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## OIL SLICK

A patent troll hired an in-house lawyer from the energy company it targeted. Big mistake. **BY DAVID BARIO**

**T**O TAKE ON THE oil field services industry, patent licensing giant Acacia Research Corp. needed a lawyer who knew the business. It may have found one who knew too much.

In 2013, Acacia, a publicly traded company that is known as one of the world's biggest patent trolls, was in something of a slump. With its revenues in decline, Newport Beach, California-based Acacia hired a new senior vice president out of Houston, a seasoned in-house lawyer named Charlotte Rutherford, to help it exploit a relatively untapped well of intellectual property tied to the global oil rush.

But instead of leading Acacia to a big payday, Rutherford's hire forced her new employer to play defense. Acacia's Houston foray has become a cautionary tale for litigants and lawyers alike.

Rutherford certainly had the credentials for the Acacia job. Trained as an engineer and a lawyer, she had been a partner at Gibbons and held senior in-house roles at Shell Oil Co.,

Conoco Inc. and Colgate-Palmolive Co. From 2007 to 2013, she worked for oil field industry leader Schlumberger Limited, eventually becoming deputy general counsel for IP.

After accepting Acacia's offer in April 2013, Rutherford wasted no time. In a press release announcing her hire—composed on her Schlumberger laptop, according to evidence in later litigation—she alerted energy industry patent holders that Acacia was on the hunt. In July 2013 Rutherford met with Austin GeoModeling Inc., a developer of 3D modeling software for oil exploration, to help Acacia build its Texas arsenal. By Thanksgiving, Acacia had acquired the 3D drilling patent, known as the '319 patent.

Schlumberger's chief oil exploration software, known as Petrel, supports drilling operations all over the world. But the company had barely grappled with so-called trolls, entities that exist only to assert their patent rights. On Feb. 7, 2014, Schlumberger received a summons from an Acacia shell company called Dynamic 3D Geosolutions, along with a complaint accusing it of



infringing the '319 patent. The Acacia subsidiary also filed parallel infringement suits against Halliburton Co. and some smaller names in the industry.

Schlumberger quickly connected the dots among Dynamic 3D, Acacia and Rutherford. The company tapped longtime counsel Maximilian Grant at Latham & Watkins, who urged the Austin federal judge hearing the case to find Acacia's patent invalid. Schlumberger also took aim at Rutherford, filing a trade secrets complaint in state court. And in a move that Acacia decried as "extraordinary and unprecedented," Grant moved to disqualify every single one of

Acacia's lawyers from the patent case, arguing that Rutherford's involvement had compromised both Acacia's in-house legal department and its outside counsel, tainting the entire lawsuit.

The trade secrets case fizzled last August, when a judge in Houston ruled that most of Schlumberger's claims ran afoul of a Texas statute barring lawsuits meant to censor an opponent. (Schlumberger, which was ordered to pay hefty sanctions, has appealed.) But the case survived long enough for Grant to depose Rutherford—and for her answers to come back to haunt Acacia's infringement suit.

Deposed in May 2014, Rutherford denied that she'd discussed Schlumberger's Pet-rel software with anyone at Acacia, or that she reviewed Acacia's infringement complaint against Schlumberger before it was filed. But under Grant's questioning, she admitted that Schlumberger and Petrel were discussed in two meetings with the inventors of the '319 patent the previous summer. And she acknowledged that she'd approved recommendations to acquire the patent and to sue Schlumberger and the others.

"Schlumberger was a potential target from the date of the first meeting with Austin GeoModeling, wasn't it?" Grant asked.

"I'd say, yes," Rutherford answered.

"And Acacia decided to acquire the '319 patent after you joined it, correct?"

"That is correct."

"And Acacia decided to assert the '319 Patent against Schlumberger after you had joined Acacia, correct?"

Latham obtained privilege logs and other materials that, it argued, showed that Rutherford had analyzed threats to Petrel's IP while employed at Schlumberger, and that she was responsible for assessing Petrel's value in past litigation. In contrast to Rutherford's testimony, internal emails indicated she'd approved an analysis of Petrel's value after joining Acacia. Other emails suggested that far from not having seen the Schlumberger complaint, Rutherford had reviewed it before it was filed—and even congratulated Acacia's outside counsel on their work. (Rutherford has denied that she worked closely with Petrel, and Acacia says that she merely "concurred" with the decisions of others to pursue the '319 patent and to sue Schlumberger.)

At a hearing in November, Grant noted that Acacia professed to have set up an ethical screen between Rutherford and the Schlumberger case. He suggested that Acacia had done the opposite: relying on Rutherford to vet



Latham & Watkins'  
Maximilian Grant

Rutherford, and Acacia's entire in-house legal department, he dismissed the case on the grounds that Schlumberger would face "significant prejudice" if it continued. (Acacia, Rutherford and Collins Edmonds declined to comment.)

Barring a successful appeal, the ruling not only spells the end of the case, but could imperil future Acacia infringement lawsuits against Schlumberger. It may have already sparked a retreat by

Acacia. Last year it faced a similar fight in California, when Sony Corp. challenged an Acacia patent lawsuit by pointing out Acacia had recently hired a Sony in-house lawyer. Acacia voluntarily dismissed its case before a judge ruled on Sony's disqualification motion, but Yeakel's decision may embolden other defendants that find a former colleague on the other side.

"Patent assertion companies have to think long and hard about this strategy of looking for industry insiders to help them enter new markets," says Grant. "If they choose to hire the best and the brightest, they basically have to accept the fact that the very reason they hired them is the same reason those insiders can't turn around and go after their former employer."

*Email: dbario@alm.com.*

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"Yes."

Latham and Acacia's lawyers at Collins, Edmonds, Pogorzelski, Schlather & Tower spent the following autumn battling over discovery and subpoenas related to the disqualification motion. The fight proved more than worthwhile for Schlumberger.

its most valuable infringement claims related to the '319 patent.

"There's no screen," Grant told U.S. District Judge Lee Yeakel. "There's a funnel."

On March 31, Yeakel gave Schlumberger everything it had asked for. Not only did he disqualify Collins Edmonds,

Acacia in its other cases related to the '319 patent. Within a day of Yeakel's ruling, Halliburton and the other defendants all either signed stipulations of dismissal or told the court they had reached tentative settlements.

The case could also serve as a valuable if painful lesson for Aca-