

7th Circ. Says Royalties Suit Doesn't Belong In Ill.

By Celeste Bott

Law360 (April 23, 2019, 4:34 PM EDT) -- The Seventh Circuit on Monday affirmed a lower court's dismissal of a lawsuit brought by two Illinois residents seeking royalties for an inflatable beach mat and other products they developed for their former company, holding that online sales aren't enough to sue the patent owners in Illinois.

Showing that the companies — Swimways, Spin Master Corp. and Spin Master Ltd. — sold the products online and shipped them into Illinois doesn't do enough to establish personal jurisdiction in the state, the panel said.

The appellate court also said jurisdiction can't be established by proving that the companies sold the products to Illinois residents when the sale happened after the lawsuit was filed. According to court records, counsel for plaintiffs Tai Matlin and James Waring tried to defeat dismissal by submitting evidence of a purchase from Swimways' website.

"Even if we accepted that a single online sale provided a sufficient link to the royalty dispute, Matlin and Waring face another problem," the panel said. "Here the plaintiff-initiated contact arose after the plaintiffs filed suit — solely to lure the defendants into Illinois to establish personal jurisdiction over them. The defendants did not target Illinois and should not be subject to suit there."

In their appeal, Matlin and Waring cited the Seventh Circuit's ruling in *Illinois v. Hemi Group*, in which the court held that a New Mexico cigarette distributor who sold hundreds of packages of cigarettes to an Illinois Department of Revenue agent through an interactive website over the course of multiple years was subject to personal jurisdiction in Illinois.

But there are distinctions between their case and the *Hemi Group* case, the panel found, including the scale of the contact that occurred before the state ever filed suit. That case involved the sale of a regulated product over multiple years, not "a single incident conjured up by the plaintiffs' attorney for the exclusive purpose of establishing personal jurisdiction over the defendants," the panel said.

Alexander Loftus, who represented Matlin and Waring, told *Law360* on Tuesday that they plan to appeal the decision further by filing a petition for certiorari.

"I know it's a long shot to get it heard, but it's a very important issue," Loftus said. "The ultimate issue here was the product was being sold in this jurisdiction and when that product was sold, that's when the

harm occurred. So it's a pretty clear question. I think the court was just scared this could lead to a universal jurisdiction thing."

In an email on Tuesday, the companies' attorney, Jonathan Graves, said they plan to pursue sanctions.

"Spin Master and Swimways are pleased by the 7th Circuit's affirmance of the district court's dismissal and its rejection of Messrs. Matlin and Waring's attempt to manufacture personal jurisdiction by having their counsel place an online order for a Swimways product after the defendants filed their motion to dismiss," Graves said in a statement. "Now that plaintiffs' appeal has failed, Spin Master and Swimways look forward to pursuing at the district court their pending Rule 11 motion for sanctions, which argues that the plaintiffs' claims are frivolous and barred by binding rulings against plaintiffs in multiple arbitrations that they initiated against a former employer unrelated to Spin Master and Swimways."

Matlin and Waring first sued in 2017, alleging they were still entitled to royalties over an inflatable beach mat known as the "Snap-2-It" and other products they developed for a company they co-founded in 1997, called Gray Matter Holdings LLC, according to court documents.

In 1999, Matlin and Waring entered into a withdrawal agreement from Gray Matter that included some perpetual royalty rights over the products, according to court documents. They claimed Gray Matter forged their signatures for patent assignments that enabled the company to sell their intellectual property rights to Swimway "without disclosing the obligation to pay royalties to plaintiffs created in the withdrawal agreement."

Spin Master later acquired Swimways and the property rights. Neither company has paid Matlin or Waring royalties, according to their filings.

Matlin and Waring sued for fraud and breach of contract against Swimways, and unjust enrichment against all three defendants.

Circuit Judges Michael S. Kanne, Diane S. Sykes and David F. Hamilton sat on the panel for the Seventh Circuit.

Matlin and Waring are represented by Alexander N. Loftus of Stoltmann Law Offices PC.

Spin Master and Swimways are represented by Jonathan Graves and Joseph Van Tassel of Cooley LLP.

The case is Tai Matlin et al. v. Spin Master Corp. et al., case number 18-2868, in the U.S. Court of Appeals for the Seventh Circuit.

--Editing by Haylee Pearl.

Update: This story has been updated to include comment from counsel for Spin Master and Swimways.