Massachusetts Federal Court Warns that IP Practitioners Should Anticipate Potential Conflicts Among Existing Clients

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On July 26, 2018, Chief Judge Patti B. Saris of the U.S. District Court for the District of Massachusetts disqualified plaintiff's counsel in the patent infringement case *Altova GmbH v. Syncro Soft Srl*, 17-cv-11642, finding that counsel had violated Massachusetts Rule of Professional Conduct 1.7 because "a reasonable lawyer should have known that there was a significant risk" of a conflict and "should have obtained written, informed consent from both parties." This opinion is a reminder of how difficult it can be to predict subject matter conflicts in patent matters, and the need to address such conflicts appropriately when they arise.

Dual Representation

According to the opinion, Altova and Syncro Soft are direct competitors that develop and sell extensible markup language (XML) coding editor software. Beginning in 2004, Boston-based Sunstein Kann Murphy & Timbers LLP (then, Bromberg & Sunstein LLP) ("Sunstein") represented Syncro Soft in trademark and copyright matters, including potential litigation that was resolved through attorney correspondence. In 2009, Syncro Soft received a cease and desist letter from Altova concerning Altova's claim of copyright and trade dress infringement arising from Syncro Soft's XML editor software. Sunstein represented Syncro Soft in response to Altova's claims and was provided with information about the functionality of Syncro Soft's XML editor software from Syncro Soft. Sunstein corresponded with Altova's counsel, and Syncro Soft modified its XML editor software in response to Altova's demands.

In November 2016, the U.S. Patent and Trademark Office (USPTO) issued a patent to Altova claiming a "quick fix" feature of its XML editor software. Sunstein was not involved in the prosecution of Altova's patent and, based on the record, it does not appear Sunstein represented either Altova or Syncro Soft in any patent matters. It is not clear from the record, however, when Sunstein became aware of Altova's patent.

In 2011, Sunstein began representing Altova in trademark matters that were not adverse to Syncro Soft, including IP litigation, on behalf of Altova. From 2011 through 2017, Sunstein represented both Syncro Soft and Altova without issue.

Patent Infringement Dispute Arises, Creating Direct Conflict of Interest

In late June 2017, Altova approached Sunstein about bringing a patent infringement claim against Syncro Soft. In an effort to avoid a conflict of interest, Sunstein informed Syncro Soft via email on July 6 that, due to "potential conflicts in relation to other clients' work that [it] would like to

undertake…" it was terminating its representation of Syncro Soft. Sunstein did not request Syncro Soft's consent to represent Altova nor did Syncro Soft give its consent. Sunstein then implemented an internal ethical screen to separate Altova litigation attorneys from Syncro Soft files. On August 31, 2017, Sunstein filed a complaint for patent infringement on behalf of Altova against Syncro Soft.

Mass. R. Prof. Conduct 1.7

As a threshold matter, the court concluded that Syncro Soft and Altova were both current clients of Sunstein when the conflict of interest arose and, therefore, Rule 1.7 applied. Rule 1.7(a) states that a lawyer shall not represent a client in a matter that will be "directly adverse" to another client or if there is a "significant risk that the representation of one or more clients will be materially limited by the lawyer's responsibilities to another client." Rule 1.7(b) states that, in certain circumstances, a lawyer may continue to represent a client despite a concurrent conflict of interest if the clients provide informed written consent.

In this case Sunstein had no knowledge of any existing conflict when Altova became its client in 2011. As a result, the actual conflict arose only after both parties were clients. Sunstein argued that seeking informed consent from Syncro Soft would necessarily require disclosing the potential claims and violate its duties to Altova. The court, however, citing the SJC's decision in *Bryan Corp. v. Abrano*, 52 N.E.3d 95 (Mass. 2016), responded that the appropriate course of action was to withdraw from representing either client.

In addition, Sunstein argued that it did not violate Rule 1.7 because the conflict that arose was unforeseeable, citing Comment 5 ("Depending on the circumstances, the lawyer may have the option to withdraw from one of the representations in order to avoid the conflict."). The court disagreed, noting that "Rule 1.7 also 'encompasses a lawyer's duty to anticipate potential conflicts.'" Based on the foregoing facts, the court concluded that "[a] reasonable lawyer should have known there was a significant risk that Altova's interests would become adverse to Syncro Soft's concerning their XML products no later than November 2016 when Altova's patent issued, and then should have obtained written, informed consent from both clients or withdrawn from representing both parties on that matter."

The "Hot Potato" Doctrine

The "hot potato" doctrine is a judicially created concept holding that lawyers should not drop one client in favor of a more lucrative client. Although several courts have adopted the hot potato doctrine, Chief Judge Saris noted that the SJC has declined to reach the question of whether the hot potato doctrine applies in Massachusetts. Despite stating that there was no need to consider the hot potato doctrine in this case because "the breach of the duty of loyalty is clear," the court nonetheless concluded later in the opinion that "Sunstein cannot simply choose the more profitable client and drop the other."

Takeaways

Subject matter conflicts are often difficult to evaluate in IP matters. In this particular case, the lawyers were not involved in patent prosecution for either client when the patent infringement dispute arose. Nonetheless, based on the specific facts of this case, the court determined that the

attorneys should have anticipated the potential for conflict based on the fact that the clients were direct competitors and had previously been engaged in disputes involving their competing software. As a result, having not obtained informed written consent, the court held that the lawyers could not represent either client and disqualified the firm.

If you have a professional liability question, IP litigation question, or business concern, we invite you to reach out directly to any member of our Professional Liability Litigation or IP Litigation groups.