

The Association of Corporate Counsel is the in-house bar association serving the professional needs of attorneys who practice in the legal departments of corporations and other private sector organizations worldwide. Austin ACC was established in November 2004. It serves in-house attorneys in the Austin and Round Rock areas. Click [here](#) to visit the Austin ACC chapter home page.

In this Issue

- ▶ **Event Photos: ART on 5th Fine Arts Gallery**.....2
- ▶ **Upcoming Events & ACC Webcasts**3
- ▶ **Social Security Administration “No Match” Letters and U.S. Immigration Law: What’s an Employer to Do?** by Jacquelyn Maroney, *Fulbright & Jaworski L.L.P.*.....4
- ▶ **Benefits of ACC Membership**6
- ▶ **Willful Patent Infringement and Opinions of Counsel after *In re Seagate Technology*** by Jeffrey D. Mills and Brian C. Banner, *Baker Botts L.L.P.*7

CHAPTER BOARD

Jennifer Wuamett, President
Freescale Semiconductor, Inc.

John Holmes, VP of Programs
Freescale Semiconductor, Inc.

Christine Montoya, President Elect &
 VP of Membership
State Farm Insurance Companies

Julie Wong, VP of Communications
Dell

Stephanie Lucie, Secretary & Treasurer
Staktek Holdings, Inc.

Liz Lowenstein, Immediate Past President
Dell

Cynthia Sutherland, VP of Sponsorships
Dell (contract attorney)

Violetta Baczewski, Chapter Administrator
Freescale Semiconductor, Inc.

Event Photos

Our recent Happy Hour / Social event was held at the ART on 5th Fine Arts Gallery on October 24, 2007. Everyone enjoyed a great evening of art, wine, and meeting new friends! The event was generously sponsored by Austin ACC title sponsor: **Jackson Walker L.L.P.**



Upcoming Events & ACC Webcasts:

Austin ACC Third Annual Meeting, General Counsel Panel & Sponsor Appreciation

Wednesday, December 5
6:30 P.M. to 9:00 P.M.
Driskill Hotel, 604 Brazos Street

General Counsel Panel:

Chris Brown, NetSpend Corporation

Teresa Burroff, Seton Family of Hospitals

David Cabrales, Office of the Governor Rick Perry

Nestor Ho, Silicon Labs

Catherine Morse, Samsung Austin

Please RSVP by November 26th
to Chapter Administrator, Violetta Baczewski at acca@austin.rr.com

UPCOMING ACC WEBCASTS:

To see a full list and register, go to <http://webcasts.acca.com>

11.14.07 Staying Smart on SEC Issues: Hot Issues for the Business Lawyer

11.27.07 Managing International Real Estate Portfolios

12.05.07 Cross-Border Investigations and Litigation: How to Protect Your Client in the U.S. and Canada

12.06.07 Increase Your Department's Impact with an Intern Program

[Back to Top ↑](#)

Social Security Administration “No Match” Letters and U.S. Immigration Law: What’s an Employer to Do? by Jacquelyn Maroney



Jacquelyn Maroney is a Senior Associate in the Austin office of Fulbright & Jaworski L.L.P. She practices exclusively in the area of employment-based U.S. Immigration and Nationality Law. Ms. Maroney represents employers in obtaining temporary and permanent U.S. work authorization on behalf of executive, managerial, professional, and other specialized workers and advises clients regarding I-9 compliance.

Ms. Maroney can be contacted at (512) 536-2420 or jmaroney@fulbright.com

Consider yourself fortunate if your company has not received a “no match” letter, or more formally, an “Employer Correction Request,” from the Social Security Administration (SSA). A “no match” occurs when employers’ earnings reports (W-2 Forms) transmitted to the SSA contain a combination of an employee name and Social Security Number (SSN) that do not match SSA records. The mismatch can be a result of a clerical error by the employer or a name change by the employee. A mismatch can also occur, however, when the employee provides the employer a false SSN or a SSN that belongs to someone else. The SSA wants employers to correct the mismatches because they prevent the SSA from properly posting wage reports to individual earnings records that are used to calculate future Social Security Benefits.¹ The Department of Homeland Security is interested in these SSA “no matches” as a possible indicator of an employer’s lack of compliance with U.S. immigration law. Under a new rule published by the Department of Homeland Security (DHS), receipt of a SSA no-match letter will be of more concern to employers than ever before.

In responding to a SSA no-match letter, employers face the risk that employees who are questioned by an employer about a SSN “no match” may not return to work. If a significant percentage of the workforce is affected, an employer may be forced to choose between suffering a loss of continuity in its workforce and business operations or running afoul of U.S. immigration law.

Background on the Form I-9 and the Employer’s Obligation to Verify Employment Eligibility under the Immigration Reform and Control Act

The Immigration Reform and Control Act (IRCA), enacted in 1986, penalizes employers for knowingly hiring or continuing to employ aliens who are not authorized to work in the U.S. The term *knowingly* includes actual knowledge or constructive knowledge, based on a totality of the circumstances.² IRCA also requires employers to verify the employment eligibility of every person hired by completing Form I-9, Employment Eligibility Verification. The Form I-9 completion procedure requires employers to review the employment eligibility and identity documents presented by each employee and record the document information on Form I-9. The Form I-9 provides a record-keeping

¹ In 2002, for example, the SSA was unable to match almost 9 million wage reports relating to \$56 billion in earnings. See Department of Homeland Security, 8 CFR Part 274a, [RIN 1653-AA50] ICE 2377-06, DHS Docket No. ICEB-2006-0004, “Safe-Harbor Procedures for Employers Who Receive a No-Match Letter” at p. 16.

² Please note that the following sources were relied upon in general knowledge regarding this subject: 1. 8 CFR § 274a; 2. Austin T. Fragomen, Jr. and Steven C. Bell, *Immigration Employment Compliance Handbook*, West Group, St. Paul, Minnesota, 1998; and 3. Ira J. Kurzban, *Kurzban’s Immigration Law Sourcebook, Ninth Edition*, American Immigration Law Foundation, Washington, D.C., 2004.

mechanism for the benefit of U.S. Immigration and Customs Enforcement (ICE), Department of Labor (DOL), and the Office of Special Counsel.

While it is the employer's obligation to avoid employment of aliens not authorized to work in the U.S., the employer must also refrain from overzealous efforts in its Form I-9 employment verification procedure, as IRCA also provides civil and criminal penalties against employers who engage in discriminatory or unfair immigration-related employment practices.

The Social Security Administration No-Match Letter

Typically issued to employers whose earnings reports contain a high percentage of mismatches, the SSA issues a no-match letter to inform the employer of its mismatches and to request correction of same. In the past, a typical no-match letter listed the affected employees and 'merely' requested the employer to correct the mismatch and respond to the SSA. The letter specifically stated that the mismatch is not evidence that an employee is unauthorized to work in the United States and advised the employer that the mismatch alone is not a basis for any adverse action against the employee. Nevertheless, a no-match letter can and often does trigger a series of events that ultimately requires the employer to terminate the employee or employees at issue.

Faced with a no-match letter from SSA, many employers are keenly aware that an inquiry into an employee's SSN could drive a worker away. If the list relates to a significant percentage of employees, an employer has to worry about the impact of a possible mass exodus on business operations. Given the foreseeable business ramifications and the somewhat mild language in the no-match letter itself, some employers have been tempted to file the letter away. To do so, however, is typically ill advised from a legal standpoint. In the past, a generally recommended course of action for employers in receipt of no-match letters has involved notifying all affected employees in writing of the mismatch and asking them to correct the problem with the SSA within a reasonable period of time. If the employee was not able to correct the mismatch problem with the SSA, the employer was in the uncomfortable position of possibly possessing constructive knowledge that the individual was not authorized to work in the U.S. This situation generally called for the employer to re-verify employment eligibility on the Form I-9, and if the employee was unable to adequately prove identity and U.S. work authorization, then the employer was forced to terminate employment.

The Department of Homeland Security's Final Rule: "Safe-Harbor Procedures for Employers Who Receive a No-Match Letter"

On August 10, 2007, the Department of Homeland Security (DHS) published a final rule detailing specific procedures employers should follow upon receipt of a SSA no-match letter or a written notice from DHS that an immigration status or employment authorization document presented by an employee in completing Form I-9 was not assigned to the employee by DHS.³ The final rule was expected to take effect on September 14, 2007, but the AFL-CIO obtained a Temporary Restraining Order on August 31, 2007 from the U.S. District Court, Northern District of California, which enjoins and restrains DHS from implementing the final rule at this time.⁴ If/when the final rule becomes effective, unofficial reports indicate that the SSA will immediately start sending no-match letters to employers.

Upon effectiveness of the final rule, employers will no longer have the same latitude in determining what steps are reasonable in response to a SSA no-match letter. The new rule will expand the definition of constructive knowledge to include situations where the employer fails to take

³ See Department of Homeland Security, 8 CFR Part 274a, [RIN 1653-AA50] ICE 2377-06, DHS Docket No. ICEB-2006-0004, "Safe-Harbor Procedures for Employers Who Receive a No-Match Letter."

⁴ See Court Document No. 21 Temporary Restraining Order And Order to Show Cause, Case No. 3:07-cv-04472-CRB, American Federation of Labor and Congress of Industrial Organizations, et. al. v. Michael Chertoff, Secretary of Homeland Security; Department of Homeland Security, et.al.

prescribed reasonable steps subsequent to receipt of a SSA no-match letter. If the employer takes the specific steps required within the designated time frame, however, then there is a "safe harbor" where DHS will not use a SSA no-match letter or a written notice from DHS as any part of an allegation that the employer had constructive knowledge that the subject employees are unauthorized workers. Note that these procedures do not safeguard against liability when an employer has actual knowledge that an employee is not authorized to work.

Under the new rule, if discrepancies with a SSN or an immigration status or employment authorization document presented by an employee for I-9 purposes cannot be resolved within ninety-three days of the agency notice by following prescribed procedures, employers must terminate the employment of the respective employee(s). In the case of a SSA no-match letter, employers are to first review their own records, correct the discrepancy, if possible, and then inform and verify the resolution with the SSA. If the employer cannot correct the discrepancy, the employer is to ask the employee to confirm that the name and SSN in the employer's records are correct. If the discrepancy cannot be so easily resolved, the employer must advise the employee of the notice from SSA and instruct him/her to resolve the discrepancy with the SSA directly within ninety days of the date the employer received notice from SSA. If the employee is unable to resolve the discrepancy, then the employer must repeat the Form I-9 employment eligibility verification process by the ninety-third day. If the affected employee's identity and work eligibility cannot be (re)verified, the employer must terminate the individual's employment or risk liability for knowingly hiring or continuing to employ unauthorized persons.

The hearing on the AFL-CIO's temporary restraining order is set for October 1, 2007, with either side expected to appeal the decision made. With no specific date set for implementation of the DHS final rule, employers should be on alert regarding the decisions they may face if/when in receipt of a SSA no-match letter.

[Back to Top ↑](#)

Enjoy these benefits by becoming an ACC member!

- **In-house Focus.** ACC is the only bar association that addresses the professional and practice needs of in-house counsel (and only in-house counsel).
- **In-house Networks.** ACC's Chapters and Committees offer focused CLE programs and opportunities to network with other corporate counsel.
- **ACC Docket.** Our award-winning monthly journal features articles written by corporate counsel on issues you face daily and provides solutions you can use now.
- **MemberToMember.**SM Tap into the expertise of your ACC peers through our network of in-house volunteers who provide advice about legal issues, such as retaining local counsel, or the benchmarking of corporate forms, policies, and procedures.
- **InfoPAKS.**SM Save time and money with more than 40 information packages that include articles, sample forms and policies, and case law on conflicts and waivers, records retention, outside counsel management, technology, and much more.
- **ACC Alliance.** ACC has partnered with leading legal vendors to provide products and services designed to help you better manage your time, workload, and budget.
- **Virtual Library.**SM Check out this online database for sample forms and policies, articles, website references, and checklists to help you resolve current problems.
- **Annual Meeting.** Stay sharp! For the best information on corporate practice issues attend ACC's Annual Meeting. With more than 100 sessions to choose from, you'll receive focused, insightful information to help you counsel your corporate client better.
- **Public Policy / Advocacy.** ACC speaks out on issues affecting your ability to practice law, including attorney-client privilege and multijurisdictional practice (MJP).
- **In-house Jobline.**SM The one place to find your next position, post your resume, or hire legal staff.

Willful Patent Infringement and Opinions of Counsel after *In re Seagate Technology* by Jeffrey D. Mills and Brian C. Banner



Jeffrey D. Mills is Special Counsel in the Austin office of Baker Botts. His practice centers on intellectual property law, with a focus on patent litigation and licensing. He has extensive experience representing plaintiffs and defendants in patent litigation and related matters in federal district courts, before the USITC, and before the USPTO. He may be contacted at (512) 322.2555 or via e-mail at Jeffrey.mills@bakerbotts.com



Brian C. Banner is an Associate at Baker Botts. He practices in the area of intellectual property. He can be contacted at (512) 322.2632 or brian.banner@bakerbotts.com

On August 20, 2007, the Federal Circuit issued its second *en banc* decision on the issue of willful patent infringement in just three years, *In re Seagate Technology*, Misc. Docket No. 830 (Fed. Cir., Aug. 20, 2007) (“*Seagate*”). In *Seagate*, the Federal Circuit fundamentally changed the legal standard for proving willful infringement, emphasized that there is no affirmative obligation to obtain an opinion of counsel when given notice of another’s patent, and clarified that the waiver of privilege and work product immunity that results when an opinion of counsel is disclosed does not ordinarily extend to trial counsel. Without doubt, *Seagate* is a landmark decision that will have the most far-reaching implications for willful patent infringement of any Federal Circuit decision issued in the last 20 years. The purpose of this article is to identify and discuss some of the implications *Seagate* will have on claims of willful patent infringement.

History

A finding of willful patent infringement has severe consequences. If a defendant is found to have willfully infringed the patent, then that finding provides a basis for declaring the case “exceptional” under 35 U.S.C. § 285. When a case is found to be “exceptional”, a judge has discretion to treble any compensatory damages and to require the infringer to pay the patent holder’s attorneys fees. Since the median cost of a patent infringement action can range from \$2 million to \$5 million,⁵ a finding of willful infringement can have a significant monetary impact even in cases where little or no damages are awarded.

Recent concerns about runaway willful patent infringement claims can be traced back to a very early 1983 Federal Circuit decision called *Underwater Devices, Inc. v. Morris-Knudsen Co., Inc.*, 717 F.2d 1380 (Fed. Cir. 1983). *Underwater Devices* imposed on a potential infringer with actual notice of another’s patent rights “an affirmative duty to exercise due care to determine whether or not he is infringing.” This duty included the obligation “to seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity.” *Id.* A breach of this duty alone (e.g., the failure to obtain an opinion of counsel) could lead to liability for willful patent infringement. *Id.* at 1390.

Within a few years, the law of willful patent infringement evolved even further in favor of the patent holder. The Federal Circuit ruled that when an alleged infringer chose not to produce an opinion of counsel but to instead rely on the attorney-client privilege, an adverse inference arose that no opinion was obtained or that any opinion obtained was unfavorable. See, e.g., *Kloster Speedsteel AB v. Crucible Inc.*, 793 F.2d 1565 (Fed. Cir. 1986); *Fromson v. Western Litho Plate & Supply Co.*,

⁵ See AIPLA Report of the Economic Survey 2007, pp. I-92, 93 (July 2007) (available from the American Intellectual Property Law Association).

853 F.2d 1568 (Fed. Cir. 1988). And when an alleged infringer chose instead to produce an opinion of counsel, some district courts ruled that this disclosure resulted in a broad subject matter waiver of the attorney-client privilege. See, e.g., *Steelcase, Inc. v. Haworth Inc.*, 954 F. Supp. 1195, 1198–1200, 43 U.S.P.Q.2d 1041, 1043–1044 (W.D. Mich. 1997); *Micron Separations, Inc. v. Pall Corp.*, 159 F.R.D. 361, 363 (D. Mass. 1995); *FMT Corp. v. Nissei ASB Co.*, 24 U.S.P.Q.2d 1073, 1075 (N.D. Ga. 1992). Under this precedent, even the advice given by trial counsel on issues addressed in a disclosed opinion was discoverable. See, e.g., *Celerity, Inc. v. Ultra Clean Holding, Inc.*, 476 F. Supp. 2d 1159, 1166 (N.D. Cal. 2007); *Iridex Corp. v. Synergetics, Inc.*, 2007 WL 445275, *1 (E.D. Mo. Feb. 2, 2007).

By 1991, the law had evolved to the point that an alleged infringer faced with a charge of willful patent infringement often found itself with a true Hobson's choice, divulge the opinion and be subject to a sweeping waiver that may extend to trial counsel, or withhold the opinion and be subject to an adverse inference that the opinion was unfavorable:

An accused infringer . . . should not, without the trial court's careful consideration, be forced to choose between waiving the privilege in order to protect itself from a willfulness finding, in which case it may risk prejudicing itself on the question of liability, and maintaining the privilege, in which case it may risk being found to be a willful infringer if liability is found.

See *Quantum Corp. v. Tandem Corp.*, 940 F.2d 642, 643–644 (Fed. Cir. 1991).

The precedent established by these cases created a legal landscape where willful patent infringement was asserted in 92% of all patent cases, and was successful with over 67% of juries.⁶ Calls to reform the law of willful infringement became louder and louder.⁷

In 2004, the Federal Circuit began to answer these calls with its first in a series of decisions addressing willful patent infringement. In *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337 (Fed. Cir. 2004), the Court ruled *en banc* that no adverse inference could be drawn from the failure to produce an opinion of counsel. An accused infringer could choose not to obtain or disclose an opinion of counsel without being penalized by an adverse inference of an unfavorable opinion. However, *Knorr-Bremse* expressly retained the affirmative duty of due care to obtain an opinion of counsel. *Id.* at 1343, 1345–46. Thus, the risk of being found liable for willful infringement if you did not obtain an opinion of counsel remained, as did concerns about the scope of privilege waiver that occurred when an opinion was produced.

In 2006, the Federal Circuit addressed the scope of the privilege waiver that occurs when a party relies upon an opinion of counsel. In *re Echostar*, 448 F.3d 1294 (Fed. Cir. 2006). The *Echostar* Court reaffirmed that the disclosure of an opinion of counsel waived the attorney-client privilege and work product immunity for all communications and documents pertaining to the subject matter of the opinion. *Id.* at 1299, 1302–03. But, this waiver did not reach any attorney work product that had not been communicated to an alleged infringer. *Id.*

But *Echostar* did not resolve whether the waiver extended to trial counsel. In the wake of *Echostar* some district courts concluded that it did. See, e.g., *Informatica Corp. v. Bus. Objects Data Integration, Inc.*, 454 F. Supp. 2d 957 (N.D. Cal. 2006). Others reached the opposite conclusion. See, e.g., *Ampex Corp. v. Eastman Kodak Co.*, 2006 U.S. Dist. LEXIS 48702 (D. Del. July 17, 2006). The legal landscape remained much the way it was after *Knorr-Bremse*. The risk of willful infringement in

⁶ K. A. Moore, *Empirical Statistics on Willful Patent Infringement*, 14 Fed. Cir. B.J. 227 (2004).

⁷ Moore, *supra* note 2, at 238; Federal Trade Commission, *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* 28–31 (Oct. 2003); National Research Council, *Comm. on Intell. Prop. Rights in the Knowledge-Based Economy, A Patent System for the 21st Century* 83 (Stephen A. Merrill et. al eds., 2004).

the absence of an opinion of counsel remained, as did the risk that disclosing an opinion would result in a waiver of privilege that might extend to trial counsel.

Then came *Seagate*.

In re Seagate Technology

Convolve sued Seagate for patent infringement, and included in its complaint typical allegations that Seagate had willfully infringed its patents. *Seagate*, slip op. at *2. Seagate defended against the charge of willful infringement by relying on opinions of counsel. *Id.* at *3. Convolve moved to compel discovery, seeking any communications or work product of all of Seagate's counsel, including its trial counsel. *Id.* The district court concluded that Seagate waived privilege for all communications between it and any counsel, including its trial attorneys and in-house counsel. *Id.*

Seagate petitioned the Federal Circuit for a writ of mandamus to protect its trial counsel's opinions and work product from discovery. *Id.* at *4. The Federal Circuit stayed the discovery orders and *sua sponte* ordered *en banc* review of the following questions:

- (1) Should a party's assertion of the advice of counsel defense to willful infringement extend waiver of the attorney-client privilege to communications with that party's trial counsel?
- (2) What is the effect of any such waiver on work-product immunity?
- (3) Given the impact of the statutory duty of care standard announced in *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983), on the issue of waiver of attorney-client privilege, should this court reconsider the decision in *Underwater Devices* and the duty of care standard itself?

Seagate, slip op. at *4. Over 20 amicus briefs were filed. At oral argument, the courtroom overflowed with observers. The patent bar anxiously awaited the decision. What would the Federal Circuit do? Was the Federal Circuit really going to remedy the problems with opinions of counsel and willful infringement this go around? Or would it, as in *Knorr-Bremse* and *Echostar*, narrowly address the waiver issue and leave the law of willful infringement and the duty of due care largely intact?

On August 20, 2007, the anticipation ended. And the result can be described as nothing less than a watershed, seminal, ground-breaking, you pick the adjective, decision. The Federal Circuit did not choose to narrowly address the waiver issue and otherwise leave the general law of willful infringement intact as it had on previous occasions. Instead, it expressly overruled the duty of due care implemented some 24 years earlier in *Underwater Devices*, and emphasized that there is no affirmative obligation to obtain an opinion of counsel:

[W]e overrule the standard set out in *Underwater Devices* and hold that proof of willful infringement permitting enhanced damages requires at least a showing of objective recklessness. Because we abandon the affirmative duty of due care, we also reemphasize that there is no affirmative obligation to obtain [an] opinion of counsel.

Seagate, slip op. at *12. In place of the affirmative duty of due care, the Federal Circuit created an entirely new legal standard for proving willful infringement. This standard requires at least a showing of "objective recklessness" to establish willful infringement. *Id.* The Court articulated a two-part test for proving objective recklessness. *Id.* Under the first part of this test, the patentee must prove that the infringer acted despite an objectively high likelihood that its actions constituted infringement of a valid patent. If this threshold objective test is met, then the patentee must prove that the objectively-

defined risk of infringement was known or so obvious that it should have been known to the accused infringer. The Federal Circuit explicitly left it to future cases to develop the application of this two-part standard. *Id.*

The Federal Circuit also clarified whether the waiver of privilege and work product protection extends to trial counsel. It held that “as a general proposition,” asserting the advice of counsel defense and disclosing opinions of counsel does not constitute waiver of the attorney-client privilege or attorney work product with respect to trial counsel. *Seagate*, slip op. at *18, *21. The Court reached this conclusion based on the significantly different functions served by opinion counsel and trial counsel, the deleterious impact on the interests of justice if waiver were to extend to trial counsel, and the marginal relevance of post-lawsuit communications with trial counsel to willful infringement allegations based on prelitigation conduct. *Id.* at *15–18. The Federal Circuit stopped short of articulating an absolute rule that waiver could not extend to trial counsel, however. It acknowledged that trial courts remain free to extend the waiver to trial counsel “in unique circumstances, such as if a party or counsel engages in chicanery.” *Id.* at *18.

The Implications of Seagate

Seagate will have far-reaching implications for willful patent infringement claims and for opinions of counsel. At its most basic level, *Seagate* tips the scales back toward the alleged infringer by raising the proof requirements for willful infringement, and by greatly reducing the risk that disclosing an opinion of counsel will result in a waiver of privilege that extends to trial counsel. *Seagate* will also have more specific implications for willful infringement claims and opinions of counsel. Some of these are discussed below.

A. Some Implications of *Seagate* for Willful Infringement

1. *Willful Infringement May Require Proof of Infringement that is Sufficient to Obtain a Preliminary Injunction.* Under the first prong of the new *Seagate* standard, willful infringement cannot be found unless the evidence establishes that an alleged infringer acted despite an “objectively high likelihood” of infringement. The question that immediately arises is exactly what constitutes an “objectively high likelihood” of infringement? Or put differently, what level of proof of infringement is required to establish an “objectively high likelihood” of infringement? The Federal Circuit appears to suggest that the minimum level of proof of infringement that will establish an objectively high likelihood of infringement is the level of proof that would suffice to obtain a preliminary injunction. During the Court’s discussion of the privilege waiver issue, it explained that any willful infringement occurring after a complaint is filed could be addressed through a motion for preliminary injunction. *Seagate*, slip op. at *17. It opined that “if a patentee attempts to secure injunctive relief but fails, it is likely the infringement did not rise to the level of recklessness” and that “[a] substantial question about invalidity or infringement is likely sufficient to not only avoid a preliminary injunction, but also a charge of willfulness based on post-filing conduct.” *Id.* at *17. While these comments are not unqualified and are offered in the context of discussing why the waiver of privilege did not extend to trial counsel, they provide guidance as to when an infringement is unlikely to rise to the level of recklessness required to prove willful infringement under *Seagate*. Until the Federal Circuit says otherwise, this guidance counsels practitioners to assume that a willful infringement claim can be asserted when the evidence of infringement is sufficient to obtain a preliminary injunction, but that such a claim is likely to fail where a substantial question on infringement or invalidity is raised.

2. *Willful Infringement Could Exist in Circumstances Where the Alleged Infringer Does Not Have Actual Notice of the Patent.* Under the pre-*Seagate* standard, an alleged infringer cannot engage in willful patent infringement absent actual notice of (actual knowledge of) the particular patent being infringed. *E.g.*, *Crystal Semiconductor Corp. v. TriTech Microelectronics Int’l, Inc.*, 246 F.3d 1336, 1351 (Fed. Cir. 2001); *Gustafson, Inc. v. Intersystems Industrial Prods., Inc.*, 897 F.2d 508, 1972 (Fed. Cir. 1990) (“[A] party cannot be found to have ‘willfully’ infringed a patent of which the party had no knowledge.”). By contrast, neither prong of the new *Seagate* test appears to specifically focus

on, or require, the alleged infringer to have actual notice or knowledge of the infringed patent. The first prong of the test is an objective assessment of the likelihood of infringement posed by the alleged infringer's conduct. "The state of mind of the accused infringer is not relevant to this objective inquiry." *Seagate*, slip op. at *12. Thus, the alleged infringer's knowledge, or lack thereof, of the particular patent being infringed is irrelevant. The second prong focuses on the alleged infringer's level of knowledge of the *risk of infringement* rather than of the patent. This prong can be met by proof that the alleged infringer had knowledge of this risk, which naturally implies that the infringer had knowledge of the patent. But this prong can also be met by proof that the risk of infringement was so obvious that the alleged infringer "should have known" of this risk. This "should have known" language literally could encompass situations where an alleged infringer did not have actual notice or knowledge of the infringed patent. Conceptually, the risk of infringement could be "so obvious" that the alleged infringer should have known about it, for example, (i) where the alleged infringer receives a communication from a competitor that generally refers to patents that cover a particular product but does not mention specific patents, or (ii) where an infringer is seeking to market a product to compete with an existing product that is generally known to be "patented."

3. *Alleging Willful Infringement in an Initial Complaint Will be More Challenging, Particularly When Evidence Concerning the Accused Product or Process Is Unavailable.* According to *Seagate*, "a willfulness claim asserted in the original complaint must necessarily be grounded exclusively in the accused infringer's pre-filing conduct." *Seagate*, slip op. at *16. Such claims also must meet the pleading requirements of Rule 11 of the Federal Rules of Civil Procedure. *Id.* *Seagate* thus suggests that, to state a claim of willful infringement in an initial complaint, the patentee must have sufficient facts to form a good faith belief that there is an objectively high likelihood of infringement based *solely* on pre-litigation conduct. In cases where the accused product can be obtained, and a comparison of that product with each element of the claims can be made, it may be possible to conclude not only that there is infringement, but also that there is an objectively high likelihood of infringement.

But, there are many situations where the alleged infringing product is unavailable, or a comparison of each element of the claim with the actual infringing product cannot be made without discovery. In these situations, a claim for patent infringement may be able to be asserted in accordance with Rule 11 based on the good faith belief that, on the available facts, infringement is probable, or is at least as likely as not. See, e.g., *Hoffman-La Roche Inc. v. Invamed Inc.*, 213 F.3d 1359 (Fed. Cir. 2000). But the new standard for willful infringement requires more than just a belief that infringement is probable, or more probable than not. There must be a good faith belief that there is an *objectively high likelihood* of infringement. If the facts supporting a belief of infringement are based only on probabilities, that same proof would not seem sufficient to support a claim of willful infringement, particularly if the minimum proof of infringement that is required for willful infringement is the same level of proof required to obtain a preliminary injunction.

4. *Motions for Summary Judgment of No Willful Patent Infringement May Be Appropriate.* Under the pre-*Seagate* standard, summary judgment of no willful infringement was virtually never granted, and motions for summary judgment on this issue were rarely, if ever, filed.⁸ The new *Seagate* standard, by contrast, provides a viable basis for moving for summary judgment against willful patent infringement claims, at least when the proof of infringement does not rise to the level of an objectively high likelihood of infringement.

As discussed above (see point A.1), *Seagate* suggests that the minimum level of proof of infringement required to establish willful infringement is the same level of proof that suffices to obtain a preliminary injunction. Where the evidence of infringement does not rise to this level, a motion for summary judgment of no willful infringement may succeed. For example, a motion for summary judgment should succeed whenever there is evidence that establishes a substantial question on validity or infringement.

⁸ Moore, *supra* note 2, at 234 ("Willfulness was never decided on summary judgment.").

5. *Timing of Willful Patent Infringement Allegations Is an Important Case Strategy Consideration.* Assuming, as *Seagate* suggests, that evidence of infringement sufficient to obtain a preliminary injunction is required to prove willful infringement, the appropriate timing of willful patent infringement allegations becomes an important case strategy. If a motion for preliminary injunction is filed, it makes sense to accompany that motion with allegations of willful patent infringement because the same evidence of infringement supports both. For the same reason, it also makes sense to consider accompanying any allegations of willful infringement with a motion for preliminary injunction.

If no motion for preliminary injunction is sought when allegations of willful infringement are made, the timing of willful patent infringement allegations requires careful consideration. In this case, it would not be surprising to see a motion to dismiss where the failure to file a motion for preliminary injunction is relied upon as evidence or an admission that any infringement alleged does not rise to the level of willful infringement. This could lead to a briefing battle, the plaintiff trying to explain why, for reasons other than insufficient proof of infringement, it did not seek a preliminary injunction.

In such cases, it may be more efficient and strategically effective to delay any willful infringement allegations until after a favorable ruling related to infringement or validity is obtained, such as a favorable ruling on claim construction, a grant of summary judgment of infringement, or a grant of summary judgment on a defendant's validity defenses. If the alleged infringer continues its conduct after a ruling by the court that removes any basis for non-infringement, for instance, that post-ruling conduct can be pointed to as conduct that meets the objectively high likelihood of infringement standard of *Seagate* and constitutes willful infringement.

B. Some Implications for Opinions of Counsel

1. *Opinions of Counsel Are No Longer "Essential" to Defend Against Willful Infringement.* The most significant implication of *Seagate* for opinions of counsel is that the absence of an opinion of counsel, by itself, is no longer a basis for finding willful infringement. While the Federal Circuit had frequently stated that an opinion of counsel was not the only way to avoid a finding of willful infringement before *Seagate*,⁹ for many practitioners the practical reality was quite different. While the duty of due care existed, along with the companion notion that the duty of due care was ordinarily discharged by obtaining an opinion of counsel, the most prudent course of action for a potential infringer was to obtain an opinion of counsel rather than to risk being unable to show that the duty of due care had been discharged in the absence of an opinion. *Seagate* expressly abandoned the duty of due care and any affirmative obligation to obtain an opinion of counsel to avoid willful infringement: "[b]ecause we abandon the affirmative duty of due care, we also reemphasize that there is no affirmative obligation to obtain opinions of counsel." *Seagate*, slip op. at *12.

2. *Opinions of Counsel Remain Useful to Defend Against Willful Infringement and for Other Purposes Such as Reducing the Risk of Liability for Patent Infringement.* Since *Seagate* broke the cause and effect relationship between opinions of counsel and willful infringement, many have and will continue to jump to the conclusion that opinions of counsel are no longer necessary. While an opinion of counsel may not be required to defend against a willful infringement claim, it is unlikely that *Seagate* sounded the death knell for opinions of counsel.

Many practitioners and in-house counsel believe that opinions of counsel serve a far more important purpose than just a willful infringement insurance policy. That purpose is to objectively assess and reduce the risk of liability for patent infringement. For instance, clearance opinions are often undertaken to evaluate, reduce, and minimize the risk of liability for patent infringement before a new product is launched. Similar opinions are often obtained to assess the risk of infringement by current products upon receipt of notice of a third party patent. Nothing in *Seagate* impacts or should alter the desirability and value of an opinion of counsel when it is for the primary purpose of reducing

⁹ E.g., *Knorr-Bremse Systeme Fuer Nutzfahrzeuge GmbH v. Dana Corp.*, 383 F.3d 1337, 1347 (Fed. Cir. 2004); *SRI Int'l, Inc. v. Advanced Tech. Labs. Inc.*, 127 F.3d 1462, 1465 (Fed. Cir. 1997).

the risk of patent infringement.

Opinions of counsel also remain useful to avoid a charge of willful patent infringement. While there is no longer a duty of due care or an “affirmative obligation” to obtain an opinion of counsel, an opinion of counsel may still be relevant to avoid a finding of willful infringement under the *Seagate* standard. Under *Seagate*, willful infringement requires proof of an “objectively high likelihood” that the alleged infringer’s conduct constitutes infringement. Since this is an objective standard, it would seem that an opinion of counsel by a qualified patent attorney may be relevant to show that there is no objectively high likelihood of infringement. Indeed, the Federal Circuit distinguished the role of opinion counsel from trial counsel by explaining that “opinion counsel serves to provide an objective assessment for making informed business decisions.” *Seagate*, slip op. at *15. In other words, an opinion of counsel provides an objective assessment of the likelihood of infringement. Thus, it would seem reasonable to conclude that an opinion of counsel is relevant under Federal Rule of Evidence 401 because it tends to make more probable than not the fact that—objectively—there is no high likelihood that the alleged infringer’s conduct constitutes infringement.

Opinions of counsel may also be relevant under the second prong of the new *Seagate* standard. That prong requires proof that the alleged infringer “knew” of the risk of infringement, or that the risk of infringement was so obvious the infringer should have known of that risk. *Seagate*, slip op. at *12. The Federal Circuit recently adopted, *en banc*, a similar knew or should have known of the infringement standard in determining whether a defendant induced infringement. See, e.g., *DSU Med. Corp. v. JMS Co., Ltd.*, 471 F.3d 1293, 1304 (Fed. Cir. 2006). In the inducement context, some courts have indicated that a good faith belief that there is no infringement based on an opinion of counsel can avoid liability for inducing infringement. See, e.g., *Amersham Pharmacia Biotech, Inc. v. Perkin-Elmer Corp.*, 2000 WL 1897300 (N.D. Cal. 2000); *Century Wrecker Corp. v. E.R. Buske Mfg. Co, Inc.*, 913 F. Supp. 1256, 1274-75 (N. D. Iowa 1996). If these cases are extended by analogy, an opinion of counsel is not only relevant to willful infringement under *Seagate*, but is likely to operate as a complete defense to a willful infringement claim. Even if inducement cases are not applied analogously, an opinion of counsel appears relevant under Federal Rule of Evidence 401 because it would tend to make more probable the fact that the alleged infringer did not know of the risk of infringement, and that the risk of infringement was not so obvious that the alleged infringer should have known about it.

An alleged infringer’s act of obtaining an opinion of counsel may also be relevant to show that the alleged infringer did not act recklessly but instead acted reasonably and in accordance with standards of fair commerce. *Seagate* favorably cites in a footnote to a concurring opinion by Judge Newman, and affirms that the “standards of commerce would be among the factors a court might consider” in assessing willful infringement. *Seagate*, slip op. at *12 n.5. In her concurrence, Judge Newman states that “[t]he standards of behavior by which a possible infringer evaluates adverse patents should be the standards of fair commerce, including reasonableness of the actions taken in the particular circumstances.” *Id.*, (Newman, J., concurring at *2). This discussion suggests that evidence of conduct comporting with standards of fair commerce is a relevant factor for a court to consider when assessing whether conduct meets the standard of “objective recklessness,” amounting to willful infringement. The fact that an alleged infringer obtained an opinion of counsel upon receiving notice of a third party patent would seem to be relevant to show that the alleged infringer acted reasonably and in accordance with standards of fair commerce under the circumstances.

3. *To be Useful, an Opinion of Counsel Needs to Be Received Before Allegations of Willful Infringement Are Pled in a Lawsuit.* In *Seagate*, the Federal Circuit opined that the only relevant conduct for determining willful infringement is conduct which precedes the allegations of willful infringement. *Seagate*, slip op. at *16–17. It even went so far as to call the opinions *Seagate* obtained of “marginal value” because they were received after the complaint that included willful patent infringement allegations. *Id.* at *18. If courts adopt the Federal Circuit’s pre-allegation reasoning, a party wishing to rely on an opinion of counsel in defense to a charge of willful infringement must obtain the opinion before any allegations of willful infringement are made. If a party has not received an

opinion of counsel at the time these allegations are made, there is no need to obtain an opinion of counsel to defend against those allegations. According to *Seagate*, any opinion received after the willful infringement allegations have been made is likely to be of “marginal relevance.” Similarly, if a party has not obtained an opinion and the initial complaint does not contain allegations of willful infringement, then it may be useful to seek an opinion of counsel to defend against any willful infringement allegations that may be made at a later time, for instance after a claim construction ruling (see above point A.5).

4. *Consider Including Multiple Independent Basis in Opinions of Counsel and Updating Opinions During Litigation.* Suppose you obtain an opinion of counsel before any allegations of willful infringement are made. That opinion is based on a particular claim construction. The court adopts the plaintiff’s construction of that claim language. The plaintiff then follows the claim construction ruling with an amended complaint alleging willful infringement, accompanied by a motion for preliminary injunction, claiming that your continuation of the allegedly infringing conduct after the claim construction ruling constitutes willful infringement. If the opinion of counsel you received is based on a single claim construction and that claim construction has been rejected, that opinion is no longer useful to defend against the claim that your post-claim construction conduct constitutes willful infringement. The likelihood that you will be able to rely on any opinion you receive in the face of subsequent adverse court rulings will be enhanced if the opinion includes multiple independent basis in support of the conclusion. In addition, you may want to consider having an opinion updated, to the extent possible, during litigation to take into account the possibility of an adverse ruling by the court. In most, if not all, cases, you will usually have sufficient knowledge of what the patent owner’s arguments are to allow for an opinion to be updated to account for any such arguments.

5. *Barring “Unique Circumstances,” an Opinion of Counsel Can Be Disclosed Without the Risk that any Privilege Waiver Will Extend to Trial Counsel.* Pre-*Seagate*, one of the big disadvantages of disclosing an opinion of counsel was that the disclosure could result in a broad privilege waiver that extended to all counsel, including trial counsel and to any advice trial counsel had given on the issues addressed in the opinion. In *Seagate*, the Federal Circuit held that, “as a general proposition”, any waiver of privilege or work product immunity resulting from the disclosure of an opinion of counsel does not extend to trial counsel. *Seagate*, slip op. at *18, *21. *Seagate* thus provides a general rule to guide the decision-making of an alleged infringer who is considering whether to disclose an opinion of counsel: the disclosure of the opinion will waive privilege and work product protections for opinion counsel, but will not waive privilege or work product protections for trial counsel.

But the general rule that waiver does not extend to trial counsel is not absolute. According to *Seagate*, courts have discretion to extend the waiver to trial counsel in “unique circumstances.” *Seagate*, slip op. at *18. *Seagate*, however, identified only one “unique circumstance”—when a party or counsel engages in chicanery (i.e., conduct that is deceitful or trickery). It is unclear exactly what type of situation this exception is designed to reach and whether the “chicanery” referred to is chicanery in connection with the litigation in general or chicanery that is specific to the opinion of counsel or the basis for any such opinion. For example, would “chicanery” be demonstrated if trial counsel was involved in “rigging” the parameters of in-house testing to assure that they show non-infringement, and opinion counsel then relies upon these results without knowing that the parameters had been rigged? One would hope so. It is even less apparent what type of “chicanery” may result in a waiver of privilege for trial counsel when an opinion is received before litigation has commenced. *Seagate* simply left it up to future cases to define the contours of “chicanery” and to develop any other “unique circumstances” that may justify extending the waiver to trial counsel.

Conclusion

Seagate has tipped the scales of willful infringement back in favor of alleged infringers. *Seagate* redefines the standard for willful infringement, elevating this standard from one that requires a showing based on principles of negligence (i.e., the duty of due care) to one that requires a showing of “objective recklessness.” This new standard opens up the possibility of defeating a willful

infringement allegation through summary judgment where no possibility existed before. *Seagate* also eliminated the risk that willful infringement will be found purely because an opinion of counsel was not obtained.

It is unlikely that *Seagate* sounded the death knell for opinions of counsel as many may be led to believe. While opinions are no longer required, an opinion received at the appropriate time may now be more effective than ever before in defeating a charge of willful infringement. And except in “unique circumstances,” *Seagate* has removed one of the biggest obstacles to disclosing an opinion of counsel, the risk that disclosing an opinion will result in a waiver of privilege that extends to trial counsel. *Seagate* appears to add flexibility to the decision whether to obtain an opinion of counsel, and to offer advantages to those who choose to obtain and use an opinion of counsel to defend against willful patent infringement claims.

The implications of *Seagate* discussed here may only be the tip of the iceberg. Much of what *Seagate* means and how it applies remains unknown, and was purposely left for development in future cases. *Seagate*, slip op. at *12. In the meantime, the most prudent course in uncharted waters is to follow what little guidance the Federal Circuit has provided in *Seagate* as to the new standard and how it is to be applied.

[Back to Top ↑](#)

Contact Us

We appreciate your feedback and suggestions! Please submit your comments and ideas to Violetta at acca@austin.rr.com. If you do not wish to receive this newsletter, please contact Violetta.