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Federal Circuit Patent Bulletin: *Dynamic 3D Geosolutions LLC v. Schlumberger Ltd.*

September 12, 2016

"It was inappropriate to hire a senior attorney, one intimately 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."

On September 12, 2016, in *Dynamic 3D Geosolutions LLC v. Schlumberger Ltd.*, the U.S. Court of Appeals for the Federal Circuit (Lourie,* Wallach, Hughes) affirmed the district court's disqualification of Acacia's counsel, Charlotte Rutherford, and dismissal of its complaint alleging infringed U.S. Patent No. 7,986,319, which related to systems and methods of combining seismic and well log data into a real-time, interactive three-dimensional display. The Federal Circuit stated:

We recognize that there are important societal rights implicated by attorney disqualification, such as the right of a party to counsel of its choice and an attorney's right to freely practice his or her profession. However, there is an overriding countervailing concern suffusing the ethical rules: a client's entitlement to an attorney's adherence to her duty of loyalty, encompassing a duty of confidentiality. Accordingly, the obligation to protect a client's confidential information exists as part of the larger duty of loyalty owed to clients to maintain the integrity of the attorney-client relationship.

Rutherford herself admitted attending, as legal counsel for Acacia, meetings with the inventors of the '319 patent, other in-house counsel, and outside counsel regarding the acquisition of the '319 patent, and admitted that Schlumberger's Petrel product was a topic of discussion

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at those meetings. Her admitted "communication," particularly the "concurrence with the recommendation by outside counsel and in-house counsel to acquire the [']319 patent and to sue Schlumberger," would have entailed assessing the patent's value as a litigation tool against Schlumberger with knowledge of her former employer's confidential information. Even if we were to reweigh the evidence, which in our role as an appellate court would be inappropriate, Dynamic 3D's arguments that Rutherford was not involved in the current suit are thus way wide of the mark. Acacia itself admitted that it failed to screen her from the case, and both Dynamic 3D and Acacia provided privilege logs evincing Rutherford's involvement in the present suit. Rutherford is therefore irrebuttably presumed to have possessed Schlumberger's relevant confidential information and was properly found to have been disqualified.

The district court affirmed the sound principle of not suborning the disloyalty of attorneys. It was inappropriate to hire a senior attorney, one intimately 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. . . .

Dynamic 3D and Acacia failed to show that knowledge of Schlumberger's confidential information should not be imputed to Acacia's other in-house counsel. The ethical standards are clear that lawyers similarly associated have had conflicts imputed to them. Although the Fifth Circuit does not subscribe to the "taint" theory for imputing conflicts, it focuses on remaining "sensitive to preventing conflicts of interest" and "rigorously appl[ies] the relevant ethical standards." Acacia admitted at oral argument that there was no ethical screening wall or other objective measures implemented to prevent confidential information from being used, to disadvantage Schlumberger. Here, there was a clear conflict of interest for Rutherford, and the principles underlying the ethical standards mandate extending the disqualification to Acacia's other in-house attorneys.

Even without imputation, Fischman himself reported solely to Rutherford until after the potential conflict was raised to the court. In fact, all four Acacia employees in the Energy Group in Acacia's Houston office reported to Rutherford. In attending meetings and making decisions such as retaining CEP as outside counsel, Rutherford communicated to the other in-house counsel that she supported the litigation strategy and thereby disclosed confidential information to the other Acacia attorneys. . . .

Dynamic 3D lastly disputes the "double imputation" of the conflict of interest to [Collins, Edmonds, Pogorzelski, Schlather & Tower PLLC] CEP on the ground that only actual disclosure warrants the disqualification of outside counsel under Fifth Circuit law. [We] agree that the district court did not err in concluding that the disqualification should extend to CEP. Even beyond presumptions, there was sufficient evidence of Rutherford's involvement in the selection of CEP as outside counsel and in the litigation against Schlumberger to support a finding of communication by conduct. . . . Rutherford disregarded the duty of loyalty and communicated confidential information not only to other in-house counsel but also to outside counsel, and thus the district court did not clearly err in imputing the conflict of interest to outside counsel as well as to in-house counsel. We accordingly find no error in the district court's conclusion that Rutherford, Acacia's other in-house counsel, and CEP were properly disqualified from representing Dynamic 3D in this case. . . .

Based on the facts of this case, we find that the district court in its abbreviated analysis on this point did not abuse its discretion in dismissing all pleaded claims without prejudice. . . . All aspects of the case were contaminated by Rutherford's actions, from the purchase of the '319 patent, to preparation for suit against Schlumberger, to the actual filing of the suit. . . . Some district courts have granted a period of time for a party to retain new counsel after disqualification, which appears to be typically 45 days. Others, however, have found that continuing a case after disqualification without dismissal would greatly prejudice a party because "the case would be tried on a record developed primarily through the fruits of [the disqualified attorney]'s unethical labor." . . . Based on the district court's reasoning, forcing Dynamic 3D to break new ground with a fresh complaint and clean docket rather than to continue drawing from a poisoned well was not an abuse of discretion.