

# Intellectual Property



Published by the Intellectual Property Section of the Washington State Bar Association

Volume 16

Summer 2005

Number 1

## Chair's Comments

By Liz Holohan

Welcome to another issue of the Washington State Bar Association's IP Section Newsletter. This may be one of the last hard copies you receive, as our efforts to create a Section that provides even more value to its members for that fifteen dollar fee (among the lowest of any WSBA section) will have us launching a new website and making our newsletter electronic. But, more about that below!

Before reporting on the Section's activities, let me first introduce the 2004 – 2005 Section leadership to you. Yours truly, this year's **Chair** ([lizh@intven.com](mailto:lizh@intven.com)) is grateful to be guided by the steady and knowledgeable hand of **Past Chair Bob Cumbow** ([rcumbow@grahamdunn.com](mailto:rcumbow@grahamdunn.com)), service he continues to provide willingly although his years of work on behalf of the Section entitle him to a well-earned break. I also benefit from the tireless efforts of **Chair-elect Grace Han Stanton** ([gstanton@perkinscoie.com](mailto:gstanton@perkinscoie.com)), who in addition to fulfilling her chair-elect obligations has also spearheaded Section efforts on creating the new website and worked extensively on producing this Newsletter in the past; and **Secretary-Treasurer Mike Keyes** ([jmkeyes@prestongates.com](mailto:jmkeyes@prestongates.com)), who is constant source of fresh ideas and approaches for Section activities. Rounding out the Executive Committee are our at-large members: **Davina Childs** ([davina.childs@t-mobile.com](mailto:davina.childs@t-mobile.com)), who is already at work organizing one of the Section's CLEs; **Al Richardson** ([al.richardson@blacklaw.com](mailto:al.richardson@blacklaw.com)), who continues to support the Section in the area of legislative activity; and **Maurice Pirio** ([mpirio@perkinscoie.com](mailto:mpirio@perkinscoie.com)), who supports the Section's outreach activities.

The Section is also served by volunteers such as **Jim Baunach**, who organizes and edits the newsletter; and **Chris Lynch**, a representative from Eastern Washington.

We are here to further your interests as IP lawyers. If there is anything we can do for you, if you have ideas for Section activities, or if you are interested in serving the Section as a volunteer (we always need them) or as a future member of the Executive Committee, please feel free to contact any of us.

## Section Report: Activities to Date

As Chair, I had two main goals: to further develop membership services and outreach; and to develop stronger relationships with our state's law school students and (we hope!) future Section members. Having finished slightly more than half of my tenure as Chair, I am pleased to report we continue to build on previous years' successes in those and other areas.

Continuing legal education is a key way for the Section to provide service and outreach to its members. We have two other staple CLEs and a third we will hold every other year. The first is the Section's yearly meeting, the IP Institute. This was the Section's 10th year of hosting its Annual Intellectual Property Institute, which was held at the Washington State Convention Center in Seattle on March 11, 2005, and co-chaired by **Brian Bodine** and me. We were delighted to cap ten years by featuring **Professor Larry Lessig**, who, as our keynote speaker, offered his point of view on the *Grokster* case and various issues in the current IP "wars." The Institute also featured an outstanding faculty who covered a diverse range of topics to help keep us up to date. Approximately 200 of our colleagues from across the state attended, helping to make the Institute a success. Planning is underway for the 2006 IP Institute – any Section member with either a topic or interest in speaking is encouraged to contact the Section's leadership

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or co-chairs **Mike Stein** ([stein@woodcock.com](mailto:stein@woodcock.com)) and **Mark Jordan** ([mjordan@invictalaw.com](mailto:mjordan@invictalaw.com)).

The other CLE tradition WSBA has more of a straight transactional focus. For a third year, we are collaborating with the Business Law Section on a licensing-oriented program. **Davina Childs** is co-chairing the event, scheduled for September 20, 2005, in Seattle. Watch for details!

Even with the tremendous successes of our IP Institute and licensing CLE, it is our third CLE, hosted for the first time in October, of which I am proudest. Your Chair was very interested in increasing the Section's presence in Eastern Washington and ensuring those members benefited from being in the Section. To that end, during our 2004-2005 year, we added a non-Western Washington officer in **Mike Keyes**, who joins us from Spokane, and created a standing Eastern Washington committee. Working closely with Mike and the newly formed Spokane Bar Association IP Section, your Chair and the Section hosted a day-long CLE in Spokane. More than 50 practitioners attended the October 6, 2004 event, titled *Protecting Intellectual Property: From Inception to Assertion*, which included a presentation by **Marybeth Peters**, the Register of Copyrights. The CLE was a tremendous success and something the Section looks forward to repeating bi-annually.

This CLE was structured around another Section event – law student “meet and greets” – where lawyers meet with students, discuss their practices and answer questions. We were honored to have Marybeth Peters join us at our October 5th event at Gonzaga, which drew approximately 40 attendees. Our meet and greets at the University of Washington and Seattle University were equally well attended. Planning for the next Gonzaga event is under way – please contact Mike or me if you are interested in attending!

The Section also endowed \$1,000 scholarships at all three law schools this year; I am pleased to announce that the amount will increase to \$2,000 starting in the 2005-2006 school year. While the schools select the recipient, any winner must evidence a clear commitment to intellectual property and have strong academic qualifications. The SU scholarship was awarded at our meet and greet.

Finally, I hope to increase communication with Section members by rolling out a new website. **Grace Han Stanton** and **Davina Childs** have worked over the past year to solicit bids, negotiate a contract, and develop content for the new site. We hope to provide case law updates, access

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**Ex Officio**

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to state legislation with an IP focus, a CLE calendar, and of course, the newsletter!

**Looking Ahead**

As you can see, the Section has had a busy year. We look forward to keeping our energy high as we strive to provide valuable services to our members. Stay tuned for more news and activities. In the meantime, enjoy this issue of our Section newsletter, which offers what we hope will prove a useful, educational, and entertaining array of information and content for our members.

*Liz Holohan is an Associate at Intellectual Ventures and is in her fifth year on the IP Section Executive Committee.*

## From Kane to Lily: The Role of Transformation in Fair Use

*"The goal of copyright, to promote science and the arts, is generally furthered by the creation of transformative works."*  
Campbell v. Acuff-Rose, 510 U.S. 569, 579 (1994).

By Rebekah O'Hara

As the level of protected expression increases, while at the same time access to the public domain decreases, society faces the probability that an artist's ability to create a new and wholly original work may incrementally diminish. Instead of dimming the creative spark, the doctrine of transformative fair use should protect new works from allegations of copyright infringement. Such protection could encompass a broad spectrum of new transformative expression, ranging from subtly incorporating a line from the movie *Citizen Kane* to boldly redressing Barbie in leather as *Lily the Diva Dominatrix*. Such an approach blends the economic interests underpinning the governmentally granted monopoly by requiring that the market for the allegedly infringed work remain unharmed while simultaneously requiring enough creativity in the new expression to merit copyright protection.

The Copyright Act "grants the holder exclusive rights to use and to authorize the use of his work in five qualified ways subject to fair use and the public domain." *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 433 (1984). Fair use has been defined as "...the privilege in others ... to use the material in a reasonable manner without ... consent." *Harper & Row Publishers v. Nation Enterprises*, 471 U.S. 539, 548 (1985). Courts are more likely to find fair use when the copyrighted work is "transformed" into something new and is not merely a reproduction of the original work.

Transformative fair use strikes a delicate balance and is "at the heart of the fair use doctrine's guarantee of breathing space within the confines of copyright." *Campbell v. Acuff-Rose Music*, 510 U.S. 569, 579 (1994).

Inherent in copyright law is the ubiquitous tension between providing economic protection to the artist while maintaining appropriate access to their work product for the public. The "monopoly privileges that Congress may authorize are neither unlimited nor primarily designed to provide a special private benefit. Rather the limited grant is a means by which an important public purpose is served." *Sony*, 464 U.S. at 429. The incentive given to the artist is intended to "induce release into the public of the products of his creative genius." *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984), citing, *United States v. Paramount*, 334 U.S. 131, 158 (1984).

Faced with an allegation of copyright infringement, a person may claim fair use as a defense when the alleged "infringing" material was used "for purposes such as criticism, comment, news reporting, reaching, scholarship, or research." 17 U.S.C. 107 (2003). When the fair-use

defense is raised, courts consider four statutory factors but will attempt to avoid "rigid application... when... it would stifle the very creativity which that law is designed to foster." *Campbell v. Acuff-Rose*, 510 U.S. 569, 578 (1994). These Congressionally stated factors include:

1. The purpose and character of the use, including whether the use was commercial in nature or was for educational, nonprofit purposes;
2. The nature of the copyrighted work;
3. The amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
4. The effect of the use upon the potential market for or value of the copyrighted work. 17 U.S.C. 107 (2003).

These four fair-use factors are ad-hoc and preclude bright-line application. However, by necessity the path of fair-use must be dimly lit to remain viable as its loose standard enables a court to apply the doctrine in light of the emerging and changing technological backdrop. H.R. Rep. 94-1476, 1976 U.S.C.C.A.N. 5659. Current technology has already introduced a vast array of measures for the deconstruction of prior original works. Pertinent to a transformative fair use is an analysis relating to the purpose and character of the use together with the inquiry into the effect on the market. These two factors are sensibly related; the more transformative the work is in purpose and character, the less effect the secondary use will have on the market of the original work.

### Analysis of the Work's Purpose and Character

"The most important component of the inquiry into the "purpose and character of the use" is the question whether the allegedly fair use was "transformative," i.e., whether the second use "adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message." *L.A. News Serv. v. CBS Broad., Inc.*, 305 F.3d 924, 938 (Cir. 2002).

In 2001, the musical group The White Stripes released the album "White Blood Cells" on an independent label called Sympathy for the Record Industry.<sup>1</sup> By January 2003, The White Stripes found themselves facing threatened litigation over allegations of copyright infringement from Warner Brother for violating Warner Brothers' distribution rights from the movie *Citizen Kane*.<sup>2</sup> The basis of the suit is a song from the album called Union Forever, which

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**FROM KANE TO LILY: THE ROLE OF TRANSFORMATION IN FAIR USE** *continued from previous page*


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depicts Charles Foster Kane, the American media mogul at the center of the film *Citizen Kane*.<sup>3</sup> *Citizen Kane* was released in 1941 by a fresh faced twenty-five year-old Orson Wells. Ironically, *Citizen Kane* has been thought to be a "derivative" story involving the life of William Randolph Hearst. But the idea of a powerful influential man seduced by money and fast women who self-destructs is merely that, the elusive unprotectable idea.

The Supreme Court stated in *Campbell* with regard to the first of the four factors, "the central purpose of this investigation is to see...whether the new work merely supercede the objects of the original creation... or instead adds something new, with a different purpose or different character, altering the first with new expression, meaning, or message..." *Campbell v. Acuff-Rose*, 510 U.S. 569, 579 (1994). While "transformative use is not absolutely necessary for a finding of fair use ... the more transformative the new work, the less will be the significance of other factors." *Campbell*, 510 U.S. at 579. The White Stripes' song could be viewed as entirely new expression from the original expression despite the incorporation of a few lines from the *Citizen Kane* movie script. Although translation of work to a different medium will not shield an artist from infringement, it should be considered a factor in the transformation process. "There must be real, substantial condensation of the materials, and intellectual labor and judgment bestowed thereon; and not merely the facile use of the scissors; or extracts of the essential parts, constituting the chief value of the original work." *L.A. News Serv. v. CBS Broad., Inc.*, 305 F.3d 924, 939 (9th Cir. 2002), citing, *Campbell*, 510 U.S. at 578-79. The *LA News* court found the creation of a video montage was potentially transformative, as the montage had to be edited for dramatic effect and the two works served different purposes. *Id.*

If The White Stripes took the movie and created a video of the song over the film, there would be little hope in trying to argue transformative fair use. Courts are reluctant to find fair use when an original work is merely retransmitted in a different medium and the resulting use of the copyrighted work is the same as the original use. For example, cutting and pasting model-building codes from one web site to another is not transformative. *Veeck v. S. Bldg. Code Cong. Int'l, Inc.*, 293 F.3d 791 (5th Cir. 2002). Additionally, reproducing music CDs into computer MP3 format does not change the fact that both formats are used for entertainment purposes. *UMG Recordings v. MP3.com*, 92 F. Supp. 2d 349, 351 (S.D.N.Y. 2000). Arguably, The White Stripes' use of the movie lines is not the same as cutting and pasting text as their new work reflected "elements of creativity beyond mere republication." *L.A. News Serv. v. CBS Broad., Inc.*, 305 F.3d 924, 939 (9th Cir. 2002). The song Union Forever has a different purpose and altered the movie lines with new expression.

However, a literal interpretation may find the lyrics did not transform the lines from the *Citizen Kane* movie script merely by replacing a visual backdrop with a musical one. In such grey areas, a further look into the effect on the *Citizen Kane* market could provide guidance into how the transformative fair-use doctrine could be used in order to effectuate Constitutional policies.

### Market Analysis

Working in tandem with the inquiry into the nature and purpose of the work, this second inquiry into the effect on the market of the original work serves the policies underpinning copyright law by protecting the necessary economic incentive for creation. If the second work displaces the market for the original work, a court is not likely to find fair use. *Greenberg v. Nat'l Geographic Soc'y*, 244 F.3d 1267 (11th Cir. 2001).

Since the "single most important element of fair use" under copyright law is "dealing with effect on market share," the question of transformative use may work in tandem with a market effect inquiry because a transformative work is less likely to adversely impact the market. *National Rifle Ass'n of America v. Handgun Control Federation of Ohio*, 15 F.3d 559, 561 (O.H. 1994) *cert denied*, 513 U.S. 815 (1994) citing *Harper & Row*, 471 U.S. at 566. "When a work is transformative, market substitution is at least less certain, and market harm may not be so readily inferred." *Campbell*, 510 U.S. at 592. "The more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use." *Campbell*, 510 U.S. at 579. However, there is still no bright-line rule, as courts have found that transformative fair use may still harm, or even destroy, the market for the original." *Castle Rock Entertainment v. Carol Publ'g Group*, 150 F.3d 132, 145 (2d. Cir. 1998).

*Citizen Kane* is a visually seminal motion picture, whereas The White Stripes are a gritty Detroit two-piece band. It could be argued that The White Stripes are actually increasing exposure of *Citizen Kane* and its market through influencing and guiding a younger "indi market" into *Citizen Kane's* movie and video rental market. Although the lyrics were replicated word for word, the replication occurred in new expression without harm to *Citizen Kane's* market. The implication of transformative fair use would protect *Citizen Kane's* economic interest while enabling access to prior works for interpretative new expression. Growing the doctrine of transformation serves the copyright purposes of access, incentives and stimulation by protecting works that are truly harmed by secondary use, while allowing others to recreate, recompose and trans-

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**FROM KANE TO LILY: THE ROLE OF TRANSFORMATION IN FAIR USE** *continued from previous page*


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form works that spring from the well of inspiration that is the public domain.

Consider the case involving Mattel's Superstar Barbie doll made over into "Dungeon Doll," a leather-clad bondage Barbie. These facts supported a finding of fair use, as the makeover of the perky blonde Barbie into Lily, a leather clad dominatrix, was sufficient to show transformation. *Mattel, Inc. v. Pitt*, 229 F. Supp. 2d 315 (S.D.N.Y. 2002). Since Barbie was transformed into *Lily the Diva Dominatrix*, the transformation exceeded merely supplanting the Barbie market as "... to the Court's knowledge, there is no Mattel line of "S&M" Barbie." *Mattel*, 229 F. Supp at 322. Further, the transformative nature impacted the inquiry regarding the effect on the market as "it appears that there is slim to no likelihood that Dungeon Dolls would serve as a market substitute for Barbie dolls." *Mattel*, 229 F. Supp at 324.

Incremental improvements are inherent in works of art, either serving as the recognizable point in a parody or providing an element of decomposition. The analysis into the transformative nature of a work respects the economic interests underpinning the copyright monopoly by enabling a work to be transformative only when the transformed work does not harm the market of the initial work and the transformative artist has expressed some "spark of creative genius." The White Stripes' expression could be viewed as transformative. Albeit noisy, somewhat whiny and mildly unpalatable to some, the song demonstrates what would otherwise be protected expression and is not

likely to harm the *Citizen Kane* market by incorporating an ode to a self-destructive tendency.

Transformative fair use enables secondary use of original expression when the second work serves a different purpose and character from the original work. As copyright powers grow exponentially and access to the public domain continues to decrease, the role of transformative fair use becomes even more important to assure fulfillment of the true purposes of a governmental monopoly, namely the ability to create expression while providing the sufficient economic incentive thought necessary for the continued creation of protected expression. Without growing the fair use doctrine, public interest could become unnecessarily outweighed by the copyright holder's personal and economic gain, which is something Mr. Kane himself would have appreciated.

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<sup>1</sup> Home page of Sympathy at <http://www.sympathyrecords.com>. "Providing Audio Salvation for Offcentered Souls."

<sup>2</sup> White Stripes Accused of Ripping off Citizen Kane, [http://music.sympatico.ca/news/stories/news/alt\\_indie/news\\_alt\\_2003040208.html](http://music.sympatico.ca/news/stories/news/alt_indie/news_alt_2003040208.html), visited May 2, 2003.

<sup>3</sup> March 22, 2002 Music Review, Crusader Online. [http://www.susqu.edu/crusader/archives/2002/02\\_03\\_22/livarts9.asp](http://www.susqu.edu/crusader/archives/2002/02_03_22/livarts9.asp), visited May 2, 2003. The lyrics include "It can't be love, for there is no true love... Sure I'm C.F.K... Well I'm sorry but I'm not interested in gold mines, oil wells, shipping or real estate what would I liked to have been? everything you hate... There is a man a certain man and for the poor you may be sure that he'll do all he can who is this one? who's favourite son?... upset if he were really broke with wealth and fame... I'll bet you five you're not alive... If you don't know his name... You said the union forever."

## CLE CREDITS FOR PRO BONO WORK?

### LIMITED LICENSE TO PRACTICE WITH NO MCLE REQUIREMENTS?

**Yes, it's possible!**

Regulation 103(g) of the Washington State Board of Continuing Legal Education allows WSBA members to earn up to six (6) hours of credit annually for providing pro bono direct representation under the auspices of a qualified legal services provider.

APR 8(e) creates a limited license status of Emeritus for attorneys otherwise retired from the practice of law, to practice pro bono legal services through a qualified legal services organization.

For further information contact Sharlene Steele, WSBA Access to Justice Liaison, at 206-727-8262 or [sharlene@wsba.org](mailto:sharlene@wsba.org).

## Willful Infringement and *Knorr-Bremse v. Dana Corp.* (Fed. Cir. 2004)

by Richard W. Knight and Greg S. Plichta, Woodcock Washburn LLP

*"No substantive doctrine in patent law creates greater risks and more difficult decisions than the concept of willful infringement."*  
William F. Lee & Lawrence P. Cogswell, III, 41 Hous. L. Rev. 393, 395 (2004).

The Court of Appeal for the Federal Circuit (CAFC) recently held in *Knorr-Bremse v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir., Sept. 13, 2004) (hereinafter, "KB IV") that "no adverse inference that an opinion of counsel was or would have been unfavorable flows from an alleged infringer's failure to obtain or produce an exculpatory opinion of counsel" and overruled precedent to the contrary. Presented herein is a brief analysis on the background of willful infringement and the implications of this recent CAFC decision.

### Overview of Willful Infringement

In general, willfulness is punitive provision applied at the damages stage of litigation. As a punitive provision, it also takes intent into account to enhance damages in proportion to the egregiousness of an accused infringer's conduct. According to 35 U.S.C. § 284 (2004), damages may be enhanced up to three times the compensatory award. On the one hand, a finding of willful infringement is a question of fact based on the "totality of the circumstances." On the other hand, enhancement of damages when willful infringement is found is in the discretion of the court.

Under the doctrine of willful infringement, "[t]here are no hard and fast rules regarding a finding of willfulness." *Graco, Inc. v. Binks Mfg. Co.*, 60 F.3d 785, 792 (Fed. Cir. 1995). More specifically, willfulness is based on the "totality of the circumstances" where a number of factors are taken into account. These factors have to demonstrate "good faith" to avoid infringing on another's patent rights, such that an accused infringer must discharge his "affirmative duty to use due care" when a patentee asserts his rights.

The Federal Circuit has heretofore explained willful infringement in the following manner:

In determining whether willfulness has been shown, we look to the totality of the circumstances, understanding that willfulness, "as in life, is not an all-or-nothing trait, but one of degree. It recognizes that infringement may range from unknowing, or accidental, to deliberate, or reckless, disregard of the patentee's legal rights." [Thus] [w]e must look at exculpatory evidence as well as evidence tending to show deliberate disregard of ... rights in determining whether substantial evidence supports the jury's verdict. The correct legal standard, therefore, is whether, in light of all the evidence, there is substan-

tial evidence to support the jury's finding of willfulness by clear and convincing evidence.

*Comark Comm., Inc. v. Harris Corp.*, 156 F.3d 1182, 1190 (Fed. Cir. 1998). Since willful infringement depends on the totality of the circumstances, an instance of willful infringement, given a particular fact pattern—such as not having technical knowledge of an accused device in the context of infringement by sale—may be very difficult to predict. Moreover, since willful infringement is a question of fact and not a question of law (and thus left to a jury that must find support for it by substantial evidence), it cannot be predicted with any legal certainty. *Id.*

The Federal Circuit has also stated:

Although various criteria have been stated for determining 'willful infringement,' which is the term designating behavior for which enhanced damages may be assessed, the primary consideration is whether the infringer, acting in good faith and upon due inquiry, had sound reason to believe that it had the right to act in the manner that was found to be infringing.

*SRI Int'l v. ATL, Inc.*, 127 F.3d 1462, 1464-65 (Fed. Cir. 1997). This general definition raises at least two questions: 1) what does "good faith" mean and 2) what is "due inquiry"? First, elaborating on the notion of "good faith," the court went on to explain that:

The law of willful infringement does not search for minimally tolerable behavior, but requires prudent, and ethical, legal and commercial actions. Thus precedent displays the consistent theme of whether a prudent person would have had sound reason to believe that the patent was not infringed or was invalid or unenforceable, and would be so held if litigated.

*Id.* at 1465 (emphasis added). Moreover, the court has also explored the other side of "good faith," namely, "bad faith," and explained through examples when either good or bad faith may be found:

"[B]ad faith" properly refers to an infringer's failure to meet his affirmative duty to use due care in avoiding infringement of another's patent rights.... If an infringer adequately performs this duty by determining that, for example, an asserted patent is invalid, that there is no infringement, or that his

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**WILLFUL INFRINGEMENT AND *KNORR-BREMSE V. DANA CORP.*** *continued from previous page*


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conduct is covered by licensing agreements, he will not be held liable for increased damages. Even if a party is subsequently found to be infringing another's patent despite its investigations, it will be liable only for compensatory damages, not increased damages, if it performed its affirmative duty in good faith. ...

On the other hand, where one continues his infringing activity, and fails to investigate and determine, in good faith, that he possesses reasonable defenses to an accusation of patent infringement, the infringement is in bad faith. Such conduct occurs when an infringer merely copies a patented invention, or where he obtains incompetent, conclusory opinions of counsel only to use as a shield against a later charge of willful infringement, rather than in a good faith attempt to avoid infringing another's patent. Thus, "bad faith" is more correctly called "bad faith infringement," and it is merely a type of willful infringement.

*Jurgens v. CBK, Ltd.*, 80 F.3d 1566, 1571 (Fed. Cir. 1996). From this passage the following instances of good faith can be culled: determining that an asserted patent is invalid; determining that there is no infringement; or examining whether the accused infringer's conduct is covered by any licensing agreements. Conversely, bad faith occurs when there is: a failure to investigate and determine possession of reasonable defenses to the alleged infringement; mere copying of a patented invention; or obtaining conclusory and incompetent opinions of counsel for unethical purposes, such as shielding oneself from willful infringement and not to avoid compromising another's patent rights.

The notion of "good faith" is inextricably bound to the notion of having an "affirmative duty to use due care" to avoid infringement, as is clear from the passage above. Specifically, failure to meet this duty leads to bad faith, and fulfillment of the duty leads to good faith. If, in the end, an accused infringer does not demonstrate such good faith belief, and upon a determination of willful infringement, the court has discretion to enhance damages up to three times the compensatory award. *Read Corp. v. Portec, Inc.*, 970 F.2d 816, 826 (Fed. Cir. 1992). In *Read*, the court listed nine factors to "assist the trial court in evaluating the degree of the infringer's culpability and in determining whether to exercise its discretion to award enhanced damages and how much the damages should be increased." *Id.* at 828. The first three factors, listed below, first appeared in *Bott v. Four Corp.*, 807 F.2d 1567, 1572 (Fed. Cir. 1986), while the other six were added in *Read*.

The nine factors are:

- 1) Whether the infringer deliberately copied the ideas or design of another;
- 2) Whether the infringer, when he knew of the other's patent protection, investigated the scope of the patent and formed a good-faith belief that it was invalid or that it was not infringed;
- 3) The infringer's behavior as a party to the litigation;
- 4) Defendant's size and financial condition;
- 5) Closeness of the case;
- 6) Duration of the defendant's misconduct;
- 7) Remedial action by the defendant;
- 8) Defendant's motivation for harm; and
- 9) Whether the defendant attempted to conceal its misconduct.

*Read*, 970 F.2d at 827. Again, these factors apply to the enhancement of damages, and are distinct from the antecedent finding of willful infringement, as discussed above.

#### **Background on the Knorr-Bremse Dispute**

The plaintiff Knorr-Bremse is the owner of U.S. Patent No. 5,927,445 (the '445 patent) directed to air disk brakes. The defendants/appellants Dana and Haldex collaborate to sell in the United States an air disk brake manufactured by Haldex in Sweden. On August 31, 1999 Knorr-Bremse notified Dana that, among other things, the '445 patent had issued on July 27, 1999 and, subsequently, Knorr-Bremse filed an infringement suit on May 15, 2000. In September 2000 Haldex presented to the district court a modified brake design designated the Mark III, and moved for a summary declaration of non-infringement by the Mark III brake. Knorr-Bremse in turn moved for summary judgment of literal infringement by the Mark II brake, and infringement by the Mark III either literally or under the doctrine of equivalents. After a hearing in November 2000 the district court granted Knorr-Bremse's motion for summary judgment of literal infringement by the Mark II brake, and set for trial the issues with respect to the Mark III. Before and after the judgment of infringement by the Mark II, Dana and others continued to operate trucks in the United States containing the Mark II brake. Following a bench trial in January 2001, the district court found literal infringement by the Mark III brake. *Knorr-Bremse v. Dana Corp.*, 133 F. Supp. 2d 833 (E.D. Va. 2001) (partial summary judgment) ("KB I"); 133 F. Supp. 2d 843 (E.D. Va. 2001) (findings of fact and conclusions of law) ("KB II"); Civ. A. No. 00-803-A (E.D. Va. Mar. 7, 2001) (final judgment); No. 00-803-A (E.D. Va. Apr. 9, 2001) (amended final judgment) ("KB III").

On the issue of willful infringement, Haldex admitted to the court that it had consulted European and United

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**WILLFUL INFRINGEMENT AND *KNORR-BREMSE V. DANA CORP.*** *continued from previous page*

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States counsel concerning Knorr-Bremse's patents, but asserting the attorney-client privilege and declined to produce any legal opinion or to disclose the advice received. Dana, on the other hand, stated that it did not itself consult counsel, but relied on Haldex. On this basis, and applying Federal Circuit precedent, the district court found that "[i]t is reasonable to conclude that such opinions were unfavorable" and ultimately found the defendants to have willful infringed the '445 patent and awarded attorneys fees. KB II, 133 F. Supp. 2d at 863.

The appellants then appealed on the issue of willfulness of the infringement and the ensuing award of attorney fees.

### The CAFC Decision in *Knorr-Bremse*

Noting that the Supreme Court observed that "[t]he word 'willful' is widely used in the law, and, although it has not by any means been given a perfectly consistent interpretation, it is generally understood to refer to conduct that is not merely negligent" and cites conventional definitions such as "voluntary," "deliberate," and "intentional" in *McLaughlin v. Richland Shoe Co.*, 486 U.S. 128, 133 (1988), the CAFC concludes that the concept of "willful infringement" is not simply a conduit for enhancement of damages but, instead, is specifically intended to punish and deter intentional disregard of patent rights.

Upon that foundation, the court first distinguishes the present case from the leading case on willful infringement, *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983) by noting that "Underwater Devices did not raise any issue of attorney-client privilege, while applying precedent that a finding of willfulness requires the factfinder to find by clear and convincing evidence 'that the infringer acted in disregard of the patent.'" KB IV (citing *Stickle v. Heublein, Inc.*, 716 F.2d 1550, 1565 (Fed. Cir. 1983)).

Turning then to the issue of privilege, the court then cites *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565 (Fed. Cir. 1986), where in that case the Federal Circuit observed that the infringer "has not even asserted that it sought advice of counsel when notified of the allowed claims and [the patentee's] warning, or at any time before it began this litigation," and held that the infringer's "silence on the subject, in alleged reliance on the attorney-client privilege, would warrant the conclusion that it either obtained no advice of counsel or did so and was advised that its importation and sale of the accused products would be an infringement of valid U.S. patents." *Id.* at 1580. From this case arose the adverse inference, reinforced in subsequent cases such as *Fromson v. Western Litho Plate & Supply Co.*, 853 F.2d 1568 (Fed. Cir. 1988), which set forth the general rule that "a court must be free to infer that either no opinion

was obtained or, if an opinion were obtained, it was contrary to the infringer's desire to initiate or continue its use of the patentee's invention." *Id.* at 1572-73. However, in the present case the CAFC notes that throughout this evolution the focus was not on attorney-client relationships but on disrespect for law and, as a result, "implementation of this precedent has resulted in inappropriate burdens on the attorney-client relationship" and, as a result, the CAFC overrules this precedent.

Although concurring with the elimination of the adverse inference from the failure to obtain or disclose opinion of counsel, Judge Dyk, in his dissent, disagreed with the majority opinion to the extent that it reaffirms the proposition in *Underwater Devices* that a potential infringer with actual notice of another's patent rights has an affirmative duty to exercise due care to determine whether or not he is infringing. Judge Dyk first contents that the doctrine has been undermined by U.S. Supreme Court rulings since 1996 where the Court required as a matter of due process a finding of reprehensibility for an award of punitive damages, e.g., *BMW of N. Am., Inc. v. Gore*, 517 U.S. 559 (1996). In this regard, Judge Dyk concludes that, since awards of enhanced damages under 35 U.S.C. §284 are a form of punitive damages which may be warranted for certain types of willful infringement, then a potential infringer's mere failure to engage in due care is not itself reprehensible conduct. Judge Dyk concluded as follows:

Patent law is not an island separated from the main body of American jurisprudence. The same requirement of reprehensibility restricts an award of enhanced damages in patent cases as in other cases. When an infringer merely fails to exercise his supposed duty of care, there are "none of the circumstances ordinarily associated with egregiously improper conduct" that could be sufficiently reprehensible to warrant imposition of punitive damages, as in *Gore*.

### Conclusions

Following *Knorr-Bremse*, willful infringement is still based on the totality of the circumstances, and there truly are no hard and fast rules regarding willfulness since a number of factors are taken into account that, in the end, either demonstrate good faith to avoid infringement or bad faith attempt to infringe on another's patent rights. To show such good faith, an accused infringer must discharge his affirmative duty of care not to infringe. Such care can be shown by investigating the validity of a patent or demonstrating the non-infringement of an accused device. Whatever the accused infringer does, he must ask himself the

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**WILLFUL INFRINGEMENT AND *KNORR-BREMSE V. DANA CORP.*** *continued from previous page*

following: whether acting in good faith and upon due inquiry, he had sound reason to believe that he had the right to act in the manner that was found to be infringing—in short, whether he is acting in good faith. On the other hand, an opinion of counsel is not only subject to the attorney-client privilege, but the court in this case holds that, in order to protect the purposes served by attorney-client privilege, no adverse inferences can be drawn simply from its exercise.

In addition, the present does not resolve all related issues. As recognized by Judge Dyk in his dissent, several issues will still need to be addressed:

The majority opinion here ameliorates these concerns to some very limited extent by eliminating the inference that an undisclosed or unobtained opinion of counsel was or would have been adverse. But the majority opinion does not address whether a potential infringer can satisfy the requirement of due care

without securing and disclosing an opinion of counsel, or, if such an opinion is not absolutely required, whether an adverse inference can be drawn from the accused infringer's failure to obtain and disclose such an opinion. More fundamentally, the opinion does not address whether the due care requirement, whatever its parameters, is consistent with the Supreme Court's punitive damages jurisprudence.

In any event, while it seems the CAFC does not support any form of *pro se* precedent that would result in a finding of willful infringement (to the benefit of potential infringers), the court also seems reluctant to provide any safe harbors for alleged infringers (to the benefit of patent holders) and thus willful infringement continues to be almost entirely based on an assessment of the totality of circumstances albeit subject to certain minor restrictions necessary to protect the attorney-client privilege.

## Protecting Innovations Through Utility Models in China

*by Lynn Wang and Xiaojuan Zhang*

In China, inventions may also be protected, if applicable, by utility models, which are known in some countries as "petty patents" or "utility innovations." Adopting utility models to protect products has become a common practice for Chinese applicants. Table 1 below shows statistics for the three kinds of domestic and international patent applications in China for the years of 2002 and 2003. Each year, approximately 90 percent of the utility model applications were filed by Chinese applicants. Many of our foreign clients, including American clients, are not familiar with this practice. The purpose of this article is to give an overall introduction to the Chinese utility model patent and its main features.

| Year 2003 |                |                 |                |                 |
|-----------|----------------|-----------------|----------------|-----------------|
|           | Invention      | Utility Model   | Design         | Total           |
| China     | 56,769 [53.9%] | 107,842 [98.8%] | 86,627 [92.1]  | 251,238 [81.4%] |
| Overseas  | 48,549 [46.1%] | 1,273 [1.2%]    | 7,427 [7.9%]   | 57,249 [18.6%]  |
| Year 2002 |                |                 |                |                 |
|           | Invention      | Utility Model   | Design         | Total           |
| China     | 39,662 [49.4%] | 92,162 [99.0%]  | 73,572 [92.8%] | 205,396 [81.3%] |
| Overseas  | 40,571 [50.6%] | 977 [1.0%]      | 5,688 [7.2%]   | 47,236 [18.7]   |

Table 1.

Compared with an invention patent, the Chinese utility model patent has the following characteristics 1) a relatively low requirement for inventiveness, 2) a short examination time limit, 3) lower costs for obtaining the patent and lower annual fees, and 4) a short duration of protection – 10 years. These characteristics have made the utility model a good solution when the need for protection is short-lived, e.g., when a new product has a limited life-span.

### The protection subject of the utility model patent

There are three kinds of patents in China: invention patent, utility model patent and design patent, all of which were originated in 1985. Their maximum protection periods are 20 years, 10 years and 10 years from the filing date, respectively, and cannot be extended or renewed.

According to Rule 2 of the Chinese Patent Law, "any new technical solution relating to the shape, the structure, or their combination, of a product, which is fit for practical use" is subject to the protection of utility model patent. The utility model patent has a unique feature: a utility model does not provide protection for methods. Furthermore, compared with the invention patent, the scope of the protection provided by the utility model patent is somewhat limited. More specifically, the following are not

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**PROTECTING INNOVATIONS THROUGH UTILITY MODELS IN CHINA** *continued from previous page*

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protected by the utility model patent: (1) any methods related to the patent, including the product's use, and any naturally existing object; (2) a product without a definite shape, e.g., in a gaseous state, or liquid state, as well as powdery or granule substances, the shape of which cannot be used as the characteristics of the product of utility models; (3) the molecular structure and components of substances, which are structures of products that are not protected by utility model patents.

The requirements for an application for a utility model patent are similar to those for an invention patent. When an applicant files an application for a utility model patent, he or she must submit claims, a description and its abstract, and at least one drawing. The difference between the two kinds of applications is that an application for a utility model patent requires the submission of at least one drawing of the mechanical construction, or a circuit diagram.

### **The features and examination procedure for utility model patents**

#### **Inventiveness Requirements**

According to the requirements for inventiveness stipulated in Article 22 of the Patent Law of China, an invention "has prominent substantive features and represents a notable progress," while a utility model "has substantive features and represents progress." From the examiner's point of view, the inventiveness requirement for a utility model patent application is lower than that of an application for an invention patent. The applicant may benefit from this feature because certain simple inventions, such as circuit diagrams, e.g., of household appliances and general mechanics, e.g., for daily necessities, may not be granted patent rights because of a lack of or inadequate inventiveness, but an application for a utility model patent with the same subject matter may be granted the rights.

As mentioned earlier in this article, methods cannot be protected as utility model patents per the utility model definition.

#### **Novelty Requirement and Preliminary Examination System**

The Patent Office of the People's Republic of China has adopted a system of preliminary examination for utility model patent applications. That is to say, patent rights may be granted right after the preliminary examination without a substantial examination. A preliminary examination does not include a

novelty search or examination, which is usually done in infringement suits, when defendants raise the request of patent invalidity. Therefore, this system is highly favorable for applications in the following two situations: 1) where the product has been publicly used in a foreign country, and 2) where product information has been publicly disclosed through limited publications in China or abroad, e.g., introduced through advertisements, user manuals or websites **without** definite publishing dates.

Since a preliminary examination system is used for examining utility model patents in China, official requirements for amendments are usually only limited to format defects. Therefore, the total application cost is lower and the examination period only takes about nine months. In contrast, the examination of an invention patent application normally takes 30 to 40 months. We (AFD China Intellectual Property Law Office) suggest that our clients file a utility model patent in China if the product has a short life cycle, in order to get the patent granted and obtain protection more quickly.

#### **Strategy of Filing Invention Patent and Utility Model Patent Applications Simultaneously**

In view of these features of the examination procedure for utility model patents, the applicant may sometimes choose to file two patent applications simultaneously: an application for a utility model patent and an application for an invention patent. These two applications may share identical or partially identical texts. The utility model patent may be granted the patent right after 9 months. After the invention patent application has passed the substantive examination, the Chinese Patent Office will notify the applicant of the co-existence of the two patents and require the applicant to either abandon the utility model patent and adopt the invention patent for protection at the same time, or withdraw the invention patent application before being granted patent rights pursuant to the utility model patent.

#### **Infringements of Utility Model Patents**

After the grant of patent rights, the registration of a utility model results in the owner receiving the exclusive rights to use the subject-matter protected by the utility model. No entity or individual may, without the authorization of the patentee, make, use, promise to sell, sell or import the patented product for production or business purposes.

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**PROTECTING INNOVATIONS THROUGH UTILITY MODELS IN CHINA** *continued from previous page*

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The patentee may request mediation by the administrative authority for utility model patent affairs. If the mediation fails, the parties may institute legal proceedings in Chinese courts. Utility model patents and invention patents are equally enforced and criminal sanctions can apply in utility model infringement cases.

**The use of a search report for utility model patents and its influence over legal proceedings concerning the infringement of utility model patent right.**

Since the number of applications and approvals of utility model patents have consistently been the largest among the three kinds of patents in China, and due to the demerits and limitations of the preliminary examination system, stipulations concerning the provision of a search report on for a utility model patent were added in the second amendment to the Patent Law of China by the Patent Office of China. It aims to solve problems caused by the grant of utility model patents without any substantive examination to some extent. For instance, when a patentee of a utility model patent institutes legal proceedings against an infringer, the defendant may request the Patent Reexamination Board to declare the patent right of the accuser invalid. The court then usually suspends the action and waits for the results of a substantive examination by the Patent Reexamination Board. In order to avoid such delays in enforcement, according to the Patent Law of China, as amended in 2001, the patentee of a utility model patent may request that the Patent Office prepare a utility model patent search report prior to instituting the legal proceedings. Some courts, therefore may not suspend the action in the event that it considers the utility model patent search report produced by the Patent Office valid and without evidence of technical documents affecting the novelty or creativity of the utility model patent.

**Some information about Utility Model Search Reports:**

- Usually, it takes 2–6 months for the Patent Office to produce a search report. Recently, this period has been getting shorter.
- The request for utility model search report must be made after the utility model patent has been granted and announced.
- Some Chinese courts will not allow the filing of legal proceedings concerning infringement of utility model

patent unless the search report is provided simultaneously with the filing.

Generally speaking, the system for utility model patents is an effective protective measure for products of simple inventions with comparatively short life cycles and rapid market changes. The following countries currently also protect utility models: Australia, Argentina, Armenia, Austria, ARIPO, Belarus, Belgium, Brazil, Bulgaria, China, Colombia, Costa Rica, Czech Republic, Denmark, Estonia, Ethiopia, Finland, France, Georgia, Germany, Greece, Guatemala, Hungary, Ireland, Italy, Japan, Kazakhstan, Kenya, Kyrgyzstan, Malaysia, Mexico, Netherlands, OAPI, Peru, Philippines, Poland, Portugal, Republic of Korea, Republic of Moldova, Russian Federation, Slovakia, Spain, Tajikistan, Trinidad & Tobago, Turkey, Ukraine, Uruguay and Uzbekistan.

We (AFD China Intellectual Property Law Office) have assisted many applicants in obtaining utility model patents from the Patent Office of China. As a result, these patentees have been protected by the Chinese intellectual property law. With the gradual maturing of the Chinese market and the intensifying competition, we are confident that, with the aim to effectively protect the interests of their products in China, more and more foreign clients will understand and benefit from the China's utility model system.

*If you have any questions concerning the content of this article, application, examination, invalidation and reexamination procedure of a utility model patent or its protection from infringement, or any other questions, please feel free to contact Lynn Wang (lynnw@afdip-usa.com or 503-220-2702).*

*Lynn Wang is a partner of AFD China Intellectual Property Law Office (AFD) - a private IP law firm based in China, with offices in the U.S. AFD provides services to clients worldwide in all areas of intellectual property law, including patents, trademarks, copyrights, unfair competition, trade secrets, domain names, licensing, and other legal areas dealing with technology and intellectual property, in the People's Republic of China. Lynn manages the firm's Portland office, and her practice focuses primarily on Chinese trademark, patent, and copyright matters, and Customs protection. She provides Chinese intellectual property consulting services, specializing in patent and trademark protection and IP strategy.*

*This is a publication of a section of the Washington State Bar Association.*

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