

Federal Circuit Slams Acacia for Fostering Attorney Conflict

By Scott Graham

The U.S. Court of Appeals for the Federal Circuit has upheld a sweeping disqualification order caused by an in-house IP lawyer's decision to join Acacia Research Corp. and then participate in a patent suit against her former employer.

The Federal Circuit on Monday upheld an order disqualifying Acacia's entire in-house department and an outside law firm from suing oil services company Schlumberger. The ruling means that Acacia is effectively blocked from suing Schlumberger over events occurring during Charlotte Rutherford's tenure there as deputy general counsel for intellectual property.

Rutherford joined Acacia in 2013. She played at least a limited

role in Acacia's decision to acquire a patent and sue Schlumberger a year later for willfully infringing it. The accused product was a software platform for modeling oil wells that Rutherford had helped evaluate for IP risks while at Schlumberger.

U.S. District Judge Lee Yeakel of the Western District of Texas had called his DQ order "a harsh result," but the Federal Circuit didn't seem to think it was too harsh.

"The district court affirmed the sound principle of not suborning the disloyalty of attorneys," Judge Alan Lourie wrote for a unanimous panel. "It was inappropriate to hire a senior attorney, one intimately



Judge Alan Lourie

knowledgeable concerning a particular product, its competitors, and its associated business strategies and intellectual property, into a position in which she not only participated in but in fact played a significant role in acquiring a patent used

to accuse her former employer's product of patent infringement."

Judge Evan Wallach added a brief concurrence. "Ms. Rutherford's conduct failed to meet minimal standards necessary to preserve public confidence in the legal system," he wrote, "and for that, she and others paid a price."

Judge Todd Hughes concurred in Lourie's ruling.

Acacia and its subsidiary, Dynamic 3D Geosolutions, had argued to the Federal Circuit that the parties had actually settled the appeal as part of a Schlumberger trade secrets action that initially went in Acacia's favor. While at Acacia, the company further argued, Rutherford had been walled off from the decisions on Schlumberger, so her presence did not taint the suit, and certainly not the company's entire in-house department.

The Federal Circuit disagreed on all counts. The settlement

agreement "appears to consist of hastily handwritten notes on two sheets of notebook paper along with a typed cover sheet containing minimal clarifying language," Lourie wrote in *Dynamic 3D Geosolutions v. Schlumberger*. While settlement documents don't have to be formal, this one did not resolve the appeal, the court concluded.

As for being walled off, Rutherford admitted attending meetings with the inventors of Acacia's patent, and with other Acacia in-house and outside counsel when the allegedly infringing Schlumberger product was a topic of discussion. "Her communications—in the form of approvals and concurrence with recommendations—tacitly disclosed her belief, based on Schlumberger's confidential information, that Dynamic 3D's claims had merit and that Schlumberger's defenses, including invalidity, were meritless," Lourie wrote.

Under Texas's rules of ethics, that knowledge of confidential information could be imputed to the entire Acacia in-house department, Lourie concluded.

Monday's decision is a win for a Latham & Watkins team led by partner Maximilian Grant. "Schlumberger is very gratified that the Federal Circuit decided to hear the appeal and affirmed Judge Yeakel's well-reasoned decision," Grant said in an emailed statement. "Hopefully this ruling curtails or ends what the court described as Acacia's practice of 'suborning disloyalty.'"

Collins, Edmonds, Pogorzelski, Schlather & Tower partner Michael Collins argued the appeal for Acacia. Stradling Yocca Carlson & Rauth partner Steven Hanle argued for Dynamic 3D Geosolutions.

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