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Loose Lips Sink Ships: Two Recent District Court Decisions Highlight Some Limits Of The Common Interest Doctrine Both During And In The Settlement Of Patent Litigation

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The U.S. Federal Rules of Civil Procedure allow parties to obtain discovery regarding any matter that is relevant to a party's claim or defense. One important caveat to this general principle is that attorney-client communications and work product are privileged and protected from discovery. Generally speaking, when a party divulges privileged information to a third party, work product and attorney-client protection ceases to exist. However, the common interest doctrine acts to preserve privilege even when such information is provided to a third party, as long as the third party shares a common legal interest in the subject matter of the communication. Two recent district court decisions in the Fifth Circuit—one concerning communications with shareholders and investors about the validity and enforcement of a company's patents, and the other, negotiations between parties to a patent license agreement—highlight some limits of the common interest doctrine and the need for caution when sharing privileged information with third parties. Indeed, the applicability of the common interest doctrine should be considered whenever concerned investors seek information regarding patent litigation prospects or the patents are to be asserted by a licensee. And these recent cases provide guidance on navigating discussions with third parties concerning sensitive legal topics.

The District Court Decisions

First, in CUPP Cybersecurity LLC et al v. Trend Micro Inc et al, 3-18-cv-01251, Dkt. 249 (NDTX Aug. 15, 2022), defendants moved to compel production of unredacted communications between plaintiff and its shareholders reflecting legal advice and work product from its litigation counsel. Defendants alleged that, by sharing advice of counsel with third parties, plaintiff had waived any applicable attorney-client or work product privilege. In opposition to the motion, Plaintiff argued that it was a small private company that had raised capital from a small group of dedicated investors—many current or former directors and employees, or their family members—and it had only shared legal updates with a small group of those individuals who shared a common interest with plaintiff in the validity and enforcement of its patents. According to plaintiff, the common interest doctrine applied to preserve the work product and attorney-client privilege. The court disagreed.

In patent cases, courts apply the law of the regional circuit where the case is pending when resolving issues of privilege and the common interest doctrine. Thus, in Cupp, the Texas court

applied the law of the Fifth Circuit, noting that it had recognized two types of communications protected under the common interest doctrine: (1) communications between co-defendants in actual litigation and their counsel; and (2) communications between potential co-defendants and their counsel. While plaintiff alleged that its shareholders held a common interest "in the validity and enforcement of [plaintiff's] patents," the court concluded that plaintiff provided no evidence that the individual recipients of the communications at issue shared such an interest, or contemplated joint litigation. Accordingly, the court ruled that plaintiff had not met its burden of proving that work product and attorney-client privilege had not been waived and the court granted the motion to compel.

Second, in SB IP Holdings LLC v. Vivint Smart Home, Inc., 4-20-cv-00886, Dkt. 146 (EDTX Aug. 18, 2022), defendants moved to compel production of communications between plaintiff's parent company, Skybell Technologies, Inc. ("Skybell"), and EyeTalk365, LLC ("Eyetalk") regarding abandonment of a patent application in the priority chain of the asserted patents. Eyetalk had previously sued Skybell for patent infringement in 2017, and the parties had settled the litigation with Skybell taking a license to the asserted patent family. Plaintiff asserted that that the communications between Skybell and Eyetalk leading to the license agreement were confidential and protected from discovery by the common interest privilege. Again, the court disagreed.

The SB IP Holdings court stated that, in addition to protecting communications between actual and potential co-defendants and their counsel, the Fifth Circuit has recognized that the common interest privilege "extends to communications made among persons who consult an attorney together as a group with common interests in seeking common representation." Additionally, "[c]ommunications may be protected by the common legal interest privilege only if those communications further a joint or common interest." But the common interest privilege requires that the "parties have an identical, not similar, legal interest, and not merely a commercial interest." At the time Skybell and Eyetalk negotiated the license agreement they "did not have a common legal interest; rather, their interests were directly adverse." For this reason, common interest privilege did not apply to communications between Skybell and Eyetalk, and the negotiations were discoverable.

Concluding Remarks

Each federal circuit has its own standard for the application of the common interest doctrine, and standards across courts can vary—sometimes significantly. Both of the cases discussed above were pending in Texas. They were thus governed by the law of the Fifth Circuit, which some believe to have a relatively narrow view of the common interest doctrine. In the Second Circuit, which encompasses New York, the common interest doctrine is applied more broadly to cover parties engaged in a "common legal enterprise," where "a joint defense effort or strategy" is taken "in the course of an ongoing common enterprise," and where the parties "share a common interest about a legal matter." See Schaeffler v. United States, 806 F.3d 34, 40 (2d Cir. 2015). It does not require "actual litigation," only an interest of "sufficient legal character."

As it may not be known at the time of the communication whether there will be litigation, and if so, where, transactional and corporate attorneys would be well advised to adhere to the strictest standards. And if in doubt, avoid sharing privileged documents with third parties. Litigators should also remember that the jurisdiction they select matters and may open their clients up to unwanted discovery of sensitive documents.

Lastly, the U.S. Federal Rules of Civil Procedure set forth other limits on discovery, including relevance and proportionality, although it does not appear that either applied in the cases above. In Cupp, the communications related to the litigation itself. In SB IP Holdings, there was a reason to believe that the documents would reveal whether plaintiff had lied to the U.S. Patent and Trademark Office in its petition to revive an abandoned application. In both cases, defendants had also sought only a limited and clearly defined category of documents. Nonetheless, litigators should keep the other discovery limits in mind. They may provide additional bases on which to resist the production of documents, particularly when facing a vague motion for wide-ranging discovery or a pure fishing exercise.

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