Sharing Documents under the Common Interest Doctrine in IP Due Diligence Investigations

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Companies in a position to acquire intellectual property from another should be prepared to allocate the time and money to obtain validity opinions on the intellectual property portfolio at issue and also to conduct intellectual property searches in order to ensure that no third party intellectual property exists that may jeopardize the business transaction and subject the acquiring company to potential infringement litigation. Intellectual property that must be analyzed includes patents, trademarks, copyrights, and trade secrets.

Ideally, the acquiring company should obtain the validity opinions and patent searches in good time before the closing of the business deal; however, as is frequently the case, companies involved in acquisitions devote large amounts of time and energy to the valuation of tangible assets, such as equipment, real estate, and personnel, and significantly lesser amounts of time and energy to the valuation of intangible assets, such as intellectual property portfolios. Because intangible assets are often the last item brought to the table in a business negotiation, time is frequently of the essence in determining the value of the intellectual property portfolio at issue.

In a situation where time becomes of the essence in the valuation of an intellectual property portfolio, an acquiring company may seek to obtain previously prepared legal opinions from the IP owner, such as for example, any patentability, registrability, freedom to operate, invalidity, and non-infringement opinions previously prepared by the IP owners legal counsel. Because such legal opinions are protected from discovery in litigation under the attorney-client privilege, releasing the opinions without safeguarding the privilege will subject the IP owner to a waiver of the attorney-client privilege for the document in question.

Within the context of a due diligence investigation, where an IP owner turns over a legal opinion to a potential licensee, relating to for example, the invalidity of a competitors patent, without taking any precautions to safeguard the attorney-client privilege, the IP owner will be deemed to have waived the attorney-client privilege. Should the competitor later assert the patent that is the subject of the opinion against the IP owner, both the IP owner and the licensee may be forced to turn over not only the opinion, but any legal documents relating to the opinion.

Courts have preserved the attorney-client privilege despite the disclosure of documents where there are joint clients, joint litigants, and common legal interests. *Libbey Glass, Inc. v. Oneida Ltd.*, 197 F.R.D. 342, 347 (W.D. Oh. 1999). The joint client doctrine preserves the attorney-client privilege for communications between two or more clients and the single lawyer that they have retained; this situation may occur where a licensee hires the patent counsel that represented the original patent owner on the prosecution of a patent portfolio. *Id.* The joint litigant doctrine preserves the attorney-client privilege for communications shared by co-litigants even where they have retained different counsel; this privilege only applies within the context of actual or threatened litigation. *Id.* The common interest doctrine, which is the broadest of all three of the attorney-client privilege preservation rules, allows parties represented by different counsel to share information where they have an identical legal interest in the subject of the communication. *Id.* at 347-348. While the common interest doctrine has its most common applicability where joint licensees share confidential information (*see*, *In re The Regents of the University of California*, 101 F.3d 1386 (Fed. Cir. 1996)), it has also been used in the context of intellectual property due diligence investigations where a license or business sale is not yet in place.

In the case analysis that follows, the attorney-client privilege waivers at issue all relate to factual scenarios that arose during intellectual property due diligence investigations.

In *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 115 F.R.D. 308 (N.D. Cal. 1987), plaintiff Hewlett Packard sued Bausch & Lomb for patent infringement. During discovery, Hewlett Packard sought an opinion letter prepared by Bausch & Lomb's attorneys that concerned the validity and possible infringement of one of Hewlett-Packard's patents. Hewlett Packard asserted that the opinion letter was not covered by the attorney-client privilege because Bausch & Lomb had waived the privilege when it voluntarily disclosed the opinion letter to non-party GEC, a company that at one time was interested in purchasing one of Bausch & Lomb's business branches. *Id.* at 308. Bausch & Lomb refused to produce the opinion on the grounds that because it reasonably anticipated litigation with Hewlett-Packard at the time of the GEC negotiations, it had a legal duty to advise GEC of the anticipated litigation and that the opinion letter was disclosed to improve the odds that GEC would close the sale. In disclosing the letter, Bausch & Lomb took substantial steps to assure that GEC maintained the confidentiality of the letter; specifically, Bausch & Lomb transmitted only two copies of the letter to GEC with instructions against further distribution, instructed GEC to make no further copies of the letter, and required return of both copies of the letter. *Id.* at 308-309. Applying the test from *Union Carbide v. Dow Chemical*, 619 F. Supp. 1036, 1047 (D. Del. 1985), which set forth that communications to non-parties can retain a protective shield if the parties have a common legal interest, such as where they are co-defendants or are involved in or anticipate joint litigation. Under the *Union Carbide* test, the key consideration is that the nature of the legal interest must be identical, not similar, and legal, not solely commercial. *Hewlett-Packard*, 115 F.R.D. at 309 citing *Union Carbide* 619 F. Supp. at 1047. While the *Hewlett-Packard* court found that Bausch & Lomb and GEC at the time of the negotiations arguably anticipated joint litigation, the court was not satisfied that the facts supported that the two companies shared a "common legal interest." *Id.* at 310. As a result of the uncertainty, the court underwent a policy analysis. Citing Professor Richard L. Marcus, *The Perils of Privilege: Waiver and the Litigator*, 84 Mich. L. Rev. 1605 (1986), the court rationalized that when determining if privilege has been waived, "one should look at the 'explicit or implicit undertaking by the recipient of the information to hold it in confidence.'" *Hewlett-Packard*, 115 F.R.D. at 311 quoting Marcus, 84 Mich. L. Rev. at 1641. Based upon the facts by which Bausch & Lomb disclosed the opinion to GEC, the court held that Bausch & Lomb did not waive the attorney-client privilege when the opinion was disclosed to GEC. *Hewlett-Packard*, 115 F.R.D. at 312.

In another case originating from the Northern District of California, *Britesmile, Inc. v. Discus Dental Inc.*, 2004 U.S. Dist. LEXIS 20023 (N.D. Cal. 2004), Britesmile sued Discus Dental for patent infringement. During discovery, Britesmile asked the court to order Discus Dental to produce an opinion letter prepared by Discus Dental's attorneys relating to the patentability and non-infringement of Britesmile's patents. Discus Dental asserted that the opinion was not covered by the attorney-client privilege because Discus Dental had waived the privilege when it disclosed the opinion letter during the purchase of technology from a third party. *Id.* at 6-7. In finding that Discus Dental had not waived the attorney-client privilege when it disclosed the opinion letter to the third party, the court cited the *Hewlett-Packard* policy analysis to support its holding: "Unless it serves some significant interest courts should not create procedural doctrine that restricts communications between buyers and sellers, erects barriers to business deals, and increases the risk that prospective buyers will not have access to important information that could play key roles in assessing the value of the business or product they are considering buying." *Britesmile*, 2004 U.S. Dist. LEXIS at 9 quoting *Hewlett Packard*, 115 F.R.D. at 311.

In *Tenneco Packaging Specialty and Consumer Products, Inc. v. S.C. Johnson & Son, Inc. and KCL Corp.*, 199 U.S. Dist. LEXIS 15433 (N.D. Ill. 1999), Tenneco, the holder of a patent relating to Hefty One Zip Storage bags (USPN 5,007,143), sued S.C. Johnson, the holder of a patent relating to Slide-Loc storage bags (USPN 5,664,299), and its manufacturer KCL for patent infringement. The '299 Patent was originally owned by DowBrands and was turned over to S.C. Johnson during due diligence for the asset purchase agreement that gave S.C. Johnson rights in the '299 Patent. *Id.* at 7. During discovery, Tennoco sought an opinion letter drafted by a patent attorney retained by DowBrands. *Id.* at 6-7. The court held that the opinion need not be produced because the record showed that DowBrands took substantial steps to ensure that the opinion would remain confidential; specifically, DowBrands did not disclose the opinion until the asset purchase deal was largely locked up and then it was disclosed to a limited number of S.C. Johnson representatives only after they acknowledged that the disclosure was subject to a confidentiality agreement. *Id.* at 7.

In *Katz and MCI v. AT&T Corp.*, 191 F.R.D. 433 (E.D. Pa. 2000), Ronald Katz, the owner of a portfolio related to telephonic interactive voice applications, entered into two contracts with MCI: a non-exclusive license for the patent portfolio and an exclusive license to enforce the patent portfolio. Katz and MCI later sued AT&T for patent infringement. During discovery, AT&T requested the production of a document relating to the licensing negotiations, which Katz and MCI refused to produce as protected by the attorney-client privilege. The Special Master assigned to manage discovery of the case ordered the production of all documents between Katz's attorney and the MCI representatives that occurred prior to the signing of the licensing agreement, which occurred on May 29, 1996. *Id.* at 4. Katz and MCI objected arguing that all communications that occurred between December 19, 1995, and May 29, 1996, were privileged because on December 19, 1995, the two parties had decided to enforce the Katz patent portfolio against AT&T and therefore after that date, they shared a common legal interest in enforcing the Katz patents. *Id.* at 7. The Special Master disagreed and concluded that there was no agreement in place until the final agreement was signed on May 29, 1996. *Id.* at 10. Citing *Hewlett-Packard* and acknowledging that a final agreement is not a prerequisite to the application of the common interest doctrine, the court nonetheless held that the record did not show that prior to the signing of the final agreement the two parties shared an identity of interests sufficient to invoke the common interest doctrine. *Id.* at 12. The court explained in a footnote that the record indicated that at the outset of the negotiations in 1995 through the date of the final agreement in 1996, the terms of the negotiations were conducted at arm's length; specifically, the court highlighted that the confidentiality agreement entered between the parties indicated that the content of their discussions could not be used by either participant for any other purpose including a future lawsuit between them; the "deal points" exchanged in January 1996, included a written disclaimer that nothing in the document was binding and that the deal points were just an outline of a potential deal; and the final agreement between the parties expressly stated that the parties shall be independent contractors and that the agreement was "in no way" to be construed as creating a joint venture, partnership, or agent relationship between the parties." *Id.* at 14.

The foregoing case law analysis indicates that circumstances surrounding the disclosure of an attorney-client privileged document, such as a legal opinion, in an IP due diligence investigation must be carefully monitored. While such documents may be disclosed where necessary to close a deal, the documents should only be disclosed where the facts support a showing that the parties not only share a common legal interest, but that the common legal interest is negotiated in a manner that is not adversarial or handled at arm's length. *See*, *Katz and MCI v. AT&T Corp.*, *supra*. In order to avoid jurisdictional discrepancies on acceptable methods of disclosure, the document should preferably be disclosed according to the approach taken in *Hewlett-Packard v. Bausch & Lomb* (*supra*); specifically, disclosing the documents to a limited number of executives, or more preferably, IP counsel, under a confidentiality agreement where no copies of the document are made and the document is returned to the originating party within a reasonable period of time. In addition to the foregoing, the disclosure should also be accompanied by a common interest agreement that specifically delineates the procedures by which the document is to be handled by the receiving party. Where the document changes hands from one IP counsel to another, the disclosure will have the additional advantage of furthering the appearance of the disclosure as concerning a common legal interest, rather than a common commercial venture. *See*, *Libbey Glass v. Oneida*, *supra*. IPT

ENDNOTES

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