Applicability of the Common Interest Doctrine for Preservation of Attorney-Client Privileged Materials Disclosed During Intellectual Property Due Diligence Investigations

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Technology permeates today’s business culture. As a result, most corporate transactions involve significant issues relating to the ownership, value, and use of technology and intellectual property rights. Many corporate transactions are driven by the underlying technology and intellectual property assets themselves, as parties seek to capitalize on the value and synergies that can result from buying, selling, licensing, and financing such assets. Consequently, prudent investors and acquirers conduct intellectual property due diligence investigations prior to consummating technology-driven corporate transactions.

A proper intellectual property due diligence investigation is designed to reveal defects or risks that may affect the value and/or structure of the proposed transaction. Such defects or risks can include, for example, encumbrances on the ownership of or right to use intellectual property assets, weaknesses or gaps in the protection afforded by intellectual property assets, actual or potential infringement by competitors, and exposure to third-party infringement claims. A company can undertake an intellectual property due diligence investigation, in large part, by using publicly available information and non-privileged confidential information. In some cases, however, the investigator may request access to previously prepared legal opinions and other information that is subject to the attorney-client privilege.

The ability to review attorney-client privileged information during a due diligence investigation can save the investigator significant time and money by reducing the need to conduct legal analyses that have already been done. In addition, access to privileged information can help the investigator understand and assess the nuances of a particular issue to a degree that might not otherwise be possible. As a general rule, however, disclosure of privileged information to a third-party will result in a waiver of the attorney-client privilege. Thus, disclosure of privileged information during a due diligence investigation may involve risks for both parties because it can result in a waiver of the attorney-client privilege regardless of whether the transaction is consummated.

An exception to the general rule that the attorney-client privilege is waived upon disclosure of privileged information to a third party is known as the “common interest doctrine.” Broadly stated, the doctrine holds that disclosure of privileged information to a third party will not result in a waiver if the third party has sufficient community of legal interest with the disclosing party. The common interest doctrine is most often recognized in cases involving joint clients (represented by the same attorney) or joint litigants (represented by the same attorney or different attorneys). However, some courts have also recognized the common interest doctrine in other contexts.

In considering whether the common interest doctrine applies in the context of a due diligence investigation, a central issue for the court to resolve is whether the asserted interest is legal and not

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solely commercial. The answer to this inquiry is highly dependent upon the facts and circumstances of the case at hand and the prevailing jurisprudence within the relevant jurisdiction. Some courts have held that parties engaged in certain corporate transactions can share a common legal interest and should thus be allowed to exchange privileged information without effecting a waiver. Other courts have declined to extend the common interest doctrine to disclosures made during due diligence investigations, based on the notion that the parties to the underlying transactions are necessarily adversaries engaged in commercial negotiations.

Accordingly, the question of whether a target company should produce privileged information in furtherance of an intellectual property due diligence investigation is one that should be carefully considered by both parties to the transaction. Conservatively, until the case law is more settled, the target company should produce privileged information only in those cases where the risk of a privilege waiver is clearly outweighed by the need for access, cost-savings, and/or efficiency. The remainder of this article highlights some of the more pertinent case law decisions in each federal judicial circuit and, as applicable, summarizes certain guiding principles for increasing the likelihood that a given disclosure will be protected.

I. First Circuit

Courts in the First Circuit follow the rule that the common interest doctrine applies only where the communication is made in the course of a common enterprise and in order to advance that common interest. A 'common interest' requires an identical (or nearly identical) legal interest, not simply a similar interest. While there do not appear to be any cases directly addressing the applicability of the common interest doctrine in the context of a due diligence investigation, the case of *Cavallaro v. United States* comes close. In that case, the District of Massachusetts considered whether the common interest doctrine could be applied to the disclosure of privileged documents discussing a proposed merger between two affiliated S corporations owned by members of the same family.

Although the Cavallaro court ultimately found that the common interest doctrine did not apply to the facts at issue because the recipient of the privileged information was not represented by counsel, the court did note that "[t]he weight of the case law suggests that, as a general matter, privileged information disclosed during a merger between two unaffiliated businesses would fall within the common-interest doctrine." The court rejected the argument that the doctrine applies only when

5 *FDIC v. Ogden Corp.*, 202 F.3d 454, 461 (1st Cir. 2000) (citations omitted).
7 Id. at 62 (citing *Bank Brussels Lambert v. Credit Lyonnais*, 160 F.R.D. 437, 447 (S.D.N.Y. 1995)) ("[T]he doctrine applies where parties are represented by separate counsel but engage in a common legal enterprise.").
the parties anticipate litigation. In support, the *Cavallaro* court quoted the Northern District of California as follows:

> [C]ourts 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.

Although the Court of Appeals for the First Circuit has yet to ratify such broad language, the district courts within the circuit have been among the most amenable to assertions of privilege.

II. Second Circuit

As applied by district courts in the Second Circuit, the common interest doctrine prevents waiver of a privilege if the party invoking the doctrine demonstrates that the parties: (1) had a common legal interest, not merely a commercial one; and (2) the information was disclosed in the course of establishing a common legal strategy. A claim resting on the common interest doctrine requires a showing that the company gave the communication in confidence and that the client reasonably understood it to be confidential. Merely sharing a desire to succeed in an action does not create a common interest.

In addressing whether the common interest doctrine applied to legal opinions exchanged during the course of a due diligence investigation, the Southern District of New York has suggested that the timing of the exchange can be a factor in determining whether the interest at issue is legal or commercial. In *JA Apparel Corp.*, the plaintiff disclosed opinion letters to its eventual purchaser and parent company. The court reasoned that if the plaintiff disclosed opinion letters before the purchaser decided to acquire the company, disclosure may have waived any privilege because the letters’ creation and disclosure were motivated not by legal concerns, but by business concerns – namely, the valuation of the acquired company. Conversely, if the plaintiff disclosed opinion letters after the purchaser “had already made the decision, for all intents and purposes, to purchase [the acquired company], in order to better understand [the acquired company]’s rights and obligations under the relevant agreements,” disclosure may have served a legal purpose.

As in the First Circuit, the lack of concrete appellate precedent requires a measure of caution, but the test laid out in *JA Apparel* provides the practitioner with certain guidance as to the direction or judicial leanings of certain district courts in the Second Circuit.

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9 *Cavallaro*, 153 F. Supp. 2d at 62 (internal quotation marks omitted).
10 Id. (quoting *Hewlett-Packard Co.*, 115 F.R.D. at 311).
14 Id. at *4 (citing *In re Grand Jury Subpoena Duces Tecum Dated Sept. 15, 1983*, 731 F.2d 1032, 1037 (2d Cir. 1984)).
III. Third Circuit

Courts in the Third Circuit have generally held that the parties to a disclosure need only demonstrate that the shared interest is similar, not identical, in order for the common interest doctrine to apply.\(^{16}\) However, there is another line of cases in the Third Circuit in which courts have apparently looked to precedents in other circuits in holding that the nature of the common interest must be identical.\(^{17}\) It is unlikely that this uncertainty will be eliminated without appellate intervention.

As in other circuits, courts in the Third Circuit hold that the common interests of the parties must transcend similar commercial interests and involve common legal interests.\(^{18}\) Although the decisional law is thin, courts in the Third Circuit have suggested that the common interest doctrine applies in transactional contexts, such as when parties are jointly developing patents or contemplating a merger.\(^{19}\) In *Katz v. AT&T Corp.*, however, the court held that documents relating to prior patent license negotiations between the co-plaintiffs were not subject to the attorney-client privilege under the common interest doctrine.\(^{20}\) Although the co-plaintiffs eventually consummated a licensing arrangement, the court found that the common interest doctrine did not apply to the documents in question “because the parties had not reached an agreement, final or otherwise, as to the licensing issues prior to the signing of the [license] agreement.”\(^{21}\) Although the court recognized that an executed agreement is not a prerequisite to application of the common interest doctrine, the court nonetheless concluded that the co-plaintiffs did not share an identity of legal interests when they were negotiating their license agreement at arm’s length.\(^{22}\) In the absence of concrete steps towards a final agreement, the parties’ legal interest were still sufficiently distinguishable to preclude protection.\(^{23}\)

In defining the limits of the common interest doctrine, district courts within the Third Circuit have employed what appears to be less expansive language than have district courts in other circuits. Until case law is further developed within this circuit, it is advisable to proceed with extreme circumspection.

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16 See *La. Mun. Police Employees Ret. Sys. v. Sealed Air Corp.*, 253 F.R.D. 300, 309-10 (D.N.J. 2008) (“Although the most common statement of the degree of interest required is that ‘the interest be identical, not similar, and be legal, not solely commercial,’ the Third Circuit has not specifically adopted such a stringent approach.”) (citations omitted); *Andritz Sprout-Bauer, Inc v. Beazer East, Inc.*, 174 F.R.D. 609, 634 (M.D. Pa. 1997) (“The interests of the parties need not be identical, and may even be adverse in some respects.”); *Teleglobe Comm’ns Corp. v. BCE, Inc.*, 493 F.3d 345, 364-66 (3d Cir. 2007) (holding that the members of the community of interest must share at least a substantially similar legal interest, which need not be identical); *In re Total Containment, Inc.*, No. 04-13144, 2007 WL 1775364, at *6 (E.D. Pa. June 18, 2007).


21 Id. at 438.

22 Id.

23 Id.
IV. Fourth Circuit

In the Fourth Circuit, the interest must be legal in nature for the common interest doctrine to apply to any information shared among the parties. The party invoking the common interest doctrine must establish that the disclosure of privileged information was made as part of a common legal effort. Thus, “[i]n determining the applicability of the privilege, the focus is not on when [the] documents were generated, but on the circumstances surrounding the disclosure of [the] privileged documents to a jointly interested third party.” It is not necessary that there be actual litigation in progress for this privilege to apply.

To date, the Fourth Circuit does not appear to have extended the common interest doctrine to cover privileged information disclosed in connection with due diligence investigations. The Fourth Circuit has not, on the other hand, ruled out such an application, and there is no reason to believe that the doctrine would not apply if the disclosure is clearly made in advance of such common legal, and not commercial, interests.

V. Fifth Circuit

In the Fifth Circuit, the two types of communications protected under the common interest doctrine are: (1) communications between co-defendants in actual litigation and their counsel, and (2) communications between potential co-defendants and their counsel. These oft-cited categories of protected communications are quite narrow when compared to the limits established in other circuits, and thus district courts in this circuit may arguably be reluctant to extend the common interest doctrine any further, even if the previously recognized categories of protected communications are found to be illustrative, and not exhaustive.

For communication between potential co-parties to be covered by the doctrine, the Fifth Circuit generally requires a “palpable threat of litigation at the time of the communication.” A financial interest in the outcome of litigation is an insufficient basis for finding a common legal interest. A common interest may exist between co-defendants, an insurer and insured, and a patentee and licensee.

In *Power-One, Inc. v. Artesyn Technologies, Inc.*, the court extended the common interest doctrine to communications between the defendant and a number of other power supply companies that

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26 Id. at 416 (internal quotations omitted).


28 In re Sante Fe Int’l Corp., 272 F.3d 705, 710 (5th Cir. 2001) (citations omitted); see also Ferko v. NASCAR, Inc., 219 F.R.D. 403, 405-06 (E.D. Tex. 2003).


had been jointly developing certain technology.\textsuperscript{32} The power supply companies had entered into a common interest agreement prior to exchanging privileged legal analyses regarding one of the plaintiff’s patent applications. The court held that the power supply companies had a common legal interest insofar as they were all concerned about the plaintiff’s patents rights and their effect on the jointly developed technology.\textsuperscript{33}

It is unclear whether the court would have reached the same conclusion without a clear and recognizable source of litigation, such as in the context of a merger. Given the Fifth Circuit’s narrow definition of the common interest doctrine generally, the practitioner may be well-advised to proceed under the assumption that the doctrine will not have broad effect in the field of due diligence, especially where the disclosures do not otherwise comport with the limited conditions recognized in other circuits.

VI. Sixth Circuit

The Sixth Circuit follows the more restrictive line of cases involving the common interest doctrine, but provides a relatively detailed framework within which information may be disclosed without waiver of privilege. The doctrine applies to the disclosure of privileged communications to a third party only when the third party is represented by counsel, the third party understands the significance of the communications’ privileged status, and the attorney making the disclosure takes affirmative steps to safeguard the privilege.\textsuperscript{34} The legal interests implicated by the disclosure must be identical.\textsuperscript{35} Litigation need not be actual or imminent for the common interest doctrine to apply.\textsuperscript{36} The common interest doctrine may also apply “in connection with patent rights.”\textsuperscript{37} Mere concern about litigation in the context of a commercial transaction, however, is not a sufficient legal interest to implicate the common interest doctrine.\textsuperscript{38}

In \textit{Dura Global, Technology, Inc. v. Magna Donnelly Corp.}, the Eastern District of Michigan applied the common interest doctrine to two legal opinions regarding intellectual property rights.\textsuperscript{39} The party seeking common interest protection had taken steps to protect the confidentiality of the letters by marking letters as confidential and privileged, and ensuring that the recipient did not further disclose the information therein.\textsuperscript{40} The parties only shared information between intellectual property attorneys. The court further found that parties discussed the letters in connection with a common legal strategy rather than a joint commercial venture because the communications were exclusively about intellectual property issues rather than general business matters relating to the third parties’

\begin{itemize}
\item \textsuperscript{32} 2007 WL 1170733 at *2.
\item \textsuperscript{33} \textit{Id}.
\item \textsuperscript{34} \textit{Libbey Glass, Inc. v. Oneida, Ltd.}, 197 F.R.D. 342, 347-49 (N.D. Ohio 1999).
\item \textsuperscript{35} \textit{Dura Global, Techs., Inc. v. Magna Donnelly Corp.}, No. 07-cv-10995, 2008 WL 2217682, at *1 (E.D. Mich. May 27, 2008).
\item \textsuperscript{36} \textit{Id.} at *3.
\item \textsuperscript{37} \textit{Fresenius Med. Care Holdings, Inc. v. Roxane Labs., Inc.}, No. 2:05-cv-0889, 2007 WL 895059, at *3 (S.D. Ohio Mar. 21, 2007) (citations omitted).
\item \textsuperscript{38} \textit{Libbey Glass}, 197 F.R.D. at 348.
\item \textsuperscript{39} 2008 WL 2217682, at *2-3.
\item \textsuperscript{40} \textit{Id}.
\end{itemize}
purchase.\textsuperscript{41} Finally, the demonstrable legal interest was potential patent infringement, not the larger commercial interest in which it was possible.\textsuperscript{42}

In Fresenius Medical Care Holdings, Inc., the court held that a buyer’s interest in obtaining a valid patent sufficed to create a legal interest, despite the fact that communications about patent validity contributed to a commercial transaction.\textsuperscript{43} It was immaterial that the disclosure took place only after the closing, because the acquiring company’s legal interest in the validity of the patent “clearly survived the execution of the Asset Purchase Agreement . . . .”\textsuperscript{44} This contrasts with the Libbey Glass case, in which the failure to safeguard the confidentiality of the disclosures and the disclosure of legal advice to those whose relationship to the transaction in question was purely commercial precluded the application of the common interest doctrine.\textsuperscript{45}

\section*{VII. Seventh Circuit}

Although the Seventh Circuit has held that the common interest doctrine applies even without impending litigation, precedent indicates that the doctrine may not broadly serve to protect information shared during IP due diligence. Generally, like in other circuits, courts in the Seventh Circuit have held that the common interest doctrine applies only in situations where the interest is identical, not merely similar, and legal, not solely commercial.\textsuperscript{46} Although the common interest doctrine often arises in the context of documents shared between joint parties to litigation, courts in this Circuit have recognized that “litigation or impending litigation is not a prerequisite for the existence of a community of legal interests; corporations seek legal advice in order to plan their conduct and avoid litigation as well as to deal with present or impending litigation, and a community of legal interest may arise in the former situation as well as in the latter.”\textsuperscript{47}

In Baxter Travenol Laboratories, Inc. v. Abbott Laboratories, the Northern District of Illinois found that communications relating to the prosecution and litigation of patents were protected by attorney-client privilege despite disclosure to two individuals with whom the defendant had contracted to jointly develop the patents.\textsuperscript{48} The court reasoned that co-developers of patents could have a community of legal interests because “they have a common legal interest in developing the patents to obtain greatest protection and in exploiting the patents.”\textsuperscript{49} However, the court refused to apply the common interest doctrine to communications relating to the parties’ rights among themselves or to documents shared during negotiations between the parties because “any mutual interest they may have had was tenuous.”\textsuperscript{50} The parties had signed disclosure agreements for information disclosed

\begin{thebibliography}{99}
\bibitem{footnote1} Id.
\bibitem{footnote2} Id.
\bibitem{footnote3} 2007 WL 895059, at *3.
\bibitem{footnote4} Id.
\bibitem{footnote5} 197 F.R.D. at 349.
\bibitem{footnote8} Id. at *1 (citing S.C.M. Corp. v. Xerox Corp., 70 F.R.D. 508, 514 (D. Conn. 1976)).
\bibitem{footnote9} Id.
\bibitem{footnote10} Id. at *2.
\end{thebibliography}
during the negotiations, but the court stated that these agreements alone were not sufficient to establish a community of interest.\textsuperscript{51}

In the due diligence area, the plaintiff in \textit{Tenneco Packaging Specialty & Consumer Products, Inc. v. S.C. Johnson & Son, Inc.}, sought production of a patent opinion obtained by DowBrands that had been shared with S.C. Johnson as part of due diligence for an asset purchase agreement in which S.C. Johnson acquired the rights in the patent.\textsuperscript{52} The plaintiff claimed that the disclosure eliminated the attorney-client privilege, but the defendant asserted that the document remained privileged under the common interest doctrine.\textsuperscript{53} Citing \textit{Baxter Travenol}, the Northern District of Illinois held that the opinion was privileged and did not need to be produced.\textsuperscript{54} The court stated that the opinion was disclosed “when the asset purchase deal was largely locked up” and only to a limited number of S.C. Johnson employees who had “acknowledge[d] that the disclosure was subject to a confidentiality agreement.”\textsuperscript{55}

In contrast, in \textit{In re JP Morgan Chase & Co. Securities Litigation}, the Northern District of Illinois held that pre-merger documents shared between unaffiliated organizations were not protected by the common interest doctrine.\textsuperscript{56} Notably, the court did not cite \textit{Tenneco}, and the party seeking protection based its arguments on “two non-controlling cases” from other circuits.\textsuperscript{57} The court reasoned that prior to the merger, the organizations stood on opposite sides of the business transaction, and their interests were in conflict because if one gained a better deal, the other suffered.\textsuperscript{58} The court stated that this lack of shared legal interest was demonstrated by the fact that it would have been unethical for a single attorney to represent both parties in the transaction.\textsuperscript{59} However, the court applied the attorney-client privilege to documents shared after the parties signed the merger agreement, because at that time “the parties . . . shared a common interest in ensuring that the newly agreed merger met any regulatory conditions and achieved shareholder approval.”\textsuperscript{60}

The holdings in \textit{Tenneco} and \textit{JP Morgan Chase}, therefore, are somewhat inconsistent. This inconsistency may turn on the facts that the \textit{Tenneco} deal was “largely locked up” and the disclosure was expressly limited to certain parties. Although the Northern District of Illinois has not signaled a clear intent to move away from its earlier \textit{Tenneco} case, the \textit{JP Morgan Chase} decision appears to create a more modern and unfavorable precedent for any party seeking to use the common interest doctrine to protect confidential information disclosed during due diligence investigations in the Seventh Circuit.

\textsuperscript{51} \textit{Id.}

\textsuperscript{52} No. 98 C 2679, 1999 WL 754748, at *2 (N.D. Ill. Sept. 14, 1999).

\textsuperscript{53} \textit{Id.}

\textsuperscript{54} \textit{Id.}

\textsuperscript{55} \textit{Id.}

\textsuperscript{56} No. 06 c 4674, 2007 WL 2363311, at *3 (N.D. Ill. Aug. 13, 2007).

\textsuperscript{57} \textit{Id. at *5.}

\textsuperscript{58} \textit{Id.}

\textsuperscript{59} \textit{Id.}

\textsuperscript{60} \textit{Id.}
VIII. Eighth Circuit

Like courts in other circuits, courts in the Eighth Circuit follow the rule that the common interest doctrine applies when “the legal interest [is] identical, not similar, and [is] legal, not solely commercial.”

In *Rayman v. American Charter Federal Savings & Loan Ass’n*, the District Court for the District of Nebraska held that documents analyzing pending litigation that were revealed in merger negotiations remained privileged despite the disclosure. The court held that at the time of the negotiations, it was clear that if the merger were completed, the party to whom the information was revealed would be defending the action. Therefore, the parties had a common legal interest, namely the identical issues of law and fact in the pending case. The court found that not requiring disclosure was the better result because the information that was concealed (defense counsel’s analysis of the case, the present posture of the action, the estimated cost of defending the suit, and expenses incurred to date) did not leave the requesting party in a worse position than if disclosure had taken place. In addition, from a policy perspective, the court believed that an alternative result would harm business transactions between buyers and sellers. Therefore, although there is not much precedent in this area from courts in the Eighth Circuit, that which is available appears generally favorable to parties who wish to use the common interest doctrine to maintain privilege during IP due diligence investigations.

IX. Ninth Circuit

Courts in the Ninth Circuit have also held that the common interest doctrine applies when the nature of the interest between the parties asserting the privilege is identical, not similar, and is legal, not solely commercial. In *Hewlett-Packard Co. v. Bausch & Lomb, Inc.*, the plaintiff sought a patent opinion letter for which it claimed the defendant had waived attorney-client privilege by showing the document to a non-party during asset purchase negotiations. The Northern District of California held that the common interest doctrine extended to the letter because the parties anticipated litigation in which they would have in common identical issues of fact and law.

To justify its holding, the court evaluated a variety of policy implications of the holding. First, it stated that fear of waiver causes attorneys to spend excessive amounts of time and money screening documents and rehearsing witnesses. In addition, the court stated that analysis should distinguish between “partial” and “selective” disclosure. Partial disclosure, which causes waiver of the

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62 Id.
63 Id.
64 Id.
65 Id. at 655.
66 Id.
68 Id.
69 Id. at 310.
70 Id.
71 Id. at 311.
privilege, occurs when a party “tries to use advantageous portions of the privileged information while shielding portions that might be harmful to their case.” In contrast, selective disclosure occurs when a party “shares an entire document with a selected, limited audience” and “upon conditions of and with regard for confidentiality.” The court said that selective disclosure should not waive the privilege.

As an additional justification, the court reasoned that finding waiver in the context of business transactions could “make it appreciably more difficult to negotiate sales of businesses and products that arguably involve interests protected by laws relating to intellectual property.” Finally, the court was concerned about attorneys’ tendency to spend “an inordinate amount of time” trying to gain an advantage using the opposing party’s attorney’s statements, which it said leads to “costly, unproductive, and unseemly disputes.”

Likely due to the depth of the court’s analysis, the Hewlett-Packard opinion is frequently cited in cases addressing the common interest doctrine in the context of due diligence investigations, even by courts outside of the Ninth Circuit. Relying on Hewlett-Packard, in BriteSmile, Inc. v. Discus Dental Inc., the Northern District of California found that a patent opinion letter that the defendant’s attorney had shared with the owner of the patent the defendant was purchasing was privileged under the common interest doctrine. The court held that the parties had a common interest in the outcome of the attorney’s analysis, which was focused on whether the patent infringed any patents or was itself patentable. Therefore, the court held that because of the parties shared interest in the sale of the technology, they did not waive the privilege when the disclosures were made under “a strict duty of confidentiality.”

Not all cases from Ninth Circuit district courts have agreed with the Hewlett-Packard opinion’s fairly expansive interpretation of the common interest doctrine. In Nidec Corp. v. Victor Co. of Japan, the Northern District of California stated that “[t]o the extent Hewlett-Packard implies that policy consideration such as removing barriers to business deals expands to common interest doctrine and obviates the requirement that the protected communication must be intended to further the specific legal effort in which they hold a joint interest, the Court disagrees.” The Nidec court clarifies that Hewlett-Packard should not be interpreted to have permitted the common interest doctrine to preserve information as confidential simply because the third party with whom the information was shared was a prospective purchaser. Instead, it says, Hewlett-Packard should be interpreted as stemming from the common legal interest created by the anticipated joint litigation.
narrowing the opinion, the *Nidec* court says that for communications to be protected, they must be
designed to further the parties’ common legal interest, which would generally be a common defense
strategy. Therefore, the *Nidec* court held that when information was shared with a prospective
purchaser, but there was little to indicate that there might be joint litigation, there was no common
interest.

Therefore, although the *Hewlett-Packard* decision created very favorable precedent for district
courts in the Ninth Circuit, the *Nidec* decision may limit the extent of its applicability to cases in
which there is no litigation contemplated.

**X. Tenth Circuit**

There do not appear to be any cases from the Tenth Circuit that address the common interest doctrine
in the specific context of an IP due diligence investigation; however, practitioners should be aware
of the cases from this circuit that may be used as a foundation to extend or restrict the doctrine in
the due diligence context.

Generally, the Tenth Circuit applies the joint defense privilege when the individual claiming the
privilege can demonstrate that “(1) the documents were made in the course of a joint-defense effort;
and (2) the documents were designed to further that effort.” Following this rule, in *Static Control
Components, Inc. v. Lexmark International, Inc.*, the District Court for the District of Colorado held
that documents and information exchanged between the lawyers for two alleged patent infringers
pursuant to a common interest agreement were protected from disclosure by the joint defense
privilege. Although the defendants had revealed only documents related to their joint defense, the
plaintiff argued that the parties’ legal interests did not coincide because one defendant had asserted
a claim and served discovery on the other. The court held that “[e]ven if there is adversity between
some of the parties to the common interest agreement, they still may invoke the joint defense
privilege to protect communications from disclosure to third parties.”

Similarly, in *Sawyer v. Southwest Airlines*, the District Court for the District of Kansas held
that sharing attorney-client privileged documents between an insured and an insurer who were
represented by the same attorney did not waive the privilege. In *Sawyer*, the court held that the
insurer had a duty to defend the insured in the case, and therefore the parties had common legal,
not simply commercial, interests. Although the defendants in the Sawyer case had not explicitly asserted the common-interest doctrine, the court held that they had established the elements of that claim, namely that the parties had a common legal interest in securing legal advice related to the same matter and the communication was made to advance their interest in securing legal advice on that common matter.

Therefore, the courts in the Tenth Circuit appear to generally be open to the assertion of the common interest doctrine, although there is no precedent that could establish a clear rule in the IP due diligence context.

XI. Eleventh Circuit

At least one court in the Eleventh Circuit has declined to apply the common interest doctrine to documents shared during negotiations of an asset purchase agreement. In Cheeves v. Southern Clays, Inc., the defendant shared attorney-client privileged information with a company when the company acquired the majority of the defendant’s assets. The acquiring company later shared this information with a third company that acquired the assets that had been purchased from the defendant. The Middle District of Georgia held that because (1) there had been no merger or de-facto merger from the asset sale, (2) the parties owed no duty to defend each other, and (3) the parties had not consulted the same attorney, there was no community of interest and therefore the disclosure waived the privilege.

Courts in the Eleventh Circuit have applied the common interest doctrine in the more traditional case of co-defendants sharing litigation strategy, however. In Jeld-Wen, Inc. v. Nebula Glasslam International, Inc., the Southern District of Florida stated that “under the common interest doctrine, ‘litigants who share unified interests [may] exchange . . . privileged information to adequately prepare their cases without losing the protection afforded by the privilege.’” The court therefore held that when co-defendants revealed information to each other in the course of deciding a joint trial strategy, the work-product privilege had not been waived.

Thus, courts in the Eleventh Circuit generally appear open to applying the common interest doctrine in the more common litigation context, but it may be difficult for parties to assert the doctrine in the context of information revealed during due diligence investigations, especially in a non-merger context or where a clear duty to indemnify is not provided.

XII. Guiding Principles

Given the case law summarized above, it is apparent that there is no bright-line rule regarding when or if the common interest doctrine will be applied to privileged information exchanged during the

91 2002 WL 31928442, at *3.
92 Id.
94 Id.
95 Id. at 130-31.
97 Id.
course of an intellectual property due diligence investigation. Applicability of the common interest doctrine in these and other contexts varies from jurisdiction to jurisdiction and is highly dependent on the underlying facts and circumstances of the disclosure. However, one can discern guiding principles for increasing the likelihood that a court will apply the common interest doctrine in the due diligence context from some of the more commonly cited decisions directly addressing the issue.

(1) As a starting point, it is prudent to assume that disclosure of privileged information to a third party will result in a privilege waiver. Clients, and perhaps even the third parties with whom they are dealing, should be advised of the waiver risk and should be encouraged to share privileged information only when absolutely necessary. This guiding principle is particularly true in the context of any arms-length negotiation. Whenever possible, as an alternative to disclosure of privileged information, the parties should provide the due diligence investigator with sufficient non-privileged information to allow the investigator to conduct his/her own legal analysis of a particular issue.

(2) If a disclosure of privileged information is ultimately deemed necessary, the company should delay disclosure until it concludes substantive deal negotiations, or as near as possible. Delaying may help to minimize a natural assumption that the parties’ interests are adverse when a corporate transaction is being negotiated.

(3) Similarly, although rarely a practical concern in the context of a due diligence investigation, privileged information should not be exchanged unless both parties are represented by counsel.

(4) Any exchange of privileged information should be performed by and among lawyers, preferably intellectual property lawyers when the privileged information relates to matters of intellectual property law. Involving the lawyers in this fashion, and removing corporate executives from the exchange of privileged information, can help to lay a solid foundation for an argument that the exchange was made in view of a common legal interest rather than a purely economic interest.

(5) Lastly, when privileged information is disclosed in a due diligence context, the parties should strongly consider executing a common interest agreement and/or a confidentiality agreement to demonstrate their mutual commitment to preserving the confidentiality and privileged status of the disclosed information and to memorialize any shared legal interests. To adequately protect the privilege, such an agreement should protect the confidentiality in perpetuity and forbid disclosure to unauthorized parties even if required by law. The agreement should also limit and/or specifically identify the people who are permitted to have access to the privileged information. Along the same lines, the agreement should restrict the number of copies that can be created and should affirmatively require the return to the disclosing party or destruction of all originals and copies. Whenever possible, the parties should elect to have their common interest agreement and/or confidentiality agreement governed by a jurisdiction with more
favorable legal precedent regarding the applicability of the common interest doctrine, such as those jurisdictions most closely following the reasoning, if not precedent, of *Hewlett-Packard Co. v. Bausch & Lomb, Inc.* (Northern District of California).