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The Common-Interest Doctrine and Intellectual Property Due Diligence

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INTRODUCTION

COMPANIES INVOLVED IN INTELLECTUAL PROPERTY due diligence investigations are sometimes faced with situations in which business transactions would be facilitated by disclosing their attorney's legal impressions to a potential business partner. In the biotechnology and pharmaceutical industries, for example, vast resources and expertise are required to bring a product to market. Most biotechnology companies are focused on a specific portion of the product chain (e.g., identifying a drug candidate) and rely on numerous external collaborations and alliances with other biotechnology and pharmaceutical companies for further product development.[1] Prior to entering an intercompany alliance, however, potential business partners need answers to complicated legal questions, including (1) whether intellectual property owned by third parties exists that may be infringed during the collaborative effort; and (2) whether the other company's own intellectual property sufficiently covers the product intended for commercialization. A potential business partner is faced with the choice of either retaining an attorney to perform due diligence investigations from scratch or, to save time and money, requesting that the other company turn over any relevant legal opinions that have already been prepared for its own use. However, absent applicability of an exception to the waiver rule, sharing legal opinions with another waives the attorney–client privilege.

Provided below is a discussion of the attorney–client privilege and exceptions to the waiver rule; a review of case law involving the common-interest doctrine in the context of transactions involving intellectual property; and considerations and recommendations for companies involved in due diligence investigations.

ATTORNEY–CLIENT PRIVILEGE AND EXCEPTIONS TO THE WAIVER RULE

The attorney–client privilege protects from disclosure confidential communications from client to lawyer during professional employment.[2] The protection extends to "both information provided to the lawyer by the client and professional advice given by an attorney that discloses such information."[3] With a few exceptions, discussed below, a client who discloses privileged information to a third party waives the privilege. Generally speaking, the scope of the waiver includes all documents and information in the client's hands that relate to the waived subject matter.[4] Thus, if the privilege is waived—for example, because a company shared with a potential collaborator an opinion of counsel relating to

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[1]Lillian Waagø, Factors Related to Acquiring Capital in Young Biotechnology and Biomedical Firms, NCSB 2004 Conference 13th Nordic Conferences on Small Business Research (May 2004); *see also* D.L. Deeds and C.W.L. Hill, Strategic alliances and the rate of new product development: an empirical study of entrepreneurial biotechnology firms, 7(2) J. Bus. Venturing 41–55 (1996).

[2]*United States v. Schwimmer,* 892 F.2d 237, 243 (2d Cir. 1989).

[3]*In re Six Grand Jury Witnesses,* 979 F. 2d 939, 944 (2d Cir. 1992).

[4]*Steelcase, Inc. v. Haworth, Inc.,* 954 F. Supp. 1195, 1198–99, 43 U.S.P.Q.2d 1041, 1043 (W.D. Mich. 1997).

a patent that is later asserted against the parties in an action for infringement—the opinion itself and all of the company's internal documents relating to the opinion may well have to be turned over to the plaintiff during discovery. Nonetheless, a company's need to conduct business may trump concerns about waiver of the privilege when a potential collaborator with leverage wants intellectual property assurances but refuses to commit the resources necessary to perform its own investigation.

Exceptions to the waiver rule that have been recognized by the courts include situations involving joint clients, joint litigants, and common interest arrangements. The joint client privilege applies where two or more clients seek representation from the same lawyer. Communications between such joint clients and their lawyer can remain privileged vis-à-vis third parties.[5] However, such representations can raise conflicts of interest where a common lawyer represents joint clients whose interests may diverge in the future. The joint-litigant privilege preserves the attorney–client privilege for communications shared by coparties in litigation even where those parties are represented by different counsel.[6] The joint-litigant privilege is also limited, as, to be recognized, the information exchange must occur within the context of actual or threatened litigation.[7] In contrast, the common-interest doctrine extends the joint-litigant privilege by allowing parties represented by different counsel to share information outside the context of the litigation.[8] Parties having "an identical legal interest with respect to the subject matter of the communication" are permitted under the doctrine to share information without waiving the attorney–client privilege.[9] The purpose of the doctrine is to encourage parties working under a common legal interest "to benefit from the guidance of counsel, and thus avoid the pitfalls that otherwise might impair their progress toward their shared objective."[10]

CASE LAW TREATMENT OF THE COMMON-INTEREST DOCTRINE IN THE CONTEXT OF TRANSACTIONS INVOLVING INTELLECTUAL PROPERTY

Intellectual property cases applying the common-interest doctrine

Hewlett-Packard Co. v. Bausch & Lomb Inc.

In *Hewlett-Packard*, the District Court for the Northern District of California held that there was no waiver of the attorney–client privilege when the defendant, Bausch & Lomb, seeking to sell one of its divisions, voluntarily disclosed its patent attorney's opinion letter to a prospective purchaser, GEC.[11] The opinion letter concerned Hewlett-Packard's patent, which was the patent in issue in the litigation. While acknowledging that forcing Bausch & Lomb to produce the document would contribute to ascertaining the truth at trial and that this was a "close case." the court focused on policy considerations to support its finding no waiver:

> (h)olding that this kind of disclosure constitutes a waiver could make it appreciably more difficult to negotiate sales of businesses and products that arguably involve interests protected by laws relating to intellectual property. Unless it serves some significant interest courts should not create procedural doctrine that restricts communication 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.[12]

Even though GEC subsequently decided not to buy the Bausch & Lomb division, the court held that Bausch & Lomb and GEC had a common interest because, at the time of the negotiations, it was "quite likely" that the parties would be identically aligned in any litigation against Hewlett-Packard.[13] To further support its holding, the court stressed that Bausch & Lomb "did everything within its power to impress upon GEC the importance of maintaining the confidentiality of the opinion letter, and GEC, in turn, seemed

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[5]James M. Fischer, The attorney client privilege meets the common interest arrangement, 16 Rev. Litig. 631, 634 (1997).
[6]*Id.* at 634.
[7]*Id.* at 633.
[8]*Id.* at 635.
[9]*Duplan Corp. v. Deering Milliken,* 397 F. Supp. 1146, 1164, 184 U.S.P.Q. 775, 790 (D.C.S.C. 1974).
[10]*Libbey Glass v. Oneida, Ltd.,* 197 F.R.D. 342, 347–48, (N.D. Ohio 1999).
[11]*Hewlett Packard Co. v. Bausch & Lomb Inc.,* 115 F.R.D. 308, 309, 4 U.S.P.Q. 1673, 1673 (N.D. Cal. 1987).
[12]*Id.* at 311, 4 U.S.P.Q. at 1675.
[13]*Id.* at 310, 4 U.S.P.Q. at 1674.

to have undertaken to hold the letter in confidence."[14]

Johnson Electric North America Inc. v. Mabuchi North America Corp.

On facing a claim that it was infringing patents held by Mabuchi, Johnson Electric filed suit seeking a declaratory judgment that the patents were invalid. During discovery, Mabuchi's counsel traveled to Hong Kong to depose one of Johnson's customers, Dickson, and sought production of documents relating to communications between New York counsel for Johnson and Hong Kong counsel for Dickson.

The District Court for the Southern District of New York held that there had been no waiver of the attorney–client privilege because of the common interest of Johnson and Dickson.[15] The court stated that the common interest doctrine "does not require that both, or indeed either, of the communicants be parties to a litigation."[16] The court further noted that Johnson and Dickson were "*de facto* allies" because both faced a threat of liability if Mabuchi prevailed on its infringement theories.[17] Moreover, "Johnson, as a supplier anxious to please its customer, had a strong economic incentive to avoid unnecessarily embroiling that customer in litigation that arose from Johnson's activities in marketing the assertedly infringing equipment."[18]

United States v. A.S.C.A.P.

In an action for determination of reasonable license fees, the American Society of Composers, Authors and Publishers (ASCAP) sought production of documents relating to a series of discussions held over a period of 6 years among cable suppliers and their counsel.[19] The cable suppliers resisted on the grounds that the documents were protected under attorney–client privilege and the work-product rule.[20] While stating that there was insufficient information in the record to determine if the work-product rule applied,[21] the District Court for the Southern District of New York took the position that the cable providers' attorney–client privilege claim stood on firmer ground.

> [T]he discussions involved an assessment of legal issues, and indicate that the attorneys played an active role, either in reporting legal developments or in advising the companies on legal matters . . . [the companies] were conducting these discussions to serve a common legal and economic interest—the minimization of music performance rights fees. Thus, the statements made at the meetings would presumably be covered by the so-called common-interest extension of the attorney–client privilege.[22]

Tenneco Packaging Specialty and Consumer Products, Inc. v. S.C. Johnson & Son, Inc.

Tenneco Packaging Specialty and Consumer Products, Inc., is the holder of a patent claiming a rolling zipper on a plastic storage bag. In an asset-purchase agreement, S.C. Johnson & Son (SCJ) received the rights to a similar patent from Dowbrands and had bags with a rolling zipper manufactured on its behalf by KCL Corporation. Tenneco sued SCJ and KCL for patent infringement[23] and sought to compel deposition testimony and production of an opinion of Dowbrands' counsel that SCJ withheld as falling under the attorney–client privilege.[24]

The opinion, which had been drafted by Dowbrands' attorney to provide that company with legal advice concerning potential infringement of

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[14]Id. at 311, 4 U.S.P.Q. at 1675; *see also Electro Scientific Industries, Inc. v. General Scanning, Inc.* 175 F.R.D. 539, 542 (N.D. Cal. 1997) (disclosures of patent opinion from alleged infringer's counsel to two possible customers "were made under circumstances [including steps taken to maintain confidentiality] that probably would support a finding that the 'community of interest' doctrine applied.").

[15]*Johnson Electric North America, Inc. v. Mabuchi North America Corp.,* 1996 U.S. Dist. LEXIS 5227, at *9–10 (S.D.N.Y. October 29, 1996).

[16]*Johnson Electric,* 1996 U.S. Dist. LEXIS 5227, at *11; *See also Gaus v. Conair Corp.,* 2000 U.S. Dist. LEXIS 4450, at *8–9 (S.D.N.Y. April 6, 2000) ("It is not necessary that an actual lawsuit be in progress for the [common interest] principle to apply.")

[17]*Johnson Electric,* 1996 U.S. Dist. LEXIS 5227, at *10.

[18]*Johnson Electric,* 1996 U.S. Dist. LEXIS 5227, at *10.

[19]*United States v. A.S.C.A.P.*, 1996 U.S. Dist. LEXIS 16201, at *1 (S.D.N.Y. October 29, 1996).

[20]*A.S.C.A.P.,* 1996 U.S. Dist. LEXIS 16201, at *1.

[21]*A.S.C.A.P.,* 1996 U.S. Dist. LEXIS 16201, at *2 ("[From the record] we cannot determine which of the communications were made 'in anticipation of litigation' and hence presumptively protected by the work-product rule.").

[22]*A.S.C.A.P.,* 1996 U.S. Dist. LEXIS 16201, at *3–4.

[23]*Tenneco Packaging Specialty and Consumer Products, Inc. v. S.C. Johnson & Son, Inc.,* 1999 U.S. Dist. LEXIS 15433, at *1 (N.D. Ill. September 9, 1999).

[24]*Tenneco,* 1999 U.S. Dist. LEXIS 15433, at *2.

Tenneco's patent, was shown to SCJ while SCJ was performing due diligence for the asset-purchase agreement.[25] In denying Tenneco's motion, the District Court for the Northern District of Illinois pointed out that access to the opinion was controlled by specific procedures designed to prevent dissemination of its contents, such as showing the opinion to only a limited number of SCJ representatives after they had acknowledged that it was subject to a confidentiality agreement.[26] Moreover, the opinion was disclosed when the asset purchase deal was "largely locked up."[27]

In re Regents of the University of California

Shortly after filing a patent application in 1978, the Regents for the University of California entered into an exclusive option agreement that provided Eli Lilly with license rights to future issued U.S. and foreign patents.[28] At trial before the District Court for the Southern District of Indiana, Genentech sought declaratory judgment that a U.S. patent arising out of this application was invalid, unenforceable, and not infringed by Genentech's human growth hormone product. The District Court granted Genentech's motion to compel testimony concerning certain communications between in-house counsel for Lilly and counsel for UC concerning prior art and errors in the patent which Genentech contended were relevant to the issue of inequitable conduct.[29] The University then filed a writ of mandamus to prevent "the wrongful exposure of privileged communications."[30]

While acknowledging that the scope of the attorney–client privilege is narrowly drawn in the Seventh Circuit,[31] the Federal Circuit overturned the District Court's holding by concluding that the legal interest between UC and Lilly was sufficiently identical for the common interest doctrine to apply.[32] The Federal Circuit cited factors such as the potentially and ultimately exclusive nature of the license agreement (Lilly was "more than a nonexclusive licensee") and that the two parties had the same interest in obtaining valid patents.[33]

Intellectual property cases not applying the commo-interest doctrine

Libbey Glass, Inc. v. Oneida, Ltd.

Libbey Glass, Inc., a glassware manufacturer, sued Oneida Ltd. for trade dress infringement.[34] In an attempt to increase its presence in the glassware market, Oneida had contracted with Pasabahce Cam Sanayii VE Ticaret A.S., a Turkish manufacturer of glassware, to purchase several lines of glassware.[35]

Because of concerns about the legal implications of similarities between the glassware Pasabahce manufactured for Oneida and Libbey's glassware, employees at Oneida disclosed to Pasabahce information from Oneida's counsel. Libbey argued that this disclosure constituted a waiver of the attorney–client privilege and sought discovery of all attorney–client communications relating to the transaction between Oneida and Pasabahce.[36] The District Court for the Northern District of Ohio agreed with Libbey and rejected the "more expansive" view of the common-interest doctrine expressed in *Hewlett-Packard.*[37]

Under the "more restrictive" view, information shared during a business undertaking loses its privileged status, "even though such sharing helped address or ameliorate bona fide concerns about the legal implications of some aspect of the business venture."[38] The court pointed out that Pasabahce never consulted with their own counsel, and no steps had been taken by Oneida or Pasabahce to ensure that the shared information would remain confidential.

> The burden belongs on the party claiming privilege to have avoided uncertainty, and to have

[25] *Tenneco,* 1999 U.S. Dist. LEXIS 15433, at *3.
[26] *Tenneco,* 1999 U.S. Dist. LEXIS 15433, at *8.
[27] *Tenneco,* 1999 U.S. Dist. LEXIS 15433, at *8.
[28] *In re Regents of the Univ. of Cal.,* 101 F.3d 1386, 1388–89, 40 U.S.P.Q.2d 1784, 1786 (Fed. Cir. 1996).
[29] *In re Regents,* 101 F.3d at 1388, 40 U.S.P.Q.2d at 1785–86.
[30] *Id.* at 1388, 40 U.S.P.Q.2d at 1785.
[31] For procedural matters not unique to patent law, the Federal Circuit applies circuit law. *National Presto Indus., Inc. v. West Bend Co.*, 76 F.3d 1185, 1188 n. 2, 37 U.S.P.Q.2d (BNA) 1686 n. 2 (Fed. Cir. 1996).
[32] *In re Regents,* 101 F.3d at 1390, 40 U.S.P.Q.2d at 1787.
[33] *Id*, at 1390, 40 U.S.P.Q.2d at 1787–88; *See also Baxter Travenol Labs., Inc. v. Abbott Labs.,* 1987 U.S. Dist. LEXIS 10300, at *6 (N.D. Ill. June 19, 1987) ("[T]he community of interest . . . extends only to communications relating to prosecution and litigation of the patents, and not to those communications relating to the parties' rights among themselves in the patents.").
[34] *Libbey Glass,* 197 F.R.D. at 348.
[35] *Id.* at 344.
[36] *Id.* at 346.
[37] *Id.* at 348.
[38] *Libbey Glass v. Oneida, Ltd.,* 197 F.R.D. 342 (N.D. Ohio 1999) at 348.

> taken effective steps to ensure that all participants were aware of the need to maintain confidentiality, and to show that mechanisms were in place to accomplish that objective before the information was shared.[39]

However, even if steps had been taken to preserve confidentiality, the court found in the alternative "that the shared communications were ancillary to the negotiation of a business agreement"[40] and thus would have still constituted a waiver of the attorney–client privilege. According to the court,

> Oneida sought commercial gain, not legal advantage, through disclosure of its lawyer's advice to Pasabahce. The parties were formulating not a "common legal" strategy, but a joint commercial venture.[41]

Katz and MCI v. AT&T Corp.

Ronald A. Katz, the owner a large number of patents related to telephonic interactive voice applications, formed an entity, Ronald A. Katz Technology Licensing, L.P. (RAKTL) to license his portfolio.[42] RAKTL and MCI negotiated an agreement granting MCI a non-exclusive license to Katz's portfolio and an exclusive right to enforce the portfolio against AT&T.

RAKTL and MCI as joint plaintiffs then filed a patent infringement suit against AT&T. Because of the complexity of the case, the District Court for the Eastern District of Pennsylvania appointed a Special Master to manage discovery. During discovery, the Special Master granted AT&T's motion to compel discovery of documents relating to the negotiations between RAKTL and MCI that resulted in the licensing agreement.[43]

RAKTL and MCI objected to the Special Master's order on the grounds that sharing documents during the negotiation phase did not waive the attorney–client privilege in view of the common legal interest of RAKTL and MCI. In particular, RAKTL and MCI argued that, before the documents were exchanged, they had "reached an agreement in principle to enforce the Katz patent portfolio against AT&T and, therefore, they had a common legal interest in enforcing the Katz patents."[44]

Citing *Hewlett-Packard*, the court agreed that the common-interest doctrine can protect the attorney–client privilege even where information is exchanged prior to final agreement and even if the parties ultimately do not conclude an agreement.[45] The district court nonetheless affirmed the Special Master, as the "Report reflects the determination by the Special Master that the plaintiffs failed to meet their burden of showing the requisite identity of interests required under the doctrine because the parties had not reached an agreement, final or otherwise, as to the licensing issues prior to the signing of the agreement. . . . "[46] According to the court, during negotiations, the interests of the parties were adversarial and conducted at arm's length.[47]

Concerning the existence of an identity of legal interest, the court found the record to be "sufficiently ambiguous as to the existence of an identity of interest to preclude overturning the decision of the Special Master as clearly erroneous."[48]

CONSIDERATIONS AND RECOMMENDATIONS FROM THE CASE LAW

The common-interest doctrine allows parties to share otherwise privileged information without waiving the attorney–client privilege. However, as the case law illustrates, the doctrine's applicability depends primarily on the nature of the relationship between the parties at the time the information is shared. For example, the doctrine has been applied in more than one case where a licensee with exclusive rights and a licensor share otherwise-privileged information while jointly developing a patent port-

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[39] *Id.* at 349.
[40] *Id.* at 349.
[41] *Id.* at 349; *see also Bank Brussels Lambert v. Credit Lyonnais (Suisse) S.A.*, 160 F.R.D. 437, 447 (S.D.N.Y. 1995) ("[T]he common interest doctrine does not encompass a joint business strategy which happens to include as one of its elements a concern about litigation.").
[42] *Katz v. AT&T Corp.,* 191 F.R.D. 433, 435 n. 1 (E.D. Pa. 2000).
[43] *Id.* at 436.
[44] *Katz*, 191 F.R.D. at 436.
[45] *Id.* at 437.
[46] *Id.* at 438.
[47] *Id.* at 438 n. 6; *see also SCM Corp. v. Xerox Corp.,* 70 F.R.D. 508, 513 (D. Conn. 1976) ("The communications in question took place during protracted negotiations between joint venturers, but were not directed at advancing the joint interest vis-à-vis the rest of the world.").
[48] *Katz,* 191 F.R.D. at 438.

folio.[49] Similarly, the doctrine has been applied when information is exchanged during negotiation of asset-purchase agreements where there is concern about infringing third-party patents.[50] However, sharing information during negotiation of more routine business transactions (such as between a manufacturer and a distributor or between a future licensee and licensor) has been viewed as waiving the privilege.[51] Another important factor is whether at the time the information is shared the parties have in place an agreement that effectively maintains confidentiality and limits the number of individuals having access to the information.[52]

Further, the geographic location of the court deciding whether the common interest doctrine applies can be determinative. For example, given the "more expansive" view enunciated by the District Court for the Northern District of California and the "more restrictive" view expressly adopted by the District Court for the Northern District of Ohio, presumably courts in the Ninth Circuit are more receptive to preserving the attorney–client privilege via the common-interest doctrine than are courts in the Sixth Circuit.

In light of these uncertainties, companies should consider resisting requests from potential business partners for otherwise-privileged information, especially during the arm's-length negotiation phase of a proposed business transaction. As an alternative, companies should offer to provide potential business partners with a list of public documents, such as, for example, third-party patents and published patent applications, that were considered during a freedom-to-operate study, without also sharing privileged legal analyses and conclusions. The potential business partner could then benefit from its own attorney's legal opinion concerning the relevance of the public documents to the proposed business transaction. While many business partners would rather not spend the time or money required to obtain such legal opinions on their own, it should be kept in mind that, if a waiver is found, corporate executives who participated in the information exchange may well be forced to testify concerning the details of the exchange in some future litigation. Thus, any such exchange should occur between the respective outside counsel for the parties as opposed to between executives of the two companies.

In situations where a company's need to conduct business trumps concerns about waiver of the attorney–client privilege when a potential business partner with leverage wants intellectual property assurances but refuses to perform its own due diligence study, the company should consider requiring the potential business partner to sign a common-interest agreement that recognizes the confidential nature of the information and strictly limits access to just a few individuals who agree to destroy or return any shared documents. While perhaps not always sufficient for routine business transactions, having such common-interest arrangements in place at the time the information is shared has been viewed with favor by the courts. As a caveat, however, a company having multiple potential customers who are all seeking assurances, for example, concerning potential infringement of the same third-party patent, may find it difficult to comply with the terms of a common-interest agreement.

In sum, relying on the common-interest doctrine is useful for companies who feel compelled to share otherwise-privileged information with a potential business partner. However, in light of the case law, companies relying on even the most carefully drafted common-interest agreements must accept some uncertainty concerning the risk of waiver.

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[49]*See In re Regents,* 101 F.3d at 1388, 40 U.S.P.Q.2d at 1785–86; *Baxter Travenol Labs., Inc.,* 1987 U.S. Dist. LEXIS 10300, at *6.

[50]*See Hewlett Packard,* 115 F.R.D. at 309, 4 U.S.P.Q at 1673; *Tenneco,* 1999 U.S. Dist. LEXIS 15433, at *1.

[51]*See Libbey Glass,* 197 F.R.D. at 348; *Katz*, 191 F.R.D. at 438; *cf. Johnson Electric,* 1996 U.S. Dist. LEXIS 5227, at *9–10.

[52]*See Hewlett Packard,* 115 F.R.D. at 309, 4 U.S.P.Q at 1673; *Libbey Glass,* 197 F.R.D. at 349.