

Selecting Opinion Counsel With “Due Care” and an Eye on Legal Conflicts

By Lynda L. Calderone, Esq.

Companies are confronted with patents that present issues to their on-going business on a regular basis. When a company is confronted with a patent, the Court of Appeals for the Federal Circuit (CAFC) has held it has an affirmative duty to act with due care to determine whether there is infringement of a valid patent. *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380 (Fed. Cir. 1983). Failure to carry out this duty can result in a holding that the patent in question is willfully infringed, which can lead to enhanced damages and an award of attorneys fees.

This duty is discharged by obtaining “competent legal advice from counsel before the initiation of any possible infringing activity.” *Underwater Devices, Inc.* at 1389-90 (emphasis added). Such an opinion can then be relied upon in Court as evidence that the accused infringer acted with due care and in support of a defense to a willful infringement allegation. Many recognize that if an opinion of counsel is based on inaccurate law it would not be “competent.” However, other considerations can affect competency.

In *Andrew Corporation v. Beverly Manufacturing Company*, (N.D. Ill., Eastern Division, Feb. 16, 2006), Beverly had been previously involved in a patent dispute with Andrew. The dispute involved a “snap-in hanger” for cable used in telecommunication towers and settled. At that time, Beverly was represented by Lee Mann, Smith, McWilliams, Sweeney & Ohlson. After settlement, Beverly modified its hanger. Lee Mann worked with Beverly

to analyze the relevant Andrew patents for infringement issues based on the modified hanger beginning in 2002. In January 2003, Lee Mann merged with the law firm of Barnes & Thornburg. The Lee Mann opinion attorneys joined Barnes, and continued their patent analysis.

When merging, Barnes was representing Andrew in an unrelated infringement case. Despite this, Barnes said it failed to identify the conflict and approved Beverly as a new client. The former Lee Mann attorneys completed three non-infringement opinions in July/August 2003. The following year, Barnes was contacted by both clients, each seeking representation in a patent suit against the other. Barnes then recognized the conflict and refused to represent either in that dispute. It remained active counsel for both clients in other matters.

Andrew filed an amended complaint against Beverly in August 2005, and moved to bar Barnes from participating as testifying opinion counsel and to bar introduction of the opinions in November 2005. The motion was granted, leaving Beverly with no opinion of counsel to support its willfulness defense.

Barnes’ concurrent representation was held to constitute a conflict of interest and to have been improper absent full disclosure to both clients and a waiver agreement signed by both clients. While it was Barnes who failed to recognize the conflict, contrary to applicable ethics rules, it was Beverly that was left without an opinion.

As the Court noted, “It has long been the law that ‘[l]awyers’ errors in civil proceedings are imputed to their clients’...” (citations omitted). The Court weighed both the effect on each party and the public interest, and noted that “[t]he competency of an attorney to produce an opinion” is more than just the analysis, but also working “within the confines of the ethical obligations...” While noting that Beverly could seek redress against its firm, the Court held that Beverly had a duty to seek “competent legal advice” and that included obtaining “legal advice from a counsel who was free of ethical conflicts.”

This decision raises issues regarding how a company can discharge its duty of due care and serves as a hard lesson to clients and law firms alike with regard to the effects of unrecognized conflicts of interest.

Companies should take care to demand of opinion counsel a thorough conflict search and diligent inquiry within the firm, to ensure the absence of adverse representation regarding the patent owner, the inventor(s) or other related entities. Such an inquiry could be considered to be within the duty to seek competent legal advice when confronted with a patent in view of *Andrew*, which could be relied upon by other Courts having similar ethics rules. Law firms must also tread carefully, particularly when doing due diligence in proposed firm mergers involving patent attorneys and/or in hiring new attorneys. Law firms should further be cautious to ensure that as new parties

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arise during pending representations, updated conflict searches are conducted. The duty to act with due care applies to many companies every day. The best way

to ensure compliance is to become educated regarding its impact and in selection of counsel.

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