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When Is Pre-Acquisition Analysis of Patents Protected from Discovery During Litigation?

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A Discovery Master in *Limestone Memory Systems LLC v. Micron Tech., Inc.* pending in the Central District of California recently provided additional guidance to practitioners and patent owners on this important question. The report, issued on February 19, 2019, sustained in part the plaintiff Limestone's privilege and work product assertions related to pre-acquisition analysis of the asserted patents conducted by Acacia, Limestone's parent company. In doing so, the report emphasized that courts have long held that attorney-client privilege may arise when a company obtains legal advice, while seeking to acquire patents, protecting from discovery communications between the acquiring company and inventors.

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9th Circuit (incl. bankruptcy)

Here, Limestone refused to produce business documents created prior to its acquisition of the asserted patents when Acacia had an exclusive option to acquire the patents. These documents were generated before Limestone enforced the acquired patents against Micron and were concurrently prepared with Limestone's Complaint.

The Discovery Master reiterated the legal standard for attorney-client privilege and attorney work product under Ninth Circuit precedent. With respect to attorney-client privilege, where communication involves in-house counsel performing a mix of business and legal analysis, if the "primary purpose" for the communication is to obtain or provide legal advice, it may be shielded from discovery. The attorney work product doctrine shields materials from discovery where they are "prepared or obtained because of the prospect of litigation." It is irrelevant whether litigation was the primary or secondary motive—it is the "circumstances surrounding the document's preparation" that guides the work product analysis.

Under these standards, Limestone successfully claimed privilege and work product protection with respect to certain communications and documents evaluating the enforceability and strength of the patents that were created on or before the acquisition of the asserted patents. First, the Discovery Master concluded that the allegedly privileged communications were shielded from discovery because they were generated for the primary purpose of obtaining legal advice, even though a business evaluation occurred concurrently with the preparation of the Complaint. The substance, participants involved, and form of the communications were more than an "ordinary and usual" business evaluation, most of which occurred just three weeks prior to the filing of the Complaint.

Second, with respect to work product, the Discovery Master concluded that the categories of documents at issue were created in anticipation of this litigation. The first type of documents, comprising communications from outside counsel, related to the business purpose of pre-acquisition evaluation of the patents which was "inextricably intertwined" with the communication's legal purpose. Since Acacia intended to enforce the acquired patents in this suit and the communications occurred within a few weeks prior to filing the complaint, the legal analysis performed in this evaluation process "permeated the subjected communications and therefore gave rise to work product protection." The other type of documents, communications among counsel and consultants, their

context and content made it clear that the parties were acting under the direction and oversight of counsel to achieve a litigation purpose—despite also having a related business purpose. As a result, the work product doctrine attached to internal communications and drafts, protecting them from disclosure.

It is important to note that Limestone is in the business of acquiring and enforcing patents as a non-practicing entity and thus the line between litigation versus business objectives, in this case, is necessarily closer than in cases involving practicing entities attempting to withhold patent evaluation materials during discovery. Nonetheless, this case serves as a reminder to practitioners and patent owners to timely enforce patents, as the Discovery Master repeatedly noted the temporal proximity of the evaluation communications to the filing of the complaint. Conducting an evaluation and waiting several months to initiate litigation will likely make it much harder to shield from discovery documents reflecting patent evaluation. As to substance, even where business objectives may be the overarching impetus for communications, emphasizing their legal purpose will increase the likelihood that they will be protected from discovery.

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