

Maintaining Attorney-Client Privilege When Disclosing Opinion Letters in M&A Transactions

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Introduction

During President Bush's administration earlier this decade, several time-limited, corporate-friendly tax laws were enacted. Favorable tax treatment under some of these laws, however, is scheduled to end in 2010. For example, capital gains tax rates and ordinary income rate changes are slated to increase at the end of 2010. As a result, increased merger and acquisition activity is expected in 2010 as companies seek to close deals before these favorable tax provisions expire. This article discusses best practices in maintaining attorney-client privilege when sharing opinion letters in connection with such a merger or acquisition.

The Problem of Accidentally Waiving Attorney-Client Privilege During M&A Diligence

Initially, a well-planned merger or acquisition will involve evaluation of public materials to consider the opportunities of a transaction. After evaluating a target's publicly available intellectual property, the acquirer will eventually need to enter a non-disclosure agreement with the target to permit review of confidential target materials. At this stage, there are various confidential diligence items a wise acquirer will typically evaluate. These can include positions being taken or proposed in ongoing IP litigation, threats to enforce intellectual property, information about potential infringers, invitations to license, actual licenses and other agreements that have not met the SEC reporting threshold, and opinion letters relating to patents and trademarks.

In many transactions, an acquirer will often hire independent patent or trademark counsel to conduct this IP diligence. If needed, such counsel can conduct appropriate evaluation and prepare any necessary opinion letters to minimize the risk of willfully infringing third party IP rights associated with operation of the contemplated new business. The process of preparing an opinion letter, however, is both time intensive and costly and deals are often consummated quickly. To save time and money, some acquirors request that the target entity share previously-prepared opinion letters as part of the diligence process. As a result, parties to merger and acquisition transactions often request various documents, including opinions, without carefully considering the potential loss of attorney-client privilege. Depending on the jurisdiction, however, sharing opinion letters may waive the attorney-client privilege associated with such materials. The attorney-client privilege protects the confidentiality of communications exchanged between an attorney and its client (in this case the target company) in connection with the provision of legal advice or services. Target companies should be reluctant to simply hand over opinions to a potential acquirer to avoid this inadvertent waiver of the privilege. The target should typically request certain strategies to help protect the privilege, if such legal documents must actually be provided to disclose a material risk. Acquiring companies reminded of such risks are typically eager to compromise with the target on these

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strategies to minimize inadvertent waiver of the privilege, because it will become the acquiror's upon completion of a deal.

Generally, depending on the jurisdiction, a voluntary disclosure of a privileged communication to a third party, such as an acquiror of the business, waives the attorney-client privilege unless the disclosure meets one of the exceptions discussed below. Although most deal transactions are conducted under confidentiality provisions in one or more agreements, it is possible that this protection is not by itself sufficient to prevent waiver of attorney-client privilege.

Maintaining the Attorney-Client Privilege for IP Opinions

Before even addressing the exceptions to minimize risk of privilege waiver, one strategy to avoid problems in the diligence effort is to only request a list of opinions rather than a complete copy as an acquiror would with any agreements the target has entered. It may be that the opinions are of a tangential nature to the planned transaction, or that any opinions relate to patentability or registrability while the acquiror is only concerned with freedom to operate issues. Once a decision is actively made that certain IP opinions need to be shared with the acquiror, the parties can consider the limited exceptions available to craft a strategy to minimize risk of privilege waiver. One of the most typical is the "common interest doctrine" which is "an exception to the general rule that the attorney-client privilege is waived upon disclosure of privileged information with a third party." *Katz v. AT&T Corp.*, 191 F.R.D. 433,436 (E.D. Pa. 2000); *Corning Inc. v. SRU Biosystems, LLC*, 223 F.R.D. 189, 190 (D. Del. 2004). Under the common interest doctrine, the attorney-client privilege is extended to parties that share a common legal interest with the originally-privileged party. The required nexus between the parties varies across jurisdictions.

In some jurisdictions, the attorney-client privilege is maintained if the parties instead share merely a "common business interest." This is typically a lower threshold that is easier for the parties to meet. In other jurisdictions, however, protecting the privilege requires the disclosure to be between parties that share a "common legal interest" and a "common business interest." A common legal interest exists, for example, where the parties are co-defendants or are involved in or anticipate joint litigation. See *Union Carbide v. Dow Chemical*, 619 F. Supp. 1036, 1047 (D. Del. 1985). Other jurisdictions require a higher "identical legal interest" standard instead of the "common legal interest" standard. See *Hewlett-Packard*, 115 F.R.D. at 309 citing *Union Carbide* 619 F. Supp. at 1047.

If it is not clear whether a common legal interest exists, a court may examine the "explicit or implicit undertaking by the recipient of the information to hold it in confidence." See *Hewlett-Packard v. Bausch & Lomb, Inc.*, 115 F.R.D. 308, 311 (N.D. Cal. 1987). Thus, if an opinion letter is to be shared between a target and an acquiror, such disclosure should preferably be restricted to a limited number of executives, or a select group of in-house attorneys under a confidentiality agreement or an addendum related specifically to sharing of privileged legal materials for evaluation in the diligence. Such an agreement should also prohibit recipients from making copies of the materials, and should require the return or destruction of the materials after expiration of a defined time period or a triggering event.

Another way to help preserve the attorney-client privilege of the target's legal opinions is to have the target entity share the opinion only with the acquiror's outside counsel. The opinion can be provided for outside attorneys' eyes only, and no copies or written summaries should be provided to the acquiror's employees. One downside to this option is that the acquiror must essentially or entirely rely on the judgment of its outside counsel, because the acquiror itself cannot review the opinion. Another "common" work-around is for the acquiror to hire its own opinion counsel for independent analysis. One possible

strategy is for the acquiror's own opinion counsel to discuss or review an original opinion or a summary of it with the counsel who originally prepared the target's opinion, and then exercise their own legal judgment to prepare a new opinion of counsel for the acquiror. This option, however, may be cost-prohibitive in view of the price of preparing a patent- or trademark-related opinion, or may not be completed quickly enough to keep pace with the proposed deal. One way to minimize these costs is for the acquiror to commission the opinion counsel that prepared the target entity's patent or trademark opinion to prepare an opinion letter that is directed to the acquiror and paid for by the acquiror. It is likely that most new opinions will be substantially similar to the original opinions addressed to the target, because legal counsel (whether the same or different) will often reach a similar conclusion based on the same facts and the same law. In either scenario, because the new opinion has been separately obtained and paid for by the acquiror, the privileged nature of the original and new opinions can be preserved.

Conclusion

Given the current improving economic climate, and the pending expiration of various favorable tax incentives at the end of 2010, this is likely a banner time for merger and acquisition activity. During the course of performing confidential due diligence, a target and an acquiror may have various motivations to obtain or disclose as much information as possible. As the acquiring and target parties are working together to close a deal, they should be mindful of the damage from inadvertently waiving attorney-client privilege that may be triggered upon the disclosure of opinion letters by using one or more of the above-outlined strategies. After all, the target entity will want to maintain the attorney-client privilege if the deal terminates short of closing, and the acquiror will want to maintain the privileged nature of materials related to the intellectual property that they acquire as part of a consummated deal. With such a common interest in maintaining the privilege, the parties should be eager to cooperate in implementing the appropriate protective mechanism(s) to ensure that their key opinions that form an ace-in-the-hole have not lost their attorney-client privilege.