Making Joint Defense Agreements Work

by Thomas G. Pasternak and R. David Donoghue

You are facing a scenario that occurs often in the world of patent litigation. Your client, along with ten other defendants in the same industry, stands accused (again) of infringing multiple patents. There are several other potential targets that have not yet been sued. Your client's chief IP counsel wants your recommendations on whether and how to enter into a joint defense agreement with the co-defendants and potential co-defendants. The answer is never simple because there are many factors to consider.

The so-called "joint defense" or "common interest" privilege, which protects communications among its participants from disclosure, is an extension of the attorney-client privilege and the work product doctrine. It is not a separate privilege and creates no independent protection for documents or information not otherwise protected. *See, e.g.*, *Haines v. Liggett Group, Inc.*, 975 F.2d 81, 90 (3d Cir. 1992). Courts that recognize a joint defense privilege generally require the following criteria for its application:

- All of the participants must be pursuing a common defense in existing or anticipated litigation.
- The protected communications must relate to a common issue.
- The protected communications and sharing of information must further existing or potential legal representation in pursuit of the common defense (common business purposes alone are not sufficient).
- The communications must be made with an expectation of confidentiality.
- The privilege has not been waived.

Id.

The requirement that the parties share a common interest that is either legal or strategic and that the parties are working together in pursuit of that shared interest is rarely a problem in patent litigation, as the co-defendants have been charged with infringement of the same patent or patents and typically share many common goals, such as invalidating the patents. The same is true for most other multiple defendant cases. The parties are co-defendants for a reason: They have been accused of similar misdeeds. Almost by necessity there is a common interest.

A slightly more difficult issue is whether non-litigants who want to participate in the group may be included, such as potential targets not yet sued or parties in the supply chain. Where non-litigants have a sufficient expectation of eventual litigation, courts are generally willing to include non-litigants within the joint defense privilege. *See Schwimmer*, 892 F.2d at 244; *United States v. AT&T*, 642 F.2d 1285, 1299-1300 (D.C. Cir. 1980) (parties have strong enough common interests to share trial preparation materials where the parties in the common defense arrangement anticipate litigation against a common adversary on the same issues); *Trading Techs. Int'l, Inc. v. eSpeed, Inc.*, No. 04 C 5312, 2007 WL 1302765 (N.D. Ill. May 1, 2007) (holding that common interest could exist before a suit was filed and that, therefore, non-litigants with an expectation of suit could be part of a joint defense agreement). Of course, the breadth of inclusion of non-litigants is jurisdiction-specific and even judge-specific, so it will be important to review the jurisdiction's law closely before allowing non-litigants to participate in a joint defense group. You cannot risk their inclusion unless it is clear that it does not destroy the privilege.

The primary advantage of joint defenses is that they allow sharing of brainpower, experts, costs, and time. There is nothing better than being able to toss a complicated issue around a room of smart lawyers sharing the same motivation. Financial benefits flow from the ability to share common tasks that each party would otherwise have to complete alone—review

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of plaintiffs' document production, prior art searches, finding technical experts, and dividing summary judgment and discovery motions. Piling on is great!

If you are the lone defendant, you may be limited to one or two summary judgment or discovery motions for lack of time or money. But a joint defense agreement may allow you to have the benefit of several more motions, without substantial additional cost.

One lawyer or one client's team can cover a deposition, a fact witness interview, a meeting, a trip, a section of a brief, or a chunk of a defense, for all the others. You can pool common discovery requests to allow each party to seek more discovery specifically related to its own case. This is particularly valuable where the court places strict limits on the number of interrogatories or requests for admission. You can divide common third-party discovery, which allows defendants collectively to do more third-party discovery without a single defendant appearing to do scorched earth discovery, or paying the bills for it.

Joint defenses also ease communication flow and increase cooperation between co-defendants, resulting in a stronger defense. An increased exchange of information and increased cooperation lead to a more unified front before both plaintiff and the court, the ability to work together on motions and other filings before the court, and a reduced likelihood of defendants raising inconsistent theories.

On the other hand, joint defenses are time black holes. They lead to meetings. And meetings. And more meetings. Often with no clear resolution, except to schedule another meeting. On some days your joint defendants are more trouble than opposing counsel. Thus, more time spent. Another problem is that judges invariably lump defendants together as if they have the same positions, whether or not it is true (often it is not) and whether you like it or not. For example, during the claim construction phase of a patent litigation, the court often expects the defendants to share the same view on how the claims should be construed, and therefore may give the defendants collectively the same amount of time at the claim construction hearing, and the same allotted portion of briefing, as it gives the single plaintiff. But the defense interests often do not align precisely. Even when interests do align, who takes the lead at the hearing? Who takes the lead on the brief? Who has final say? These are difficult issues. The inter-defendant squabbling on such issues, if they are not managed from the beginning, can be the source of many battle scars.

Joint defenses also lead to free-riding. You will be frustrated by the other co-defendants piggy-backing on your work, as no doubt they will be when you choose to "join" in their nice motion, but do not want to spend any time working on the brief. More scars here.

There will often be defendants who do not join the group. You may be one of them for strategy reasons. This can cause suspicion and ill-will among defendants, and the plaintiff likes nothing better than to divide and conquer. Still more scars.

Even among parties on the same side, interests do not always align on every issue, and at some point in every case, they will diverge. For example, the court asks the defendants to agree on what patent terms need to be construed, and what the proposed constructions of those terms ought to be. Because the defendants have different products and different theories of non-infringement, different claim terms are at issue for each of them, and different definitions are important. If you have to stick to your guns, which you will at times, you can end up alienating both the court and the other defendants.

Further complications arise when defendants file cross-claims against each other, such as for indemnification or contribution, a frequent occurrence in patent and other multi-defendant cases.

Joint defenses can also constrain your decision making. For example, if you are ready to file a summary judgment motion and a co-defendant objects, for its own strategic reasons, either to the timing or the substance of your filing, you will at least have to consider delaying or changing your motion to maintain your working relationship. Even if you do not change your approach, convincing your co-defendant costs time. And keeping abreast of co-defendants' activities and positions requires time and meetings, which can be frustrating and eat away at the cost savings for the joint defense.

Assuming that you decide to go ahead with a joint defense agreement, you have to be careful to do it right to maintain the privilege. The burden of establishing the existence of a joint defense privilege is on the party or parties asserting it. *See, e.g., In re Megan-Racine Associates, Inc.*, 189 B.R. 562, 571-72 (Bankr. N.D.N.Y. 1995). To meet that burden, the careful practitioner will focus on when the common interest privilege starts and ends; whether a joint defense agreement should be put in writing; whether to seek the court's approval of the agreement; and whether there are waiver issues specific to the situation.

The privilege begins when parties sharing a common interest related to an actual or expected litigation begin communicating confidentially to further their defense. The initiation of a joint defense privilege is not conditioned upon the date a formal agreement is signed or a complaint is filed. In the patent world, potential target defendants often work together pursuant to a joint defense privilege well in advance of actual litigation. Because the joint defense privilege is a creature of substance rather than form, and because circumstances rather than contract bring it into existence, courts generally do not require a written joint defense agreement, but again, this is jurisdiction-specific. If the court does require it, then the answer is an easy one—put it in writing as quickly as possible and state in the agreement that the joint defense privilege is believed to cover all communications from the date of the co-defendants' first conversations in furtherance of their defense. If the court does not require it, or the answer is unclear, some co-defendants decide not to enter a written agreement to avoid having to produce the agreement and to avoid identifying the specific date it was entered.

Even where there is no written agreement, when there is a challenge—usually based upon document requests for the agreement or interrogatories seeking the joint defense group's membership—courts generally require that defendants identify the members of the joint defense group. *See, e.g., Trading Techs. Int'l, Inc. v. eSpeed, Inc.*, No. 04 C 5312, 2007 WL 1521136 (N.D. Ill. May 17, 2007) (requiring that defendants identify all members of a joint defense agreement, in lieu of producing a written joint defense agreement which did not exist). And the group's membership is generally the most sensitive part of the joint defense agreement, especially when there are members that are not active litigants of which the plaintiff is not aware. Moreover, in several states, such as California and Texas, the agreement itself is not considered privileged.

When the privilege is challenged, the court will most likely require production of the written agreement. This is a reason to consider obtaining advance court approval of the agreement (or at least its membership), as is typically done with a protective order. There is a risk that the court will not approve the agreement, but you are clearly better off learning that the court does not believe a privilege exists early in the case rather than after you have exchanged substantial communications under a mistaken expectation of privilege. Having court approval from the start of the litigation establishes the privilege before extensive communications and prevents the initial scare when plaintiff challenges the joint defense agreement after the co-defendants have shared substantial information.

Whether to sign an agreement is not an easy question, and people have strong views going both ways. If you are a named defendant or in a jurisdiction that requires a written joint defense agreement to establish the existence of the joint defense privilege, the answer is easier. If you are not named, or you are in a jurisdiction where the law is murkier, it may make sense not to risk discovery of a written agreement. There is no right or wrong answer here, but having a written agreement from the beginning does provide a better chance of protecting the privilege and is therefore the more prudent course.

Whether to seek court approval of the agreement proactively is a decision that the group as a whole will have to make based on its assessment of the circumstances at hand, and will depend on the makeup of the group.

Regardless of a written agreement, the privilege ends when the common interest ends.

While the primary goal of the written agreement is to protect the privilege, another important function is to establish the responsibilities and management mechanisms for the group members. A written agreement that makes this clear is the best thing to have when difficult situations arise. One approach, in a big group at least, is to have a group of lawyers that is responsible for making all final strategy decisions. Although this is a scary thing to contemplate because we all hate losing control, having a mechanism in place to deal with disagreements will help decision making go smoothly.

The number of members of the group will have some bearing on how it is organized and managed, but regardless, communication is the key. Weekly, short conference calls once the case is running hot are important, however painful that is, to keep everyone looped in. For important strategy decisions, live meetings are going to be necessary. At the same time, try to put as few communications between co-defendants in writing as possible. Discovery of those communications can and does happen, despite all best legal efforts to prevent it, and you will be particularly embarrassed if you disparage opposing counsel or the judge in venting in an e-mail to your co-defendant and that e-mail ends up being produced.

The written agreement should clearly spell out the terms of the relationship and the members. Although these sorts of statements admittedly are self-serving, this is true of all contracts, and the goal here is to protect the privilege. The written agreement should make it clear that:

- The parties recognize that they share a "common interest" in researching, developing, and pursuing defenses, including affirmative defenses and counterclaims, with respect to the plaintiff's claims.
- Any communications in furtherance of the common interest are privileged.
- Any communications that may have occurred prior to the execution of the formal agreement are also subject to the common-interest privilege.
- Each party to the agreement retains complete independence of action and discretion with respect to any decision to resolve the pending litigation without the need of the others' consent.
- There are specific steps for withdrawing from the agreement.

The agreement should also detail allocation of fees and costs. You can rest assured that this will be a difficult area to agree on. Possible approaches are dividing costs proportionally, based on the size of each company; dividing flatly by the number of parties; or other methods based on work taken on by each defendant. There should be a default mechanism for the situation when there is a project that only one party wants to undertake such that the group as whole does not have to bear the burden.

The day will almost certainly come when a party wants to research and file a motion or take a deposition that your client absolutely does not think is necessary. The agreement should provide that such motions can be filed on behalf of those companies who wish to pay for them. At the same time, the agreement should be set up such that parties cannot join in motions for which they have not either taken the laboring oar or shared the freight.

Sometimes a party will benefit regardless of whether it helps or pays; this is inevitable. This is the free-rider problem. It is difficult to resolve and often can only be managed. Our experience is that the best way to handle this is to gently push the free rider to participate and carry its weight. If this approach fails and you have had enough, appoint one member of the joint defense group to approach the free rider in a private setting and inform him that he will be removed from the joint defense group if he fails to participate. He will probably feel guilty and know it is coming, and will either step up or acknowledge that it is time to part ways. The fear of going it alone may be enough to end the free riding. Consider including a process for removing uncooperative co-defendants in the written joint agreement.

Another critical aspect of the agreement is how it deals with settlement, and the discussion of this issue is probably the best way to address the procedure for a party withdrawing from the group for any reason. The agreement should have notice provisions for withdrawal from the group: for example, that any party must withdraw from the group a certain number of business days after it provides written notice in the event that it determines that it no longer has mutuality of interest or if it resolves its dispute with the plaintiff. This provision should also provide for the final payment of fees and costs when one defendant withdraws from the agreement or otherwise settles with the plaintiff. It should also make clear that when

a member of the joint defense group settles, the information that party has will be preserved for the group's access. But remember that where some of the defendants are not operating under the protection of a common-interest arrangement, communications with those defendants will not be shielded from discovery.

Regardless of whether the group has a written agreement, the privilege ends when the common interest ends. This means that as defendants settle or are otherwise removed from the case, they are no longer part of, and must be removed from, the joint defense. The common interest can also end because of litigation between parties. When two members of the joint defense sue each other, the privilege as between those members is waived for at least purposes of that case. Courts however, will generally maintain the privilege as to all others.

A major concern in a joint defense situation is whether your co-defendants can waive *your* privilege. Courts are split over who may waive privilege in this context. Some courts hold that each co-defendant can waive privilege only with respect to that party's own communications. *See, e.g.*, *Great Am. Surplus Lines Ins. Co. v. Ace Oil Co.*, 120 F.R.D. 533, 536-38 (E.D. Cal. 1988); *Western Fuels Ass'n v. Burlington N. R.R. Co.*, 102 F.R.D. 201, 203 (D. Wyo. 1984). In these courts, a co-defendant who did not originate a communication cannot waive the privilege for that communication. *See Interfaith Hous. Delaware, Inc. v. Town of Georgetown*, No. 93-31, 1994 WL 17322 (D. Del. Jan. 12, 1994) (in a joint defense agreement, waiver by one member does not waive privilege for the other members). If communications have been mixed, then all of the communicating parties must waive the privilege for an effective waiver, unless the non-waiving parties' contributions can be redacted. *See* 8 J. Wigmore, EVIDENCE § 2328 (J. McNaughton rev. 1961); REST. 3D § 76 cmt. g.

The joint defense agreement should provide mechanisms to cover cost sharing.

Some courts, however, require all co-defendants to consent to a waiver. *See In re Grand Jury Subpoenas 89-3 & 89-4*, 902 F.2d 244 (4th Cir. 1990) (common defense privilege cannot be waived without the consent of all parties); *John Morrell & Co. v. Local Union 304A of United Food & Commercial Workers*, 913 F.2d 544, 556 (8th Cir. 1990) (same). Courts that follow this approach do, however, hold that when a single co-defendant discloses protected information outside the group, it waives the privilege as to itself but not the entire group. In *Western Fuels Ass'n v. Burlington N. R.R. Co.*, 102 F.R.D. 201, 203 (D. Wyo. 1984), for example, the court explained that "[t]his limitation is necessary to assure joint defense efforts are not inhibited or even precluded by the fear that a party to joint defense communications may subsequently unilaterally waive the privileges of all participants, either purposefully in an effort to exonerate himself, or inadvertently."

The joint defense privilege can also be waived by later litigation between co-defendants. *Simpson v. Motorists Mut. Ins. Co.*, 494 F.2d 850, 855 (7th Cir. 1974). But this type of waiver is selective—although co-defendants that sue each other can use statements made in furtherance of the joint defense agreement against each other, a third party cannot obtain access to the communications. See REST. 3D § 75. To invoke this selective waiver, there must be actual adversary litigation to end the co-defendant relationship. *See State v. Cascone*, 487 A.2d 186, 189 (Conn. 1985). A mere change in one co-defendant's position will not constitute subsequent litigation. *See People v. Abair*, 228 P.2d 336, 340 (Cal. Ct. App. 1951) (turning state's witness does not waive privilege); REST. 3D § 75 cmt.

A goal of settling early, a fear of loss of control, the free-rider problem, or bad prior experiences may preclude some defendants from joining a formal joint defense group. As much coordination with these defendants as possible is still important, not only to present consistent positions, but also to share costs and leverage. When a defendant is not operating under the protection of a common-interest arrangement, however, communications will not be shielded from discovery. Sometimes defendants inside and outside a joint defense group may reach an informal oral agreement to protect communications and to share costs for certain tasks (usually dividing by the number of defendants). But, as in any coordinated effort, a negotiation of terms prior to the commencement of specific tasks is a must. As discussed above, a formal agreement is not required for a joint defense privilege—common interests and efforts furthering those interests are the touchstones of the privilege. Having said that, if the privilege is challenged, the more indicia of an agreement you can show, the stronger your argument that a privilege exists. Moreover, the court will not know or care who is or is not in the group, but will still force commonality at certain stages, and this will require coordination.

Frequently there will be defendants who are adverse to each other—such as when a patent infringement defendant seeks indemnification from another named defendant. This situation is all about management of the situation and of expectations. Both parties need to understand that their positions on the underlying issues in the case are common, but that the issues between them are not. As discussed above, if co-defendants sue each other, for example to resolve indemnification issues, the privilege as between them will be waived. But courts will generally seal any of the parties' privileged communications and hold that the privilege is not waived as to any third parties, including plaintiff.

There will come a time in any joint defense when parties will not agree and will have to take positions that are not consistent. The key is to manage such situations by the written agreement. A party of course is free to take the positions it must in litigation. The joint defense agreement should provide mechanisms to cover cost sharing, if there is any, in that situation, and to allow a party to go its separate way at times. The fact that co-defendants disagree on an issue does not destroy the privilege; however, it is an area where particular care should be taken regarding written communications, as it could be that the "common" interest for at least that issue could be grayer.

Moreover, in virtually every multi-defendant case there comes a point—usually immediately after one defendant has inadvertently produced a privileged communication or made a broad statement about how its present interests regarding

some insignificant issue are not aligned with the other defendants—when the plaintiff challenges the validity of the joint defense, and co-defendants worry that their joint defense privilege will not hold up. But this concern is avoidable with a little bit of forethought, planning, and caution in written and oral advocacy!

In most cases it will make sense to join the group. If managed correctly, the benefits are clear and outweigh the problems. If your client intends to settle right away, however, it makes little sense to spend time and money worrying about joint defense issues. You will not make any friends on the defense side by going your own way and settling early, but that is not the goal. On the other hand, if this is a new case to you or one that you are in for the long haul, getting involved with co-defendants who are more up to speed or with whom you intend to partner to ease the expense and combine resources is the way to go early. The joint defense situation can be a great thing. But it is not a panacea and efficiencies are not automatic. You cannot choose whether you have co-defendants, but you can choose how actively you want to participate in the joint defense group, or whether you want to participate at all. In our experience it is better to participate than to be left out of the advantageous sharing of information and costs. ❑