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Attorney-Client Privilege Issues in Intellectual Property Due Diligence
Part 1: Where Privilege Issues Lurk

Many issues investigated in intellectual property due diligence implicate attorney-client privileged communications. Privilege can be unwittingly waived during due diligence by requesting documents containing privileged information and by asking questions the answers to which include privileged information. Once waived, privilege cannot be recovered, which means an adversary may gain access to sensitive and oftentimes damaging information in subsequent litigation. Accordingly, attorneys must exercise care in managing potential privilege issues relating to documents and interviews in due diligence.

I. Brief Review of Attorney-Client Privilege

The "oldest of the privileges for confidential communications known to the common law," the attorney-client privilege is intended "to encourage full and frank communication between attorneys and their clients and thereby promote broader public interests in the observance of law and administration of justice."[i] The privilege allows its holder to refuse to disclose the content of privileged communications in litigation and precludes the use of that content as evidence in court. In these ways, the privilege promotes the "full and frank communication between attorneys and their clients" by ensuring that such communications are not used against the client.

The specific requisites of the attorney-client privilege vary across jurisdictions, but, in general, attorney-client privilege protects confidential communications between an attorney and their client that relate to the provision of legal advice.[ii]

Although some formulations of the privilege's requisites focus on protecting confidential communications *by a client to their attorney*,[iii] confidential communications by the attorney to the client are typically also subject to the privilege.[iv] Also, many jurisdictions consider people besides the attorney and the client to be within the scope of the privilege if those people are necessary to assist the client or the attorney in the requesting or providing legal advice.[v] Confidentiality is important, and to preserve privilege the content of the communication must be kept within the circle of people who have "a need to know" for purposes of requesting and providing legal advice.[vi]

Before the closing, the parties to a transaction are third parties to each other -- adversaries in an arms-length transaction. Because of that relationship, disclosure of attorney-client privileged communications (embodied in documents or in answers to questions) by the target to the acquiring company in pre-close due diligence is generally considered a disclosure to a third

party that, absent an applicable exception, waives the attorney-client privilege.[vii] Making matters worse, the scope of waiver can be very broad, encompassing not only the disclosed information but also all other privileged communications regarding the same subject matter.[viii]

II. Why Protection of Privilege in Due Diligence Is Important.

Intellectual property due diligence involves investigating numerous issues that implicate attorney-client privilege, including, for example, the target company's potential liabilities for infringement or misappropriation of intellectual property; the strength of the target's intellectual property portfolio; the target's ownership and licenses of intellectual property; rights and obligations under intellectual property licenses; potential breach of intellectual property agreements; and potential third party infringement or misappropriation of the target's intellectual property rights.[ix]

Maintaining privilege in due diligence for the target's intellectual property-related attorney-client communications is important for at least three reasons:

First, privileged information can, if disclosed, damage the holder's legal interests and advantage competitors by:

- Revealing hidden or hard-to-detect information about products.
- Providing adverse admissions regarding (i) product design, features, and functions; (ii) patent scope, validity, or infringement; (ii) trademark validity, priority, or infringement; (iii) trade secret scope, protectability, or misappropriation; or (iv) contract interpretation, scope, validity, or breach.
- Providing "roadmaps" for (i) demonstrating infringement or misappropriation of a competitor's intellectual property by the target; (ii) invalidating the target's intellectual property, (iii) disputing the target's ownership of or rights to intellectual property, or (iv) breach by the target of licenses and other intellectual property agreements.
- Revealing weaknesses in the target's non-infringement and invalidity positions regarding competitor patents.
- Educating a competitor how to design-around a target's patents and otherwise evade intellectual property claims.
- Highlighting ways in which competitors could amend claims in their pending patent applications to better cover the target's products.

Second, a waiver of privilege by a target company remains a waiver after close and the acquiring company will need to live with it.[x] Because the target presumptively will become part of the acquirer's organization, the acquirer has a natural -- but often overlooked -- interest in preserving the target's privileges as if those privileges were its own.

Third, maintaining privilege also preserves the integrity of the purpose and policy of the attorney-client privilege to "encourage full and frank communication between attorneys and their clients and thereby promote broader public interests in the observance of law and administration of justice."[xi]

Thus, recognizing where attorney-client privilege issues are lurking is an important threshold issue in a best practices intellectual property due diligence.

III. Privilege Issues That Commonly Lurk in Intellectual Property Due Diligence

The following points illustrate documents and information often requested in intellectual property due diligence which implicate privilege and potential waiver problems. Each category implicates attorney-client privilege because it involves documents and information that are typically communicated to the client, contain and relate to attorney legal analysis and advice, and are based on and include information confidentially provided to the attorney by the client. Further, in each category privilege issues and waiver problems can arise not only regarding documents requested and produced but also in oral interviews and discussions.

- *Intellectual property litigation & pre-litigation materials*.

  Non-public documents and information relating to pending, anticipated, or planned intellectual property litigation are almost always subject to the attorney-client privilege. Disclosure of litigation and pre-litigation materials for a patent case can, for example, explicitly or implicitly reveal sensitive confidential information regarding litigation strategies, product design and features, and legal analyses and advice regarding infringement, validity, and remedies.

- *Patent freedom-to-operate/clearance opinions and analyses*.

  Opinions and analysis relating to potential infringement of third party patents are almost always attorney-client privileged communications.[xii] Among other detriments, disclosure of patent freedom-to-operate/clearance opinions and analyses can explicitly or implicitly reveal sensitive confidential information regarding (i) potentially hidden or hard-to-detect details of the product design or function and (ii) which features of a product are relevant to infringement, including alternative ways of "mapping" patent claims to product features (including alternatives a competitor may not have considered).

  Instead of directly asking for copies of attorney opinions or analyses, sometimes an acquiring entity will ask a target to "identify" third party patents or trademarks that present freedom-to-operate issues. This question nevertheless implicates privilege because the it requires an exercise of legal judgment in responding that in most cases implicitly reveals an otherwise privileged attorney-client communication.[xiii]

- *Trademark freedom-to-operate/clearance and pre-registration opinions and analyses*.

  Opinions and analysis relating to potential infringement of third party trademarks and registrability of proposed trademarks are almost always attorney-client privileged communications.[xiv] Among other detriments, disclosure of trademark freedom-to-operate/clearance and pre-registration opinions and analyses can explicitly or implicitly reveal sensitive confidential information regarding (i) the scope and timing of a mark's use in commerce; (ii) likelihood of confusion with third party marks; (iii) strength or descriptiveness of a mark; or (iv) factual predicates for infringement, false designations of origin, or false or misleading descriptions or representations of fact regarding a product or service.

  Similar to the situation discussed above regarding patents, asking a target to "identify" third party trademarks that present freedom-to-operate issues implicates privilege because it requires an exercise of legal judgment in responding that in most cases implicitly reveals an otherwise privileged attorney-client communication.[xv]

- *Freedom-to-operate/clearance searches & search results*.

  Freedom-to-operate/clearance searches typically implicate attorney-client privilege because the fact of the search, the search criteria (*e.g.,* keywords, competitor names, inventor names, etc.), and in some cases the presentation of the results can explicitly or implicitly reveal legal analysis/advice and the content of underlying confidential client-to-attorney communications.[xvi]

  The identity of the patents and trademarks uncovered by the searches can be considered *prima facie* privileged because they are communicated by the attorney to the client,[xvii] they represent part of the legal advice provided, and they can reveal implicitly the content of privileged communications. However, because underlying facts are generally not themselves privileged[xviii] and some courts find that facts a client learns from their attorney are not privileged,[xix] the identity of the patents and trademarks uncovered by the searches may not always be privileged.

- *Patent novelty/patentability/prior art opinions and analyses*.

  Opinions and analyses regarding the content and scope of the prior art, novelty, and patentability are almost always attorney-client privileged communications. Among other detriments, disclosure of novelty/patentability/prior art opinions and analyses can explicitly or implicitly reveal sensitive confidential information regarding (i) relevant details of a confidential new product design or function, an improvement to an existing product, or newly developed technological concepts and (ii) how the disclosures of the prior art relate or "map" to product design, features, and functions.

- *Patent novelty/patentability/prior art searches & search results*.

  Documents and information regarding prior art searches implicate attorney-client privilege because the fact of the search, the search criteria (*e.g.,* keywords, related prior art, technological concepts, etc.) and in some cases the presentation of the results can explicitly or implicitly reveal legal analysis/advice and the content of underlying confidential client-to-attorney communications.

  Similar to freedom-to-operate/clearance search results, the identity of the patents, patent applications, scientific publications, existing commercial products, etc. uncovered by the search can be considered *prima facie* privileged but could be considered unprivileged facts in some jurisdictions.

- *Trade secret analyses and opinions*.

  Analyses or opinions regarding trade secret misappropriation are almost always attorney-client privileged communications. Among other detriments, disclosure can explicitly or implicitly reveal sensitive confidential information regarding (i) the scope, validity and breach of contractual rights to use confidential information obtained from third parties; (ii) potential breaches by employees of confidentiality obligations they owe to third parties, (iii) relevant technological aspects of product design/function and manufacturing processes, (iv) whether particular information meets the standards for protection as trade secret, and (v) adequacy of measures used to maintain confidentiality of trade secrets.

- *Copyright searches, analyses, and opinions.*

  Analyses and opinions regarding authorship, copyrightability (*e.g.,* per the criteria of 17 U.S.C. §§102-105), and copyright infringement are almost always attorney-client privileged communications.

  Copyright issues are becoming more common and important in the life sciences area because of the increasing focus on software-implemented analysis of biological data (*e.g.,* from sequencing, digital PCR, arrays, and other measuring instruments and systems) and software-implemented reporting of results.

- *Ownership of and licenses to intellectual property*.

  Occasionally a target company will have sought legal advice regarding ownership of intellectual property (*e.g.,* inventorship, joint ownership, contractual assignment obligations, potential third party interests) or the validity of an intellectual property license (*e.g.,* contract formation, breach and cure, termination rights, consideration, licensor rights and capacity). Analyses and opinions regarding these issues are almost always attorney-client privileged communications.

- *Contractual obligations relating to intellectual property*.

  Occasionally a target company will have sought legal advice regarding compliance with a license or other intellectual property-related agreement (*e.g.,* diligence obligations, sublicense rights, assignability, milestones, or the scope, magnitude, or duration of royalty obligations). Analyses and opinions regarding these issues are all almost always attorney-client privileged communications.

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That there are privilege waiver issues lurking in intellectual property due diligence does not mean that an acquiring entity cannot obtain the information it needs to properly assess risk. Part 2 of this memorandum will discuss ways of managing intellectual property due diligence to perform an adequate risk assessment while minimizing the risks of waiver.

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[i] *Upjohn Co. v. United States,* 449 U.S. 383, 389 (1981).

[ii] *See, e.g., Upjohn,* 449 U.S. at 390("[P]rivilege exists to protect not only the giving of professional advice to those who can act on it but also the giving of information to the lawyer to enable him to give sound and informed advice"); *United States v. Ruehle,* 583 F.3d 600, 607 (9th Cir. 2009)("The attorney-client privilege protects confidential disclosures made by a client to an attorney in order to obtain legal advice, . . . as well as an attorney's advice in response to such disclosures.").

[iii] *See, e.g., United States v. United Shoe Machinery Corp*, 89 F. Supp. 357, 358–59 (D. Mass. 1950)("The privilege applies only if . . . (3) the communication relates to a fact of which the attorney was informed (a) *by his client*")(emphasis added); 8 WIGMORE ON EVIDENCE § 2292 (4th ed. 1995)(privilege applies to "communications . . . made in confidence . . . *by the client*") (emphasis added).

[iv] *See e.g., U.S. v. Amerada Hess Corp.,* 619 F.2d 980, 986 (3rd Cir. 1980)("Legal advice or opinion from an attorney to his client, individual or corporate, has consistently been held by the federal courts to be within the protection of the attorney-client privilege." "Two reasons have been advanced in support of the two-way application of the privilege. The first is the necessity of preventing the use of an attorney's advice to support inferences as to the content of confidential communications by the client to the attorney. The second is that, independent of the content of any client communication, legal advice given to the client should remain confidential.")(citations omitted). *See also* cases cited in note ii, above.

Note that, similar to how facts known to the client are not rendered off limits by the client's disclosure of them to their attorneys, facts communicated by an attorney to their client are not always protected by privilege. *See, e.g., Henry v. Champlain Enterprises, Inc*., 212 F.R.D. 73, 91 (N.D.N.Y. 2003)("privileges do not protect the client's knowledge of the relevant facts, whether they were learned from counsel or facts learned from an attorney from independent sources.").

[v] *See, e.g., U.S. v. Kovel,* 296 F.2d 918, 921-22 (2nd Cir. 1961)(discussing how assistants such as secretaries, file clerks, telephone operators, messengers, clerks not yet admitted to the bar, and interpreters/translators and experts such as accountants can be within the scope of the privilege if the communication with them "be made *in confidence* for the purpose of obtaining *legal* advice *from the lawyer*.")(emphasis in original). *See also Cavallero v. U.S.,* 284 F.3d 236, 247-48 (1st Cir. 2002)(privilege extends to "third parties employed to assist a lawyer in rendering legal advice" where they are "necessary, or at least highly useful, for the effective consultation between the client and the lawyer."); *U.S. v. Judson,* 322 F.2d 460, 462 (9th Cir. 1963)(communications with accountants privileged where "accountants' role was to

facilitate an accurate and complete consultation between the client and the attorney about the former's financial picture."); CAL. EVID. CODE § 912(d)("A disclosure in confidence of a communication that is protected by a privilege provided by Section 954 (lawyer-client privilege) . . . , when disclosure is reasonably necessary for the accomplishment of the purpose for which the lawyer . . . was consulted, is not a waiver of the privilege"); SUPREME COURT STANDARD 503 (privilege extends to those "employed to assist the lawyer in the rendition of professional legal services.").

[vi] *See, e.g., United States v. Zolin,* 809 F.2d 1411, 1415 (9th Cir 1987)("The voluntary delivery of a privileged communication by a holder of the privilege to someone not a party to the privilege waives the privilege"); *Nidec Corp. v. Victor Company of Japan,* 246 FRD 575 (ND-Cal 2007)("it is a general rule that attorney-client communications made in the presence of, or shared with, third-parties destroys the confidentiality of the communications and the privilege protection that is dependent upon that confidentiality."); *Libbey Glass, Inc. v. Oneida, Ltd.,* 197 F.R.D. 342, 349 (N.D. Ohio 1999)("Voluntary disclosure of an attorney's advice to a third party ordinarily results in waiver of the attorney-client privilege").

[vii] *See, e.g., Nidec Corp.* 249 F.R.D. at 579 (N.D. Cal. 2007)(privilege waived where privileged document shared by company with bidders for acquiring a majority interest in the company); *Memry Corp. v. Kentucky Oil Technology NV,* 2007 WL 832937 (N.D. Cal. March 19, 2007)(privilege waived where privileged evaluation of intellectual property portfolio had been "disclosed to prospective purchasers of assets of . . . bankruptcy estate during the due diligence process" a few years earlier); *Katz v. AT&T,* 191 F.R.D. 433, 438 (E.D. Pa 2000)(privilege waived where privileged information about a patent portfolio was shared during licensing negotiations before agreement in principle was reached or the parties' interests otherwise became sufficiently aligned to invoke the common interest exception); *Libby Glass v. Oneida,* 191 FRD 433 (ED Pa 2000)(privilege waived as to disclosed trade-dress opinion letter).

Although there is no general shield for disclosure of privileged materials in intellectual property due diligence, some courts will apply the common interest exception to waiver in certain circumstances, such as contemplation of future litigation involving both the acquirer and the target (*Hewlett-Packard v. Bausch & Lomb, Inc.,* 115 F.R.D. 308 (N.D. Cal.1987)), joint efforts by an acquirer and a target to avoid infringement (*Morvil Technologies v. Ablation Frontiers*, (S.D. Cal. Civil No. 10-CV-2088-BEN March 8, 2012)), and joint efforts by an optionee for an exclusive license and the patent owner/licensor to obtain valid and enforceable patents (*In re Regents of the University of California,* 101 F.3d 1386 (Fed. Cir. 1996)).

[viii] *See, e.g., Fort James Corp. v Solo Cup Corp.,* 412 F.3d 1340, 1349 (Fed. Cir. 2005)("The widely applied standard for determining the scope of a waiver . . . is that the waiver applies to all other communications relating to the same subject matter."); *In re Seagate,* 497 F.3d 1360, 1372 (Fed. Cir. 2007)(Privilege waiver extends to "all other communications relating the same subject matter.").

[ix] More specifically, the following issues implicating attorney-client privilege are typically investigated:

i. a target's past, ongoing, or anticipated liability for infringement of third party patents, trademarks, and copyrights or for misappropriation of third party trade secrets;
ii. the scope, validity, strength, enforceability, or registrability of the target's patents, trademarks, and copyrights;
iii. the status, protectability, and enforceability of the target's trade secrets;
iv. the target's ownership of intellectual property, including potential joint ownership and third party interests;
v. the scope, validity, and enforceability of the target's in-licensed intellectual property rights;
vi. the scope, term, validity, and enforceability of intellectual property in-licenses and out-licenses;
vii. the target's compliance with and potential breach of intellectual property agreements (e.g., licenses, collaboration agreements, and joint development agreements); and

viii. the extent to which third parties may be infringing the target's patents, trademarks, or copyrights or misappropriating the target's trade secrets.

[x] *See* endnotes vi & vii, above. There is no general exception to waiver in due diligence or for acquisitions, mergers, or other transactions.

[xi] *Upjohn,* 449 U.S. at 389.

[xii] In some situations, freedom-to-operate (right-to-use) and clearance analyses and opinions might be initiated, created, and completed solely by technical personnel, with no involvement of, or input by, an attorney. Such analyses and opinions are most likely not privileged, and thus requesting and receiving them would not waive privilege. This is most commonly seen at smaller and less sophisticated entities, but occasionally larger companies (or divisions within large companies) may opt for the "no attorney involvement" intellectual property model. Of course, one generally cannot know *a priori* if the target utilized this model, so care should still be exercised in requesting documents and information.

In addition, although under certain circumstances a defendant might intentionally waive privilege in a litigation to present an opinion of counsel as a defense to certain infringement issues, at the merger or acquisition stage the target and acquirer are best served by maintaining privilege.

[xiii] There could be situations where a concern about potential infringement is based on an analysis by internal non-attorney personnel who have not consulted an attorney about the issue, in which case the information is unlikely to be privileged. Setting privilege issues aside, does an acquiring company really want to memorialize or highlight the target's belief that it infringes? (hint: probably not).

[xiv] *See* note xii, above, regarding analyses and opinions might be initiated, created, and completed solely by technical personnel, with no involvement of, or input by, an attorney.

[xv] *See* note xiii, above, regarding situations where a concern about potential infringement is based on an analysis by internal non-attorney personnel who have not consulted an attorney about the issue.

[xvi] It is more common for *searches* to be initiated, conducted, and completed without attorney involvement, such that privilege is not an issue. However, one generally cannot know *a priori* if the target utilized this model, care should still be exercised in requesting documents and information.

[xvii] In some case the searches may be conducted by persons engaged by the attorney to assist in providing legal advice, in which case the attorney-client privilege typically will apply. *See, e.g.,* note v, above.

[xviii] *See, e.g., Upjohn Co. v. United States*, 449 U.S. 383, 389 (1981)("[T]he protection of the privilege extends only to the communications and not to the facts. A fact is one thing and a communication concerning that fact is an entirely different thing.").

[xix] *See, e.g., Henry v. Champlain Enterprises, Inc.*, 212 F.R.D. 73, 91 (N.D.N.Y. 2003)("privileges do not protect the client's knowledge of the relevant facts, whether they were learned from counsel or facts learned from an attorney from independent sources.").