illinois as they would be in the Central District of California. Because UMG’s documents will constitute the bulk of the evidence in this case, that it is headquartered in the Central District of California slightly weighs in favor of transfer. See, e.g., *Pinpoint, Inc. v. Groupon, Inc.*, No 11 C 5597, 2011 WL 6097738, at \*3 (N.D.Ill.Dec. 5, 2011). Still, in today’s age of electronic discovery, this prong is afforded little weight. See *Digan v. Euro-Am. Brands, LLC*, No. 10 C 799, 2010 WL

3385476, at \*5 (N.D.Ill. Aug. 19, 2010) (“documents now are easily scanned, stored, and electronically transmitted ... [and] moving them no longer creates the onerous burden it may once have imposed”).

The fourth factor looks to the convenience of the witnesses and parties. “The convenience of witnesses is often viewed as the most important factor in the transfer balance.” *Rose v. Franchetti*, 713 F.Supp. 1203, 1214 (N.D.Ill.1989). In evaluating this factor, the court considers the number of witnesses located in each forum and the nature and importance of their testimony. *Rohde v. Cent. R.R. of Ind.*, 951 F.Supp. 746, 748 (N.D.Ill.1997). Here, the parties have not identified any non-party witnesses who are expected to testify. UMG notes that its employees may be witnesses; however, UMG's employees would normally have to appear voluntarily and their presence in California does not militate in favor of transfer. *See Amorose v. C.H. Robinson Worldwide, Inc.*, 521 F.Supp.2d 731, 736 (N.D.Ill.2007) (“The convenience of party witnesses is less relevant than the convenience of non-party witnesses, since party witnesses normally must appear voluntarily.”).<sup>11</sup>

Moreover, in determining the convenience of the parties, the court should look to “the parties' respective residence and their ability to bear the expenses of litigating in a particular forum.” *Body Science LLC v. Boston Scientific Corp.*, 846 F.Supp.2d 980, 996–97 (N.D.Ill.2012). The individual defendants are all residents of Mexico; the band members have no contacts with Illinois apart from the three shows they played here in July 2012 and Castañeda's only Illinois contact was in connection with scheduling and promoting these performances. They all state that litigating this case in the Northern District of Illinois would be unduly burdensome. On the other hand, Villalobos resides in the Northern District of Illinois and states that litigating this case in the Central California would be unduly burdensome as he does not have the financial resources to do so. Villalobos's role in managing Calibre Norteño, which tours nationally and internationally, somewhat belies his argument that he lacks the resources to litigate this matter outside the state. The prejudice associated with litigating the case in the Central District of California for Villalobos is equally felt by the individual defendants if they were forced to litigate the case in the Northern District of Illinois.

Last, although it is headquartered in California, UMG is a national corporation that has litigated numerous cases in the Northern District of Illinois. Plaintiffs argue that

because UMS has defended suits in the Northern District on prior occasions, it would not be unreasonable for it do so again in this matter. Still, transfer must be determined on a case-by-case basis. *See Stewart Org., Inc. v. Ricoh Corp.*, 487 U.S. 22, 29, 108 S.Ct. 2239, 101 L.Ed.2d 22 (1988) (“Section 1404(a) is intended to place discretion in the district court to adjudicate motions for transfer according to an individualized, case-by-case consideration of convenience and fairness.”(internal quotations omitted)). That UMG has previously been a defendant in the Northern District of Illinois in matters unrelated to the present case does not militate against transfer. *See Body Science LLC*, 846 F.Supp.2d at 997. Considering that the only witness Villalobos has identified is himself and that all of defendants' witnesses are either the individual defendants who all live in Mexico or UMG employees in California, this factor warrants transferring the case to the Central District of California.

#### B. Interests of Justice

\*10 In considering whether transfer is in the interest of justice, the court should consider “(1) the speed at which the case will proceed to trial; (2) the court's familiarity with the applicable law; (3) the desirability of resolving controversies in each locale; and (4) the relation of each community to the occurrence at issue.” *Allied Van Lines, Inc. v. Aaron Transfer & Storage, Inc.*, 200 F.Supp.2d 941, 946 (N.D.Ill.2002); *see also Carillo v. Darden*, 992 F.Supp. 1024 (N.D.Ill.1998) (“The interest of justice component embraces traditional notions of judicial economy, rather than the private interests of the litigants and their witnesses.”(internal quotation marks omitted)).

First, neither side provides statistics regarding the speeds by which cases proceed to trial in the Northern District of Illinois compared to the Central District of California. The court's research<sup>12</sup> revealed that in the Central District of California, the average time from filing to disposition in civil cases is 5.4 months, and the average time from filing to cases proceeding to trial in civil cases is 19.1 months. In the Northern District of Illinois, the average time from filing to disposition in civil cases is 6.6 months and the average time from filing to trial is 34.5 months. That cases are proceeding faster in the Central District of California weighs in favor of transfer.

Second, plaintiffs allege claims premised on Illinois statutes—the Illinois Consumer Fraud Act and the Illinois Deceptive Business Practices Act and the Illinois Uniform Deceptive Trade Practices Act—in addition to an Illinois common law

cause of action for unfair competition. As judges in the Northern District of Illinois are more familiar with Illinois law, this factor weighs against transfer. Still, that plaintiffs allege claims based on Illinois law, by itself, is not enough to deny transfer.

Furthermore, the third and fourth factors weigh in favor of transferring the case. Except for the three concerts in July 2012, all of the events giving rise to plaintiffs' claims occurred in the Central District of California where UMG promoted the Calibre 50 mark nationwide. That UMG is incorporated in the Central District of California provides that state with a local interest lacking here. *See, e.g., ORD Structure Innovations, LLC v. Oracle Corp.*, No. 11 C 3307, 2011 WL 4435667, at \*4 (N.D.Ill. Sept. 22, 2011) (“[T]he majority of the accused products were developed in Northern California, and [the defendant] is headquartered there. This gives the Northern District of California a local interest that this Court does not possess.”).

While Illinois has an interest in redressing the injuries of its residents felt in the state, California has an equal interest in this matter because any injunctive relief against defendants will be enforced in California. *See Spanka Music & Sound Design, Inc. v. J. Hanke*, No. 04 C 6760, 2005 WL 300390, at \*7 (N.D.Ill. Feb. 7, 2005) (“[W]hile Illinois has an interest

in entertaining causes of action where injury is felt in Illinois, the fact that [the plaintiff] seeks injunctive relief against California residents and a California company increases California's interest in resolving the case.”).

The court having considered the factors guiding its decision concludes that the balance weighs in favor of transfer in spite of the significant difficulty that transfer may impose on Villalobos's ability to litigate this case in a distant forum.

## CONCLUSION

\*11 For the reasons stated above, the motions (dkt.18) are ruled on as follows: Ramos's motion to dismiss for insufficient service of process is granted without prejudice. The individual defendants' motion to dismiss for lack of personal jurisdiction is denied. All defendants' motion to transfer venue is granted. The Clerk is directed to transfer this case to the Central District of California on or after October 11, 2013.

## All Citations

Not Reported in F.Supp.2d, 2013 WL 5433795

## Footnotes

- 1 Plaintiffs' response to the motion reports that Valencia died on or about June 5, 2013 and that no probate estate has been opened. As an estate had not yet been opened as of the filing of plaintiffs' response, the court will not dismiss Valencia as a party from this law suit. For convenience, this opinion refers to Mr. Valencia as if he were still living.  
If Valencia's estate or other nonparty intends to proceed on behalf of Valencia, a timely motion for substitution must be made. *See Fed.R.Civ.P. 25(a)*. In support of such a motion, they must obtain from the appropriate probate court an order of appointment of a special representative for the purpose of this litigation. *See 735 Ill. Comp. Stat. 5/2–1008(b)*; *see also Wilson v. Sundstrand Corp.*, No. 99 D 6944, 99 C 6946, 2002 WL 99745, at \*4 (N.D.Ill. Jan. 25, 2002) (“A federal court lacks the authority to appoint a special administrator.”); *Coleman v. McLaren*, 590 F.Supp. 38, 39 (N.D.Ill.1984) (same and construing the term “court” in 735 Ill. Comp. Stat. 5/2–1008(b) referenced above to refer to an “Illinois state court”).
- 2 The court has subject matter jurisdiction over the federal claims pursuant to 15 U.S.C. § 1121 and 28 U.S.C. § 1331, and the court has supplemental jurisdiction over the state law claims pursuant to 28 U.S.C. § 1367.
- 3 After challenging improper service in the initial briefing, Castañeda concedes that Villalobos and Valencia properly effectuated service on him and thus withdraws this argument with respect to himself.
- 4 The following facts are taken from the complaint and are presumed true for the purpose of resolving the pending motion. *Dixon v. Page*, 291 F.3d 485, 486 (7th Cir.2002). In addition, the court can consider declarations outside of the pleadings submitted by defendants challenging personal jurisdiction, *see Purdue Research Found. v. Sanofi–Synthelabo, S.A.*, 338 F.3d 773, 782 (7th Cir.2003), service of process, *see Dumas v. Decker*, No. 10 C 7684, 2012 WL 1755674, at \*2 (N.D.Ill. May 16, 2012), and venue. *See Auto. Mechs. Local 701 Welfare & Pension Funds v. Vanguard Car Rental USA, Inc.*, F.3d 740, 746 (7th Cir.2007); *Signode v. Sigma Techs. Int'l, LLC*, No. 09 C 7860, 2010 WL 1251448, at \*2 (N.D.Ill. Mar. 24, 2010).

- 5 The court's internet search came up with artists named Calibre 50, Calibre, Calibre 38, Calibre and Zero Tolerance, Calibre Zero, Calibre Cuts, Calibre 45, and more. See AllMusic, [http:// www.allmusic.com/search/artists/calibre](http://www.allmusic.com/search/artists/calibre) (last visited Sept. 27, 2013). One that did not pop up was Calibre Norteño.
- 6 Castañeda also filed a trademark application on April 28, 2011 and April 4, 2012 for a mark titled "Arriba Calibre 50 Parientes." On July 31, 2012, Castañeda received a registered service mark from the United States Patent and Trademark Office for "Arriba Calibre 50 Parientes."
- 7 Valencia and Villalobos never requested jurisdictional discovery.
- 8 Plaintiffs also argue that Calibre 50 played shows and advertised in Illinois in 2013 *after* the filing of the present law suit. Personal jurisdiction, however, is determined at the time of the filing of the complaint and any contact that the defendants had with Illinois after that time cannot give rise to a basis of personal jurisdiction. See *Central States, Se. & sw. Areas Pension Fund v. Phencorp Reinsurance Co.*, 440 F.3d 870, 877–78 (7th Cir.2006); *Wild v. Subscription Plus, Inc.*, 292 F.3d 526, 528 (7th Cir.2002) ("[J]urisdiction is normally determined as of the date of the filing of the suit."); *United Phosphorus, Ltd. v. Angus Chemical Co.*, 43 F.Supp.2d 904, 910 (N.D.Ill.1999) ("While pre-suit activities may rise to the level of a 'fair warning' that a defendant may be haled into a court in the forum state, post-suit activities cannot serve to warn the defendant of an event that has already occurred."). Moreover, plaintiffs rely on hearsay—a search conducted on Yahoo returning "hits" for Calibre 50—to support their argument that Calibre 50 continued performing in Illinois in 2013. See *United States v. Jackson*, 208 F.3d 633, 637 (7th Cir.2000) ("[A]ny evidence procured off the internet is adequate for almost nothing, even under the most liberal interpretations of the hearsay exception rules." (internal quotation marks omitted)); see also *Spuglio v. Cabaret Lounge*, 344 Fed.Appx. 724, 726 (3d Cir.2009) ("To exercise personal jurisdiction over the Defendant on the basis of the information found on a Google search would not comport with fair play and substantial justice." (internal quotation marks omitted)).
- 9 Moreover, the "effects test" espoused by *Calder* would also satisfy due process concerns in exercising personal jurisdiction over Castañeda. Castañeda argues that, although he was aware of Calibre Norteño and its trademark in 2010, he believed that his band's incorporation of the term "Calibre" in its name was not infringing, as other bands in the United States use the common Spanish word "Calibre" in their names. Still, in July 2012, Castañeda's attorney received a cease-and-desist letter from plaintiffs' attorney and was aware that plaintiffs believed that the use of the name Calibre 50 and the Calibre 50 logo constituted trademark infringement. Additionally, as of July 2012, Castañeda was on notice that Calibre Norteño operated out of Illinois. These facts demonstrate that Castañeda had knowledge that Calibre 50's July 2012 performances could damage the goodwill associated with Calibre Norteño in Illinois. See *Blue Cross & Blue Shield Ass'n v. UHS of Del. Inc.*, 09 C 7935, 2010 WL 2732349, at \*3 (N.D.Ill. July 9, 2010) (finding specific personal jurisdiction where the defendants "were aware of their potential infringement of trademarks owned by an Illinois corporation, and therefore were aware that they could potentially be held liable for harm caused to [the plaintiff] by that infringement."); *Brunswick Bowling & Billiards Corp. v. Pool Tables Plus, Inc.*, No. 04 C 7624, 2005 WL 396304, at \*3 (N.D.Ill. Feb. 16, 2005) (finding personal jurisdiction appropriate because, *inter alia*, the defendant continued its tortious conduct after receiving a cease-and-desist letter); compare with *Primack*, 649 F.Supp.2d at 890–91 (out-of-state defendant only visited Illinois once before the plaintiff registered its trademark and made no sales of her book incorporating the allegedly infringing mark during her visit); *Novelty, Inc. v. RCB Distributing, Inc.*, No. 1:08-cv-0418, 2008 WL 2705532, at \* 3–4 (S.D.Ind. July 9, 2008) (Texas distributor had no knowledge that its out-of-state purchase and sale of allegedly infringing merchandise would harm an Indiana resident).
- 10 The court has other means of accommodating the individual defendants' concerns about litigating this case in Illinois detailed *supra* in section III. See *Hemi Grp.*, 622 F.3d at 760 ("[T]hese factors rarely will justify a determination against personal jurisdiction because there are other mechanisms available to the court—such as choice of law and transfer of venue—to accommodate the various interests at play." (internal quotation marks omitted)).
- 11 Plaintiffs argue that the majority of the witnesses in this case live in and around Illinois; however, they do not identify any of these witnesses. As they are opposing the motion to transfer, plaintiffs have the burden to offer evidence substantiating their arguments, which they have not done.
- 12 These figures come from the website of the United States Courts detailing federal court management statistics as of March 2013.

# EXHIBIT 5

2001 WL 501200

Only the Westlaw citation is currently available.  
United States District Court, D. Minnesota.

WEST LICENSING CORPORATION  
and West Publishing Corporation  
d/b/a West Group, Plaintiffs,  
v.  
EASTLAW, LLC; Regscan, Inc.;  
and Allen E. Ertel, Defendants.

No. CIV. 00-2645 (JRT/FLN. | May 9, 2001.

#### Attorneys and Law Firms

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#### MEMORANDUM OPINION AND ORDER GRANTING DEFENDANTS' MOTION TO DISMISS

TUNHEIM, District J.

\*1 Plaintiffs West Licensing Corporation and West Publishing Corporation (collectively, "West") bring this action against defendants alleging claims of trademark infringement, trademark dilution, false advertising, violation of the Anticybersquatting Consumer Protection Act, copyright infringement and other claims. According to West, defendants' use of the Eastlaw mark and eastlawonline.com domain name violate its WESTLAW mark and westlaw.com domain name.

This matter is before the Court on West's motion for a preliminary injunction to restrain defendants from using the Eastlaw and eastlawonline.com names in connection with their online caselaw research service. Defendants move to dismiss West's complaint for insufficient service of process, lack of personal jurisdiction and improper venue. For the reasons that follow, the Court holds that service of process is insufficient to satisfy the relevant service of process provisions under either Pennsylvania or Minnesota law as incorporated by Rule 4 of the Federal Rules of Civil Procedure. Accordingly, defendants' motion to dismiss is

granted and plaintiffs' complaint and motion for preliminary injunction are dismissed.

#### BACKGROUND

West is one of the preeminent providers of legal information services in the country. It began publishing case reports in the 1870s and has continuously published legal materials since then. For over the last 25 years, it has also provided computerized legal research services through its proprietary WESTLAW dial-up service and more recently through westlaw.com, a web-based version of WESTLAW.

West uses its WESTLAW and westlaw.com marks extensively in the promotion and advertising of its legal publications and services. Consequently, these marks have achieved a reputation for excellence because consumers associate the marks with the high quality of West's services and merchandise. West also owns numerous copyright materials, including the Outline of the Law, an original organization of West's Digest Topics, which West created, arranged and coordinated to categorize case law by subject matter.

RegScan, a Pennsylvania corporation, has electronically published government-compliance regulation information, typically in the environmental, health and safety fields, since about 1987. In 1999, RegScan desired to expand its regulatory service to include computerized case law research services. After securing an agreement with VersusLaw, a case law provider, RegScan set out to name its new service. According to defendants, it settled on Eastlaw after defendant Ertel, quoting a line from a Rudyard Kipling poem, "East is East and West is West, and never the twain shall meet," suggested the name as a good way to distinguish itself from Westlaw.

In early October 2000, RegScan registered the domain name eastlawonline.com after discovering that eastlaw.com, RegScan's first choice, was already registered to Thomson Publishing. Around that same time, RegScan also registered the Eastlaw mark with the Patent and Trademark office.

\*2 Eastlaw was incorporated on October 27, 2000 and the eastlawonline.com website was launched in early November. Eastlaw first marketed its service to local attorneys in Lycoming County, Pennsylvania. Shortly thereafter, Eastlaw sent out an e-mail to each attorney in four major cities: Tallahassee, Florida; Nashville, Tennessee;

Pittsburg, Pennsylvania; and Montgomery, Alabama. On November 17, 2000, an individual at the e-mail address of a.blatz@westgroup.com subscribed to Eastlaw's service online, but Eastlaw never processed the credit card that was given with the account.

On December 6, 2000, West filed this lawsuit. Specifically, West claims that defendants: 1) are infringing its trademarks by choosing names that come as close as possible to copying the WESTLAW and westlaw.com marks; 2) are falsely advertising its capabilities by claiming it is the equivalent of West's FEDERAL REPORTER and NATIONAL REPORTER SYSTEM; 3) are falsely representing the capabilities of its "Good Case or Bad Case" service; and 3) are pirating West's copyrighted and proprietary Outline of the Law.

Since West filed its complaint and motion papers for a preliminary injunction, defendants stopped using the Eastlaw and eastlawonline.com names, removed any claim of equivalency to West's Reporter systems and claims of superiority regarding its "Good Case or Bad Case" service, and removed its expanded list of filter examples and is now using only a list of 17 topic categories.

Nonetheless, West maintains that an injunction is still necessary because there is, as yet, no enforceable agreement which guarantees that defendants will not resume their allegedly infringing conduct in the future.

## ANALYSIS

### 1. Defendants' Motion to Dismiss

After West filed its complaint and moved for a preliminary injunction to enjoin defendants' use of the Eastlaw and eastlawonline.com marks, defendants moved to dismiss the complaint on the basis of: 1) insufficient service of process; 2) lack of personal jurisdiction; and 3) improper venue. *See* Fed.R.Civ.P. 12(b)(2); 12(b)(5); and 12(b)(3). For the reasons that follow, the Court agrees with defendants that service was ineffective.

#### A. Insufficient Service of Process

Rule 4 of the Federal Rules of Civil Procedure provides the methods for effecting service of process on individuals and corporations. According to Rule 4(e)(1), service upon defendant Ertel may be effected "pursuant to the law of

the state in which the district court is located, or in which service is effected ...."Fed.R.Civ.P. 4(e)(1).<sup>1</sup> Service upon defendants Eastlaw and RegScan may be effected "in the manner prescribed for individuals by subdivision (e)(1), or by delivering a copy of the summons and of the complaint to an officer, a managing or general agent, or to any agent authorized by appointment or by law to receive service of process."Fed.R.Civ.P. 4(h)(1).

According to Deputy Sheriff James W. Dorman ("Dorman"), he went to 605 West Fourth Street in Williamsport, Pennsylvania on December 15, 2000, to serve a summons and complaint on defendants Ertel and RegScan. Upon entering the building, he approached Nancy Crum ("Crum"), who sits at the front desk of the building and serves in a capacity analogous to a receptionist for the building.<sup>2</sup> Both Ertel and RegScan's offices are located in this building, however, it is undisputed that Crum works for Firetree, Ltd. She is not an employee of either Ertel or RegScan. According to Dorman, he asked Crum whether she would be willing to accept service on behalf of RegScan and Ertel, to which Crum apparently agreed.<sup>3</sup> After asking for and obtaining Crum's name and title, Dorman left and attempted to serve Eastlaw at 800 West Fourth Street. Finding the building vacant, he returned to the first address and asked Crum if she would accept service for Eastlaw as well, which she did.

\*3 Rule 402 of the Pennsylvania Rules of Civil Procedure provides that process is served "by handing a copy ... at any office or usual place of business of the defendant to his agent or to the person for the time being in charge thereof."Pa. R. Civ. P. 402(a)(2)(iii).<sup>4</sup> In this case, the question is whether Crum was "the person for the time being in charge" for purposes of Rules 402 and 424.

In order to be "in charge," the person must "either be an individual with some direct connection to the party to be served or one whom the process server determines to be authorized, on the basis of her representation of authority, as evidenced by the affidavit of service." *See Grand Entertainment Group, Ltd. v. Star Media Sales, Inc.*, 988 F.2d 476, 486 (3d Cir.1993); *F.P. Woll & Co. v. Valiant Ins. Co.*, Civ. No. 99-465, 2000 WL 347955 at \*2 (E.D.Pa. Mar. 21, 2000). First, Crum is not sufficiently connected to any of the named-defendants in this case. Crum is employed by Firetree, Ltd., and acts as the building receptionist. She does not work for Eastlaw, RegScan or Ertel. Indeed, Eastlaw is not even located in the building where Crum works.<sup>5</sup>

This case is strikingly similar to *Grand*. There, the Third Circuit, interpreting Rule 424(2), held that a receptionist, who was seated in the lobby of a building where the defendants were tenants and who was not employed by the defendants, but who nevertheless accepted the sealed envelope offered to her by the process server and undertook to forward it to defendants, did not qualify as a “person for the time being in charge.” *Grand*, 988 F.2d at 485-86.

The Court also finds there is insufficient representation of authority. Pennsylvania courts consistently look for evidence of some express representation in the affidavit of service that the receptionist was “in charge.” For instance in *Cintas Corp. v. Lee's Cleaning Servs. Inc.*, 700 A.2d 915 (Pa.1997), the process server's affidavit states that the receptionist at defendant's place of business “ ‘identified herself as the person in charge of the business at the aforesaid address, known as Lee's Cleaning Services, Inc.’ ” *Id.* at 920. Likewise, in *Hopkinson v. Hopkinson*, 470 A.2d 981 (Pa.Super.1984) *overruled on other grounds by Sonder v. Sonder*, 549 A.2d 155, 169-71 (Pa.Super.1984), the affidavit of service clearly states that the receptionist represented to the process server that she was “the person in charge.” *Id.* at 986-87.

In this case, the affidavits of service do not contain similar representations.<sup>6</sup> Although Dorman states in a subsequent affidavit that Crum agreed to accept service on behalf of defendants, the Court finds this evidence insufficient to qualify as being “the person in charge” for purposes of Rule 402 or 424. The Court believes that a stronger representation of authority was required by Crum before Dorman could have a “substantial basis” for believing that she was authorized to accept service, particularly where, as here, Crum was seated at the receptionist desk of a building which houses multiple businesses. *Woll*, 2000 WL 347955 at \*2. On these facts, the Court finds this case more similar to *Grand* than *Cintas* or *Hopkinson*. Service of process under Pennsylvania law is thus insufficient.

\*4 Service of process is also insufficient under Minnesota law.<sup>7</sup> In *Tullis v. Federated Mutual Ins. Co.*, 570 N.W.2d 309 (Minn.1997), the Minnesota Supreme Court concluded that Rule 4.03, which allows “any other agent authorized impliedly ... to receive service of summons,” requires that the agent have actual authority. *Id.* at 313 (“Apparent or ostensible authority is not actual authority .... Actual authority is what is required under Rule 4.03”). In this case, Crum

clearly did not have actual authority to receive service of process. Thus, service was no more proper under Minnesota law than it was under Pennsylvania law.

Because service of process is ineffective, the Court need not resolve whether the Court lacks personal jurisdiction over defendants.<sup>8</sup> Further, West's motion for a preliminary injunction must be dismissed without prejudice. The Court notes, however, that had the Court ruled on the motion, it would have denied it. The grant of a preliminary injunction is an extraordinary remedy for which the movant carries the burden of proof on each of the factors set forth in *Dataphase Sys., Inc. v. C.L. Sys. Inc.* 640 F.2d 109, 113 (8th Cir.1981). See *Intel Corp. v. ULSI Sys. Tech., Inc.*, 995 F.2d 1566, 1568 (Fed.Cir.1993) (“a preliminary injunction is a drastic and extraordinary remedy that is not to be routinely granted”). In this case, the Court is simply not persuaded that West has any credible threat of irreparable harm. Since the time West filed its complaint and preliminary injunction motion, defendants have substantially, if not, totally stopped all of the conduct that West claimed warranted an injunction.

While defendants' voluntary cessation of the complained-of activity provides no guarantee that defendants will not “return to their old ways,” the Court believes that any risk of recurrence is minimal. As the Court observed at the motion hearing and as counsel for both sides agreed, there is no legitimate business reason for defendants to return to the Eastlaw and eastlawonline.com names now that they have invested time and energy in launching their business under a different trademark and domain name.

It is true that a presumption of irreparable harm arises upon a showing that there is a likelihood of confusion between the marks at issue, see *General Mills v. Kellogg Co.*, 824 F.2d 622, 625 (8th Cir.1987), but plaintiffs' likelihood of success on the merits on its trademark infringement claim is not readily apparent. While plaintiffs' claim is colorable, the Court does not find it to satisfy the threshold level of confusion necessary to impose injunctive relief. The degree of similarity between the marks is debatable, particularly in light of holdings in other cases involving arguably stronger claims of similarity than are present here. See *General Mills*, 824 F.2d at 625 (holding OATMEAL RAISIN CRISP and APPLE RAISIN CRISP not confusingly similar); *Duluth News-Tribune v. Mesabi Publishing Co.*, 84 F.3d 1093 (8th Cir.1996) (holding DULUTH NEWS-TRIBUNE and SATURDAY DAILY NEWS & TRIBUNE not confusingly similar). The relevant consumer market and

degree of care likely taken by such consumers in purchasing legal information services also weigh against there being likely confusion between the marks. Therefore, even if the Court had jurisdiction over plaintiffs' motion, the Court would not have granted West the relief it seeks.

1. Defendants' motion to dismiss [Docket No. 10] is GRANTED and plaintiffs' complaint [Docket No. 1] is DISMISSED WITHOUT PREJUDICE;

2. Plaintiffs' motion for a preliminary injunction [Docket No. 3] is DISMISSED WITHOUT PREJUDICE.

LET JUDGMENT BE ENTERED ACCORDINGLY.

### ORDER

\*5 Based upon the foregoing, the submissions of the parties, the arguments of counsel and the entire file and proceedings herein, IT IS HEREBY ORDERED that

### All Citations

Not Reported in F.Supp.2d, 2001 WL 501200

### Footnotes

- 1 There are additional ways for service upon an individual to be effected, however, they are not relevant to this case. See Fed.R.Civ.P. 4(e)(2).
- 2 In her affidavit, Crum testified that her job duties include "greet[ing] guests at the front door, deliver[ing] faxes, answer[ing] the telephones for Firetree, Ltd., and answer[ing] the telephones for other businesses in the building when their lines are busy." Crum Aff. ¶ 2.
- 3 Crum's version of the events differs from Dorman's. According to Crum, Dorman told Crum he had something for RegScan and Allen Ertel. Dorman then asked Crum for her full name and title, which she gave him, after which Dorman handed the two packages to her. Crum states that she did not know what was in the packages, but accepted them and delivered them to Ertel's mail basket. Crum Aff. ¶¶ 4-5. For purposes of this motion, the Court must accept Dorman's version of the facts.
- 4 Rule 424(2) similarly provides that service on a corporation is effected by handing a copy to "the manager, clerk, or other person for the time being in charge of any regular place of business or activity of the corporation or similar entity." Pa. R. Civ. P. 424(2).
- 5 Service of process on Eastlaw is also ineffective because 605 West Fourth Street is not Eastlaw's "regular place of business or activity." See Pa. R. Civ. P. 424(2). According to its incorporation papers, Eastlaw's offices are located at 1015 Mumma Road, Wormleysburg, Pennsylvania.
- 6 The affidavits state only that Dorman served a copy of the summons and complaint by "handing a true and attested copy of same to Nancy Clerk [sic], Clerk, at 605 West 4th Street, Williamsport, PA., and by making known to her the contents thereof."
- 7 The Court agrees with defendants that service of process under Rule 4(e)(1) may be effected by satisfying the requirements for service of process under either Pennsylvania or Minnesota law. See Fed.R.Civ.P. 4(e)(i) (service can be effected "pursuant to the law of the state in which the district court is located [Minnesota], or in which service is effected [Pennsylvania]") (emphasis added).
- 8 The Court notes that there are some serious questions as to whether jurisdiction is proper over defendants, particularly as to defendant Ertel. The record reveals that at the time this action was commenced, Ertel had only two remote and unrelated contacts with Minnesota. Although the record indicates that Ertel made contacts with the forum state which are directly related to this cause of action, the Court could not have considered those contacts for purposes of jurisdiction because they occurred after the complaint was filed. See *Multi-Tech Sys. Inc. v. VocalTec Communications*, 122 F.Supp.2d 1046, 1051 (D.Minn.2000) ("personal jurisdiction is determined by conduct up to and including the time the action commenced"). The Court makes no finding as to whether personal jurisdiction can be properly asserted over defendant Ertel, or any of the other defendants, should West re-file this case in Minnesota.