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The Invention Stack: harvesting and protecting intellectual property

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Chris Johns, Partner at Finnegan, and Leonard Stewart, Assistant General Counsel for Fidelity Information Services, draw insights from Jim McKelvey's *The Innovation Stack* to relate business success over conglomerates with the parallel necessity to protect innovations.

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Did The United States Supreme Court make litigation more dangerous for defendants in IP cases? Probably not...

Marc J. Pernick, Partner at Maschoff Brennan, details the intricacies of the Mallory case that raised important questions surrounding personal jurisdiction to conclude the potential impact that the verdict could have on IP cases in the US.

The US Supreme Court returned last year to a subject that it analyzes regularly: personal jurisdiction. *Mallory v. Norfolk S. Ry. Co*, 600 U.S. 122 (2023), wrestled with the constitutionality of a Pennsylvania corporate registration statute. The law required non-resident corporations that register to do business in Pennsylvania to submit to "general personal jurisdiction" in the state for any suits brought against them, regardless of the parties' and suits' connections to Pennsylvania. A sharply divided Court held that the statute did not offend due process.

The reported case law suggests that, right now, Pennsylvania is the only state with a registration statute like the one in *Mallory*. However, if other states enact registration statutes like Pennsylvania's, defendants in patent and other intellectual property cases could find themselves subject to suit in forums – like the district courts of Texas – that many tech companies typically try to avoid. No such trend seems to exist currently. If that changes, it could have a dramatic impact on intellectual property litigation.

Marc J. Pernick

Résumé

Marc J. Pernick is a partner in Maschoff Brennan's San Francisco office. His practice focuses on complex commercial litigation, with particular expertise in intellectual property litigation. His experience spans a broad spectrum of technologies and industries. He has represented clients in patent litigations concerning smartphones and tablet computers, computer graphic chips, semiconductors, DVRs, e-commerce, document fraud detection, wireless communications, transit system technology, ultrasound contrast agents, DNA microarrays, and water filtration.

Background

The facts in *Mallory* were simple. Plaintiff Robert Mallory worked as a freight-car mechanic for defendant Norfolk Southern for almost 20 years – both in Ohio and Virginia. After leaving, Mallory was diagnosed with cancer, which he attributed to his work for Norfolk Southern. Mallory sued Norfolk Southern in Pennsylvania state court under the Federal Employers' Liability Act.

At the time of suit, Mallory lived in Virginia – where Norfolk Southern was incorporated and had its headquarters. Further, Mallory's complaint alleged that he was exposed to carcinogens while working for Norfolk Southern in Ohio and Virginia.

Given the lack of any connection to Pennsylvania, Norfolk Southern contended that the due process clause of the 14th Amendment prohibited Pennsylvania courts from exercising jurisdiction over it. The Pennsylvania Supreme Court agreed. In light of tension between that decision and a recent Georgia Supreme Court decision, the US Supreme Court granted cert.

The Supreme Court's decision was narrow and fractured. Justice Gorsuch wrote an opinion that Justices Thomas, Sotomayor, and Jackson joined, and which found that the Pennsylvania statute did not violate due process. Justice Alito joined portions of that opinion, creating a five-Justice

majority in favor of vacating the decision below. Justice Jackson wrote a separate concurrence, and Justice Alito wrote a separate opinion concurring in part and concurring in the judgment. Justice Barrett, joined by Chief Justice Roberts and Justices Kagan and Kavanaugh, dissented.

Majority opinion

Justice Gorsuch emphasized that the question in Mallory was not new: the Court's decision in *Pennsylvania Fire Ins. Co. of Philadelphia v. Gold Issue Min. & Mill. Co.*, 243 U.S. 93 (1917) – which pre-dates *Int'l Shoe Co. v. State of Wash., Off. of Unemployment Comp. & Placement*, 326 U.S. 310 (1945), by almost 30 years – permitted the Pennsylvania law and squarely controlled. Justice Gorsuch explained that *Pennsylvania Fire* "unanimously held that laws like Pennsylvania's comport with the Due Process Clause." While the Pennsylvania Supreme Court held that subsequent US Supreme Court cases had "implicitly overruled" *Pennsylvania Fire*, Gorsuch – writing for a five-Justice majority that included Justice Alito – said that the Pennsylvania high court had "clearly erred." Gorsuch stated that "'[i]f a precedent of this Court has direct application in a case,' as *Pennsylvania Fire* does here, a lower court 'should follow the case which directly controls….'"

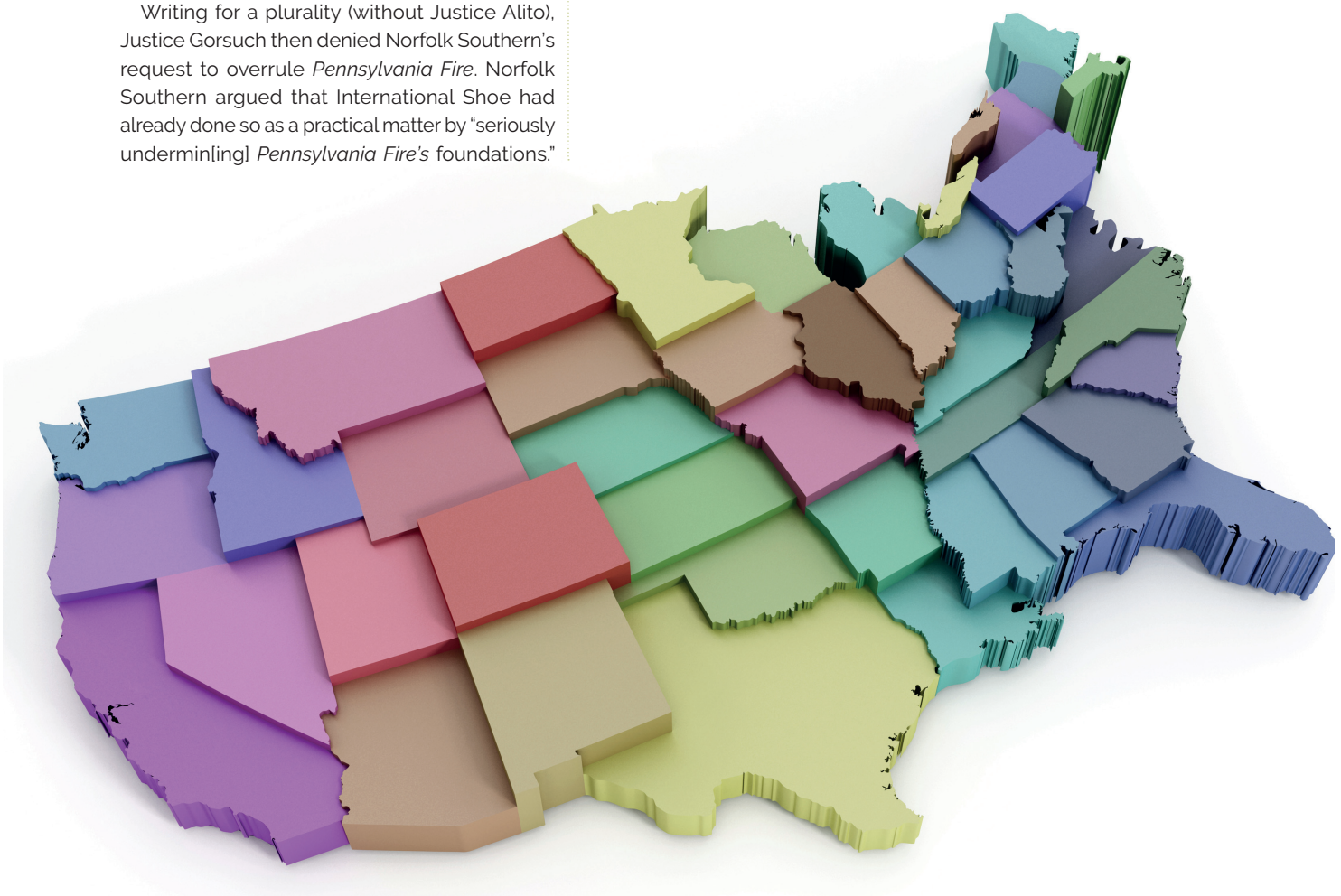
Writing for a plurality (without Justice Alito), Justice Gorsuch then denied Norfolk Southern's request to overrule *Pennsylvania Fire*. Norfolk Southern argued that International Shoe had already done so as a practical matter by "seriously undermin[ing] *Pennsylvania Fire's* foundations."

> ***Mallory* may have a dramatic impact on civil litigation in the United States, including intellectual property cases. But it is too soon to tell.**

Gorsuch disagreed because "[t]he two precedents sit comfortably side by side."

Justice Gorsuch framed *International Shoe* as a case that expanded on the traditional bases for personal jurisdiction that already existed. In Gorsuch's telling, *Pennsylvania Fire* had previously "held that an out-of-state corporation that has consented to in-state suits in order to do business in the forum is susceptible to suit there." *International Shoe* went further by holding that "an out-of-state corporation that has not consented to in-state suits may also be susceptible to claims in the forum State based on 'the quality and nature of [its] activity' in the forum." As long as it comported with "fair play and substantial justice," *International Shoe* allowed a forum state to exercise jurisdiction over a non-resident corporation even when it had not consented to suit in and was not present in the forum.

Viewed through that prism, Justice Gorsuch rejected Norfolk Southern's claim that *International Shoe* tolerated only two types of personal jurisdiction: *i.e.*, "specific jurisdiction" for suits related to the defendant's in-state activities, and "general jurisdiction" for all suits but only in forums where the defendant is at home. Gorsuch maintained that other types of jurisdiction can still exist.



As evidence of this, Justice Gorsuch cited *Burnham v. Superior Ct. of California, Cnty. of Marin*, 495 US 604 (1990). Burnham upheld the traditional "tag rule," by which an individual who was physically served in the forum state was subject to suit there regardless of whether they were subject to specific or general jurisdiction. Gorsuch underscored that it would be "incongruous" for the tag rule to have survived *International Shoe* (in the context of individuals), but for *International Shoe* to have overruled *Pennsylvania Fire* sub silentio (in the context of corporations).

Justice Alito's concurrence

Justice Alito concurred in part and concurred in the judgment. Alito agreed with Gorsuch that the "parallels between *Pennsylvania Fire* and th[is] case [ ] are undeniable," that *Pennsylvania Fire* "held that there was no due process violation in these circumstances," that "[g]iven the near-complete overlap of material facts, th[e] *Pennsylvania Fire* holding, unless it has been overruled, is binding here," and that "*Pennsylvania Fire's* holding, insofar as it is predicated on the out-of-state company's consent, is not 'inconsistent' with *International Shoe*[.]" Alito emphasized that, because this was the sole question before the Court, he agreed that the judgment below should be vacated.

Most of Justice Alito's opinion analyzed another issue. Alito explained that Norfolk Southern asserted a defense below based on the "dormant commerce clause." Although the commerce clause allows Congress to regulate interstate commerce, the US.Supreme Court has held that the clause also includes a negative component. This is the so-called "dormant commerce clause," which prohibits state laws that unduly restrict interstate commerce. The Pennsylvania Supreme Court did not address this issue, but Alito presumed that Norfolk Southern can litigate the defense on remand.

Justice Alito wrote that a state law may violate the dormant commerce clause "when the law discriminates against interstate commerce or when it imposes 'undue burdens' on interstate commerce." Alito stressed that Pennsylvania's registration statute "seems to discriminate against out-of-state companies by forcing them to increase their exposure to suits on all claims in order to access Pennsylvania's market while Pennsylvania companies generally face no reciprocal burden for expanding operations into another State." Justice Alito therefore said that "there is a good prospect that Pennsylvania's assertion of jurisdiction here – over an out-of-state company in a suit brought by an out-of-state plaintiff on claims wholly unrelated to Pennsylvania – violates the Commerce Clause." Alito acknowledged, nonetheless, that no commerce clause challenge was before the Court.

> **"Companies – especially smaller ones – might decide that doing business in states with Pennsylvania-style registration laws is not worth the risk."**

Justice Barrett's dissent

Justice Barrett viewed things differently. Barrett pointed out that, for 75 years since *International Shoe*, the Court has not allowed state courts to assert general jurisdiction over a foreign defendant merely because it does business in a state. Barrett claimed that the majority found "a way around this settled rule." According to Justice Barrett, "[a]ll a State must do is compel a corporation to register to conduct business there (as every State does) and enact a law-making registration sufficient for suit on any cause (as every State could do)." Barrett objected to "permit[ting] state governments to circumvent constitutional limits so easily[.]"

Justice Barrett also found Gorsuch's analysis of *Burnham* unpersuasive. According to Barrett, Burnham confirmed the vitality of the "tag rule" in part because the Court did "not know of a single state" that, as of then, had abandoned the doctrine. By contrast, the *Mallory* parties agreed that Pennsylvania was the only state with a statute treating registration as sufficient to confer general jurisdiction. Further, Justice Barrett disputed the notion that tag jurisdiction over an individual based on physical presence is "essentially the same" as registration jurisdiction over a corporation based on deemed consent. Barrett called this "a non sequitur."

Justice Barrett stated that the majority's "approach does not formally overrule our traditional contacts-based approach to jurisdiction, but it might as well." Barrett warned that, "[i]f States take up the Court's invitation to manipulate registration, [precedents like] *Daimler* and *Goodyear* will be obsolete, and, at least for corporations, specific jurisdiction will be 'superfluous.'" Barrett opposed "this sea change."

Impact on intellectual property cases

Mallory may have a dramatic impact on civil litigation in the United States, including intellectual property cases. But it is too soon to tell.

Most post-*Mallory* attempts to establish general personal jurisdiction based on the decision have failed. These cases have held that the forum state's registration statute did not require consent to jurisdiction in the manner that Pennsylvania's law did. *See Madsen v. Sldwell Air Freight*, 2024 WL 1160204, at *13, 15-16 (D. Utah Mar. 18, 2024) ("[none] of Utah's registration statutes expressly include a consent to general jurisdiction, as the Pennsylvania statute [ ] did"); *Simplot India LLC v. Himalaya Food Int'l Ltd.*, 2024 WL 1136791, at *9-10 (D.N.J. Mar. 15, 2024) ("[u]nlike the express consent statute at issue in *Mallory*, New Jersey's registration statute does not include such an express consent requirement"); *Sahm v. Avow Corp.*, 2023 WL 8433158, at *4 (E.D. Mo. Dec. 5,

2023) ("absent a Missouri statute providing an explicit grant of general jurisdiction over registered foreign corporations, [ ] *Mallory* is not applicable"); *AssetWorks USA, Inc. v. Battelle Mem'l Inst.*, 2023 WL 7106878, at *2 (W.D. Tex. Oct. 23, 2023) ("the Texas statute concerning registration of nonresident corporations neither mentions general jurisdiction nor mirrors the structure of the Pennsylvania statute"); *In re Aqueous Film-Forming Foams Prod. Liab. Litig.*, 2023 WL 6846676, at *4-5 (D.S.C. Oct. 17, 2023) ("South Carolina's … insurance registration statute … contains no consent by foreign corporations to the general jurisdiction of the South Carolina courts"); *Union Home Mortg. Corp. v. Everett Fin., Inc.*, 2023 WL 6465171, at *3, n. 6 (N.D. Ohio Oct. 4, 2023) ("the corollary Ohio statutes contain no such consent provision [as was at issue in *Mallory*]"). At the same time, Georgia and North Carolina courts have held that their registration statutes (despite lacking language expressly stating that a registering company consents to general jurisdiction) give rise to general personal jurisdiction. *See Sloan v. Burist*, 2023 WL 7309476, *4 (S.D. Ga. Nov. 6, 2023); *Harris Teeter Supermarkets, Inc. v. ACE Am. Ins. Co.*, 2023 WL 6568766, at *12-14 (N.C. Super. Oct. 10, 2023).

Accordingly, as of now, it does not appear that Mallory has led to a sea change in intellectual property cases or in civil litigation more generally. Nonetheless, Justice Barrett warns that if other states enact registration statutes similar to Pennsylvania's, then corporate defendants may get dragged into litigation in plaintiff-friendly forums that they would have previously been able to avoid.

> **"Only time will tell how this ultimately shakes out."**

To be sure, state legislatures may not pass such statutes. Companies – especially smaller ones – might decide that doing business in states with Pennsylvania-style registration laws is not worth the risk, and this possibility could dissuade state legislatures from copying the Pennsylvania approach. That is what has happened in New York, where the governor vetoed legislation that would have made New York's registration statute similar to Pennsylvania's. Only time will tell how this ultimately shakes out.

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