



# IP Matters



## Textile Copyright Cases Ripe for ADR

By Leslie Gordon

While normally focused on music and media matters, copyright lawyers in California have grown busy with something else: fabrics. Hundreds of textile copyright suits involving fabric prints are being filed in U.S. district courts every year, with the number climbing rapidly in the last five years, according to the *Copyright Litigation Report* by legal analytics company Lex Machina. In 2014, for example, four textile companies—including L.A. Printex, Star Fabrics, United Fabrics International and Unicors, Inc.—brought 106 fabric copyright cases. These

companies and other plaintiffs sue retailers over designs, patterns, layout, arrangement, style and images on fabric prints.

“You can’t copyright an article of clothing. Knockoffs are the way of the world in the garment business,” says Hon. Margaret A. Nagle (Ret.) of JAMS, who presided over hundreds of cases in the Central District of California, where many of these textile copyright cases are filed. “But you can copyright a two-dimensional print. Someone might look at fabric and say, ‘It’s just tulips. Can it be copyrightable?’ The answer is yes, it really can be. If the color

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## Antitrust Implications of Intellectual Property Settlements

By Lizbeth Hasse, Esq.

Although courts generally encourage mediation and settlement, negotiated settlement agreements in intellectual property disputes can create antitrust problems. These settlements, which may include exclusive licenses, cross-licenses and pooling arrangements, are often agreements between horizontal competitors. The effect may be to raise prices, limit output or limit the access of others to a market. The Federal Trade Commission and Department of Justice guide-

lines appreciate that exclusive licensing and cross-licensing settlements may be an “efficient means to avoid litigation.” Still, they will consider whether a settlement diminishes or has a tendency to diminish competition among “entities that would have been actual or likely competitors in a relevant market in the absence of the cross-license” or other exclusive licensing arrangement.

The relationship between IP and antitrust is inherently one of tension. Patent law provides

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and arrangement are strikingly similar and there's a registered copyright, there's trouble." Nagle adds that these cases are being "very vigorously pursued."

In one notable case, Hot Shot HK had ordered fabric from Novelty Textile but later canceled the order and then went on to have the fabric copied and manufactured in China. That textile was made into clothes sold at Wet Seal. The U.S. District Court in Los Angeles determined in summary judgment that Hot Shot HK and Wet Seal willfully infringed Novelty Textile's textile copyright. After a jury decided punitive damages, the plaintiff was awarded \$650,000 as well as attorneys' fees and costs.

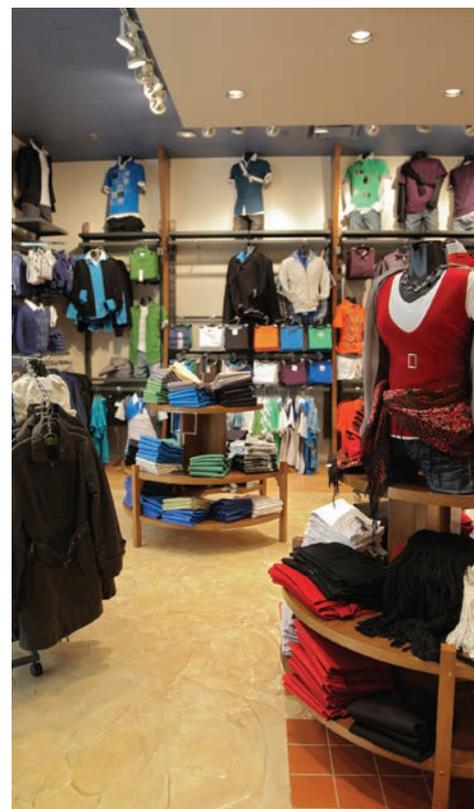
"This isn't empirical, but I suspect these cases are on the rise because copyright protection requires knowing that your IP has been taken. The only way to enforce the copyright is through the diligence of the owner. Because the Internet has opened up access to far more information, that creates an opportunity for copyright owners to know about alleged infringement," says Hon.

*"These cases are complex because they involve an amalgamation of various IP laws," says Judge James Ware (Ret). "A neutral translates that complexity so both parties widen their understanding of the dispute."*

James Ware (Ret.) of JAMS, formerly of the Northern District of California.

For retailers, textile copyright cases are expensive to defend, Ware adds. According to the American Intellectual Property Law Association, a case seeking \$1 million to \$10 million in losses costs an average of \$415,000 to defend through discovery and \$710,000 to defend through trial. Lex Machina reports that the median time to trial is more than two years. And many textile copyright trials don't end well for defendants. Ross paid \$1.7 million in compensatory damages in one case; TJX paid \$240,000 in another. The most frequent defendants include Ross Stores, TJX (the parent company of T.J. Maxx, Marshalls and other brands), Amazon and Burlington Coat Factory.

Because copyrighted designs are listed only by name or number and do not have accompanying photos or drawings, it can be difficult for retailers to know what print designs are protected by copyright. And for plaintiffs, there may be difficulties of proof, including proving the defendant's access to the print. Given these challenges on both sides, fabric copyright infringement cases are ripe for alternative dispute resolution, according to Ware. "These cases are complex because they involve an amalgamation of various IP laws," says Ware, who has served as a neutral in cases involving fabric design for sneakers as well as texture and patterns on denim. Patents protect clothing utilities such as Velcro; fabric logos are protected by trademark; the design of a clothing article invokes trade dress laws; and fabric designs are governed by copyright. "A neutral translates that complexity so both parties widen their understanding of the dispute."



Nagle, whose first-ever copyright case involved a fabric quilt, agrees that textile copyright cases may be suited for early settlement. "If willful infringement is proved, it could cost hundreds of thousands of dollars plus a shot at attorneys' fees," she says. "The longer it goes, the more costly it'll be to defend. ADR really is beneficial to curb litigation costs, which are often very substantial in these cases. If you're potentially picking up two attorneys' fees, it behooves you to get a handle on how exposed you are as early as possible through early neutral evaluation. You can agree to limited discovery, and perhaps you can settle. You then avoid a doubling down of cost. To me, any action which has the specter of attorneys' fees is an action that you should look at ADR pretty early." ●

**Leslie Gordon** is a freelance legal affairs journalist and corporate writer/editor for law firms and other professional service firms.

for a legal right to exclude others (often would-be competitors) from making, using, selling or importing a patented invention for the term of the patent. Copyright similarly restricts the use of creative works, though not with respect to the underlying content. Both protections were designed to promote innovation, and both require that the rights holder make the creation or innovation known to the public. Patents exclude all others from using the invention for a term; copyrights exclude those who have not independently developed the substantially similar work. The interplay of IP law and antitrust has created “a field of dissonance yet to be harmonized by statute or by the Supreme Court” (*Image Technical Services, Inc. v. Eastman Kodak Co. (Kodak II)*). In fact, high courts have recently played in this field of dissonance in assessing the antitrust implications of settlements in a number of IP infringement actions, including Google’s efforts to digitize a world library, performing rights organizations’ control over songwriters’ royalty rates and pharmaceutical companies settling patent infringement claims between patent holder and generics. When an

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IP holder exercises its rights to exclude under patent or copyright law, designing a settlement ostensibly within the scope of its patent or copyright, is it necessarily immune from antitrust liability? Some would argue the answer should be yes, but Congress has not included such immunity in the U.S. Patent or Copyright acts.

Consider *FTC v. Actavis*. The Supreme Court held that reverse-payment patent settlements, where the resolution involves the patent holder paying a sum to the defendant, are subject to antitrust scrutiny under a traditional antitrust rule of reason analysis. A reverse payment settlement can be without its antitrust implications. For example, it may reflect an approximation of litigation expenses saved through the settlement, or it may amount to compensation for distribution or other services that the challenger has undertaken to perform. The focus of the antitrust examination is on whether the reverse payment is so large that it cannot be justified as a legitimate fair value or nuisance value amount. In *Actavis*, the questionable reverse payment settlement was a pay-for-delay agreement made in the context

of a would-be generic drug company’s dropping both its efforts to enter the market prior to the expiration of the asserted patent and its allegations that the patents would not be infringed by the substitute drug.

In a recent class action case in this field of dissonance between antitrust and IP, the California Supreme Court held that reverse payment settlements are not immune from antitrust scrutiny under state law (*In re Cipro Cases I & II*). Bayer owned a patent on ciprofloxacin hydrochloride, the active ingredient in the antibiotic Cipro. In 1991, 12 years before the expiration of the patent, Barr Laboratories applied to the FTC to market a generic version of Cipro and filed a certification that Bayer’s patent was invalid or would not be infringed. Barr said the patent was an invalid double (duplicative) patent, obvious in light of prior art and the product of inequitable conduct. Bayer responded with a patent infringement suit; Barr counterclaimed for a declaratory judgment of patent invalidity.

In their 1997 settlement, Bayer and Barr affirmed the patent’s validity, and

Barr agreed to postpone marketing the generic version of Cipro until the patent expired. In return, Bayer agreed to pay significant sums to Barr and to supply it with Cipro for licensed resale six months before the patent expired. For the next six years, Bayer paid Barr \$398.1 million each year. Meanwhile, Bayer's profits from its own continued Cipro sales were in excess of \$1 billion.

*Applying Cartwright Act principles to the patent arena, the California Supreme Court warned that “purchasing freedom from the possibility of competition, whether done by a patentee or anyone else, is illegal.”*

The plaintiffs in the follow-on class action, buyers of the drug, alleged that the settlement violated the Cartwright Act, unfair competition law and common-law prohibition against monopolies. Since the settlement restrained Barr only within the scope [term] of the patent, the district court and Court of Appeals held the settlement lawful. In reversing, the California Supreme Court relied on the U.S. Supreme Court's decision in *Actavis*, which rejected the scope of the patent as a definitive test under federal law. The Supreme Court concluded in *Actavis* that, even if the terms of the reverse payment settlement fall within the patent's apparent exclusionary scope, the settlement is not automatically immune from antitrust considerations.

In similarly rejecting the scope of the patent test under state law, the California court noted that “an invalidated pat-

ent carries with it no...right [to exclude others].” Accordingly, a settlement that cuts off the challenge to a patent's validity should not effectively establish that patent's legitimacy. Applying Cartwright Act principles to the patent arena, the California Supreme Court warned that “purchasing freedom from the possibility of competition, whether done by a patentee or anyone else, is illegal.”

This past September, the Southern District of New York held that the challenged settlements of a patent dispute between Takeda Pharmaceuticals and three generic drug manufacturers were not illicit reverse payments warranting scrutiny under the Sherman Act, because there was no plausible basis for holding that the settlements reduced competition for the drug. In individual settlement agreements with each manufacturer, these generics did not receive any cash payments; rather a generic manufacturer was allowed to enter the market with a generic product almost four years before the expiration of the disputed patents. Further, each agreement also contained an acceleration clause that enabled the generic to enter the market as soon as any other generic manufacturer entered the market. The settling defendants noted that the U.S. Supreme Court in *Actavis* had looked favorably on a settlement agreement that allows the patent challenger to enter the market before the patent expires.

The plaintiffs argued that the acceleration clauses were anticompetitive because other generic manufacturers were discouraged from entering the market, knowing that three other manufacturers waited in the wings. As a preliminary matter, the district court ruled that even without cash payments, these settlements are subject to *Actavis* rule of reason scrutiny, but it rejected plaintiffs' argument, noting that if no other

generic entered the market before the expiration date, the effect of the clauses would be neutral, and if another generic manufacturer did enter early, the effect would be “indisputably pro-competitive” because the clauses would trigger more generics to enter the market. To plaintiffs' speculation on how generics would have acted in the absence of the acceleration clauses, the court stated that “[t]he mere possibility that the absence of an acceleration clause may result in more diverse generic competition is insufficient for Plaintiffs to plausibly state a reverse payment [antitrust claim] here. *Actavis* requires only that a brand manufacturer not unlawfully restrict competition; it does not demand that the brand maximize competition.”

To avoid potential antitrust liability and additional costly litigation, it is important to recognize the antitrust issues inherent in settlement agreements involving IP rights. The inquiry into whether a given settlement and its particular terms are anticompetitive is highly fact-intensive and therefore often risky. The rule of reason analysis weighs the anticompetitive effects of a settlement agreement against the pro-competitive benefits. Exclusive dealing arrangements need not be explicit; if the settlement has the practical effect of excluding competitors, it is vulnerable to antitrust attack. ●



**Lizbeth Hasse, Esq.** is a JAMS neutral based in San Francisco. She has served as mediator, arbitrator, negotiator or Special Master since 1998 in more than 1,000 matters. She has more than 30 years of international experience in the fields of intellectual property, business operations, entertainment and media, and technology law. She can be reached at [lhasse@jamsadr.com](mailto:lhasse@jamsadr.com).

## Effect of Post-Grant Patent Review Proceedings on Settlement

By [James M. Amend, Esq.](#)

The America Invents Act both modified and created procedures for challenging patents in proceedings before the Patent and Trademark Office (PTO) after they have been issued, which are called post-grant reviews (PGRs). These include *inter partes* review (IPR) procedures, typically challenging validity based on prior art, and covered business method (CBM) challenges based on assertions that what is claimed is unpatentable subject matter.

*It appears that patentees are sufficiently concerned about the outcome of the PGR and that they are inclined to settle before it proceeds too far. The key factor for dismissal of a PGR appears to be timing—of the filing of the PGR, the settlement and the motion in the PTO to terminate.*

Very frequently, these proceedings are invoked by parties who have been sued for patent infringement, and they proceed in parallel with the district court infringement proceedings. In a large majority of PGRs, the PTO finds that a sufficient question has been raised (a *prima facie* case) to warrant a consideration on the merits, and it initiates a PGR. An almost equal percent of PGRs result in a finding of invalidity or modification of some or all of the challenged claims. Therefore, the attractiveness of PGRs to patent infringement defendants is clear, and they are being filed in ever-increasing numbers. Because of the possibility of obtaining a stay of the infringement litigation pending resolution of the PGR, there is some pressure on defendant to file a PGR as soon as possible.

Because most patent infringement suits settle, the effect of PGRs on settlement is of interest. In an [earlier article](#), I suggested that the filing of a PGR might work against settlement because, once filed, it might not be dismissed by the PTO even if the parties move for termination. In *Interlogix, Inc. v. Corelogic Solutions*, despite a settlement of the co-pending infringement suit, which

included an agreement to dismiss the PGR, the PTO refused to terminate it and went on to invalidate the patent. If a patentee cannot be certain that a PGR can be terminated pursuant to settlement, it might not settle, believing that it has a better chance in litigation than in the PTO. The standard of proof for invalidation is higher in litigation (clear and convincing evidence) than in the PTO (preponderance of the evidence).

However, further experience suggests that the prospect or filing of a PGR may incentivize settlement under certain circumstances. Sharply increased numbers of petitions to terminate PGRs based on settlement of the co-pending infringement suit are being filed in the PTO. It appears that patentees are sufficiently concerned about the outcome of the PGR and that they are inclined to settle before it proceeds too far. The key factor for dismissal of a PGR appears to be timing—of the filing of the PGR, the settlement and the motion in the PTO to terminate.

In *Interlogix*, the reasons given by the PTO for refusing to terminate the PGR were that it was already at an advanced

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# The Arbitration of a Patent Dispute

By Ronald Dimock, FCIArb

This article examines why a patent dispute—particularly an international patent dispute involving two or more jurisdictions and subject matter such as pharmaceuticals, chemicals, computers and high technology—is ideally resolved by arbitration. A 2013 PricewaterhouseCoopers and Queen Mary survey of companies across various industries showed that 73% of the companies agreed that international arbitration is their preferred mechanism for dispute resolution. Arbitration provides a more efficient resolution to a patent dispute than litigation, especially in the international area. Through alternative dispute resolution, a patent dispute can be resolved with the benefits and enforceability of a courtroom judgment, but with the ease and effectiveness of arbitration. The main benefits to arbitration are knowledgeable arbitrators, speedy and cost-effective process, flexibility of confidentiality and an enforceable global decision across several jurisdictions. Following are seven reasons why arbitration is preferred to litigation of a patent dispute.

## 1. Ability to choose an arbitrator with subject matter expertise

One benefit to arbitrating a patent dispute is the ability to choose your arbitrators. Arbitrators have a wide array of skills and expertise; by choosing one with relevant patent experience, the process of arbitration can be streamlined. In a jury trial, much time is spent educating the jury. A different set of skills is needed for a jury trial, as opposed to a bench trial or arbitration. By oversimplifying the case for the jury, there is a risk of the jury not appreciating the details of a patent case and therefore making an irrational decision.

Additionally, one of the benefits of arbitration is the ability of having a reasoned decision. For example, Rule 24(h) of JAMS Comprehensive Arbitration Rules and Procedures states that well-written and well-thought-out reasons must be provided for an arbitration award, thus ensuring reasons.<sup>1</sup>

Overall, arbitration provides a benefit to the client by creating the opportunity to

conduct proceedings in front of individuals with the technical expertise to adjudicate a patent case economically, effectively and expeditiously. Arbitration mitigates the surprise of a jury trial and gives each party the best opportunity to have their case adjudicated.

## 2. Speed

Generally, arbitration is lauded as providing a faster decision than a trial. On average, in the USA, a full trial takes 23.4 months, whereas arbitration takes 7 to 7.3 months.<sup>2</sup> Arbitration is also final, whereas a trial may be appealed, which can add an average of 30.8 months to the experience.<sup>3</sup> Time is extremely important in a patent dispute, since a patent has an inherent monopoly.

One of the main reasons that arbitration is faster than litigation is because the courts are often juggling multiple motions, cases, hearings and various other actions. In order to ensure a timely resolution, many arbitration organizations set limits on the amount of time that

an arbitrator, or tribunal, has to provide a decision. Additionally, an arbitrator's final pay can be associated with providing a decision and reasons, thereby adding an incentive to provide a timely decision.

To assist with a speedy process, many arbitration associations have created expedited arbitration processes. The rules and guidelines for expedited arbitration limit the discovery and other procedures that can be used, in order to ensure a timely resolution.<sup>4</sup> With respect to the procedural aspect, arbitration minimizes some lengthy and expensive procedural steps that are found in litigation. The World Intellectual Property Organization (WIPO) recently published a survey that confirmed the speediness of arbitration. The WIPO survey reported that arbitration saved 60% of time and 55% of costs compared to litigation.

### **3. Arbitration is cheaper than litigation**

The American Intellectual Property Law Association 2009 Economic Survey showed that a patent lawsuit with median costs of \$2.5 million would have costs under \$1 million for arbitration. One of the arguments against arbitration is that the parties must pay the arbitrators; however, arbitration fees generally consist of only 18% of the total fees. These fees are easily outweighed by the decrease in overall costs due to the speedier process.<sup>5</sup> The speedier process of arbitration allows the parties to skip procedural steps, which can be quite costly, as mentioned earlier.

### **4. Confidentiality**

Arbitration has the benefit of the flexibility of confidentiality. Arbitrations are inherently private; however, if parties choose, they can make the results public. When creating an arbitration clause in a contract, it is possible to include a confidentiality clause to ensure that all

information in the proceeding is kept confidential. On the other hand, all trial judgments are made public, unless settled ahead of time. In a patent dispute, this attribute of arbitration is extremely useful due to the potential for sensitive technical information being shared during trial. Furthermore, if the case is about patent validity, the parties may not want the decision to be public in order to hide any flaws in the patent. However, a party may want the arbitration to be public if they want to set a precedent and deter future infringers. Arbitration provides the flexibility of

*One of the key features of the New York Convention is that recognition and enforcement of an arbitration award can only be refused under a few extreme circumstances. If a party has concurrent litigation in several jurisdictions, it may be beneficial for the party to arbitrate the dispute once and then enforce the award across the globe.*

having a private or public proceeding, whereas litigation guarantees a public trial.

### **5. Finality and International Enforcement of Decision**

One of the benefits to arbitration is that the decision is essentially final. There is generally no appeal from arbitration.<sup>6</sup> Traditionally, courts have been reluc-

tant to overturn an arbitrated dispute. Recently, there have been some changes for optional appeal to an arbitration dispute; nonetheless, this is a process that all parties must agree to. If agreed upon, an arbitration tribunal could assess the decision and provide some level of appeal.<sup>7</sup> For example, JAMS has an optional appeal tribunal in order to provide a level of appeal to awards.<sup>8</sup>

Additionally, arbitration is binding around the globe, as opposed to litigation, which may only be enforced in the jurisdiction that it was decided.<sup>9</sup> Through the New York Convention, an arbitration award is enforceable essentially across the globe.<sup>10</sup> To date, 149 states have ratified the New York Convention.<sup>11</sup> One of the key features of the convention is that recognition and enforcement of an award can only be refused under a few extreme circumstances.<sup>12</sup> If a party has concurrent litigation in several jurisdictions, it may be beneficial for the party to arbitrate the dispute once and then enforce the award across the globe.

### **6. Preservation of Commercial Relationships**

Litigation can create a strained relationship between parties due to the public nature of trials. Arbitration harbors a more informal and less hostile approach; many of the unfair or underhanded techniques used in litigation are not used in arbitration. The commercial relationship between the parties is therefore preserved.

### **7. International Factors**

As discussed earlier, when selecting an arbitrator, or a panel of arbitrators, technical expertise is an asset, especially in international patent disputes involving complicated technology. An arbitrator can bring experience with the technical aspects, the patent laws in one or more jurisdictions and processes of resolving

disputes. The choice of law, or laws, is up to the parties, and the flexibility of choosing laws from differing jurisdictions, while remaining enforceable, can benefit the parties. Rather than litigating in several different jurisdictions with the prospect of different procedures and possible outcomes, parties in an international patent dispute can instead elect arbitration to settle the dispute with an arbitrator or panel, the laws and the process of their choosing.

## Conclusion

All in all, arbitration of a patent dispute, especially those with international overtones and complicated subject matter,

provides many of the benefits of a courtroom decision, with the additional features of timely thought-out reasons, a reduction in costs and time and international enforceability. The benefits of arbitration prove why so many companies believe that arbitration is useful in their industry. ●

1. [JAMS Comprehensive Arbitration Rules & Procedures, July 1, 2014, Rule 24\(h\).](#)
2. *ABA Dispute*, *supra* note 5.
3. *ABA Dispute*, *supra* note 5.
4. *JAMS Rules*, *supra* note 6 at 16.1.
5. *ABA Dispute*, *supra* note 5.
6. *Leon*, *supra* note 11 at 18.
7. Robert N. Rapp and Alexander B. Reich, "[AAA shakes up ADR with new rules to permit appeals of arbitration awards.](#)" Lexology, November 6, 2013.

8. *JAMS Rules*, *supra* note 6 at 34.
9. *Neumeyer*, *supra* note 17.
10. M. Scott Donahey, "[International Arbitration of Patent Disputes.](#)" International Association for the Protection of Intellectual Property."
11. [New York Arbitration Convention, 2013.](#)
12. *WIPO Arbitration*, *supra* note 2 at 31.



**Ronald E. Dimock, FCIArb**, is an accomplished litigator, mediator and arbitrator with JAMS based in Toronto. He specializes in intellectual property matters, bringing nearly 40 years of patent, trademark and copyright experience to his JAMS practice. He can be reached at [rdimock@jamsadr.com](mailto:rdimock@jamsadr.com).

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stage and that there were other suits pending charging infringement of the same patents. Thus, to maximize the opportunity for settlement where a PGR is in play, and to minimize it as an impediment under *Interlogix*, the following is recommended: (1) Before filing a PGR, the defendant should advise the patentee that it intends to do so and perhaps prepare and provide a draft petition for the patentee's consideration and offer to defer filing pending a settlement discussion (this also helps promote a settlement because the grounds for invalidation do not become public if settlement is reached before the PGR is filed and there is no concern over termination); (2) the patentee, if

it anticipates the filing of a PGR and it wants to discuss settlement, should defer initiating other infringement suits under the same patent(s) pending settlement discussions; and (3) if the PGR petition is filed, settlement discussions should be held before the PTO rules on whether to institute a PGR.

One additional consideration warrants brief discussion. A settlement can be conditioned on the PTO dismissing a pending PGR. While I was Chief Mediator at the federal circuit, many settlements were conditioned on the district court vacating an order unfavorable to one of the parties. In the large majority of such cases, the district court exer-

cised its discretion to vacate so that settlement could be consummated and the case dismissed. Whether the PTO would similarly be inclined to terminate the PGR so that dismissal could be achieved is an open question. ●



**James M. Amend, Esq.** is a JAMS neutral based in Chicago. He has more than 40 years of intellectual property experience, including seven years as Chief Circuit Mediator for the United States Court of Appeals for the Federal Circuit. He can be reached at [jamend@jamsadr.com](mailto:jamend@jamsadr.com).