

The Common-Interest Privilege May Prevent Waiver of Attorney-Client Privilege in Documents Shared Between Litigants and IP-Licensing Consultants

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When litigating a case, either as a plaintiff or a defendant, a party may have co-parties aligned with them in the litigation, that is, fellow plaintiffs or defendants litigating against a common opponent or opponents. Often, these co-parties will share confidential legal advice from their attorneys under a common-interest or joint-defense agreement in an effort to avoid waiving the attorney-client privilege. Otherwise, disclosing such information to a third party might cause such information to be subject to discovery by the opponent. But what happens when you share information from your attorneys with an outside IP-licensing firm? Is that information discoverable by the opponent?

The common-interest or joint-defense privilege can typically be invoked by co-litigants with a common opponent. The scope of the privilege has evolved from a narrow exception covering criminal co-defendants to today's broad doctrine applicable to communications between both civil and criminal co-litigants, as well as nonparties with common legal interests. In *Xerox Corp. v. Google Inc.*, No. 10-136 (D. Del. Aug. 1, 2011)¹ the United States District Court for the District of Delaware held that communications between a patent owner and an outside IP-licensing firm were entitled to protection under the common-interest privilege.

The Xerox Decision

Xerox Corp. sued Google and Yahoo! for infringement of U.S. Patent No. 6,778,979 ("the '979 patent"), titled "System for Automatically Generating Search Queries." The products named in the suit included Google's AdSense and AdWords advertising software, along with Yahoo!'s Search Network, Publisher Network, and Contextual Search programs. Xerox alleged that these programs automatically generate search criteria to retrieve advertisements from the internet in the manner claimed in the '979 patent.

During discovery, the parties reached an impasse over documents exchanged between Xerox and its outside IP-licensing

consultant, IPValue Management, Inc. Xerox listed the documents on its privilege log, arguing that they were protected by the common-interest privilege because they reflected legal analysis shared by Xerox with IPValue under the expectation of confidentiality. Xerox also noted that IPValue's compensation was contingent on the outcome of the litigation with Google and Yahoo!, and therefore IPValue had a direct legal interest in common with Xerox.

The Defendants, on the other hand, argued that the documents Xerox shared with IPValue were not protected by the common-interest privilege because IPValue was not a co-plaintiff, and its relationship to the '979 patent was "purely commercial." In addition, the Defendants presented testimony by a Vice-President of IPValue that, in his opinion, the "contingent fee" compensation was not necessarily an "interest" in the litigation.

In the District of Delaware under Third Circuit law, the common-interest privilege is an exception to waiver of the attorney-client privilege following disclosure of privileged materials to a third party. The exception applies only if the communications occur between clients and attorneys "allied in a common legal cause" with identical, not just similar, legal interests.

In considering the parties' arguments in *Xerox*, the court distinguished an earlier case finding that the common-interest privilege did not attach when a patent owner shared documents with litigation-financing companies during arms-length negotiations prior to entering into a contractual or principal-agent relationship. The court noted that Xerox and IPValue exchanged the relevant documents only *after* they entered into an agreement designating IPValue as Xerox's worldwide "agent for intellectual property licensing." Thus, the documents related exclusively to a time frame in which IPValue was already retained by, and working for and with, Xerox. Moreover, IPValue's contingency-fee compensation gave it a common interest with Xerox in prevailing in the litigation. For these reasons, the court found that the common-interest privilege applied to the documents shared between Xerox and IPValue.

Notably, the court dismissed the Defendants' arguments about the statements of IPValue's Vice-President. The court expressed the view that the legal inquiry into whether a common interest exists does not depend on an individual's subjective belief.

Strategy and Conclusion

(1) Exchanging legal documents with a third-party IP-consulting firm will not necessarily waive privilege if the agency relationship exists at the time of exchange: The primary difference between the outcomes in *Xerox* and the earlier case distinguished by the court was the timing of the document exchange. In the earlier case, the patent owner exchanged documents with potential investors during arms-length negotiations before entry of any contractual or agency relationship. In *Xerox*, the exchange occurred only after the parties had already established the agency relationship. Once the relationship was established, the parties were deemed to have common legal interests.

(2) A contingency fee may help establish a common legal interest: The court's opinion in *Xerox* suggests that IPValue's contingency-fee interest in the outcome of the litigation supported the finding of a common legal interest. This suggestion, however, should be viewed cautiously because the court's primary reasoning seemed to focus on the principal-agent relationship rather than the nature of the fee.

Endnotes

¹The *Xerox* decision: <http://docs.justia.com/cases/federal/district-courts/delaware/dedce/1:2010cv00136/43686/242/>

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