

UNITED STATES OF AMERICA  
BEFORE FEDERAL TRADE COMMISSION



\_\_\_\_\_)  
In the Matter of )  
)  
)  
Schering-Plough Corporation, )  
a corporation, )  
) Docket No. 9297  
)  
Upsher-Smith Laboratories, Inc., )  
a corporation, )  
)  
) **PUBLIC**  
and ) **VERSION**  
)  
)  
American Home Products Corporation, )  
a corporation )  
\_\_\_\_\_)

**EMERGENCY MOTION OF AMERICAN HOME PRODUCTS CORPORATION TO STAY ORDER, FOR CERTIFICATION FOR INTERLOCUTORY APPEAL AND APPLICATION FOR FULL COMMISSION REVIEW**

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Pursuant to Rule 3.23(c) of the Commission's Rules of Practice, American Home Products Corporation ("AHP") respectfully requests this Court to stay its Order denying AHP's Motion for Protective Order and to prohibit complaint counsel or Respondents from using the inadvertently-produced privileged documents in any manner pending appeal to the Commission and, if necessary, federal judicial review. Alternatively, AHP requests the Court to grant *in camera* treatment to each privileged document complaint counsel or Respondents intend to use as exhibits at the administrative hearing. Neither complaint counsel, Schering-Plough Corporation ("Schering"), nor Upsher-Smith Laboratories, Inc. ("Upsher-Smith") contest AHP's request for *in camera* treatment of its privileged documents. Pursuant to Rule 3.23(b), AHP also respectfully moves the Court to certify its Order to the Commission for interlocutory review.<sup>1</sup> Because the administrative hearing is scheduled to commence on January 23, 2002, AHP requests the Court to shorten the time frame in which complaint counsel are permitted to respond to this Motion to two business days, and respectfully requests the Court to rule on AHP's request to stay the January 15, 2002 Order, or grant *in camera* treatment to AHP's privileged documents, by Friday, January 18, 2002.<sup>2</sup> Upon certification by this Court, AHP respectfully asks the Commission to exercise its discretion to review the ALJ's order, to grant or affirm a stay of the ruling denying AHP a protective order, and to

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<sup>1</sup> Judge Chappell's Order Denying AHP's Motion for Protective Order of January 15, 2002, is attached hereto as Exhibit 1, pursuant to the requirements of Commission Rule 3.23(b). 16 C.F.R. § 3.23(b).

<sup>2</sup> Counsel for AHP contacted complaint counsel and requested complaint counsel to agree to shorten its response time to two days. Complaint counsel did not agree to do so, but agreed that it would not oppose a ruling from this Court on AHP's request for *in camera* treatment prior to the Court receiving a response from complaint counsel to this Motion.

prohibit complaint counsel or Respondents from using the inadvertently-produced documents pending appeal, and, if necessary, judicial review.

**I. BACKGROUND**

On September 27, 2001, AHP filed a Motion for Protective Order asking this Court to compel complaint counsel to return nine privileged documents that AHP had inadvertently produced during the Commission's pre-complaint investigation.<sup>3</sup>

Complaint counsel filed its Opposition to AHP's Motion on October 19, 2001, and AHP filed its Reply on November 20, 2001. Complaint counsel filed a Response to AHP's Reply on November 27, 2001. This Court denied AHP's Motion on January 15, 2002.

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.....<sup>4</sup> This Court assumed without deciding that the attorney-client privilege and work-product doctrine apply to each of these nine documents. However, it erroneously concluded that AHP's inadvertent production of these documents to Commission staff during the investigation resulted in waiver of

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<sup>3</sup> .....

<sup>4</sup> All briefing on this motion is attached hereto in appendices A-D for the Commission's consideration pursuant to Rule 3.23(b). 16 C.F.R. § 3.23(b).

AHP's claims of privilege as to these documents. Accordingly, AHP seeks full Commission review of that ruling.

**II. EITHER THIS COURT OR THE COMMISSION SHOULD STAY THE RULING THAT AHP HAS WAIVED ITS PRIVILEGE, AND SHOULD PROHIBIT COMPLAINT COUNSEL OR RESPONDENTS FROM USING THE NINE PRIVILEGED DOCUMENTS PENDING APPEAL TO THE COMMISSION OR FEDERAL JUDICIAL REVIEW**

This Court or the Commission should grant an immediate stay of the ruling on AHP's Motion for Protective Order pending appeal to the Commission or federal courts. Otherwise, AHP's privilege in the documents at issue will be further compromised.

Under Commission Rule 3.23(c), both this Court and the Commission have the authority to stay proceedings during an interlocutory appeal.<sup>5</sup> AHP does not seek a stay of the entire proceedings currently before this Court. Rather, AHP requests only that this Court or the Commission stay the ruling denying AHP's Motion for Protective Order and issue an order preventing complaint counsel or Respondents from using these nine documents at the upcoming trial of this case, or otherwise, until the Commission and/or the federal courts have had the opportunity to review and decide upon AHP's challenge to this Court's ruling.

In determining whether to grant a stay pending appeal, this Court should consider:

- (1) irreparable injury to AHP if the stay is denied; (2) likelihood of success on appeal;
- (3) lack of substantial injury to complaint counsel if the stay is granted; and (4) whether

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<sup>5</sup> Commission Rule 3.23(c) more fully states that "[a]pplication for review and appeal hereunder shall not stay proceedings before the Administrative Law Judge unless the Judge or the Commission shall so order." 16 C.F.R. § 3.23(c). Rule 3.23(c) closely resembles section 1292(b) of Title 28 of the United States Code, the rule governing the issuance of stays in federal court. Section 1292(b) states that "application for an appeal hereunder shall not stay proceedings in the district court unless the district judge or the Court of Appeals or a judge thereof shall so order." 28 U.S.C. § 1292(b).

granting the stay will serve the public interest. See In re R.J. Reynolds Tobacco Co., No. 9206, Order Granting Motion of R.J. Reynolds Tobacco Co., Inc. to Dismiss Complaint and to Stay Proceedings Pending Dismissal at 12 (Aug. 4, 1986), attached hereto as Exhibit 2. An examination of these four factors demonstrates that this Court or the Commission should stay the ruling pending appeal to the Commission and, if necessary, federal judicial review.

**A. Irreparable Injury to AHP**

AHP will suffer irreparable injury if complaint counsel are permitted to continue using any of the nine privileged documents in this public proceeding pending appeal. Continued use of these documents by complaint counsel will arguably diminish their privileged status and, quite possibly lead to additional waiver arguments. Courts have found irreparable injury to exist where privileged information may be divulged during the pendency of the appeal. See, e.g., United States v. Jones, No. 2:99-MC-71-11, 1999 WL 1057210, at \*2 (D.S.C. Oct. 5, 1999) (concluding that “[t]he important interests that the attorney/client privilege protects will be destroyed and such harm to [movant] will be irreparable”); see infra § IV.B.

**B. AHP Is Likely To Succeed On Appeal**

The second factor, likelihood of success on appeal, does not require this Court “to change its mind or conclude that its determination on the merits was erroneous.” Jones, 1999 WL 1057210, at \*2. Nor does the movant have to demonstrate it will ultimately prevail. See Hilton v. Braunskill, 481 U.S. 770, 778 (1987). A movant need only present a “substantial case on the merits” when the issue involves a serious legal question and the



balance of equities tip in the movant's favor. See Ruiz v. Estelle, 650 F.2d 555, 565 (5th Cir. 1981).

As mentioned below, courts divide on the legal standards governing waiver and there is an absence of Commission precedent on such issues. AHP has at a minimum made a substantial case that its inadvertent production of the nine documents did not result in waiver. See Mot. for Protective Order and Reply at Appendices A & C.

In its Order denying AHP's Motion for Protective Order, this Court did not apply, or even address, federal case law supporting AHP's argument that disclosure of material a party does not know to be privileged at the time of production does not result in waiver. For example, in Advertising To Women, Inc. v. Gianni Versace, No. 98 C 1553, 1999 WL 608711, at \*5 (N.D. Ill. Aug. 4, 1999), the court did not even need to apply the five-factor balancing test where a party produced privileged documents it did not know to be privileged at the time of production. Rather, the court found that "fairness would be ill-served by applying waiver simply because a court later found that [it] erred in its [privilege] assessment."

Additionally, AHP is likely to succeed in showing that this Court erred in its application of the five-factored balancing test. First, AHP's precautions during the document production were not inadequate. Rather, they were reasonable. If counsel for AHP had conducted an additional review of the documents it planned to produce, as the Court suggested, the privileged documents likely would not have been withheld because the documents appear to be business documents. Second, the Court faults AHP for not inquiring into the origins of the documents used at Dr. Dey's Investigational Hearing, yet fails to cite the "red flag" that should have put AHP or its counsel on alert that these

documents were potentially privileged. There simply was no “red flag” that alerted or should have alerted AHP or its counsel that privileged documents were the subject of questioning at the deposition. Third, the Court recognizes that the scope of production weighs in favor of AHP. Finally, the Court found that disclosure was complete because complaint counsel have read and analyzed these documents, and provided six of them to their expert. However, this Court fails to distinguish between the five documents that were used at Dr. Dey’s Investigational Hearing and which were sent to Professor Bresnahan and the four documents that have played no role during the pre-Complaint investigation or the adjudication. Clearly, four of the documents have had much less disclosure than the other five privileged documents; a distinction that this Court ignored. On balance, these and other factors set forth in AHP’s Motion weigh in a finding of non-waiver.

**C. No Material Prejudice to Complaint Counsel**

Complaint counsel will not be prejudiced if this Court or the Commission issues a stay of its order and prevents complaint counsel from using the documents pending Commission and/or federal court review. The record shows that the documents at issue are, at best, cumulative evidence. See AHP Reply at 36-38. Stated differently, complaint counsel do not need these documents to proceed with their cases against Schering-Plough or Upsher-Smith.<sup>6</sup> Thus, they will not be prejudiced by their inability to use these documents. Even if this Court or the Commission were to conclude that complaint counsel might be prejudiced by the granting of the stay, a balancing of the interests and

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<sup>6</sup> Moreover, a speedy resolution of the appeal and, if necessary, of judicial review by the federal courts, would obviate any prejudice to complaint counsel.

equities weighs in favor of granting the stay and other relief requested by AHP. See AT & T v. Winback & Conserve Program, Inc., 42 F.3d 1421, 1427 n.8 (3d Cir. 1994) (emphasizing that a court must weigh all four factors in determining whether to grant interim relief). Without a stay, AHP's privilege may be compromised.

**D. Public Interest Will Be Served by Granting a Stay**

It is in the public interest for this Court or the Commission to stay this Court's decision pending appeal and judicial review, if necessary. "[I]n light of overwhelming concerns about protecting the sanctity of the attorney/client privilege, public interest weighs in favor of issuing a stay." Jones, 1999 WL 1057210, at \*3. As the United States Supreme Court noted in Upjohn Co. v. United States, 449 U.S. 383, 389 (1981), the purpose of the attorney-client privilege is to encourage frank and open communication between client and legal counsel, thereby promoting a heightened observance of law. As one court has stated, "[a]n order which does not protect the attorney/client privilege weighs *against* the public's interest." Jones, 1999 WL 1057210, at \*3 (emphasis added).

**III. IN THE ALTERNATIVE, THIS COURT SHOULD GRANT *IN CAMERA* STATUS TO AHP'S PRIVILEGED DOCUMENTS THAT COMPLAINT COUNSEL OR RESPONDENTS INTEND TO USE AS EXHIBITS AT THE ADMINISTRATIVE HEARING**

If this Court does not stay its Order denying AHP's Motion for Protective Order pending appeal to the Commission and, if necessary, federal judicial review, then alternatively, it should grant *in camera* status to the privileged documents complaint counsel or Respondents intend to use as exhibits at the hearing. Complaint counsel have notified AHP's counsel that they intend to use •••••privileged documents at

trial.<sup>7</sup> Respondent Upsher-Smith has also informed counsel for AHP that it intends to use  
.....of the privileged documents at trial.<sup>8</sup> Neither complaint counsel, Schering, nor  
Upsher-Smith contest AHP's request for *in camera* treatment of its privileged documents.  
Because of the privileged nature of the documents, which will not decrease over time,  
AHP requests that the *in camera* treatment be for an indefinite period of time.

Commission Rule 3.45 states that *in camera* treatment of materials offered into  
evidence is appropriate where "public disclosure [of the documents] will likely result in a  
clearly defined, serious injury to the person, partnership or corporation requesting their *in  
camera* treatment." 16 C.F.R. § 3.45(b). Courts have routinely held that disclosure of  
materials protected by the attorney-client privilege and/or work-product doctrine would  
cause irreparable injury to the producing party. See, e.g., Ford Motor Co. v. Kelly, 110  
F.3d 954, 963 (3d Cir. 1997); Jones, 1999 WI. 1057210, at \*2. Moreover, this Court  
expressly observed that its Order denying AHP's Motion for Protective Order did not  
constitute a ruling on whether the inadvertently-produced privileged documents will be  
afforded *in camera* treatment. Order at 7.

This Court previously has found that highly sensitive and confidential business  
documents, the disclosure of which, could cause a party serious competitive injury, are

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<sup>7</sup> .....  
.....See Letter from Yaa Apori to  
Cathy Hoffinan, dated December 20, 2001, with attached exhibit list, attached hereto as Exhibit 3.

<sup>8</sup> .....  
.....See Letter from Paul Stone  
to David Orta, dated December 21, 2001, with attached exhibit list, attached hereto as Exhibit 4. ....  
.....See Letter from David Orta  
to Paul Stone and Christopher Curran, dated December 28, 2001, attached hereto as Exhibit 5.

deserving of *in camera* treatment. See *In re Hoechst/Andrx*, No. 9293, 2000 F.T.C. LEXIS 138, at \*6 (observing that “[t]he likely loss of business advantages is a good example of a ‘clearly defined, serious injury’”). If potential loss of competitive advantage constitutes “serious injury” under § 3.45(b), then disclosure of documents protected by the attorney-client privilege and work-product doctrine must meet the “serious injury” standard. Without *in camera* protection, the privileged documents complaint counsel and Upsher-Smith intend to use at trial will be publicly disclosed. Because of the substantial injury AHP faces from public disclosure of these privileged documents, this Court should grant each of the privileged documents *in camera* status.

Granting *in camera* treatment to AHP’s privileged documents is necessary because, pursuant to an *in camera* order, disclosure of the privileged documents will be limited to only those parties who have already seen the documents, and not to the general public. By requesting this relief, AHP is not conceding that it will not be injured. However, an *in camera* order will mitigate AHP’s injury. Furthermore, complaint counsel and/or the Respondents use AHP’s privileged documents at trial at their own risk. If AHP is correct in its argument that these documents are privileged and that there has been no waiver of the privilege, then these documents should not be entered into evidence and should not be considered by the Court.

#### **IV. THIS COURT SHOULD CERTIFY ITS DETERMINATION OF WAIVER FOR FULL COMMISSION REVIEW**

Under section 3.23(b) of the Commission’s Rules of Practice, an Administrative Law Judge should certify a ruling or a portion of its ruling to the Commission for interlocutory review where:

- (1) the ruling involves a controlling question of law or policy as to which there is substantial ground for difference of opinion, and
- (2) an immediate appeal from the ruling may materially advance the ultimate termination of the litigation *or* subsequent review will be an inadequate remedy.

16 C.F.R. § 3.23(b) (emphasis added).

Several federal courts have certified rulings requiring disclosure of privileged documents or otherwise ruling on questions of privilege for interlocutory review pursuant to 28 U.S.C. § 1292(b).<sup>9</sup> For example, the district judge in Transamerica Computer Co. v. Int'l Bus. Machs. Corp., 573 F.2d 646, 647-48 (9th Cir. 1978), found that defendant's inadvertent disclosure of privileged documents during a massive document production did not constitute waiver. The judge concluded that his order "involved controlling questions of law as to which there are substantial differences of opinion and that an immediate appeal therefrom (might) materially advance the ultimate termination of the litigation," and certified the order to the Ninth Circuit for immediate review. Id.

Similarly, the Third Circuit recently held that a discovery order requiring disclosure of material protected by the attorney-client and work-product privileges was immediately appealable under § 1292(b). See Montgomery County v. Microvote Corp., 175 F.3d 296, 300 (3d Cir. 1999). The Seventh Circuit has likewise held that privilege determinations are immediately appealable where—as is the case here—the order is directed against a nonparty. See Dellwood Farms, Inc. v. Cargill, Inc., 128 F.3d 1122,

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<sup>9</sup> Commission Rule 3.23(b) is almost identical in wording to 28 U.S.C. § 1292(b). In order to file an interlocutory appeal under § 1292(b), a district judge must first state in writing that the order involves a "controlling question of law as to which there is substantial ground for difference of opinion and that an immediate appeal from the order may materially advance the ultimate termination of the litigation." 18 U.S.C. § 1292(b). There is no "inadequate remedy" provision in § 1292(b).

1125 (7th Cir. 1997). This Court should follow the precedent set by these federal courts and certify this issue to the Commission.<sup>10</sup>

**A. Whether AHP's Claim of Privilege As to the Nine Inadvertently Produced Documents Has Been Waived Is a Controlling Question of Law As To Which There Is Substantial Ground for Difference of Opinion**

**i. Controlling Question of Law**

In its Order denying AHP's Motion for Protective Order, this Court found that AHP waived attorney-client privilege and attorney work-product protection as to the nine contested documents. The issue of whether a party waives privilege as to documents it does not know to be privileged at the time of production constitutes a controlling question of law in this case, thereby satisfying the first requirement for interlocutory review under § 3.23(b).

Courts have observed that a question of law is "controlling" under § 1292(b) if the determination "may importantly affect the conduct of an action." In re Duplan Corp. v. Slaner, 591 F.2d 139, 148 n.11 (2d Cir. 1978) (citing Coopers & Lybrand v. Livesay, 437 U.S. 463, 475 n.27 (1978)). Resolution of the issue does not need to terminate the action in order to be "controlling." See Klinghoffer v. S.N.C. Achille Lauro, 921 F.2d 21, 24 (2d Cir. 1990). Rather, the issue is "controlling" if it is "serious to the conduct of the litigation, either practically or legally." Johnson v. Burken, 930 F.2d 1202, 1206

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<sup>10</sup> The Commission has observed that Rule 3.23 was modeled after section 1292 of Title 28 of the United States Code, which governs interlocutory appeals in the federal courts. See In re R.R. Donnelley & Sons Co., No. 9243, 1995 WL 461663, at n.12. It has explicitly observed that precedents in the federal courts construing section 1292(b) can be useful to the Commission in interpreting Rule 3.23. See In re Int'l Harvester Co., 98 F.T.C. 2, 3 n.1 (1981) (noting that "[s]ection 3.23 of the Commission's Rules is modeled after the appeal procedure of 28 U.S.C. § 1292(b)" and "[p]recedents under that provision thus can be useful to the Commission in interpreting its own rule").

(7th Cir. 1991) (quoting Katz v. Carte Blanche Corp., 496 F.2d 747, 755 (3d Cir. 1974)).

For instance, if resolution of the issue “would affect the scope of evidence in a complex case,” then the question is a “controlling” one and is appropriate for review. Garner, 430 F.2d at 1097.

The issue of whether AHP waived the attorney-client privilege and/or work-product protection as to the nine contested documents is a “controlling” question of law in this case. Complaint counsel effectively have conceded this point. ●●●●●●●●●●

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In view of such assertions, there can be no doubt that the question at issue here—i.e., whether AHP has waived its right to assert privilege over the nine documents, and consequently whether complaint counsel have a right to use these documents - at trial or otherwise - involves a “controlling question of law.”<sup>11</sup>

Moreover, whether AHP waived privilege as to the nine contested documents is serious to AHP, both practically and legally. As to AHP, this Court’s denial of AHP’s Motion for Protective Order constitutes final agency action, as AHP, as a non-party, will

<sup>11</sup> Some authority suggests that in order for an issue to be “controlling,” it must contribute to the determination of a “wide spectrum of cases.” See In re Hoechst/Andrx, No. 9293, Order Denying Motion for Interlocutory Appeal at 2 (Oct. 25, 2000) (citing In re Auto. Breakthrough Scis., Inc., Nos. 9275 & 9277, 1996 FTC LEXIS 478, at \*1 (Nov. 5, 1996)), attached hereto as Exhibit 6. However, this view appears to be based on prior Commission precedent that recently has been explicitly rejected by the federal courts, and should, therefore, not be applied here. For example, in Klinghoffer v. S.N.C. Achille Lauro, the Second Circuit recently disavowed the notion that a question of law can be “controlling” only if it applies to a wide spectrum of cases, and observed that the district courts had misconstrued its previous case law on this issue. 921 F.2d 21, 24 (2d Cir. 1990).



not have standing to challenge any final decision reached by this Court or the Commission in this case. Additionally, AHP may be irreparably injured in the absence of immediate Commission review because this Court's Order has the practical effect of allowing complaint counsel to use AHP's privileged documents at a public trial. See Katz, 496 F.2d at 756 (observing that the policies behind allowing interlocutory appeals include "the avoidance of harm to a party pendente lite from a possibly erroneous interlocutory order"). Thus, for these reasons as well, the waiver issue involves a "controlling question of law."

ii. **Substantial Ground for Difference of Opinion**

Whether waiver has occurred as to the nine privileged documents also is a question as to which there is a substantial ground for difference of opinion. As this Court has observed, courts have diverged significantly as to the proper methodology for determining whether inadvertent production of privileged documents constitutes waiver. See In re Hoechst/Andrx, No. 9293, 2000 F.T.C. LEXIS 155, at \*3 (Oct. 17, 2000). Moreover, this Court has noted that "[t]here is a dearth of Commission precedent addressing the circumstances under which privileges are waived." Id. at \*2.

Consequently, in view of the "dearth of Commission precedent" and the divergent views on the issue of waiver recognized by this Court, AHP has satisfied the "substantial ground for difference of opinion" requirement of § 3.23(b). Cf. In re Hoechst Celanese Corp., No. 9216, 1990 WL 606559 (F.T.C. Oct. 26, 1990) (finding absence of a "substantial ground for difference in opinion" because there was "no showing of a split between circuit courts or Commission decisions, or even among commentators").

Additionally, as explained more fully above in § II.B., AHP has a substantial likelihood of prevailing on appeal, rendering this issue suitable for interlocutory appeal.

**B. Subsequent Review of This Court's Determination of Waiver Will Be an Inadequate Remedy**

Certification to the Commission also is appropriate under Rule 3.23(b) because failure to address this issue immediately will leave AHP without an adequate remedy. AHP has been withdrawn from this adjudication. Therefore, AHP, as a non-party, will not have standing to appeal an initial decision to the Commission. See 16 C.F.R. § 3.52(a) (“[a]ny party to a proceeding may appeal an initial decision to the Commission”) (emphasis added); Dellwood Farms, 128 F.3d at 1125 (observing that non-party has no standing to appeal adverse privilege ruling at the end of the litigation). Only through an interlocutory appeal will AHP be able to obtain Commission review of this Court’s adverse ruling on AHP’s Motion for Protective Order.

Even if AHP had standing to appeal this Court’s initial decision to the Commission, a subsequent appeal on the merits would not be an adequate remedy. As the Third Circuit has expressly observed, appealing privilege and work product issues after a final judgment is ineffective because the right sought to be protected will already have been destroyed. See Ford Motor Co., 110 F.3d at 963 (concluding that “[a]ppeal after final judgment cannot remedy the breach in confidentiality occasioned by erroneous disclosure of protected materials”).<sup>12</sup> Without an immediate appeal, further disclosure of

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<sup>12</sup> In the context of mandamus relief, the federal courts of appeal consistently have held that appeal after disclosure of a privileged communication is an inadequate remedy. See, e.g., In re BankAmerica Corp. Secs. Litig., 270 F.3d 639, 641 (8th Cir. 2001); In re Occidental Petroleum Corp., 217 F.3d 293, 295 n.9 (5th Cir. 2000); Harper & Row Publishers, Inc. v. Decker, 423 F.2d 487, 492 (7th Cir. 1970).

the nine privileged documents will likely occur, thereby possibly eroding the sacrosanct nature of the documents and the communications between counsel and client that they reflect.

**C. Commission Precedent Supports Interlocutory Review**

The Commission has observed that interlocutory appeal of discovery rulings may be appropriate.<sup>13</sup> For instance, in General Foods, No. 9085, an administrative law judge issued an order denying Folger Coffee Company *in camera* treatment of certain trial exhibits and deposition testimony. 96 F.T.C. 168 (1980). Although the order related purely to discovery issues, the administrative law judge certified his order for interlocutory appeal and the Commission granted review. *Id.* Notably, Folger was *not* a party to the adjudication.

Similarly, in Thompson Med. Co., No. 9149, an administrative law judge ordered respondent to produce copies of all prior statements by respondent's expert witness to complaint counsel. 101 F.T.C. 385, 389 (1983). The administrative law judge certified his order to the Commission, and the Commission granted review. *See id.*

If a court's denial of *in camera* treatment for exhibits and an order requiring production of prior expert witness statements is appropriate for interlocutory Commission review, then this Court's determination of waiver as to attorney-client privilege should likewise be suitable for interlocutory appeal. In fact, the issue here—whether this Court

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<sup>13</sup> The issue here—whether inadvertent production of the nine privileged documents constitutes waiver—is unlike the run-of-the-mill discovery issues that administrative law judges have refused to certify for Commission review in the past. *See, e.g., In re Hoechst/Andrx*, No. 9293, Order Denying Motion for Interlocutory Appeal at 2 (Oct. 25, 2000) (refusing to certify decision allowing discovery of *non-privileged* communications between Biovail law firms and Commission staff) (emphasis added); *In re Hoechst Celanese Corp.*, No. 9216, 1990 WL 606559 (Oct. 26, 1990) (denying motion to certify order authorizing service of second interrogatories on respondents).

erred in denying AHP's Motion for Protective Order—is even more deserving of immediate review because of the importance of preserving the attorney-client privilege and work-product doctrine.

**D. AHP Respectfully Requests the Court to Limit the Time in which Complaint Counsel Are Permitted to Respond to this Motion to Two Days**

As this Court is aware, the administrative hearing in this case is scheduled to commence on Wednesday, January 23, 2002. At the hearing, complaint counsel, and possibly Upsher-Smith, seek to use certain of the privileged documents AHP inadvertently produced to the Commission during the pre-Complaint investigation. According to Commission Rule 3.23(b), 16 C.F.R. § 3.23(b), an answer to an application for interlocutory review may be filed within five days after service of the application for review. Therefore, under Commission rules, complaint counsel would have until January 23, 2002—the date the trial is scheduled to commence—to file a response to this Motion.

Allowing complaint counsel to file an answer on the day on which trial is scheduled to begin, puts AHP's rights to the nine privileged documents in serious jeopardy. Conceivably, complaint counsel could use the contested privileged documents as exhibits on the first day of the hearing, and then only file an answer to AHP's Motion at the end of the day on January 23, 2002. AHP will have, at that point, been irreparably harmed—even before this Court has had the opportunity to rule on its Motion. Therefore, AHP asks the Court to limit complaint counsels' time to respond to this Motion to two days after service of this Motion, which would be on January 17, 2002.

AHP also respectfully asks this Court to rule on AHP's request to stay its Order of January 15, 2002, or alternatively, to grant *in camera* treatment to the privileged documents, by Friday, January 18, 2002. As mentioned, complaint counsel do not oppose a ruling from this Court on the *in camera* request prior to their serving an answer to this Motion. AHP is cognizant of this Court's busy schedule. However, if this Court decides AHP's Motion later than January 18, 2002—and denies AHP's request to stay the Order denying AHP's Motion for Protective Order or to afford *in camera* treatment to the contested documents—then AHP's rights to seek federal judicial review on these issues will be effectively lost. Once complaint counsel or Upsher-Smith use AHP's privileged documents at trial, particularly in the absence of *in camera* treatment, any subsequent judicial review of this Court's January 15, 2002 Order will be a wholly inadequate remedy.

**V. UPON CERTIFICATION, THE COMMISSION SHOULD EXERCISE ITS DISCRETION AND REVIEW THIS COURT'S DENIAL OF AHP'S MOTION FOR PROTECTIVE ORDER**

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If this Court determines its order is suitable for interlocutory appeal, the Commission should exercise its discretion pursuant to Rule 3.23(b) and review the order denying AHP's Motion for Protective Order. As explained above, AHP, as a non-party, cannot challenge this Court's Order after a final decision on the merits, and even if it could, the damage resulting from further disclosure of the documents will be irreparable.

Upon review, the Commission should find that the Administrative Law Judge abused his discretion in denying AHP's motion.<sup>14</sup> As explained by AHP in its Motion for Protective Order and Reply thereto—which are hereby incorporated as if fully set forth herein—federal courts have found that where—as here—a party produces material it does not know to be privileged, such production is “inadvertent” and does not result in waiver. See Advertising To Women, Inc. v. Gianni Versace, No. 98 C 1553, 1999 WL 608711, at \*5 (N.D. Ill. Aug. 4, 1999); see also Zapata v. IBP, Inc., 175 F.R.D. 574 (D. Kan. 1997). As one court has held, “fairness would be ill-served by applying waiver simply because a court later found that [it] erred in its [privilege] assessment.” See Gianni Versace, 1999 WL 608711, at \*5. Id.

In the absence of Commission precedent, it was an abuse of discretion for Judge Chappell to fail to apply relevant federal case law, which holds that production of a document does not result in waiver of the privilege where the producing party did not recognize the privileged nature of the document at the time the document was produced.

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<sup>14</sup> See In re Keflogg Co., et al., No. 8883, 83 F.T.C. 1756 (May 29, 1974) (observing that Commission reviews an administrative law judge's discovery order for abuse of discretion).

.....Based on cases such as Gianni Versace and Zapata, AHP's production of the nine privileged documents was "inadvertent," and did not result in waiver.

Furthermore, it was an abuse of discretion for Judge Chappell to find waiver under the five-factor balancing test. Under that test, which Judge Chappell previously adopted as the proper methodology for determining waiver, each factor weighs in favor of a finding of non-waiver.<sup>15</sup>

As explained in AHP's Motion for Protective Order and Reply thereto, the precautions taken by AHP during the document production were above and beyond what courts have found to be reasonable. ....

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<sup>15</sup> In Hoescht/Andrx, Judge Chappell adopted the five-factor balancing test as the proper methodology for determining whether an inadvertent production of privileged material constitutes waiver. See Order Denying Complaint Counsel's Motion Regarding Hoescht's Waiver of Attorney-Client Privilege and Motion To Compel Answers to Deposition Questions, No. 9293, 2000 F.T.C. LEXIS 155, at \*4-5 (Oct. 17, 2000). Under this test, a court must balance the following factors: (1) the reasonableness of precautions taken to prevent inadvertent disclosure; (2) the time taken to rectify the error; (3) the scope of discovery; (4) the extent of the disclosure; and (5) the overreaching issue of fairness and the protection of an appropriate privilege. See *id.*

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Lastly, fundamental fairness dictates a finding of non-waiver. These documents reflect confidential communications between counsel and client and are protected by the oldest confidential communications privilege known to the common law. See Klitzman, Klitzman & Gallagher v. Krut, 744 F.2d 955, 960 (3d Cir. 1984). AHP will be irreparably harmed by a finding of waiver, whereas complaint counsel will suffer only, if at all, mere inconvenience. The Commission, therefore, should reverse Judge Chappell's Order denying AHP's Motion for Protective Order.

**CONCLUSION**

For the reasons set forth herein, AHP respectfully requests that (1) this Court or the Commission stay the ruling pending appeal and prevent complaint counsel from using the documents pending appeal, or in the alternative, to grant indefinite *in camera* treatment to each privileged document complaint counsel or Respondents use at the administrative hearing, (2) this Court certify its ruling in its Order of January 15, 2002 to the Commission for interlocutory appeal, (3) this Court order complaint counsel to answer this Motion by January 17, 2002, and for this Court to rule on whether to stay its

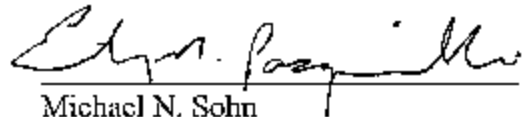


January 15, 2002 Order or grant *in camera* treatment to AHP's privileged documents by  
January 18, 2002, and (4) the Commission reverse this Court's order.

Dated January 22, 2002

Respectfully Submitted,

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**UNITED STATES OF AMERICA  
BEFORE FEDERAL TRADE COMMISSION**

In the Matter of	)	
	)	
Schering-Plough Corporation,	)	
a corporation,	)	
	)	Docket No. 9297
Upsher-Smith Laboratories, Inc.,	)	
a corporation,	)	
	)	
and	)	
American Home Products Corporation,	)	
a corporation	)	

**CERTIFICATE OF SERVICE**

I, Emily M. Pasquinelli, hereby certify that on January 22, 2002, I caused a true and correct copy of the Public Version of *Emergency Motion of American Home Products Corporation To Stay Order, For Certification for Interlocutory Appeal and Application for Full Commission Review* to be served upon the following as follows:

**Two paper copies by hand delivery to:**

Hon. D. Michael Chappell  
Administrative Law Judge  
Federal Trade Commission  
Room 104  
600 Pennsylvania Ave., N.W.  
Washington, D.C. 20580 (2 copies)

**The paper original and one paper copy by hand delivery and one electronic copy to:**

Office of the Secretary  
Federal Trade Commission  
Room H-159  
600 Pennsylvania Ave., N.W.  
Washington, D.C. 20580 (original and 1 copy)

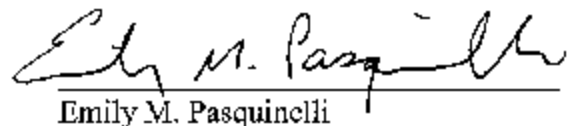
**One paper copy by delivery to:**

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Emily M. Pasquinelli  
Arnold & Porter



UNITED STATES OF AMERICA  
FEDERAL TRADE COMMISSION

In the Matter of	)
Schering-Plough Corporation,	)
a corporation,	)
Upsher-Smith Laboratories,	)
a corporation,	)
and	)
American Home Products Corporation,	)
a corporation.	)

Docket No. 9297

**ORDER DENYING AMERICAN HOME PRODUCTS CORPORATION'S  
MOTION FOR PROTECTIVE ORDER AND TO COMPEL RETURN OF MATERIALS**

I.

On September 27, 2001, American Home Products Corporation ("AHP"), which was then a respondent in this proceeding, filed a motion for a protective order and to compel the return of privileged and work product materials ("AHP's Motion"). On October 12, 2001, the Secretary of the Commission issued an Order Withdrawing Matter from Adjudication as to Respondent American Home Products Corporation. By stipulation, Complaint Counsel's time for filing a response brief was extended and AHP's request to file a reply brief was granted. On October 19, 2001, Complaint Counsel filed an opposition to AHP's motion ("Opposition"). AHP filed a reply to Complaint Counsel's opposition on November 13, 2001. On November 27, 2001, Complaint Counsel filed a motion for leave to file a response to AHP's reply and its response. By stipulation, the parties asked the Court to defer ruling until after November 28, 2001.

Complaint Counsel's motion for leave to file a response to AHP's reply is GRANTED. For the reasons set forth below, AHP's motion for a protective order is DENIED.

## II.

AHP moves for a protective order (i) compelling Complaint Counsel to return to AHP or destroy all copies of nine documents it claims are privileged and work product and were inadvertently produced during the pre-complaint investigation; (ii) compelling Complaint Counsel to return all copies of the October 5, 2000 deposition of Dr. Michael Dey so that testimony about these documents given during that deposition may be redacted; (iii) prohibiting Complaint Counsel from using these documents and testimony; and (iv) barring Complaint Counsel from asking questions at depositions or at trial concerning these documents. AHP asserts, first, that the attorney-client privilege and work product doctrine apply to and protect the documents at issue. AHP asserts, second, that the disclosure of these documents was inadvertent and did not waive the privileges.

Complaint Counsel responds, arguing, first, that the documents are not protected by attorney-client or work product privileges. Complaint Counsel argues, second, that AHP's disclosure was not accidental, but instead was the result of an erroneous judgment about whether the documents were privileged. Complaint Counsel argues, third, that even if AHP's disclosure is deemed inadvertent, AHP has waived any privileges.

## III.

The circumstances surrounding the creation of the documents subject to this motion, according to AHP are as follows. Schering-Plough Corporation (Schering) brought a patent infringement suit against AHP on February 16, 1996. AHP's Motion, p. 3. AHP was represented in the patent litigation by outside counsel other than Arnold & Porter, AHP's current outside counsel for this proceeding. *Id.* During the course of the patent infringement litigation, AHP's outside counsel and AHP representatives communicated with each other to assist AHP's counsel in providing legal services and advice to AHP; these communications were reflected in written documents. *Id.* AHP's motion relates to nine such documents and to testimony thereof.

AHP asserts that each of the nine documents reflects communications to the client from counsel and from the client to counsel for the purpose of giving and receiving legal advice and services in connection with the patent infringement litigation. *Id.* at p. 4. Six of the documents are tables or spreadsheets; two of the documents are handwritten notes or memoranda; one is handwritten notes and a market forecast. *Id.* at pp. 4-8. AHP does not assert that any of the documents were created by counsel; rather AHP states that officers or personnel of ESI-Lederle ("ESI") created the documents at the request of counsel and in order to assist counsel in the patent litigation. *Id.* Many, though not all, of the documents are described by AHP as incorporating assumptions that resulted from discussions with counsel. *Id.*

The circumstances surrounding the disclosure of AHP's documents, according to AHP and not contradicted by Complaint Counsel, are as follows. In response to a subpoena *duces tecum* that the Federal Trade Commission ("FTC") issued to AHP on November 5, 1999, AHP's

current outside counsel, Arnold & Porter, produced more than 27,000 pages to the FTC during the pre-complaint investigation. *Id.* at p. 8. According to the declaration of the attorney who oversaw the production process, market forecasting documents bearing "Confidential" and "Attorney-Client Privileged" designations were reviewed and withheld from production on privilege grounds. *Id.* Other documents that did not contain on their faces any designation of privilege but were determined by the supervising attorney to be privileged, including some market forecasting documents, were also withheld from production. *Id.* When documents were produced to the FTC in February and March 2000, counsel for AHP in charge of production had not segregated out as privileged and thus did not withhold from production the nine documents subject to this motion. *Id.*

On October 5, 2000, seven months after the documents had been produced, during the investigative phase of this proceeding, the FTC took the testimony of Dr. Michael Dey, who was then President of ESL, the AHP unit that manufactured and sold generic drugs. *Id.* at pp. 3, 9. Prior to the deposition, Arnold & Porter lawyers met with Dey regarding his upcoming investigational hearing. *Id.* at p. 9. During the investigational hearing of Dey, counsel for the FTC inquired into the origins of five of the nine documents at issue in this motion. *Id.* During his testimony, Dey was unable to recall why these documents had been created, who at the company had prepared them, or to whom they had been distributed. *Id.* Because Dey was unable to remember the origins of these documents, counsel for AHP did not object to questioning about the documents and Dey testified about them. *Id.* at pp. 9-10.

On February 9, 2001, FTC staff sent documents to Complaint Counsel's economic expert, Timothy Bresnahan, including the transcript of the Dey investigational hearing and five of the documents at issue here. Declaration of Yaa Apori, ¶ 5. ("Apori Decl.") One of the other documents at issue in this motion was also sent to Bresnahan in August 2001. *Id.* at ¶ 6.

On June 25, 2001, Complaint Counsel served on counsel for AHP a Notice of Deposition which required AHP to produce a witness to testify about the five of the nine documents marked as exhibits in Dey's deposition. *Id.* at p. 10. During its efforts to locate a witness to testify about these documents, Arnold & Porter determined that the nine documents at issue were privileged and notified Complaint Counsel that these documents had been inadvertently produced. *Id.* By letters dated July 20, 2001, and July 25, 2001, Arnold & Porter requested the return of the documents and Dey's deposition transcript and provided Complaint Counsel its basis for asserting privileges. *Id.*

#### IV.

In this case, whether or not the documents and Dey's testimony about the documents are privileged is not dispositive because, as discussed below, waiver is found. "When the producing party claims inadvertent disclosure it has the burden of proving that the disclosure was truly inadvertent, and that the privilege has not been waived." *In re Hoechst Marion Roussel, Inc.*, 2000 FTC LEXIS 155, \*6 (Oct. 17, 2000) (*quoting Golden Valley Microwave Foods, Inc. v.*

*Weaver Popcorn Co., Inc.*, 132 F.R.D. 204, 207 (N.D. Ind. 1990)). Whether or not a privilege has been waived can be determined by assessing the circumstances under which the documents were produced. *In re Hoechst Marion Roussel, Inc.*, 2000 FTC LEXIS 155 at \*5-6 (citing *United States v. De Lajara*, 973 F.2d 746, 749 (9<sup>th</sup> Cir. 1992)). In *Hoechst Marion Roussel*, a balancing test, which permits consideration of the totality of the circumstances surrounding disclosure, was adopted for determining whether disclosure waives any privileges. 2000 FTC LEXIS 155 at \*7. Under the balancing approach, "inadvertent disclosure in a document production can be deemed to evidence abandonment of the requisite intent to maintain confidentiality, and thereby waive the attorney-client privilege under certain circumstances." *F.C. Cycles Int'l Inc. v. Fila Sport*, 184 F.R.D. 64, 76 (D. Md. 1998). To determine if waiver has occurred through inadvertent production, five factors are considered: (1) the reasonableness of the precautions taken to prevent inadvertent disclosure; (2) the time taken to rectify the error; (3) the scope of discovery; (4) the extent of the disclosure; and (5) the overreaching issue of fairness and the protection of an appropriate privilege. *Hoechst Marion Roussel*, 2000 FTC LEXIS 155 at \* 6 (citing *Gray v. Gene Bicknell*, 86 F.3d 1472, 1484 (8<sup>th</sup> Cir. 1996); *Allread v. Grenada*, 988 F.2d 1425, 1434-35 (5<sup>th</sup> Cir. 1993)).

Applying the balancing test and the above stated five factors to the disclosure made in the instant case, AHP waived any privileges it may have had with respect to the documents and testimony subject to this motion.

First, the precautions taken to prevent disclosure of privileged materials were inadequate in three respects. One, privileged documents were created without a label of privilege. See Declaration of Randal Shaheen. ("Shaheen Decl.") at ¶ 6. Two, the procedures for reviewing and pulling from production privileged materials were not adequate. Responsive documents were reviewed by trained and experienced attorneys who segregated out potentially privileged materials. Shaheen Decl. at ¶ 4. Those first line reviewers applied inconsistent standards, as some market forecasting and related documents were withheld from production, but others were not. See Shaheen Decl. at ¶¶ 4-5. The supervising attorney did not review documents that had not been segregated out as potentially privileged. Shaheen Decl. at ¶ 4. Thus there appears not to have been a second attorney review of the documents selected for production. Three, AHP did not investigate the origins of the documents following the deposition of Dey to determine if they were privileged. See Shaheen Decl. at ¶ 8.

The procedures in place for reviewing documents for production are similar to those found to be inadequate in other cases. In *F.C. Cycles Int'l Inc.*, 184 F.R.D. at 76-78, documents were reviewed first for responsiveness by an attorney or senior paralegal. Documents originally reviewed by a paralegal were then subjected to a privilege review by an attorney. If the initial review was conducted by an attorney, the same attorney simultaneously conducted a privilege review. Sixty-four thousand pages were produced under no particular time constraints. The court held that the party did not have adequate procedures in place because it failed to provide for a post designation review or an additional safeguard of reviewing the documents after copying. *Id.* at 78. See also *In re Brand Name Prescription Drugs Antitrust Litig.*, 1995 U.S. Dist. LEXIS



17110, \*7-8 (N.D. Ill. 1995) (finding waiver where reviewing attorneys applied inconsistent standards for determining privilege).

There are cases where the procedures in place at the time of production were less rigorous than those employed by counsel for AHP and the court found the procedures to be reasonable. *E.g., Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co.*, 104 F.R.D. 103, 105 (S.D.N.Y. 1985). However, in the instant case, counsel for AHP failed to take reasonable precautions to preserve any privileges after it was reasonably on notice that privileged documents may have been produced. When Dey was asked about the origins of five of the nine documents, counsel for AHP was on notice that market forecasts and related marketing documents had been produced and should have made inquiries at that time into whether these documents and other related documents - like the other market forecasting documents that had been withheld as privileged - were also privileged. Accordingly, the reasonableness of the precautions factor weighs in favor of waiver.

Second, AHP did not take steps to rectify the production error in a reasonable time. "Delay in asserting the privilege can result in waiver." *Graco Children's Products, Inc. v. Dressler*, 1995 U.S. Dist. LEXIS 8157, \*19 (June 14, 1995); *Transonic Systems, Inc. v. Non-Invasivemedical Tech.*, 192 F.R.D. 710, 715 (D. Ut. 2000) ("In the context of inadvertent disclosures, courts have required parties seeking the return of a document to act timely."). The documents were produced in February or March 2000. Shaheen Decl. at ¶ 7. Dr. Dey was asked to testify about the origins of five of the nine disputed documents in October 2000. Shaheen Decl. at ¶ 7. Counsel for AHP did not assert privilege when Dey was asked about the documents in his deposition. Shaheen Decl. at ¶ 8. After Dey was questioned about five of these documents, AHP was clearly on notice that there may have been a problem with the documents produced. Counsel for AHP did not inquire into the origins of the documents immediately following the deposition of Dey, but instead waited eight months, until July 2001, and then, only in response to Complaint Counsel's deposition notice seeking testimony about five of the nine documents. *See* Declaration of Cathy Hoffman, ("Hoffman Decl.") at ¶ 2. By this time, Complaint Counsel had already provided five of the documents to its economic expert. Apori Decl. at ¶ 5. This delay of asserting privilege nearly a year and a half after production and eight months after notice of Complaint Counsel's use of the documents weighs heavily in favor of waiver.

Third, the scope of the production weighs slightly in favor of AHP, but does not require a finding of non-waiver. Counsel for AHP reviewed more than 100,000 pages of documents looking for responsive material and produced more than 27,000 pages of documents to the FTC during the pre-complaint investigation. Shaheen Decl. at ¶ 3. The size of production alone does not dictate a finding in AHP's favor. "As the number of documents grows, so too must the level of effort increase to avoid an inadvertent disclosure. Failure to meet this level of effort invites the inference of waiver." *New Bank of New England v. Marine Midland Realty Co.*, 138 F.R.D. 479, 483 (E.D. Va. 1991). Furthermore, counsel was not under unduly burdensome time constraints, as it produced documents on a rolling basis three to four months after it was served

with the FTC's subpoena *duces tecum*. Shaheen Decl. at ¶¶ 2,7. See *F.C. Cycles*, 184 F.R.D. at 78 ("considering the lack of time constraints" and finding waiver).

Fourth, the extent of disclosure is complete. *In re Grand Jury Investigation*, 142 F.R.D. 276 (M.D.N.C. 1992) (disclosure complete where company turned documents over to an investigator for the government). "A limited disclosure resulting from glancing at an open file drawer or designating documents for copying may not justify a finding of waiver when the party does not know the essence of the document's contents. However, when disclosure is complete, a court order cannot restore confidentiality and, at best, can only attempt to restrain further erosion." *Parkway Gallery Furniture, Inc. v. Kettinger/Pennsylvania House Group, Inc.*, 116 F.R.D. 46, 51-52 (M.D.N.C. 1987). Complaint Counsel has read, analyzed, and used the documents. Moreover, Complaint Counsel provided five of the nine the documents and the transcript of Dey's testimony to Professor Bresnahan, Complaint Counsel's economic expert, in February 2001, long before AHP claimed privilege for the documents in June 2001. Apori Decl. ¶ 5. Bresnahan cites to several of the documents in his report. Expert Report of Professor Timothy Bresnahan at A11-A14. Thus the extent of disclosure is complete and this factor weighs in favor of finding waiver. See *Marine Midland*, 138 F.R.D. at 480 (inadvertently disclosed document marked as an exhibit at a deposition); *Golden Valley Microwave Foods*, 132 F.R.D. at 209 (document already used in other discovery including depositions of a party's employees).

Fifth, considerations of fairness and the policy behind the privilege weigh in favor of finding that the privilege was waived. "Whether fundamental fairness weighs for or against waiver largely depends on the extent of reliance the party has made on the document in the case." *F.C. Cycles*, 184 F.R.D. at 78-79 (citing *Golden Valley Microwave Foods, Inc.*, 132 F.R.D. at 209 (fairness required use of an inadvertently produced letter since it had already been used in depositions of opposing side's employees); *Bud Antle, Inc. v. Grow-Tech, Inc.*, 131 F.R.D. 179 (N.D. Cal. 1990) (fairness required a finding of waiver because defendants had analyzed document and had possibly disclosed it to experts, and had shown strong reliance on it for their defense). Complaint Counsel asserts that it has relied on the documents in the pre-complaint investigation and in trial preparation prior to AHP's assertion of privilege. Opposition at p. 36. This reliance was justifiable as nothing on the face of the documents suggests that the documents might be privileged. Complaint Counsel further asserts that Bresnahan based his expert opinion in part on several of the disputed documents. *Id.* at p. 38. Complaint Counsel asserts that if Bresnahan is barred from discussing the documents and at trial is asked about the bases of his opinions, he may not be able to answer fully. Because Complaint Counsel would be prejudiced if not allowed to use these documents on which it has reasonably relied and because AHP did not act reasonably in maintaining and asserting any privileges, considerations of fairness and the policy behind the privilege weigh in favor of finding that any privileges were waived.

AHP has not met its burden of showing that, under the totality of these circumstances, AHP did not waive any privileges. Accordingly, AHP has waived its right to assert the work product or attorney-client privileges as to these nine documents and to Dey's testimony regarding five of the documents. For the above stated reasons, AHP's motion is DENIED. Although AHP is found to have waived any privileges, this order does not constitute a ruling on whether the documents will be afforded *in camera* treatment.

ORDERED:

  
D. Michael Chappell  
Administrative Law Judge

Date: January 15, 2002



In the Matter of  
R.J. REYNOLDS TOBACCO COMPANY, INC., a corporation.  
DOCKET NO. 9206

ORDER GRANTING MOTION OF R.J. REYNOLDS TOBACCO COMPANY, INC. TO DISMISS  
COMPLAINT AND TO STAY PROCEEDINGS PENDING DISMISSAL

By motion dated June 26, 1986, respondent R.J. Reynolds Tobacco Company, Inc. ("Reynolds") seeks dismissal of the complaint on the grounds that: (1) the Commission lacks subject matter jurisdiction with respect to respondent's editorial ad "Of cigarettes and science," and (2) this proceeding is an unlawful attempt to enforce the Federal Trade Commission Act which violates constitutional requirements of separation of powers. Respondent also seeks an immediate stay of this proceeding pending dismissal of the complaint by the Commission. [FN1] By answer dated July 17, 1986, complaint counsel oppose respondent's motion. [FN2] Respondent was granted leave to file a reply. [FN3] An oral argument on this matter was heard on July 22, 1986. The administrative law judge has determined that: (1) respondent's motion to dismiss should be granted for the reason that complaint counsel have failed to demonstrate that Reynolds' editorial ad "Of cigarettes and science," the only ad challenged in the complaint, is commercial speech subject to the Commission's Section 5 jurisdiction; (2) respondent's separation-of-powers argument is without merit and should be rejected; and (3) a limited stay of proceedings pending dismissal should be granted, for the reasons more fully set forth hereinbelow.

FN1 Motion of R.J. Reynolds Tobacco Company To Dismiss Complaint And To Stay Proceedings Pending Dismissal, dated June 26, 1986. Respondent's motion is accompanied by Affidavit of Ployd Abrams, dated June 25, 1986 and Memorandum of Law of R.J. Reynolds Tobacco Company In Support Of Its Motion To Dismiss Complaint And To Stay Proceedings Pending Dismissal, dated June 26, 1986.

FN2 Memorandum Of Law In Opposition To Respondent's Motion To Dismiss Complaint And To Stay Proceedings, with Attachments A through C. Attachment A comprises Affidavit of Dennis L. McNeill ("McNeill Affidavit"), which is accompanied by Exhibits 1 through 6.

FN3 Reply Memorandum of Law of R.J. Reynolds Tobacco Company In Support Of Its Motion To Dismiss Complaint And To Stay Proceeding Pending Dismissal, with Attachments A1-3, and filed July 21, 1986.

I.

It is well settled that, under the provisions of Section 3.22(a) of the Commission's Rules of Practice In Adjudicative Proceedings, the administrative law judge has authority to rule upon a dismissal motion in cases where the motion challenges the Commission's jurisdiction or power to issue the complaint, as distinguished from those where the motion challenges the Commission's administrative determination of the public interest question related to issuance

of the complaint. *Crush International Limited, et al.*, 80 F.T.C. 1023, 1024-25 (1972). Here, respondent's motion is a facial attack upon the Commission's jurisdiction or legal power to issue the complaint and, therefore, the administrative law judge has the authority and duty to rule upon it.

## II.

In this case, the complaint alleges that respondent's advertisement "Of cigarettes and science" contains certain false or misleading claims in violation of Section 5 of the Federal Trade Commission Act. The advertisement in question, which deals with the controversial issue of smoking and health, is on its face an editorial placed by Reynolds in a number of newspapers and news magazines. In this respect, this is a case of first impression in the history of the Commission's Section 5 enforcement.

### A.

The parties agree that the sole issue raised by Reynolds' motion to dismiss for lack of subject matter jurisdiction is whether Reynolds' editorial ad "Of cigarettes and science" may properly be classified as commercial speech, which enjoys a limited protection of the First Amendment but is nevertheless subject to government regulation, including Section 5 of the Federal Trade Commission Act, or noncommercial speech, which is fully protected by the First Amendment and ordinarily lies beyond the power of government regulation, including Section 5 of the Federal Trade Commission Act. See *Virginia Pharmacy Board v. Virginia Consumer Council*, 425 U.S. 748, 758-62 (1976); *Central Hudson Gas & Electric Corp. v. Public Service Commission*, 447 U.S. 557, 562-63 (1980); *Bolger v. Youngs Drug Products Corp.*, 463 U.S. 60, 64-65 (1983); *Zauderer v. Office of Disciplinary Council*, 471 U.S. \_\_\_, \_\_\_ (1985), 53 U.S.L.W. 4587 (May 28, 1985); *Pacific Gas & Electric Co. v. Public Service Commission*, 106 S.Ct. 903 (1986), 54 U.S.L.W. 4149, 4151 (February 25, 1986); *Condado Holiday Inn v. Tourism Co.*, No. 84-1903, decided July 1, 1986, 54 U.S.L.W. 4956, 4959-60 (June 24, 1986), Tr. 12-13, 32. Also see 2A Moore's Federal Practice, § 12.07 [2.- 1] (1986 ed.).

However, the parties are sharply divided as to whether Reynolds' ad belongs to the former category of speech or to the latter. Respondent contends that the ad is on its face an editorial which expresses Reynolds' opinion or comments on smoking and health--a current and controversial public issue--and, as such, is noncommercial speech. Complaint counsel, on the other hand, assert that the ad, in spite of its editorial format, is in fact a promotional ad which is targeted to smokers and contains misleading and deceptive claims and that, therefore, it is commercial speech.

### B.

The term "commercial speech" does not admit of a precise or neat definition. The Court has generally employed a "common sense" distinction and ruled that an

expression which does no more than propose a commercial transaction or promote a product is commercial speech, while speech which has no element of a commercial or goes well beyond proposing a business transaction or discusses matters of public concern, is not. E.g., *Virginia Pharmacy Board v. Virginia Consumer Council*, supra, 425 U.S. at 758-61; *Central Hudson Gas & Electric Corp. v. Public Service Commission*, supra, 447 U.S. at 561-63; *Bolger v. Youngs Drug Products Corp.*, supra, 463 U.S. at 64-65; *Pacific Gas & Electric Co. v. Public Service Commission*, supra, 54 U.S.L.W. at 4151. Application of this common sense distinction, however, is not easy in all cases.

The *Bolger* case is instructive in this regard. *Bolger* involved classification of certain printed material related to prophylactics and proposed for mailing through the United States Mail by Youngs which manufacture Trojan-brand prophylactics. Bulk of the material was on its face commercial or promotional. However, the material included two informational pamphlets. Focusing on the pamphlets themselves, the Court noted that the one titled "Condoms and Human Sexuality" specifically referred to a number of Trojan-brand condoms manufactured by Youngs and described the advantages of each type. The other, titled "Plain Talk about Venereal Disease," (Attachment C of complaint counsel's July 17, 1986 Memorandum Of Law In Opposition), the Court noted, discussed prophylactics without specific reference to Trojan-brand condoms, and the only reference to Trojan-brand condoms appeared on the bottom of the last page where Youngs was clearly identified as the source of the pamphlet and also the distributor of Trojan-brand prophylactics. See 463 U.S. at 66-67, n. 13. We note that the pamphlet also contained statements extolling quality control practiced by ethical condom manufacturers and discussed a number of desirable product attributes of condoms, including safety and effectiveness in preventing venereal diseases and unwanted pregnancies, ease of use and sensitivity. [FN4] Against this background, the Court ruled the two informational pamphlets were commercial speech. Before so concluding, however, the Court discussed three salient characteristics of the two pamphlets. In the language of the court (463 U.S. at 67-68):

FN4 "Plain Talk About Venereal Disease," Attachment C of complaint counsel's Memorandum Of Law In Opposition, dated July 17, 1986, p. 7.

... The mere fact that these pamphlets are conceded to be advertisements clearly does not compel the conclusion that they are commercial speech. [Citation] Similarly, the reference to a specific product does not by itself render the pamphlets commercial speech. [Citation] Finally, the fact that Youngs has an economic motivation for mailing the pamphlets would clearly be insufficient by itself to turn the material into commercial speech. [Citation]

The combination of all these characteristics, however, provides strong support for the District Court's conclusion that the informational pamphlets are properly characterized as commercial speech. The mailings constitute commercial speech notwithstanding the fact that they contain discussions of important public issues, such as venereal disease and family planning. We have made clear that advertising which 'links a product to a current public debate' is not thereby entitled to a constitutional protection afforded noncommercial speech. *Central Hudson Gas & Electric Corp. v. Public Service Commission of New York*, 447 U.S. at 503, n. 5 [emphasis in original].

In *Central Hudson*, supra, Justice Stevens, with Justice Brennan joining, articulated his concern that, because commercial speech is afforded less constitutional protection than noncommercial speech, "it is important that commercial speech concept not be defined too broadly lest speech deserving of greater constitutional protection be inadvertently suppressed." 447 U.S. at 579 (concurring opinion of Justice Stevens, Justice Brennan joining). There Justice Stevens further stated that "[w]hatever the precise contours of the concept [of commercial speech] ... I am persuaded that it should not include the entire range of communication that is embraced within the term 'promotional advertising.'" Id. Taking particular cognizance of this concern, the majority of the *Bolger* Court emphasized its view that, on the basis of the record before the Court, the case did not involve any speech of that sort. The Court specifically noted that "the [Public Service] Commission's Policy Statement excluded 'institutional and informational' messages from the advertising ban, which was restricted to all advertising 'clearly intended to promote sales.'" 447 U.S. at 562, n. 5.

Before we proceed to Reynolds' ad, we need to discuss National Commission on Egg Nutrition, 88 F.T.C. 89 (1976), aff'd, 570 F.2d 157 (7th Cir.1977), cert. denied, 439 U.S. 821 (1978) ("NCEN"), where generic advertisements of eggs by a trade association without reference to specific brand names were classified as commercial speech by the Federal Trade Commission.

In NCEN, the administrative law judge, focusing on the nature of the National Commission on Egg Nutrition and its ads, including an ad titled "Cholesterol and the Egg: A Mystery" ("A Mystery" ad), [FN5] concluded that all ads challenged in that proceeding "are part of a promotional campaign for the purpose of inducing the sale of eggs." [FN6] Specifically referring to three ads (including the "A Mystery" ad), the administrative law judge stated that these ads "expressly state that every cell in the body requires cholesterol for life" (emphasis added) and two of them (again including the "A Mystery" ad) "further state that cholesterol is the building block of sex hormones." Since the subject matter of the ads is eggs and their benefits, the representation communicated, the administrative law judge found, "is the body need for dietary cholesterol, such as in eggs." See Initial Decision Finding 47, 88 F.T.C. at 116. The Commission adopted the administrative law judge's findings, including Initial Decision Finding 47, and ruled that the NCEN ads constituted commercial speech, and the Seventh Circuit agreed. [FN7]

FN5 This ad is Attachment D of complaint counsel's Memorandum Of Law In Opposition and appears to be the ad designated and discussed as CX 1 in 88 F.T.C. at 156-57.

FN6 In the administrative law judge's own words (88 F.T.C. at 156-57):

The advertisements challenged in this proceeding are part of a promotional campaign for the purpose of inducing the sale of eggs. The campaign was developed by NCEN and its agent, Weiner, to combat and strike back at adverse publicity concerning eggs caused in part by the statements of health organizations and the medical profession recommending decreased egg consumption because of cholesterol and its possible link to coronary heart disease, and by the advertising of companies which manufacture and sell products competitive to



eggs, such as cholesterol-free egg substitutes and other breakfast foods. The egg industry believed that the anti-cholesterol and anti-egg publicity has caused severe economic loss to the industry through a decline in sales and per capita consumption of eggs. [Citation]

While the advertisements and booklets disseminated by respondents carried information concerning cholesterol, it is clear that the thrust of the advertisements and booklets was to malign the existing medical recommendations concerning eggs and cholesterol and to promote the benefits and safety of eggs as a food product. The advertisement carried a consumer-oriented theme that eggs are both safe and necessary. The incompleteness and falsity of the cholesterol message lends support to this conclusion since it appears the materials were designed to convey a "quick and attention-getting approach" to the consumer (120A).

120A was apparently a reference to respondent's document which discussed the series of NCEN ads involved in the proceeding.

FN7 88 F.T.C. at 197; National Commission on Egg Nutrition v. FTC, 570 F.2d at 162-63.

Complaint counsel contend that Reynolds "Of cigarettes and science" is similar to the information pamphlets in Bolger and NCEN's "A Mystery" ad and that Bolger and NCEN require the conclusion that Reynolds' ad is commercial speech. We disagree.

### C.

Unlike the informational pamphlets discussed in Bolger, Reynolds' ad does not name any brand name or list prices or discuss desirable attributes of a product or show where the product may be purchased. Unlike the NCEN ad, Reynolds' ad does not contain any express promotional language or any statement which is even remotely comparable to the express and implied claims found in the NCEN ad such as "There is absolutely no scientific evidence that eating eggs in any way increases the risk of heart attack" or "you need cholesterol" (emphasis in original) or "Every cell in your body requires cholesterol for life and cholesterol is the building block of sex hormones."

In sharp contrast, Reynolds' ad is an editorial in format and expresses Reynolds' opinion or point of view regarding the scientific method, the MR FIT study (a multi-risk factor clinical study of heart disease mortality) and the smoking and health controversy. It says "[w]e at R.J. Reynolds do not claim [the MR FIT] study proves that smoking doesn't cause heart disease. But we do wish to make a point" and concludes by stating its opinion that "the controversy over smoking and health remains an open one." To argue that this editorial ad is similar to the informational pamphlets in Bolger or to the NCEN ad is contrary to reason and common sense. From a common sense approach, Reynolds' "Of cigarettes and science" is clearly an editorial; it is not commercial speech by any stretch of the imagination.

Complaint counsel contend, however, that Reynolds' ad cannot be properly

classified by common sense distinction. They argue that, instead of focusing on the ad itself, we need to go behind the ad and resort to such extrinsic evidence as expert opinion and Reynolds' internal documents relating to Reynolds' intent and motive in designing and disseminating the editorial ad in order to discern its true meaning. [FN8]

FN8 The Commission and courts, however, have consistently held that the intent or motive of an advertiser is immaterial to the determination of an ad's meaning. E.g., *Jacob Siegel Co. v. FTC*, 150 F.2d 751, 755 (3rd Cir.1944); *Gulf Oil Corp. v. FTC*, 150 F.2d 106, 109 (5th Cir.1945); *Bankers Securities Corp. v. FTC*, 297 F.2d 403, 405 (3rd Cir.1961); *Rayco Corp. v. FTC*, 317 F.2d 290, 292 (2nd Cir.1963); *Montgomery Ward Co. v. FTC*, 379 F.2d 666, 670 (7th Cir.1967).

And in none of the commercial speech cases complaint counsel rely on or we are aware of, the Court went beyond the ads to resolve the commercial/noncommercial speech issue.

Complaint counsel further argue, on the basis of the McNeill Affidavit and four focus group reports attached thereto, that Reynolds' editorial ad is in fact a cleverly conceived cigarette ad which is targeted to smokers and designed to persuade them not to quit and thereby to prevent decrease in cigarette sales. Viewed thus, complaint counsel argue, the ad is commercial speech in spite of its editorial form.

Complaint counsel also argue alternatively, again on the basis of the McNeill Affidavit, that other documents are likely to exist which may show the true nature and purpose of the editorial ad to be promotional and that, therefore, this case should be permitted to proceed to discovery and trial. We find all of these arguments unpersuasive.

First, we think the language of the ad is uncomplicated and the ad will be easily understood by any reasonable reader as an op-ed type piece, not a cigarette ad. Once so perceived by the reader, he or she will expect to read in the ad an expression of opinion, an advocacy of certain point of view, or even hyperbole by someone who may have an ax to grind. The reader will not expect to find a fair and balanced exposition or arguments pro and con about the subject matter being discussed. And much less will he or she expect to read in the ad truthful, accurate, complete or otherwise reliable information about a product sold by the firm who paid for the editorial. This is in accord with our daily experience and appears to us to be plain common sense.

Thus, Reynolds' "Of cigarettes and science" is an editorial ad expressing Reynolds' point of view on the issue of smoking and health. Some of what it says may not be entirely accurate. What it says may not be a complete story. Some of what it arguably may be said to imply, may be self-serving or even "anti-anti-smoking." However, an editorial ad does not turn into a cigarette commercial simply because complaint counsel find that the editorial ad suffers from any of these infirmities and therefore is objectionable.

Second, it follows from the above discussion that editorial or noncommercial speech, such as Reynolds' ad, does not lose the full protection of the First Amendment simply because it contains inaccurate or incomplete information, or some language which may arguably be construed or misconstrued to imply a

promotional message, or some other message regarded by complaint counsel to be contrary to the public interest or otherwise objectionable. Pacific Gas, 54 U.S.L.W. at 4151. Here, the ad does not contain any express falsehood or misleading claims. What may be argued to be implied therein is consistent with "a fair comment." [FN9]

FN9 Any other rule would surely inhibit the exercise of free speech by business firms with respect to any public issue affecting their business or products lest they be held accountable for the truthfulness, accuracy, completeness or fairness of their comments or opinions or of something that is said to be implied in their editorial ads--a prospect incompatible with the First Amendment and in conflict with Consolidated Edison and Pacific Gas.

Third, with due regard for Dr. McNeill's professional qualifications in the fields of marketing, consumer psychology and consumer behavior, we are constrained to conclude that his opinions [FN10] regarding the ad, its purpose and meaning set forth in McNeill Affidavit are not supported by the ad itself and the four focus group reports (Exhibits 3-6 of McNeill Affidavit), [FN11] which form the foundation upon which his opinions are based.

FN10 Dr. McNeill views the editorial ad as a cleverly conceived cigarette commercial which is targeted to smokers and designed to persuade them not to quit smoking, and is aimed at maintaining the current level of cigarette sales. His view appears to have been strongly influenced by the fact that such a message would coincide with Reynolds' economic interest. In any event, he appears to reject the notion that a firm like Reynolds may wish simply to express its point of view about the smoking and health issue and totally disregards the clear language contained in Exhibits 3-6 which show that was in fact what Reynolds intended. Also see n. 14, infra.

FN11 Exhibits 3 through 6 attached to McNeill Affidavit. Exhibit 3 is a draft report on a number of proposed "public issue" ads, including an ad titled "DEBATE," which Dr. McNeill says is similar to the "Of cigarettes and science" ad challenged in this case.

Contrary to Dr. McNeill's opinion, the four focus group reports (Exhibits 3-6) tend to show that the so-called public issue ads were intended and designed to "express RJR's viewpoints on smoking issues to the public," including "issues such as courtesy, fire safety, teenage smoking, passive smoke and primary health" (see, e.g., Exhibit 3, p. 1, under the heading "Background"). [FN12] In my view, the language of "Of cigarettes and science," read in light of the four focus group reports obtained from Reynolds, amply demonstrate that the ad is what it appears to be--an editorial ad intended to express Reynolds' opinion regarding the smoking and health controversy. Viewed in light favorable to complaint counsel, the four focus group reports are still consistent with the conclusion that the ad is what common sense tells us it is--an editorial ad and noncommercial speech. [FN13]

FN12 For the other three focus group reports, see the corresponding "BACKGROUND" sections which contain similar words to the same effect. Exhibits

4, p. 1; 5, p. 1; and 6, p. 1.

FN13 We observe in this connection that complaint counsel's heavy reliance upon an expert affidavit in search of hidden meanings buried between the lines of the ad to support their position is tacit yet telling admission on their part that from a common sense point of view the ad is not commercial speech.

Complaint counsel vigorously argue that the ad was intended and designed to persuade smokers not to quit and that element makes the ad commercial speech. They would thus brush aside the clearly stated intent for Reynolds' "social issues" ad series that Reynolds wished to express its opinion regarding certain public issues, including smoking and health. We find complaint counsel's argument unacceptable. [FN14]

FN14 We also observe from the overall tenor of the Affidavit that Dr. McNeill appears to find it difficult to believe that Reynolds might wish to "express [its] viewpoint on smoking issues to the public" (Exhibit 3, p. 1), or to "express [its] viewpoint to consumers and opinion leaders regarding social acceptability of smoking and key public smoking issues" (Exhibit 4, p. 1), or to "express [its] viewpoint on smoking issues to consumers and opinion leaders" (Exhibit 5), or to "express [its] viewpoint on smoking issues in newspapers and magazines" (Exhibit 6, p. 1), all in order to participate in the public debate affecting Reynolds' product or in hopes of influencing the outcome of the debate in its favor.

In our view, however, such is the essence and function of editorial speech, and such editorial speech should not be deprived of the full protection of the First Amendment merely because its content may arguably be said to be "anti-anti-smoking" or may coincide with Reynolds' economic interest. See *Bolger*, 463 U.S. at 67. In any event, Reynolds' ad is different as night is to day from a commercial "which merely links a product to a current public debate" or one designed "to immunize false or misleading product information from government regulation simply by including references to public issues." See *Bolger*, 463 U.S. at 68.

We are prompted to ask here whether any business firm ever be able to publish an opinion in a newspaper or magazine ad on a controversial public issue which concerns one of its products without losing the full protection of the First Amendment and subjecting the firm and the ad to the Commission's jurisdiction. Complaint counsel's answer to that question appears to be "no," except for "extreme cases where they seek to perhaps comment solely on legislation [pending] before the Congress or before state legislatures" (Tr. 47). [FN15] In fact, during oral argument, complaint counsel went on to state (Tr. 47):

FN15 The Court has held, however, that legitimate subject matters of fully protected speech or expression by business firms are not so narrowly limited. E.g., *First National Bank v. Bellotti*, 435 U.S. 765, 777 (1978); *Consolidated Edison Co. v. Public Service Commission*, 447 U.S. 530, 533-35 ("[t]he Commission's prohibition of discussion of controversial issues strikes at the heart of the freedom to speak," at 535); *Pacific Gas & Electric Co. v. Public Service Commission*, 106 S.Ct. 903 (1986).

But their direct comments on the single most important product element that is of concern to smokers today, the health of using the product [sic], they may not comment without Commission jurisdiction being involved.

We find these statements suggestive of what may be complaint counsel's unstated reasons for invoking Section 5 in this case, namely their solicitude for the public health and wariness of anything a cigarette manufacturer may have to say about the issue of smoking and health.

In this case, however, their solicitude and sensitivity fly into the face of the First Amendment's profound hostility toward content-based regulation of protected speech. The Court has made it clear that regulation of speech that is motivated by a desire to curtail expression of a particular point of view on controversial issues of general interest is "the purest example" of a law abridging freedom of speech and is impermissible under the First Amendment, *F.C.C. v. League of Women Voters*, 468 U.S. 364, 383-84 (1984), in the absence of a showing of a compelling state interest. *First National Bank v. Bellotti*, 435 U.S. 765, 786 (1978); *Consolidated Edison Co. v. Public Service Commission*, 447 U.S. 530, 537 (1980).

#### D.

We start with the proposition that the First Amendment means that "government has no power to restrict expression because of its message, its ideas, its subject matter or its content." *Police Department of Chicago v. Mosley*, 408 U.S. 92, 95 (1972); *Bolger v. Youngs Drug Products Corp.*, 463 U.S. 60, 65 (1983); *Consolidated Edison v. Public Service Commission*, 447 U.S. 530, 537 (1980). And the protection accorded to corporations by the First Amendment is as broad as that enjoyed by individuals. Corporations "enjoy the full panoply of First Amendment protections for their direct comments on public issues." *Central Hudson Gas*, 447 U.S. 557, 562, n. 5. And the fact that the comments expressed may coincide or promote the economic interest of the corporate speaker does not diminish that protection. See *Bolger*, 463 U.S. at 67, citing *Bigelow v. Virginia*, 421 U.S. at 618; *Ginzburg v. United States*, 338 U.S. 463, 474 (1966); *Thornhill v. Alabama*, 310 U.S. 88 (1940).

In this case, Reynolds' ad is on its face an editorial expression of Reynolds' opinion regarding a public issue of economic importance. Reynolds' internal documents, to the extent available to us, show that the ad was one in the "social issues" ad series wherein Reynolds wished to express its opinion regarding important public issues, including smoking and health. And, as discussed hereinabove, Reynolds' ad is clearly distinguishable from the informational pamphlets involved in *Bolger* or the "A Mystery" ad in *NCEN*. Against this factual record, we are persuaded that the controlling case law compels the conclusion that the ad in this case is noncommercial speech and as such lies beyond the subject matter jurisdiction of Section 5.

Admittedly, proper classification of Reynolds' ad is not an easy task. The thought that it may be possible to craft promotional messages in the guise of an editorial gives us pause. We are persuaded that this is not such a case. [FN16] On the other hand, any attempt to expand the traditional boundaries of Section 5

jurisdiction in order to reach editorial ads which may contain elements complaint counsel may consider objectionable, as appears to be the case here, is likely to produce the unwanted effect of chilling free expression of opinions on public issues of concern to business firms which enjoy the full protection of the First Amendment with respect to noncommercial speech. And, avoiding, perhaps not without occasional cost, all risk of eroding free expression appears to us to be of an overriding importance. Here the law and facts persuade us to lean toward freedom of expression, which is so essential to the continued vitality of free and unfettered debate of public issues of importance which are often controversial. [FN17] See *Abrams v. United States*, 250 U.S. 616, 630 (1930) (the dissenting opinion of Justice Holmes); *First National Bank v. Bellotti*, 435 U.S. 765 (1978); *Consolidated Edison Co. v. Public Service Commission*, 447 U.S. 530, 533-44 (1980); *Pacific Gas & Electric Co. v. Public Service Commission*, 106 S.Ct. 903 (1986).

FN16 The Bolger Court reminded that "advertising which 'links a product to a current public debate' is not thereby entitled to the constitutional protection afforded noncommercial speech." 463 U.S. at 68. And the Seventh Circuit in NCEN stated its view that the Court's discussions regarding the parameters of commercial speech "extend to false claims as to the harmlessness of the advertiser's product asserted for the purpose of persuading members of the reading public to buy the product." 570 F.2d at 163. We believe Reynolds' ad here is clearly distinguishable from the informational pamphlets discussed in Bolger and the "A Mystery" ad complaint counsel have pointed to in NCEN.

Complaint counsel contend that although Reynolds' editorial ad does not contain any express claims that are false or misleading, it does contain implied claims which are false or misleading. We disagree. In any event, upon a motion to dismiss for lack of subject matter jurisdiction in this case, complaint counsel has the burden of demonstrating that the ad is commercial speech by a preponderance of the evidence. See, e.g., *Nieves v. Stamford Hospital*, 345 F.Supp. 1014, 1016 (D.Conn.1972); 2A Moore's Federal Practice § 12.07 [2.-1] at 12-46, n. 7. Here, complaint counsel were granted an extension of time they said is needed to prepare their response to Reynolds' jurisdictional challenge and failed to satisfy that burden. And, the issue of accuracy or completeness of comments contained in noncommercial speech does not open the door to Section 5 jurisdiction.

FN17 We also believe that any other outcome in this case is likely to engender a fear of risking Federal Trade Commission investigations and CIDs directed to business firms which may desire in good faith to express an opinion or advance a point of view regarding a public issue which is related to one of their products, a result which is repugnant to the spirit of the First Amendment. See n. 9, supra.

E.

Complaint counsel also advance several procedural arguments. First, they contend that since respondent's motion is a facial attack on the Commission's subject matter jurisdiction, the administrative law judge is required, for the

UNITED STATES OF AMERICA  
BEFORE FEDERAL TRADE COMMISSION

_____	)	
In the Matter of	)	
	)	
Schering-Plough Corporation,	)	
a corporation,	)	
	)	Docket No. 9297
Upsher-Smith Laboratories, Inc.,	)	
a corporation,	)	
	)	
and	)	<b>PUBLIC RECORD</b>
	)	
American Home Products Corporation,	)	
a corporation	)	
_____	)	

**MOTION OF AMERICAN HOME PRODUCTS CORPORATION FOR  
PROTECTIVE ORDER AND TO COMPEL RETURN OF  
PRIVILEGED AND WORK PRODUCT MATERIALS**

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**UNITED STATES OF AMERICA  
BEFORE FEDERAL TRADE COMMISSION**

In the Matter of	)	
Schering-Plough Corporation,	)	
a corporation,	)	
Upsher-Smith Laboratories, Inc.,	)	Docket No. 9297
a corporation,	)	
	)	<b>PUBLIC RECORD<sup>1</sup></b>
and	)	
American Home Products Corporation,	)	
a corporation	)	

**MOTION OF AMERICAN HOME PRODUCTS CORPORATION FOR  
PROTECTIVE ORDER AND TO COMPEL RETURN OF  
PRIVILEGED AND WORK PRODUCT MATERIALS**

Respondent American Home Products Corporation ("AHP") respectfully moves for a protective order (i) compelling complaint counsel to return to AHP or destroy all copies of nine privileged and work product documents that AHP inadvertently produced during the pre-Complaint investigation; (ii) compelling complaint counsel to return all copies of the . . . . . deposition transcript of . . . . . so that testimony about these privileged documents inadvertently given during that deposition may be redacted; (iii) prohibiting complaint counsel from using the inadvertently produced privileged documents and testimony in

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<sup>1</sup> Respondent American Home Products Corporation files its confidential, non-public version of its Motion for Protective Order and To Compel Return of Privileged and Work Product Materials pursuant to the Protective Order entered by Judge D. Michael Chappell, on May 10, 2001, in case caption *In the Matter of Schering-Plough Corporation, Upsher-Smith Laboratories, Inc., and American Home Products Corporation*, attached hereto as Exhibit 1. In his Order Denying AHP's Motion Seeking Leave To Require That All Briefing Regarding Its Motion For Protective Order Be Filed Under Seal, Judge Chappell explicitly granted American Home Products the authority to file a non-public, confidential version of its motion for protective order, which is attached hereto as Exhibit 2.

any manner in this case; and (iv) barring complaint counsel from asking any questions at depositions or at trial related to these inadvertently produced documents. Respondents Schering-Plough and Upsher-Smith have agreed to return the inadvertently produced privileged documents and to redact those portions of . . . . . deposition transcript that discuss the inadvertently produced privileged documents.

The attorney-client privilege and work product doctrine readily apply to, and protect, the documents at issue. . . . .

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. . . . .  
. . . . . Respondent

AHP's production of these documents during the pre-Complaint investigation was entirely inadvertent; AHP did not produce these privileged documents knowing that they were privileged. Upon learning that these documents were privileged, AHP immediately demanded their return. Applying the five-factor privilege waiver test utilized by this Court in Hoechst/Andrx, there has been no waiver of either the attorney-client privilege or the work product protection. Therefore, this Court should compel complaint counsel to return the privileged documents and testimony and bar complaint counsel from eliciting further testimony relating to these documents or using them as evidence in any manner during the course of this proceeding.

**BACKGROUND**

**I. The Nature of the Inadvertently Produced Documents**

**A. The Underlying Patent Infringement Litigation**

This case challenges an agreement that AHP entered into with Schering-Plough Corporation ("Schering") in settlement of a patent infringement lawsuit that Schering brought against AHP.<sup>2</sup> The lawsuit was filed on February 16, 1996. At the behest of the federal judge to whom the case was assigned, the parties engaged in settlement and mediation negotiations and discussions, including many with a magistrate judge, in late 1996, at certain periods during 1997, and in the first half of 1998. . . . .

. . . . . These settlement discussions led to a tentative agreement to settle the case in January 1998 and a final settlement agreement in June 1998. Outside counsel for AHP in that lawsuit was Paul Heller, who formerly was a member of the law firm of Kenyon & Kenyon but is now deceased. . . . . The principal in-house counsel responsible for coordination of the litigation with outside counsel was Lawrence Alaburda, whose title at AHP was (and still is) "Litigation Counsel – Patents." See . . . . . The principal AHP business person responsible for the litigation was Dr. Michael Dey, who at the time was the President of ESI Lederle ("ESI"), the AHP unit that manufactured and sold generic drugs. See . . . . .

. . . . .

**B. The Privileged Documents**

During the course of the patent infringement litigation, AHP's counsel and AHP representatives communicated with each other . . . . .

. . . . ., and those communications were reflected in

<sup>2</sup> Key Pharmaceuticals, Inc. v. ESI-Lederle, Inc., Civ. Action No. 96-1219 (E.D. Pa.).



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<sup>5</sup> Wyeth-Ayerst Laboratories, Inc. is a business unit of AHP.

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.....<sup>6</sup>. However, when documents were produced to the FTC in and around February and March of 2000, counsel for AHP in charge of the production, ....., did not realize that some of the market forecasts and related documents that were being produced – namely, the nine documents described above – had been prepared at the request of counsel during the patent infringement lawsuit and were privileged from disclosure. See ....., At the time the privileged documents were produced to the FTC, ..... was not aware that ..... had requested that these documents be prepared to facilitate their provision of legal advice and services to AHP. See ....., As set forth below, AHP and its counsel did not learn that these documents were privileged, and therefore inadvertently produced, until July 2001. See .....

**B. Testimony About the Privileged Documents**

On ....., during the investigative phase of this FTC proceeding, the FTC took the testimony of ....., Prior to the deposition, Arnold & Porter lawyers met with ..... regarding his upcoming investigational hearing. ....  
.....  
..... During the investigational hearing of ....., counsel for the FTC inquired into the origins of many of

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<sup>6</sup>.....  
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the documents at issue in this Motion, specifically, those marked as . . . Exhibits 1, 4 - 6 and 8.<sup>7</sup>

During his testimony, . . . was unable to recall why these documents were created, who at the company had prepared them or to whom they had been distributed. See . . . Deposition at pp. 33, 77-79, 104-07, attached hereto as Exhibit 8. Because . . . was unable to remember the origins of the documents marked as . . . Exhibits 1, 4 - 6 and 8 during his deposition,

.....

..... See ..... Accordingly, counsel for AHP and ..... did not object to questioning about the documents, and . . . testified about them.

**III. Discovery of Privileged Nature of Documents and Attempts to Retrieve**

On June 25, 2001, complaint counsel served on counsel for AHP a Rule 3.33(c) Notice of Deposition, which required AHP to produce a witness to testify about the documents marked as Exhibits 1 and 4 - 8 to . . . deposition. See Notice of Deposition, attached hereto as Exhibit 9. During the month of July, Arnold & Porter undertook an investigation to identify the company representative most knowledgeable about these documents and to determine answers to the questions posed in the deposition notice. See .....

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<sup>7</sup> .....

After confirming the privileged nature of the documents at issue, AHP's counsel immediately notified complaint counsel of the inadvertent production and requested the prompt return of the documents, as well as . . . . . deposition transcript. See Exhibit A to . . . . .  
. . . . ., Letter from Cathy Hoffman to Andrew Ginsburg, dated July 20, 2001. On July 24, complaint counsel Bradley Albert called Ms. Hoffman to request more information about the grounds for the assertion of the privilege with respect to these documents. The next day, AHP counsel supplied a more detailed explanation of why the documents are protected by the attorney-client privilege and work product doctrine. See Exhibit B to . . . . ., Letter from Cathy Hoffman to Bradley Albert, dated July 25, 2001.<sup>3</sup> On July 27, complaint counsel refused to return any of the documents, claiming that there "is no credible argument that the documents were disclosed inadvertently," that they "are under no obligation to return materials which on their face appear to be non-privileged business documents," and that AHP had waived any privilege. See Exhibit C to . . . . ., Letter from Bradley Albert to Cathy Hoffman dated July 27, 2001. Complaint counsel indicated that they expected AHP to either produce a deposition witness or petition the court for a protective order. See id.

## ARGUMENT

### **I. The Inadvertently Produced Documents are Protected by the Attorney-Client Privilege and Work Product Doctrine**

#### **A. The Attorney-Client Privilege Applies to Each Document**

The documents at issue are protected by the attorney-client privilege. As the United States Supreme Court noted in Upjohn Co. v. United States, 449 U.S. 383, 389 (1981), the

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<sup>3</sup> . . . . .  
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purpose of the attorney-client privilege is to encourage full and frank discourse between attorneys and clients, which thereby promotes adherence to the law and administration of justice.

The attorney-client privilege protects confidential communications that are made by a client to his lawyer “where legal advice of any kind is sought.” See Rehling v. City of Chicago, 207 F.3d 1009, 1019 (7th Cir. 2000). Communications made from an attorney to a client for the purposes of providing legal advice are also shielded by the privilege. See Upjohn Co., 449 U.S. at 390; Andritz Sprout-Bauer, Inc. v. Beazer East, Inc., 174 F.R.D. 609, 632 (M.D. Pa. 1997). The privilege “exists to protect not only the giving of professional advice to those who can act on it, but also the giving of information to the lawyer to enable him to give sound and informed advice.” See Upjohn Co., 449 U.S. at 390; In re Spalding Sports Worldwide, Inc., 203 F.3d 800, 805 (Fed. Cir. 2000). Furthermore, the privilege applies in the context of communications between in-house counsel and their corporate clients. See Upjohn Co., 449 U.S. at 389-90.

It is well-recognized that communications made between lawyer and client to develop litigation strategy and settlement-related theories— . . . . . —are protected by the attorney-client privilege. See, e.g., Gould Inc. v. Mitsui Mining & Smelting Co., 825 F.2d 676, 679 (2d Cir. 1987); Coltec Indus. v. American Motorists Ins. Co., 197 F.R.D. 368, 374-75 (N.D. Ill. 2000) (concluding that documents containing settlement strategy and analysis were protected from disclosure by the attorney-client privilege); United States v. Mobil Corp., 149 F.R.D. 533, 538-39 (N.D. Tex. 1993) (finding various letters sent from counsel to client pertaining to settlement strategy protected by the attorney-client privilege and work product doctrine); Carey-Canada, Inc. v. Aetna Cas. & Surety Co., 118 F.R.D. 250, 250-51 (D.D.C. 1987) (holding that documents generated in course of settlement negotiations were protected by attorney-client privilege and work product doctrine). In addition, the attorney-client privilege

applies to materials prepared by a client that reflect its communications with counsel regarding settlement and litigation strategy. See Alexander v. Federal Bureau of Investigation, 186 F.R.D. 154, 161 (D.D.C. 1990).

Because of the sacrosanct nature of the attorney-client privilege, the privilege is “worthy of maximum legal protection.” See Haines v. Liggett Group, Inc., 975 F.2d 81, 90 (3d Cir. 1992) (emphasis added). “The privilege rests on the belief that in an adversary system, a client’s full disclosure to an attorney is a necessary predicate to skillful advocacy and fully informed legal advice. The existence of the privilege thus allows attorneys to assure clients that any information given to their attorneys will remain confidential.” Chase Manhattan Bank, N.A. v. Turner & Newall, 964 F.2d 159, 165 (2d Cir. 1992).

Applying these principles, the documents at issue are protected under the attorney-client privilege. Each of the elements needed to trigger the privilege is present. . . . .

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. . . These documents were created solely at the specific request of counsel for the purposes of assisting counsel in providing legal advice and services and not for any business purpose. See . . . . . There can be no legitimate question that each of these documents is protected by the attorney-client privilege.

## B. Each Document Is Protected By the Work Product Doctrine

The work product doctrine, first recognized in Hickman v. Taylor, 329 U.S. 495, 510-11 (1947), is codified at Rule 3.31(c)(3) of the FTC's Rules for Adjudicative Proceedings. This doctrine provides a qualified protection from discovery to fact work product and a bar from disclosure for opinion work product that contains the "mental impressions, conclusions, opinions, or legal theories" of counsel. See 16 C.F.R. § 3.31(c)(3).<sup>9</sup> Our adversary system requires that an attorney be free "to prepare his legal theories and plan his strategy without undue and needless interference." Hickman, 329 U.S. at 511. An adversary may obtain access to fact work product – but not opinion work product – if and only if it can demonstrate "substantial need" for the documents and an inability to obtain the information contained in the protected document from other sources.

It is well settled that materials prepared by an attorney and his client in order to assess settlement proposals or to develop settlement strategy constitute work product. See, e.g., In re Subpoena Duces Tecum Served on Roseman & Colin, No. M8-85 (RLE), 1996 WL 527331, at \*5 (S.D.N.Y. Sept. 16, 1996) (observing that an attorney's notes and research concerning settlement are protected by the work product privilege, and if involving the client, may also be protected by the attorney-client privilege); Georgine v. Amchem Products, Inc., Civ. A. No. 93-0215, 1994 WL 502475, at \*2-3 (E.D. Pa. 1994); Mobil Corp., 149 F.R.D. at 539; Carey-Canada, 118 F.R.D. at 250-51. Courts recognize that "[a]n attorney's evaluation of a proposed settlement is at the core of the legal services an attorney provides to a client in the course of litigation." See

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<sup>9</sup> See also Upjohn Co. v. United States, 449 U.S. 383, 400 (observing that "the courts have steadfastly safeguarded against disclosure of lawyers' mental impressions and legal theories"); Andritz Sprout-Bauer, Inc. v. Beazer East, Inc., 174 F.R.D. 609, 632 (M.D. Pa. 1997) (noting that the mental impressions and trial strategy of counsel "enjoy nearly absolute protection from disclosure").

Georgine v. Amchem Products, Inc., Civ. A. No. 93-0215, 1994 WL 502475, \*3 (E.D. Pa. Sept. 2, 1994). The work product doctrine shields analysis regarding the viability and reasonableness of potential settlement arrangements from disclosure. See id.<sup>10</sup> The work product privilege applies to such settlement-related analysis, whether undertaken by the attorney himself or by the client at its attorney's request. See Carcmark, Inc. v. Affiliated Computer Servs., Inc., 195 F.R.D. 610, 615 (N.D. Ill. 2000) (noting that application of work product doctrine "depends on the motivation behind [the document's] preparation, rather than on the person who prepares it"); see also 16 C.F.R. § 3.31 (c) (3) (stating that work product doctrine applies to materials prepared by the party, party's attorney, agent or representative). And when the analysis contains the mental impressions and theories of counsel, the document "receives the highest protection available" under the work product doctrine. See Jacobs v. American Motors Corp., No. 89-0518-CV-W-5, 1989 WL 200920, at \*5 (W.D. Mo. Feb. 20, 1989).

Each document at issue here is protected from disclosure by the work product doctrine. Each was prepared . . . . . at the initial request of counsel in order to assist counsel in providing legal advice and services to AHP/ESI concerning Key's patent infringement lawsuit. See . . . . . The documents, . . . . ., were not generated for any business reason, but were prepared solely to assist counsel in the litigation between ESI and Key. See . . .

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<sup>10</sup> In Georgine, the plaintiff class employed a special counsel to analyze historical average settlement data in order to calculate a share recommendation for each defendant's participation in the funding of the class settlement. The court noted that the share recommendations were not mere "mathematical calculations," but included other non-quantitative factors, including the views of counsel and others involved in the underlying litigation. The court rejected the plaintiffs' attempt to compel production of the special counsel's analysis on settlement, noting that "not even the most liberal of discovery theories can justify unwarranted inquiries into the files and the mental impressions of an attorney." The court observed that the plaintiffs had possession of the raw data on historical averages and were equally capable of conducting their own analyses. See Georgine v. Amchem Products, Inc., Civ. A. No. 93-0215, 1994 WL 502475, at \* 1-3 (E.D. Pa. Sept. 2, 1994).

..... Moreover, ..... of the documents – .....,  
..... – constitute opinion  
work product .....  
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**II. The Production of the Documents Was Inadvertent**

AHP did not intend to waive either the attorney-client privilege or the work product of its attorneys when it accidentally and unintentionally disclosed the privileged documents at issue. In the process of trying to meet the requirements and time constraints imposed by the Commission's subpoena duces tecum, counsel for AHP produced each of the privileged documents at issue amongst numerous other documents, not knowing that ..... had prepared the documents in response to requests by outside and in-house counsel during the patent litigation or that these documents were communications between counsel and AHP. See ..... Upon discovering that the documents were indeed privileged, AHP immediately demanded return of these documents from complaint counsel and co-Respondents. See ..... These facts demonstrate that AHP plainly did not intend, either explicitly or impliedly, to disclose or produce the privileged documents at issue, and that their production was purely accidental.

Because AHP did not know the documents at issue were privileged, its production of them during the Commission's investigation could not possibly be construed as an intentional production or disclosure of privileged information. Further supporting this conclusion is the fact that ..... Moreover, .....



• • • discussion of these documents at his investigational hearing cannot be said to fairly constitute a voluntary disclosure of privileged information. AHP's counsel had no good faith basis upon which to object to the use of certain of these documents at • • • • • deposition because • • • • • could not at that time remember the circumstances surrounding the creation of the documents. See • • • • • . AHP counsel was also handicapped by the fact that Paul Heller, lead counsel for ESI during the patent litigation, had passed away before the Commission's investigation and was therefore not available to assist AHP in identifying the privileged nature of the documents. Significantly, none of the documents at issue was used as exhibits in the investigational hearing of • • • • • ; if they had been, • • • • • may have been able to bring the privileged nature of the documents to the attention of AHP counsel. Simply put, AHP's production of the documents at issue, and • • • • • discussion of them during his investigational hearing, was wholly inadvertent.

### **III. The Inadvertent Disclosure Did Not Waive the Privilege**

The inadvertent disclosure of the nine privileged documents did not waive the attorney-client privilege or work product doctrine. In ruling on AHP's motion for a protective order, this Court should look to prior Commission precedent regarding waiver. See 16 C.F.R. § 3.31(c)(2).<sup>11</sup> In Hoechst/Andrx, this Court adopted the majority approach to privilege waiver, and thereby applied a flexible, case-by-case, five-factor balancing test to determine whether waiver resulted from the inadvertent production of privileged documents. See Order Denying

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<sup>11</sup> Pursuant to Commission Rule 3.31(c)(2), "[t]he Administrative Law Judge may enter a protective order denying or limiting discovery to preserve the privilege of a witness, person, or governmental agency as governed by the Constitution, any applicable act of Congress, or the principles of the common law as they may be interpreted by the Commission in the light of reason and experience." 16 C.F.R. § 3.31(c)(2).

Complaint Counsel's Motion Regarding Hoechst's Waiver of Attorney-Client Privilege and Motion to Compel Answers to Deposition Questions at 4, attached hereto as Exhibit 10.<sup>12</sup> This Court recently stated that it would apply this test in deciding the waiver issue here. See Order Denying AHP's Motion Seeking Leave To Require That All Briefing Regarding Its Motion For Protective Order Be Filed Under Seal at 2, Ex. 2. In performing this test, this Court balanced the following factors: (1) the reasonableness of precautions taken to prevent inadvertent disclosure; (2) the time taken to rectify the error; (3) the scope of discovery; (4) the extent of the disclosure; and (5) the overreaching issue of fairness and the protection of an appropriate privilege. See Order in Hoechst/Andrx at 3. Because no factor is determinative, the Court must consider all relevant circumstances surrounding the inadvertent production.

Applying this five-factor balancing test, AHP's inadvertent production did not waive the attorney-client privilege or the work product doctrine.

**1. The Precautions Taken By AHP Were Reasonable**

"Disclosure by itself does not lead to the conclusion that the precautions undertaken to protect the privilege evidence indifference . . . . Inadvertent production will not waive the privilege unless the conduct of the producing party or its counsel evinced such extreme carelessness as to suggest that it was not concerned with the protection of the privilege." United States Fidelity & Guaranty Co. v. Braspetro Oil Servs. Co., No. 97 Civ. 6124, 2000 WL 744369, at \*5 (S.D.N.Y. June 8, 2000).

The procedures counsel for AHP had in place to protect privileged documents from disclosure were reasonable. Trained and experienced paralegals in the legal department of AHP

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<sup>12</sup> This Court noted that "adopting a balancing test results in flexibility, permitting consideration of the totality of the circumstances surrounding a particular inadvertent production on a case-by-case basis and a determination that is fair and just under the particular circumstances." Order at 4.

worked with outside counsel, including . . . . ., to gather responsive documents from the numerous files of ESI personnel that were searched. See . . . . . After this initial pull of documents, attorneys for AHP's outside counsel, who had significant prior experience and training in the review of documents, reviewed the documents for responsiveness and segregated out those documents potentially protected by the attorney-client and work product privileges. See . . . . . As an added layer of caution, . . . . . re-reviewed the segregated documents, and based on the information available to him at the time, made a decision as to which documents had a colorable claim of privilege. See . . . . .

The documents at issue were not pulled as potentially privileged and, therefore, were not reviewed by . . . . . prior to being produced. See . . . . .  
.....  
..... Accordingly, the failure to pull them as privileged did not result from any lack of precaution in the review process. In fact, it would have been unlikely for any attorney or paralegal reviewing these documents to determine that they were protected by the attorney-client or work product privileges without first understanding the specific circumstances that led to the documents being created.

Courts faced with precautions much less stringent than these have found the precautions taken to be reasonable. See, e.g., Aramony v. United Way of America, 969 F. Supp. 226, 236 (S.D.N.Y. 1997) (finding reasonable procedure to protect the privilege where paralegals and junior associates in large document production reviewed all documents and identified potentially privileged ones, which were then reviewed by a senior associate for a final determination of privilege); Bank Brussels Lambert v. Credit Lyonnais (Suisse) S.A., 160 F.R.D. 437, 445 (S.D.N.Y. 1995) (concluding that where paralegal mistakenly produced an entire box of

privileged documents, disclosure was nonetheless inadvertent and precautions taken by counsel were reasonable).

**2. AHP Attempted To Retrieve the Privileged Documents Immediately Upon Discovering Its Inadvertent Production**

Upon discovering that the documents at issue were privileged and had been inadvertently produced, AHP took immediate action to rectify the error. Although the documents were produced to the FTC more than a year ago, the issue is whether AHP acted promptly to retrieve the documents after discovering the inadvertent disclosure. See, e.g., In re Southeast Banking Corp. Secs. & Loan Loss Reserves Litig., 212 B.R. 386, 393 (S.D. Fla. 1997) (finding prompt action to rectify where, “after it learned of the inadvertent disclosure, [the producing party] immediately and persistently took steps to recover the documents”); Kansas City Power & Light Co. v. Pittsburgh Midway Coal Mining Co., 133 F.R.D. 171, 172 (D. Kan. 1989) (noting that the relevant time should begin when the producing party discovered the inadvertent disclosure, and finding that although party produced the privileged documents fourteen months earlier, party acted “within a reasonable amount of time” because it attempted to rectify the error within two weeks of discovery of the inadvertence).

Here, AHP discovered that the documents at issue were prepared at the request of counsel in July and August 2001 and promptly demanded that Complaint Counsel, as well as the co-Respondents, return all copies of the documents at issue, including the • • • deposition transcript. See Exhibit A to • • • • •, Letter from Cathy Hoffman to Andrew Ginsburg, dated July 20, 2001. AHP made a subsequent demand on Complaint Counsel to return the privileged documents, this time explaining in detail the bases for the privilege as to each specific document. See Exhibit B to • • • • •, Letter from Cathy Hoffman to Bradley Albert, dated

July 25, 2001. After AHP's attempts to retrieve the documents at issue proved unsuccessful, AHP filed this motion for a protective order. There can be no question that AHP acted reasonably and promptly to rectify the inadvertent disclosure once it learned it had occurred.

**3. The Production of These Few Privileged Documents Among the Tens of Thousands That Were Searched and Produced Weighs In Favor of a Finding of Non-Waiver**

"Courts have routinely found that where a large number of documents are involved, there is more likely to be an inadvertent disclosure rather than a knowing waiver." United States Fidelity & Guaranty Co., 2000 WL 744369, at \*6 (citing Baker's Aid v. Hussmann Food Serv. Co., No. 87 Civ. 0937, 1988 WL 138254, at \*5 (E.D.N.Y. Dec. 19, 1988)).

The Commission issued a very broad subpoena to AHP on November 5, 1999, which required that AHP complete its document production within thirty days. In order to ensure that AHP's production complied with the strictures of the Commission's subpoena, AHP negotiated with FTC Staff to allow production on a rolling basis during the end of 1999 and beginning of 2000. See . . . . . AHP collected and reviewed the files of numerous persons employed at AHP and ESI Lederle. See . . . . . AHP also had to gather and search through the numerous pleadings, depositions, expert reports and other documents relating to the underlying patent suit between ESI and Schering-Plough. See . . . . .

The documents collected and reviewed filled over forty banker's boxes and consisted of over 100,000 pages of documents. See . . . . . The documents actually produced to the FTC amounted to nine full banker boxes, totaling more than 27,000 pages of documents. The documents were produced under time pressure, during a busy holiday season. Of the 27,000 documents produced to the FTC, this motion applies to only nine documents. In Hoechst,

Aventis produced 20,000 pages of documents to the FTC on a rolling basis. This Court found that Aventis had not waived the attorney-client privilege as to an inadvertently produced privileged document. See Order at 4, attached hereto as Exhibit 10. Accord In re Copper Market Antitrust Litig., 200 F.R.D. 213, 222 (S.D.N.Y. 2001) (finding of non-waiver where party inadvertently turned over 17 privileged documents out of a total of 15,000 pages that were produced). These facts also dictate against waiver.

#### 4. The Extent of Disclosure Has Been Minimal

Another factor that weighs into the balancing test is the extent of the disclosure. Here, only nine documents were inadvertently produced in a production totaling 27,000 pages of documents. There has been no examination or testimony relating to four of the inadvertently produced privileged documents at issue. Although five of the documents at issue were marked as exhibits to . . . . . pre-Complaint investigational hearing, . . . . . stated during his testimony that he did not know who had created them, why they had been created, or to whom they were distributed. Because . . . . . had almost no recollection as to the origins or purposes behind the privileged documents marked as exhibits during his investigational hearing, and only testified about his speculations concerning these documents, he did not disclose any communications between himself and counsel. See . . . deposition at pp. 33, 77-79, 104-07, Ex. 8; see also Zapata v. IBP, Inc., 175 F.R.D. 574, 576 (D. Kan. 1997) (finding of non-waiver of work product privilege where inadvertently produced document was introduced at deposition and witness gave limited testimony concerning such document).<sup>13</sup>

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<sup>13</sup> In Zapata, Defendant's attorney mistakenly sent to defendant's expert a copy of plaintiff's expert's report, which contained defendant attorney's handwritten notations. Plaintiff's counsel deposed defendant's expert, who produced his file, which included the report with defendant's attorney's handwritten notations. Plaintiff's counsel introduced the report containing the attorney's notations during the course of the deposition. Defendant's local counsel was defending the deposition and did not object because she did not know who had made the notations on the report. Defendant's expert testified that he had not relied upon the handwritten notations when he reviewed

The Court should also be aware that the broad scope of the testimony that Complaint Counsel now seeks with respect to the five inadvertently produced documents further underscores the minimal nature of the disclosures made by . . . regarding these documents during his investigational hearing. See Complaint Counsel's Notice of Deposition, dated June 25, 2001, attached hereto as Exhibit 9. For example, the Notice of Deposition seeks testimony as to who created the documents, why they were created, how they were created, when they were created, what assumptions underlay the figures, to whom they were distributed, who used them and in what capacity and any other "relevant information" pertaining to the documents. See Notice of Deposition, Ex. 9. The broad and extensive scope of the testimony the Notice seeks concerning these documents reinforces AHP's position that . . . testimony as to . . . exhibits 1, 4 - 6 and 8 during his investigational hearing was minimal.

Furthermore, even if Complaint Counsel has reviewed closely and/or relied on the privileged market forecasts, such actions do not constitute extensive disclosure. See Kansas City Power & Light Co., 133 F.R.D. at 173 (finding that although defendant may have "intensively reviewed" the privileged documents over the fourteen month period, such intensive review is not the same as extensive disclosure).<sup>14</sup>

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plaintiff's expert's report. In applying the five factor test to determine whether there had been a waiver of the attorney work product privilege, the court found that the brief questioning by plaintiff's counsel concerning the handwritten notes on the report constituted only "minimal extent of disclosure," weighing in favor of preserving the party's work product protection. See Zapata v. IBP, Inc., 175 F.R.D. 574, 578 (D. Kan. 1997).

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**5. Considerations of Fairness and Justice Require a Determination of Non-Waiver**

Finally, courts consider “the overarching issues of fairness and the protection of an appropriate privilege.” Gray v. Gene Bicknell, 86 F.3d 1472, 1484 (8th Cir. 1996). Here, a waiver of privilege as to the privileged documents at issue would greatly prejudice Respondent AHP, while prejudice to complaint counsel would be minimal at best. The documents reflect highly privileged and sensitive communications made between AHP’s counsel and AHP to assist counsel in providing legal advice and services to its client. The documents also constitute work product. They were prepared for purposes of litigation, and . . . of these documents contain the very thought processes and mental impressions of both in-house and outside counsel.

The very purpose of the attorney-client privilege is to encourage full and frank discussion between lawyer and client so that clients may obtain proper legal advice. The documents at issue here epitomize the underlying rationale for the existence of the privilege; counsel requested the client to provide information and analysis so that counsel could better serve the client’s legal need and the client then provided such analysis in an effort to attain legal guidance.

The justifications underlying the attorney work product doctrine likewise support a finding of non-waiver. Lawyers need a zone of privacy so that they can properly prepare the client’s case without undue intrusion and interference from an opposing counsel or party. See Hickman, 329 U.S. at 510-11. Allowing the documents at issue to be used as evidence at deposition or trial would obliterate any pretense of privacy due to AHP’s counsel.

Furthermore, compelling the return of the documents at issue will not work any undue hardship or prejudice to Complaint Counsel. See In re Copper Market Antitrust Litig., 200 F.R.D. at 223 (noting that [d]epriving a party of information in an otherwise privileged document



is not prejudicial). Tellingly, in Complaint Counsel's letter to AHP refusing to return the inadvertently produced privileged documents, Complaint Counsel do not make any assertion that they will be prejudiced were they to return the documents to AHP. See Exhibit C to . . . . .  
. . . . ., Letter from Bradley Albert to Cathy Hoffman dated July 27, 2001.

Furthermore, the Protective Order, which was mutually acceptable to both complaint counsel and Respondents and was entered by this Court, reflects an understanding among the parties of the importance of the attorney-client privilege and work product doctrine and their commitment to upholding these privileges despite human error. In Paragraph 17, the parties agree to return privileged materials that have been inadvertently produced. See Protective Order ¶ 17, attached hereto as Exhibit 1. Granted, this paragraph states that it applies to inadvertent productions "after" the entry of the Order, and the documents at issue were mistakenly produced during the pre-Complaint investigation, before the parties had the security of the Protective Order. Nevertheless, complaint counsel's acknowledgement of the importance of preserving the privileged nature of documents notwithstanding human error, as evidenced by their agreement to Paragraph 17 of the Protective Order, and their recent request for the return of inadvertently produced documents, factors into considerations of fairness and the need to preserve the privileged nature of these inadvertently produced documents.

**CONCLUSION**

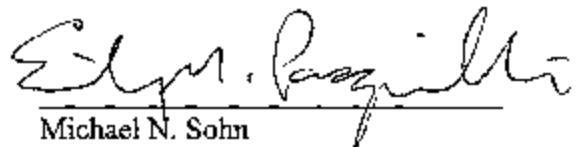
WHEREFORE, for the reasons set forth herein, Respondent AHP respectfully requests that this Court enter an Order (i) compelling complaint counsel to return to AHP or destroy all copies of the nine privileged documents that AHP inadvertently produced during the pre-Complaint investigation; (ii) compelling complaint counsel to return all copies of the . . . . .

..... deposition transcript of ..... so that testimony about these privileged documents given during that deposition may be redacted; (iii) prohibiting complaint counsel from using the inadvertently produced privileged documents in any manner in this case; and (iv) barring complaint counsel from asking any questions at depositions or at trial related to these documents.

Dated October 2, 2001

Respectfully Submitted,

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Corporation

**UNITED STATES OF AMERICA  
BEFORE FEDERAL TRADE COMMISSION**

In the Matter of	)	
Schering-Plough Corporation, a corporation,	)	
Upsher-Smith Laboratories, Inc., a corporation,	)	Docket No. 9297
and	)	
American Home Products Corporation, a corporation	)	<b>PUBLIC RECORD</b>

**CERTIFICATE OF SERVICE**

I, Emily M. Pasquinelli, hereby certify that on October 2, 2001, I caused a true and correct copy of the *American Home Products Corporation's Motion for Protective Order and To Compel Return of Privileged and Work Product Materials* to be served upon the following as follows:

Two paper copies by hand delivery to:  
Hon. D. Michael Chappell  
Administrative Law Judge  
Federal Trade Commission  
Room 104  
600 Pennsylvania Ave., N.W.  
Washington, D.C. 20580 (2 copies)

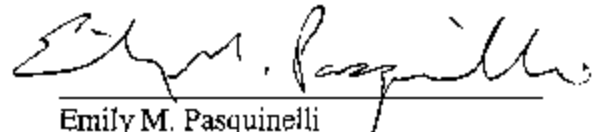
The paper original and one paper copy by hand delivery and one electronic copy to:  
Office of the Secretary  
Federal Trade Commission  
Room H-159  
600 Pennsylvania Ave., N.W.  
Washington, D.C. 20580 (original and 1 copy)

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\*\*Admitted to the New York  
Bar only. Practice supervised directly  
by active members of the DC Bar.  
Arnold & Porter

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UNITED STATES OF AMERICA  
FEDERAL TRADE COMMISSION



\_\_\_\_\_)  
In the Matter of )  
 )  
Schering-Plough Corporation, )  
a corporation, )  
 )  
Upsher-Smith Laboratories, )  
a corporation, )  
 )  
and )  
 )  
American Home Products Corporation, )  
a corporation. )  
\_\_\_\_\_)

Docket No. 9297

**PROTECTIVE ORDER GOVERNING DISCOVERY MATERIAL**

For the purpose of protecting the interests of the parties and third parties in the above captioned matter against improper use and disclosure of confidential information submitted or produced in connection with this matter:

IT IS HEREBY ORDERED THAT this Protective Order Governing Confidential Material ("Protective Order") shall govern the handling of all Discovery Material, as hereafter defined.

DEFINITIONS

I. "Matter" means the matter captioned *In the Matter of Schering-Plough Corporation, Upsher-Smith Laboratories, and American Home Products Corporation*, Docket Number 9297, pending before the Federal Trade Commission, and all subsequent appellate or other review

proceedings related thereto.

2. "Commission" or "FTC" means the Federal Trade Commission, or any of its employees, agents, attorneys, and all other persons acting on its behalf, excluding persons retained as consultants or experts for the purposes of this Matter.

3. "Schering-Plough" means Schering-Plough Corporation, a corporation organized, existing, and doing business under and by virtue of the laws of the State of New Jersey, with its office and principal place of business located at Kenilworth, New Jersey.

4. "Upsher-Smith" means Upsher-Smith Laboratories, Inc., a corporation organized, existing, and doing business under and by virtue of the laws of the state of Minnesota, with its office and principal place of business located at Plymouth, Minnesota.

5. "AHP" means American Home Products, a corporation organized, existing, and doing business under and by virtue of the laws of the State of Delaware, with its office and principal place of business located at Madison, New Jersey.

6. "Party" means either the FTC, Schering-Plough, Upsher-Smith, or AHP.

7. "Respondents" means Schering-Plough, Upsher-Smith, and AHP.

8. "Outside Counsel" means the law firms that are counsel of record for Respondents in this Matter and their associated attorneys; or other persons regularly employed by such law firms, including legal assistants, clerical staff, and information management personnel and temporary personnel retained by such law firm(s) to perform legal or clerical duties, or to provide logistical litigation support with regard to this Matter; provided that any attorney associated with Outside Counsel shall not be a director, officer or employee of Respondents. The term Outside Counsel does not include persons retained as consultants or experts for the purposes of this Matter.

9. "Producing Party" means a Party or Third Party that produced or intends to produce Confidential Discovery Material to any of the Parties. For purposes of Confidential Discovery Material of a Third Party that either is in the possession, custody or control of the FTC or has been produced by the FTC in this Matter, the Producing Party shall mean the Third Party that originally provided the Confidential Discovery Material to the FTC. The Producing Party shall also mean the FTC for purposes of any document or material prepared by, or on behalf of the FTC.

10. "Third Party" means any natural person, partnership, corporation, association, or other legal entity not named as a party to this Matter and their employees, directors, officers, attorneys and agents.

11. "Expert/Consultant" means experts or other persons who are retained to assist Complaint Counsel or Respondents' counsel in preparation for trial or to give testimony at trial.

12. "Document" means the complete original or a true, correct and complete copy and any non-identical copies of any written or graphic matter, no matter how produced, recorded, stored or reproduced, including, but not limited to, any writing, letter, envelope, telegraph meeting minute, memorandum statement, affidavit, declaration, book, record, survey, map, study, handwritten note, working paper, chart, index, tabulation, graph, tape, data sheet, data processing card, printout, microfilm, index, computer readable media or other electronically stored data, appointment book, diary, diary entry, calendar, desk pad, telephone message slip, note of interview or communication or any other data compilation, including all drafts of all such documents. "Document" also includes every writing, drawing, graph, chart, photograph, phono record, tape, compact disk, video tape, and other data compilations from which information can



be obtained, and includes all drafts and all copies of every such writing or record that contain any commentary, notes, or marking whatsoever not appearing on the original.

13. "Discovery Material" includes without limitation deposition testimony, deposition exhibits, interrogatory responses, admissions, affidavits, declarations, documents produced pursuant to compulsory process or voluntarily in lieu thereof, and any other documents or information produced or given to one Party by another Party or by a Third Party in connection with discovery in this Matter.

14. "Confidential Discovery Material" means all Discovery Material that is designated by a Producing Party as confidential and that is covered by Section 6(f) of the Federal Trade Commission Act, 15 U.S.C. § 46(f), and Commission Rule of Practice § 4.10(a)(2), 16 C.F.R. § 4.10(a)(2); or Section 26(c)(7) of the Federal Rules of Civil Procedure and precedents thereunder. Confidential Discovery Material shall include non-public commercial information, the disclosure of which to Respondents or Third Parties would cause substantial commercial harm or personal embarrassment to the disclosing party. The following is a nonexhaustive list of examples of information that likely will qualify for treatment as Confidential Discovery Material: strategic plans (involving pricing, marketing, research and development, product roadmaps, corporate alliances, or mergers and acquisitions) that have not been fully implemented or revealed to the public; trade secrets; customer-specific evaluations or data (e.g., prices, volumes, or revenues); personnel files and evaluations; information subject to confidentiality or non-disclosure agreements; proprietary technical or engineering information; proprietary financial data or projections; and proprietary consumer, customer or market research or analyses applicable to current or future market conditions, the disclosure of which could reveal

Confidential Discovery Material.

TERMS AND CONDITIONS OF PROTECTIVE ORDER

1. Discovery Material, or information derived therefrom, shall be used solely by the Parties for purposes of this Matter, and shall not be used for any other purpose, including without limitation any business or commercial purpose, except that with notice to the Producing Party, a Party may apply to the Administrative Law Judge for approval of the use or disclosure of any Discovery Material, or information derived therefrom, for any other proceeding. Provided, however, that in the event that the Party seeking to use Discovery Material in any other proceeding is granted leave to do so by the Administrative Law Judge, it will be required to take appropriate steps to preserve the confidentiality of such material. Additionally, in such event, the Commission may only use or disclose Discovery Material as provided by (1) its Rules of Practice, Sections 6(f) and 21 of the Federal Trade Commission Act and any cases so construing them; and (2) any other legal obligation imposed upon the Commission. The Parties, in conducting discovery from Third Parties, shall attach to such discovery requests a copy of this Protective Order and a cover letter that will apprise such Third Parties of their rights hereunder.

2. This paragraph concerns the designation of material as "Confidential" and "Restricted Confidential, Attorney Eyes Only."

(a) Designation of Documents as CONFIDENTIAL - FTC Docket No. 9297.

Discovery Material may be designated as Confidential Discovery Material by Producing Parties by placing on or affixing, in such manner as will not interfere with the legibility thereof, the notation "CONFIDENTIAL - FTC Docket No. 9297" (or other similar notation containing a

reference to this Matter) to the first page of a document containing such Confidential Discovery Material, or, by Parties by instructing the court reporter to denote each page of a transcript containing such Confidential Discovery Material as "Confidential." Such designations shall be made within fourteen days from the initial production or deposition and constitute a good-faith representation by counsel for the Party or Third Party making the designations that the document constitutes or contains "Confidential Discovery Material."

(b) Designation of Documents as "RESTRICTED CONFIDENTIAL, ATTORNEY EYES ONLY -- FTC Docket No. 9297."

In order to permit Producing Parties to provide additional protection for a limited number of documents that contain highly sensitive commercial information, Producing Parties may designate documents as "Restricted Confidential, Attorney Eyes Only, FTC Docket No. 9297" by placing on or affixing such legend on each page of the document. It is anticipated that documents to be designated Restricted Confidential, Attorney Eyes Only may include certain marketing plans, sales forecasts, business plans, the financial terms of contracts, operating plans, pricing and cost data, price terms, analyses of pricing or competition information, and limited proprietary personnel information; and that this particularly restrictive designation is to be utilized for a limited number of documents. Documents designated Restricted Confidential, Attorney Eyes Only may be disclosed to Outside Counsel, Complaint Counsel, in-house counsel (designated pursuant to paragraph 5, hereof), and to Experts/Consultants (paragraph 4(c), hereof) that are not current officers, directors or employees of pharmaceutical companies (other than in-house counsel designated pursuant to paragraph 5 hereto). Such materials may not be disclosed to Experts/Consultants or to witnesses or deponents at trial or deposition (paragraph 4(d) hercof),

where the Experts/Consultants, deponents or witnesses are current officers, directors, or employees of pharmaceutical companies (other than in-house counsel designated pursuant to paragraph 5 hereto), except in accordance with subsection (c) of this paragraph 2. In all other respects, Restricted Confidential, Attorney Eyes Only material shall be treated as Confidential Discovery Material and all references in this Protective Order and in the exhibit hereto to Confidential Discovery Material shall include documents designated Restricted Confidential, Attorney Eyes Only.

(c) Disclosure of Restricted Confidential, Attorney Eyes Only Material to Experts/Consultants, Deponents or Witnesses Who Are Current Officers, Directors, or Employees of Pharmaceutical Companies (other than in-house counsel designated pursuant to paragraph 5 hereto).

If any Party desires to disclose Restricted Confidential, Attorney Eyes Only material to any Expert/Consultant, deponent or witness that is a current officer, director, or employee of a pharmaceutical company, other than in-house counsel designated pursuant to paragraph 5 hereto, the disclosing Party shall notify the Producing Party of its desire to disclose such material. Such notice shall identify the specific individual to whom the Restricted Confidential, Attorney Eyes Only material is to be disclosed. Such identification shall include, but not be limited to, the full name and professional address and/or affiliation of the identified individual. The Producing Party may object to the disclosure of the Restricted Confidential, Attorney Eyes Only material within five business days of receiving notice of an intent to disclose the Restricted Confidential, Attorney Eyes Only material to an individual by providing the disclosing Party with a written statement of the reasons for objection. If the Producing Party timely objects, the disclosing Party

shall not disclose the Restricted Confidential, Attorney Eyes Only material to the identified individual, absent a written agreement with the Producing Party, order of the Administrative Law Judge or ruling on appeal. The Producing Party lodging an objection and the disclosing Party shall meet and confer in good faith in an attempt to determine the terms of disclosure to the identified individual. If at the end of five business days of negotiating the parties have not resolved their differences or if counsel determine in good faith that negotiations have failed, the disclosing Party may make written application to the Administrative Law Judge as provided by paragraph 7(c) of this Protective Order. If the Producing Party does not object to the disclosure of Restricted Confidential, Attorney Eyes Only material to the identified individual within five business days, the disclosing Party may disclose the Restricted Confidential, Attorney Eyes Only material to the identified individual.

(d) Disputes Concerning Designation or Disclosure of Restricted Confidential, Attorney Eyes Only Material

Disputes concerning the designation or disclosure of Restricted Confidential, Attorney Eyes Only material shall be resolved in accordance with the provisions of paragraph 7.

(e) No Presumption or Inference

No presumption or other inference shall be drawn that material designated Restricted Confidential, Attorney Eyes Only is entitled to the protections of this paragraph.

(f) Due Process Savings Clause

Nothing herein shall be used to argue that a Party's right to attend the trial of, or other proceedings in, this Matter is affected in any way by the designation of material as Restricted Confidential, Attorneys Eyes Only.

3. All documents heretofore obtained by the Commission through compulsory process or voluntarily from any Party or Third Party, regardless of whether designated confidential by the Party or Third Party, and transcripts of any investigational hearings, interviews and depositions, that were obtained during the pre-complaint stage of this Matter shall be treated as "Confidential," in accordance with paragraph 2(a) on page five of this Order. Furthermore, Complaint Counsel shall, within five business days of the effective date of this Protective Order, provide a copy of this Order to all Parties or Third Parties from whom the Commission obtained documents during the pre-Complaint investigation and shall notify those Parties and Third Parties that they shall have thirty days from the effective date of this Protective Order to determine whether their materials qualify for the higher protection of Restricted Confidential, Attorney Eyes Only and to so designate such documents.

4. Confidential Discovery Material shall not, directly or indirectly, be disclosed or otherwise provided to anyone except to:

- (a) Complaint Counsel and the Commission, as permitted by the Commission's Rules of Practice;
- (b) Outside Counsel;
- (c) Experts/Consultants (in accordance with paragraph 6 hereto);
- (d) witnesses or deponents at trial or deposition;
- (e) the Administrative Law Judge and personnel assisting him;
- (f) court reporters and deposition transcript reporters;
- (g) judges and other court personnel of any court having jurisdiction over any appeal proceedings involving this Matter; and

(h) any author or recipient of the Confidential Discovery Material (as indicated on the face of the document, record or material), and any individual who was in the direct chain of supervision of the author at the time the Confidential Discovery Material was created or received.

5. In addition to the above-described persons, certain named designated individuals and in-house counsel, not to exceed two attorneys per corporate party, who do not have day to day business responsibilities, shall be provided with access to Confidential Discovery Material, including material designated as "Confidential" and "Restricted Confidential, Attorney Eyes Only" on the condition that each such in-house counsel or designated executive signs a declaration in the form attached hereto as Exhibit "A," which is incorporated herein by reference. For Respondent Schering-Plough the designated individuals are John Hoffman, Staff Vice President and Associate General Counsel; and Jonathon Wasserman, Senior Antitrust Counsel. For Respondent Upsher-Smith, the designated individual is Mark Robbins, Director of Scientific Affairs. For Respondent AHP, the designated individuals are Louis L. Hoynes, Jr., Executive Vice President and General Counsel; and Elliot Feinberg, Assistant General Counsel, Antitrust.

6. Confidential Discovery Material, including material designated as "Confidential" and "Restricted Confidential, Attorney Eyes Only," shall not, directly or indirectly, be disclosed or otherwise provided to an Expert/Consultant, whether or not that Expert/Consultant is currently an officer, director, or employee of a pharmaceutical company, unless such Expert/Consultant agrees in writing:

(a) to maintain such Confidential Discovery Material in separate locked rooms or locked cabinet(s) when such Confidential Discovery Material is not being reviewed;

(b) to return such Confidential Discovery Material to Complaint Counsel or

Respondents' Outside Counsel, as appropriate, upon the conclusion of the Expert/Consultant's assignment or retention or the conclusion of this Matter;

(c) to not disclose such Confidential Discovery Material to anyone, except as permitted by the Protective Order; and

(d) to use such Confidential Discovery Material and the information contained therein solely for the purpose of rendering consulting services to a Party to this Matter, including providing testimony in judicial or administrative proceedings arising out of this Matter.

7. This paragraph governs the procedures for the following specified disclosures and challenges to designations of confidentiality.

(a) Disclosure of Confidential Discovery Material to Experts Who Are Current Officers, Directors or Employees of Pharmaceutical Companies (other than in-house counsel designated pursuant to paragraph 5 hereto).

If any Party desires to disclose Confidential Discovery Material to any Expert who may testify and who is a current officer, director or employee of a pharmaceutical company (other than in-house counsel designated pursuant to paragraph 5 hereto), the disclosing Party shall notify the Producing Party of its desire to disclose such material. Such notice shall identify the specific expert who may testify to whom the Confidential Discovery Material is to be disclosed. Such identification shall include, but not be limited to, the full name and professional address and/or affiliation of the proposed expert who may testify, and a current curriculum vitae of such expert identifying all other present and prior employees and/or firms in the pharmaceutical industry for which or on behalf of which the identified expert has been employed or done consulting work in the preceding four years. The Producing Party may object to the disclosure of



the Confidential Discovery Material within five business days of receiving notice of an intent to disclose the Confidential Discovery Material to the identified expert by providing the disclosing Party with a written statement of the reasons for the objection. If the Producing Party timely objects, the disclosing Party shall not disclose the Confidential Discovery Material to the identified expert, absent a written agreement with the Producing Party or order of the Administrative Law Judge. The Producing Party lodging an objection and the disclosing Party shall meet and confer in good faith in an attempt to determine the terms of disclosure to the identified expert. If at the end of five business days of negotiating the parties have not resolved their differences or if counsel determine in good faith that negotiations have failed, the disclosing Party may make written application to the Administrative Law Judge as provided by paragraph 7(c) of this Protective Order. If the Producing Party does not object to the disclosure of Confidential Discovery Material to the identified expert within five business days; the disclosing Party may disclose the Confidential Discovery Material to the identified expert.

(b) Challenges to Confidentiality Designations

If any Party seeks to challenge a Producing Party's designation of material as Confidential Discovery Material or any other restriction contained within this Protective Order, the challenging Party shall notify the Producing Party and all Parties to this action of the challenge to such designation. Such notice shall identify with specificity (i.e., by document control numbers, deposition transcript page and line reference, or other means sufficient to locate easily such materials) the designation being challenged. The Producing Party may preserve its designation within five business days of receiving notice of the confidentiality challenge by providing the challenging Party and all Parties to this action with a written statement of the reasons for the

designation. If the Producing Party timely preserves its rights, the Parties shall continue to treat the challenged material as Confidential Discovery Material, absent a written agreement with the Producing Party or order of the Administrative Law Judge. The Producing Party, preserving its rights, and the challenging Party shall meet and confer in good faith in an attempt to negotiate changes to any challenged designation. If at the end of five business days of negotiating the parties have not resolved their differences or if counsel determine in good faith that negotiations have failed, the challenging Party may make written application to the Administrative Law Judge as provided by paragraph 7(c) of this Protective Order. If the Producing Party does not preserve its rights within five business days, the challenging Party may alter the designation as contained in the notice. The challenging Party shall notify the Producing Party and the other Parties to this action of any changes in confidentiality designations.

Regardless of confidential designation, copies of published magazine or newspaper articles, and excerpts from published books and public documents filed with the Securities and Exchange Commission may be used by any Party without reference to the procedures of this subparagraph.

(c) Resolution of Disclosure or Confidentiality Disputes

If negotiations under subparagraphs 7(a)-(b) of this Protective Order have failed to resolve the issues, a Party seeking to disclose Confidential Discovery Material or challenging a confidentiality designation or any other restriction contained within this Protective Order may make written application to the Administrative Law Judge for relief. Such application shall be served on the Producing Party and the other Party, and be accompanied by a certification that the meet and confer obligations of this paragraph have been met, but that good faith negotiations

Confidential from the time the Producing Party advises Complaint Counsel and Respondents' counsel in writing that such material should be so designated and provides all the Parties with an appropriately labeled replacement. The Parties shall return promptly or destroy the unmarked documents.

10. If the FTC: (a) receives a discovery request that may require the disclosure by it of a Third Party's Confidential Discovery Material; or (b) intends to or is required to disclose, voluntarily or involuntarily, a Third Party's Confidential Discovery Material (whether or not such disclosure is in response to a discovery request), the FTC promptly shall notify the Third Party of either receipt of such request or its intention to disclose such material. Such notification shall be in writing and, if not otherwise done, sent for receipt by the Third Party at least five business days before production, and shall include a copy of this Protective Order and a cover letter that will apprise the Third Party of its rights hereunder.

11. If any person receives a discovery request in another proceeding that may require the disclosure of a Producing Party's Confidential Discovery Material, the subpoena recipient promptly shall notify the Producing Party of receipt of such request. Such notification shall be in writing and, if not otherwise done, sent for receipt by the Producing Part at least five business days before production, and shall include a copy of this Protective Order and a cover letter that will apprise the Producing Party of its rights hereunder. The Producing Party shall be solely responsible for asserting any objection to the requested production. Nothing herein shall be construed as requiring the subpoena recipient or anyone else covered by this Order to challenge or appeal any such order requiring production of Confidential Discovery Material, or to subject itself to any penalties for noncompliance with any such order, or to seek any relief from the

Administrative Law Judge or the Commission.

12. This Order governs the disclosure of information during the course of discovery and does not constitute an *in camera* order as provided in Section 3.45 of the Commission's Rules of Practice, 16 C.F.R. § 3.45.

13. Nothing in this Protective Order shall be construed to conflict with the provisions of Sections 6, 10, and 21 of the Federal Trade Commission Act, 15 U.S.C. §§ 46, 50, 57b-2, or with Rules 3.22, 3.45 or 4.11(b)-(e), 16 C.F.R. §§ 3.22, 3.45 and 4.11(b)-(e).<sup>1</sup>

Any Party or Producing Party may move at any time for *in camera* treatment of any Confidential Discovery Material or any portion of the proceedings in this Matter to the extent necessary for proper disposition of the Matter. An application for *in camera* treatment must meet the standards set forth in 16 C.F.R. § 3.45 and explained in *In re Dura Lube Corp.*, 1999 FTC LEXIS 255 (Dec. 23, 1999).

14. At the conclusion of this Matter, Respondents' counsel shall return to the Producing Party, or destroy, all originals and copies of documents and all notes, memoranda, or other papers containing Confidential Discovery Material which have not been made part of the public record in this Matter. Complaint Counsel shall dispose of all documents in accordance with Rule 4.12, 16 C.F.R. § 4.12.

15. The provisions of this Protective Order, insofar as they restrict the communication and use of Confidential Discovery Material shall, without written permission of the Producing Party

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<sup>1</sup> The right of the Administrative Law Judge, the Commission, and reviewing courts to disclose information afforded *in camera* treatment or Confidential Discovery Material, to the extent necessary for proper disposition of the proceeding, is specifically reserved pursuant to Rule 3.45, 16 C.F.R. § 3.45.

or further order of the Administrative Law Judge hearing this Matter, continue to be binding after the conclusion of this Matter.

16. This Protective Order shall not apply to the disclosure by a Producing Party or its Counsel of such Producing Party's Confidential Discovery Material to such Producing Party's employees, agents, former employees, board members, directors, and officers.

17. The production or disclosure of any Discovery Material made after entry of this Protective Order which a Producing Party claims was inadvertent and should not have been produced or disclosed because of a privilege will not automatically be deemed to be a waiver of any privilege to which the Producing Party would have been entitled had the privileged Discovery Material not inadvertently been produced or disclosed. In the event of such claimed inadvertent production or disclosure, the following procedures shall be followed:

(a) The Producing Party may request the return of any such Discovery Material within twenty days of discovering that it was inadvertently produced or disclosed (or inadvertently produced or disclosed without redacting the privileged content). A request for the return of any Discovery Material shall identify the specific Discovery Material and the basis for asserting that the specific Discovery Material (or portions thereof) is subject to the attorney-client privilege or the work product doctrine and the date of discovery that there had been an inadvertent production or disclosure.

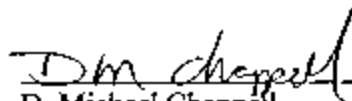
(b) If a Producing Party requests the return, pursuant to this paragraph, of any such Discovery Material from another Party, the Party to whom the request is made shall return immediately to the Producing Party all copies of the Discovery Material within its possession, custody, or control—including all copies in the possession of experts, consultants, or others to

whom the Discovery Material was provided—unless the Party asked to return the Discovery Material in good faith reasonably believes that the Discovery Material is not privileged. Such good faith belief shall be based on either (i) a facial review of the Discovery Material, or (ii) the inadequacy of any explanations provided by the Producing Party, and shall not be based on an argument that production or disclosure of the Discovery Material waived any privilege. In the event that only portions of the Discovery Material contain privileged subject matter, the Producing Party shall substitute a redacted version of the Discovery Material at the time of making the request for the return of the requested Discovery Material.

(c) Should the Party contesting the request to return the Discovery Material pursuant to this paragraph decline to return the Discovery Material, the Producing Party seeking return of the Discovery Material may thereafter move for an order compelling the return of the Discovery Material. In any such motion, the Producing Party shall have the burden of showing that the Discovery Material is privileged and that the production was inadvertent.

18. Entry of the foregoing Protective Order is without prejudice to the right of the Parties or Third Parties to apply for further protective orders or for modification of any provisions of this Protective Order.

ORDERED:

  
D. Michael Chappell  
Administrative Law Judge

Date: May 10, 2001

UNITED STATES OF AMERICA  
FEDERAL TRADE COMMISSION

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In the Matter of	)	
	)	
Schering-Plough Corporation,	)	
a corporation,	)	
	)	
Upsher-Smith Laboratories,	)	Docket No. 9297
a corporation,	)	
	)	
and	)	
	)	
American Home Products Corporation,	)	
a corporation.	)	
_____	)	

DECLARATION CONCERNING PROTECTIVE  
ORDER GOVERNING DISCOVERY MATERIAL

I, [NAME], hereby declare and certify the following to be true:

1. [Statement of employment]
2. I have read the "Protective Order Governing Discovery Material" (Protective Order") issued by Administrative Law Judge D. Michael Chappell on May 10, 2001, in connection with the above captioned matter. I understand the restrictions on my use of any Confidential Discovery Material (as this term is used in the Protective Order) in this action and I agree to abide by the Protective Order.
3. I understand that the restrictions on my use of such Confidential Discovery Material include:
  - a. that I will use such Confidential Discovery Material only for the purposes of preparing for this proceedings, and hearing(s) and any appeal of this proceeding and for no other purpose;
  - b. that I will not disclose such Confidential Discovery Material to anyone, except as permitted by the Protective Order; and
  - c. that upon the termination of my participation in this proceeding I will

promptly return all Confidential Discovery Material, and all notes, memoranda, or other papers containing Confidential Discovery Material, to Complaint Counsel or Respondent's counsel, as appropriate.

4. I understand that if I am receiving Confidential Discovery Material as an Expert/Consultant, as that term is defined in this Protective Order, the restrictions on my use of Confidential Discovery Material also include the duty and obligation:

- a. to maintain such Confidential Discovery Material in separate locked room(s) or locked cabinet(s) when such Confidential Discovery Material is not being reviewed;
- b. to return such Confidential Discovery Material to Complaint Counsel or Respondent's Outside Counsel, as appropriate, upon the conclusion of my assignment or retention; and
- c. to use such Confidential Discovery Material and the information contained therein solely for the purpose of rendering consulting services to a Party to this matter, including providing testimony in judicial or administrative proceedings arising out of this matter.

5. I am fully aware that, pursuant to Section 3.42(h) of the Commission's Rules of Practice, 16 C.F.R. § 3.42(h), my failure to comply with the terms of the Protective Order may constitute contempt of the Commission and may subject me to sanctions imposed by the Commission.

\_\_\_\_\_  
Full Name [Typed or Printed]

Date: \_\_\_\_\_

\_\_\_\_\_  
Signature



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UNITED STATES OF AMERICA  
FEDERAL TRADE COMMISSION

In the Matter of

Schering-Plough Corporation,  
a corporation,

Upsher-Smith Laboratories,  
a corporation,

and

American Home Products Corporation,  
a corporation.

Docket No. 9297

**ORDER DENYING AHP'S MOTION SEEKING LEAVE  
TO REQUIRE THAT ALL BRIEFING REGARDING ITS  
MOTION FOR PROTECTIVE ORDER BE FILED UNDER SEAL**

**I.**

On September 17, 2001, Respondent American Home Products Corporation ("AHP") filed its Motion Seeking Leave to Require That All Briefing Regarding its Motion for Protective Order Be Filed Under Seal. Complaint Counsel and other Respondents do not oppose the motion.

**II.**

AHP states that it recently discovered it had inadvertently produced to the staff of the Bureau of Competition during the Federal Trade Commission's pre-Complaint investigation of this matter several documents which it asserts are protected by the attorney client or work product privileges. AHP intends to file a motion for a protective order requiring Complaint Counsel to return these documents to AHP. In the instant motion, AHP seeks relief from the requirement in Rule 3.22(a) that it file such subsequent motion with the Office of the Secretary. For the reasons set forth below, that request is DENIED. However, pursuant to Rule 3.45(b), AHP may file two versions of its motion for a protective order: a public, redacted version; and a non-public, confidential version.

## III

Rule 3.22(a) of the Commission's Rules of Practice requires that all written motions shall be filed with the Secretary of the Commission. 16 C.F.R. § 3.22(a). If a party includes in a motion information that is subject to confidentiality protections pursuant to a protective order, the party shall file two versions of the motion, a confidential, non-public version and a redacted, public version. 16 C.F.R. §§ 3.22(b), 3.45(b). Both the public and the non-public versions are filed with the Office of the Secretary. 16 C.F.R. §3.45(b). Only the redacted, public version is made available for inspection to the public.

To rule on a motion for a protective order seeking the return of documents for which inadvertent disclosure of privilege is claimed, two determinations must be made. First, whether the documents are privileged. Second, whether the privilege was waived through disclosure. Whether or not the privilege was waived can be determined not by looking at the documents, but by assessing the circumstances under which they were produced. *See In re Hoechst Marion Roussel, Inc.*, 2000 FTC LEXIS 155, \*6-7 (Oct. 17, 2000) (*quoting* *United States v. De Lajara*, 973 F.2d 746, 749 (9<sup>th</sup> Cir. 1992) ("In determining whether the privilege should be deemed to be waived, the circumstances surrounding the disclosure are to be considered.")).

In *Hoechst Marion Roussel*, a balancing test which permits consideration of the totality of the circumstances surrounding disclosure was adopted for determining whether disclosure waives any privileges. 2000 FTC LEXIS 155, at \*7. Five factors will be considered: (1) the reasonableness of the precautions taken to prevent inadvertent disclosure; (2) the time taken to rectify the error; (3) the scope of discovery; (4) the extent of the disclosure; and (5) the overarching issue of fairness and the protection of an appropriate privilege. *Id.* at 6 (*quoting* *Gray v. Gene Bicknell*, 86 F.3d 1472, 1484 (8<sup>th</sup> Cir. 1996); *Allread v. Grenada*, 988 F.2d 1425, 1434-35 (5<sup>th</sup> Cir. 1993)).

AHP should be able to describe the circumstances under which the documents were produced without revealing any privileged information. To the extent Complaint Counsel or other Respondents dispute whether the documents are privileged, AHP should be able to describe sufficiently the context of the documents without revealing the privileged information. However, in the event that AHP feels it is necessary to attach documents which are subject to confidentiality protections pursuant to a protective order or to describe the documents in such detail that may reveal the contents, it may file two versions of its motion for a protective order with the Secretary: a non-public, confidential version and a public, redacted version. In addition, all subsequent briefing, i.e., responses and reply, if any, shall comport with Rule 3.45(b).

ORDERED:

  
D. Michael Chappell  
Administrative Law Judge

Date: September 25, 2001

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UNITED STATES OF AMERICA  
BEFORE THE FEDERAL TRADE COMMISSION

In the Matter of	)	
Schering-Plough Corporation,	)	
a corporation,	)	
Upsher-Smith Laboratories, Inc.,	)	Docket No. 9297
a corporation,	)	
and	)	<b>PUBLIC RECORD</b>
American Home Products Corporation,	)	
a corporation	)	

DECLARATION OF . . . . IN SUPPORT OF RESPONDENT AMERICAN HOME  
PRODUCTS CORPORATION'S MOTION FOR A PROTECTIVE ORDER

I, . . . ., declare as follows:

1. I am . . . . .  
..... ]

have personal knowledge of the facts set forth herein.

2. I represented AHP and ESI Lederle, Inc. ("ESI") during the patent infringement lawsuit involving ESI and Key Pharmaceuticals, Inc. ("Key"), case caption Key Pharmaceuticals, Inc. v. ESI-Lederle, Inc., Civil Action No. 96-1219.

3. The law firm of Kenyon & Kenyon acted as outside counsel for AHP and ESI during the patent infringement lawsuit involving ESI and Key. Paul Heller was a partner at the law firm of Kenyon & Kenyon and represented AHP and ESI in this patent infringement lawsuit.





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I declare under penalty of perjury that the foregoing is true and correct.

Executed on September \_\_\_\_, 2001

Respectfully submitted,

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UNITED STATES OF AMERICA  
BEFORE THE FEDERAL TRADE COMMISSION

\_\_\_\_\_)  
In the Matter of )  
)  
Schering-Plough Corporation, )  
a corporation, )  
) Docket No. 9297  
Upsher-Smith Laboratories, Inc., )  
a corporation, )  
) **PUBLIC RECORD**  
and )  
)  
)  
American Home Products Corporation, )  
a corporation )  
\_\_\_\_\_)

DECLARATION OF . . . . IN SUPPORT OF RESPONDENT AMERICAN HOME  
PRODUCTS CORPORATION'S MOTION FOR A PROTECTIVE ORDER

I, . . . ., declare as follows:

1. . . . .  
. . . . .  
. . . . . I have personal knowledge of the facts

set forth herein.

2. . . . .  
. . . . .  
. . . . .

3. Lawrence Alaburda, Litigation Counsel, Patents, for American Home Products  
("AHP"), acted as in-house legal counsel for AHP and ESI during the patent infringement  
lawsuit brought by Key Pharmaceuticals, Inc. against ESI, case caption Key  
Pharmaceuticals, Inc. v. ESI-Lederle, Inc., Civil Action No. 96-1219. Paul Heller, of

Kenyon & Kenyon, acted as outside counsel for AHP and ESI during this same patent infringement lawsuit.

4. During the course of the patent litigation, .....

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document was created solely at the request of counsel in the patent litigation between ESI and Key and was not created for any business purpose.

7. I also have reviewed the document containing Bates Numbers .....

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solely at the request of counsel in the patent litigation and not for any business purpose.

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and not for any business purpose.

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for any business purpose, but solely in relation to a request from counsel in the patent suit  
between AHP/ESI and Key.

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..... These documents were created solely at the request of AHP's counsel during the patent infringement lawsuit then pending against ESI and not for any business purpose.

11. .... I participated in an investigational hearing in the FTC's investigation of AHP/ESI relating to its settlement of Key's patent infringement lawsuit. During that hearing, I was questioned about various documents including .....

..... At the time of my investigational hearing in this matter, I did not recall that counsel had asked me to prepare these documents, nor did I recall any of the circumstances leading to the creation of these documents. I participated in a meeting or two with counsel for AHP/ESI to prepare me for my investigational hearing. It is my belief that during the preparation for my investigational hearing .....

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I declare under penalty of perjury that the foregoing is true and correct.

Executed on September \_\_\_\_, 2001

Respectfully submitted,

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I declare under penalty of perjury that the foregoing is true and correct.

Executed on September \_\_\_\_, 2001

Respectfully submitted,

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UNITED STATES OF AMERICA  
BEFORE FEDERAL TRADE COMMISSION

\_\_\_\_\_) )  
In the Matter of ) )  
) )  
Schering-Plough Corporation, ) )  
a corporation, ) )  
) ) Docket No. 9297  
Upsher-Smith Laboratories, Inc., ) )  
a corporation, ) )  
) )  
and ) )  
) ) PUBLIC RECORD  
American Home Products Corporation, ) )  
a corporation ) )  
\_\_\_\_\_)

DECLARATION OF ..... IN SUPPORT OF RESPONDENT  
AMERICAN HOME PRODUCTS CORPORATION'S MOTION FOR A  
PROTECTIVE ORDER

I, ....., declare as follows:

1. I am .....  
.....  
..... I have personal knowledge of the  
facts set forth herein.
2. In response to a subpoena duces tecum issued to AHP by the Federal Trade  
Commission ("FTC") on November 5, 1999, counsel for AHP undertook an expansive  
document collection and production. I personally supervised the document collection,  
document review, and document production process on AHP's behalf. In order to ensure  
compliance with the subpoena, I negotiated with FTC Staff to allow for production on a  
rolling basis.
3. Counsel for AHP reviewed more than 100,000 pages of documents looking for  
responsive material, and produced more than 27,000 pages to the FTC during the pre-  
Complaint investigation. I, along with legal assistants at AHP, conducted a search for

documents responsive to the broad subpoena, which entailed examining the files of various employees of AHP and its divisions. In responding to the subpoena, the attorneys also reviewed pleadings, depositions, expert reports and other materials produced in the underlying patent litigation between ESI and Schering.

4. After gathering potentially responsive materials, the documents were then reviewed by trained and experienced attorneys, who reviewed the documents for responsiveness and segregated out those documents that were potentially protected by the attorney-client and attorney work product privileges. The materials that were segregated as being potentially privileged were then given to me to review. I reviewed these documents and, based on the information available to me at the time, made a decision as to which documents had a colorable claim of privilege. Those documents initially were withheld from production to the FTC. Documents that did not appear to be privileged were then integrated back into the document production. I did not review all of the documents that were produced and which were not segregated as being potentially privileged.

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7. When the documents referenced in paragraph 6 of this Affidavit were produced to the FTC in and around February and March of 2000, I did not know that these documents had been prepared ..... at the request of .....  
..... Esq. in connection with the patent litigation between BSI and Schering, or that they were not created in the ordinary course of BSI's business. I also did not know at that time that some of these documents reflected the mental impressions of counsel or that they reflected privileged communications between AHP and its counsel.

8. During ..... deposition on ....., which I attended, counsel for the FTC inquired into the origins of certain market forecasts, including ... Exhibits 1, 4 through 6 and 8. During the deposition, ..... was unable to recall why the ..... had been created, who at the company had prepared them, or to whom they had been distributed. At the time of ..... deposition, I did not know that 1, 4 through 6 and 8 had been prepared at the request of AHP's counsel during the patent infringement lawsuit or that many of these documents contained the mental impressions of counsel. Because ..... could not remember the origins of those documents during his deposition, I believed there was no definitive basis upon which to claim privilege, and accordingly, did not object to questioning about these documents. I likewise did not advise

..... who was defending ..... deposition, that there was a basis upon which to claim privilege and object to questioning about the documents.

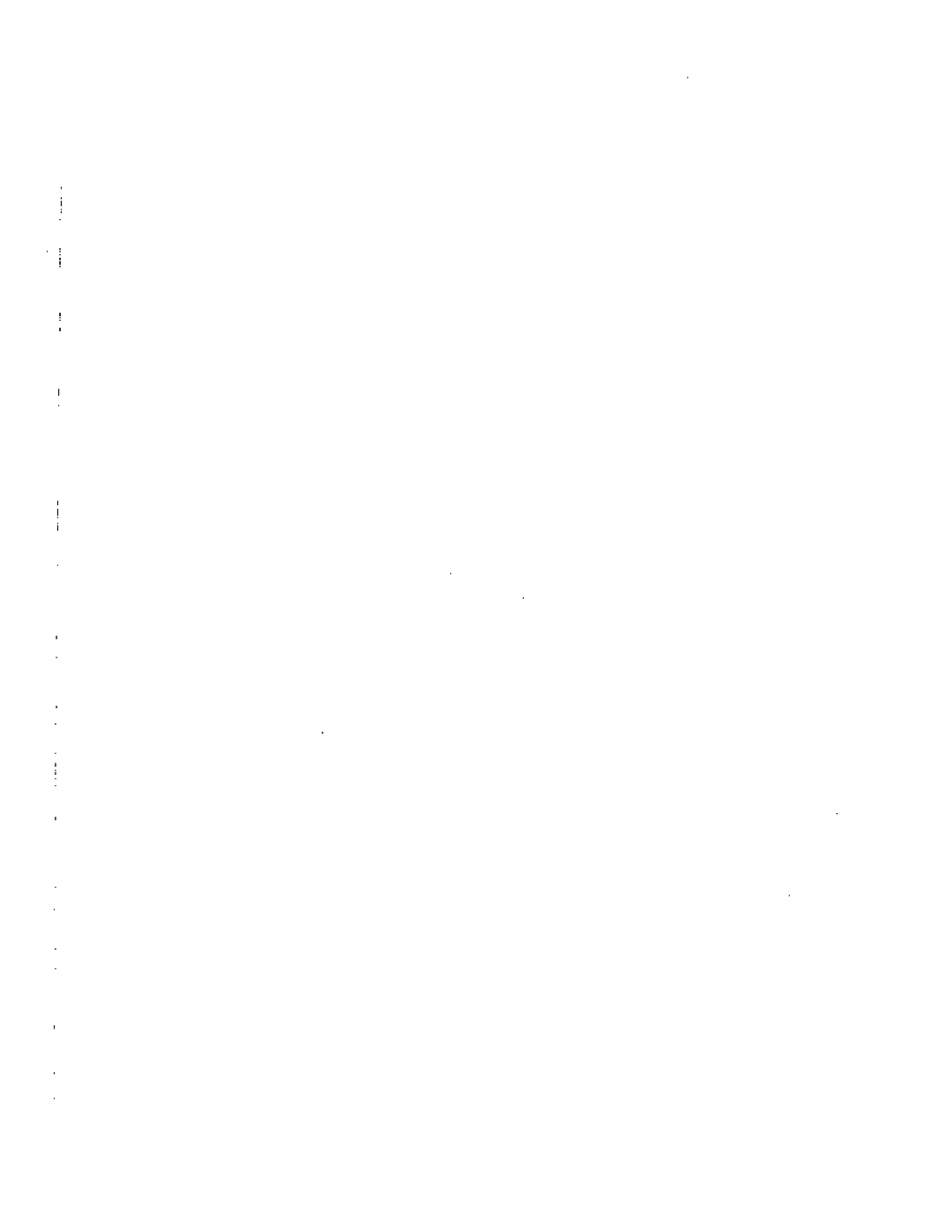
9. I did not learn all of the facts supporting the claim of attorney-client privilege and attorney work product protection regarding the AHP documents referenced herein until July and August of 2001.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on September \_\_\_\_, 2001

Respectfully submitted,

.....





UNITED STATES OF AMERICA  
BEFORE FEDERAL TRADE COMMISSION

_____	)	
In the Matter of	)	
	)	
Schering-Plough Corporation,	)	
a corporation,	)	
	)	Docket No. 9297
Upsher-Smith Laboratories, Inc.,	)	
a corporation,	)	
	)	
and	)	<b>PUBLIC RECORD</b>
	)	
American Home Products Corporation,	)	
a corporation	)	
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DECLARATION OF ..... IN SUPPORT OF RESPONDENT  
AMERICAN HOME PRODUCTS CORPORATION'S MOTION FOR A  
PROTECTIVE ORDER

I, ....., declare as follows:

1. I am .....  
.....  
..... I have personal knowledge of the facts set forth  
herein.
2. On June 25, 2001, complaint counsel served on AHP a Rule 3.33(c) Notice of  
Deposition, which requested AHP to produce a witness to testify about the documents  
marked as Exhibits 1 and 4 - 8 to ..... deposition, .....  
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.....
3. During July 2001, Arnold & Porter undertook an investigation to identify the  
company representative at AHP most knowledgeable about these documents and to  
answer the questions posed in the deposition notice. ....

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4. In July and August 2001, counsel for AHP learned for the first time that the following documents were not prepared for any business purpose, but rather were prepared at the request of ..... Esq., and/or ..... Esq. ....  
..... – outside counsel who represented ESI Lederle, Inc. during the patent infringement case filed by Schering's division, Key Pharmaceuticals, Inc., against ESI – and reflect their mental impressions and/or reflect privileged communications between AHP and its counsel during the patent infringement litigation with Schering regarding K-Dur 20:

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5. Upon concluding that these documents were privileged, and therefore protected from disclosure, I, along with other attorneys at Arnold & Porter, began investigating the circumstances surrounding the production of these documents to the FTC. As a result of that investigation, I learned that each of these documents referenced above had been inadvertently produced to the FTC during its pre-Complaint investigation of this matter.

6. I, along with other attorneys at Arnold & Porter, also reviewed the documents that were withheld from production during the pre-Complaint investigation on grounds of privilege. I confirmed that the documents withheld during the investigation, .....  
....., were prepared at the request of counsel for purposes of assisting counsel in the

underlying patent litigation and not for any business purpose, and they therefore, were properly withheld from production.

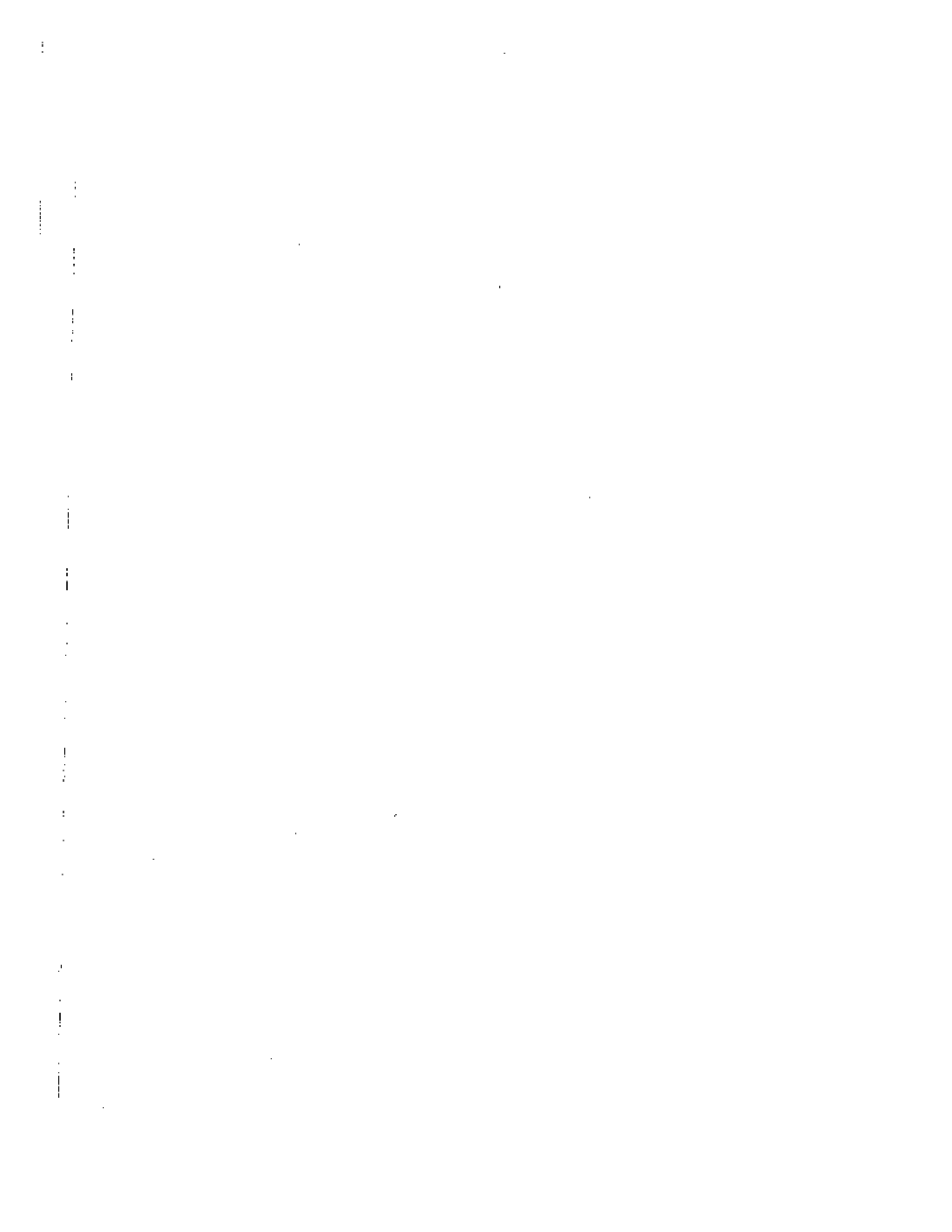
7. After confirming that these documents were privileged and that they were inadvertently produced to the FTC, I sent a letter to Complaint Counsel Andrew Ginsburg on July 20, 2001, notifying complaint counsel of the inadvertent production and requesting the prompt return of the documents, as well as . . . . . deposition transcript. See Ex. A attached hereto. Complaint Counsel Bradley Albert telephoned me on July 24, requesting additional information to assess AHP's claim of privilege. On July 25, 2001, I provided complaint counsel with a letter describing the facts that support the privileged nature of each of the documents at issue. See Ex. B attached hereto. On July 27, complaint counsel advised me that they would not return the privileged documents. See Ex. C attached hereto. To date, complaint counsel have refused to return the privileged documents.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on September , 2001

Respectfully submitted,

.....



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# ARNOLD & PORTER

---

Cathy Hoffman  
Cathy.Hoffman@aporter.com  
202.942.5123  
202.542.5999 Fax  
555 Tenth Street, NW  
Washington, DC 20004-1206

July 20, 2001

*BY TELECOPY & U.S. MAIL*

Andrew S. Ginsburg, Esq.  
Bureau of Competition  
Federal Trade Commission  
601 Pennsylvania Avenue, NW  
Washington, D. C. 20580  
Telecopy: (202) 326-3384

Re: *In the Matter of Schering-Plough Corp., Upsher-Smith  
Laboratories, and American Home Products, Docket No. 9297*

Dear Andrew:

I am writing in response to your letter dated July 13, 2001 and to complaint counsel's rule 3.33(c) Notice of Deposition, dated June 25, 2001. As you know from our prior discussions, we have been working diligently to locate responsive information and a company witness to testify about those documents and matters set forth in the Notice of Deposition. While conducting that investigation, we recently have learned that most and likely all of the documents referenced in the Notice of Deposition are protected from discovery by the attorney-client privilege and by the attorney work product doctrine. Specifically, during the course of our investigation to respond to the Notice of Deposition, we have learned that those documents . . . . . to the . . . . . were prepared at the request of counsel and contain the mental impressions of counsel. Based upon what we have learned, it also is likely that . . . . . to . . . . . were prepared at the request of counsel, and therefore also are privileged. However, we still are finalizing our investigation of that question.

Similarly, during our Rule 3.33(c) investigation, we also learned that two additional documents, bearing bates numbers . . . . . were prepared at the request of counsel and contain the mental impressions of counsel.<sup>1</sup> Those documents therefore also are protected from discovery by the attorney-

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<sup>1</sup> Two other documents, bearing bates numbers . . . . ., also may have been prepared at the request of counsel, and therefore may also be privileged, but we still are finalizing our investigation of that question.

# ARNOLD & PORTER

202.942.5000  
202.942.5599 Fax  
555 Twelfth Street, NW  
Washington, DC 20004 1206

Andrew S. Ginsburg, Esq.  
July 20, 2001  
Page 2

client privilege and the attorney work product doctrine. Each of these documents was inadvertently produced to the staff at the Bureau of Competition during the FTC's pre-Complaint investigation.

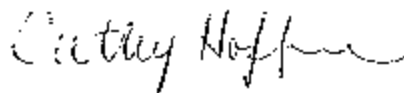
We hereby request that you immediately return the six documents that we have confirmed are privileged and were inadvertently produced, as well as any copies you may have made thereof, to me by no later than Friday, July 27, 2001. We also hereby request that you immediately retrieve and return any copies of these documents which complaint counsel has distributed to others, including experts, by that date. If you have any copies of these documents that contain the mental impressions of counsel and/or other work product notations, we ask that you immediately destroy those copies. Lastly, we ask that you return to me all copies of . . . . . so that we may redact all testimony relating to the privileged documents. We will return the redacted copies of the transcripts to you once we have done so. The return of these privileged documents is mandated by the law applicable to this case, Judge Chappell's prior rulings on similar issues in the Hoechst/Andrx matter and by the language and spirit of the Protective Order in this case, specifically paragraph 17 thereof.

By copy of this letter, we are requesting counsel for respondents Schering-Plough and Upsher-Smith to follow the same procedures.

Because most and likely all of the documents identified in Complaint Counsel's June 25<sup>th</sup> Notice of Deposition are privileged, AHP will not be producing a Rule 3.33(c) witness in response to the Notice at this time. As soon as we determine whether . . . . . are privileged, we will notify you. Should it turn out that those documents are not privileged, then we will contact you to determine whether complaint counsel would like a Rule 3.33 (c) witness as to those documents.

If you have any questions about any of the issues set forth in this letter, then please call me.

Sincerely,



Cathy Hoffman

cc: Karen Bokar, Esq.

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# ARNOLD & PORTER

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202.942.5000  
202.942.5999 Fax

555 Twelfth Street, NW  
Washington, DC 20004-1206

Andrew S. Ginsburg, Esq.  
July 20, 2001  
Page 3

Laura Shores, Esq.  
Christopher Curran, Esq.

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# ARNOLD & PORTER

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Cathy Hoffman  
Cathy\_Hoffman@aporter.com  
202.942.5123  
202.942.5999 Fax  
555 Twelfth Street, NW  
Washington, DC 20004-1206

July 25, 2001

CONFIDENTIAL

BY TELECOPY

Bradley S. Albert, Esq.  
Federal Trade Commission  
601 Pennsylvania Ave., NW  
Washington, DC 20580

*Re: In the Matter of Schering Plough Corp., Upsher-Smith Laboratories,  
American Home Products, Docket No. 9297*

Dear Brad:

This is to respond to your request yesterday for more information about the six privileged documents identified in my letter of July 20, 2001 to Andrew Ginsburg. You indicated that complaint counsel are trying to evaluate their response to my July 20 letter, and requested that I provide you with more information to assist your assessment of our claim that these documents are subject to the attorney-client and work product privileges. You specifically requested that I provide you with the information that would be contained in a privileged log about each document. The following provides additional information about each document.

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# ARNOLD & PORTER

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202.942.5000  
202.942.5999 Fax  
555 Twelfth Street, NW  
Washington, DC 20004-1200

Bradley S. Albert, Esq.  
July 25, 2001  
Page 2

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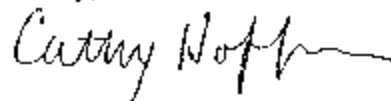
Bradley S. Albert, Esq.  
July 25, 2001  
Page 3

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We believe the information you have about these documents should enable you to concur in our belief that these documents are protected by the attorney-client and work product privileges. As I noted in my letter of July 20, we are continuing to investigate whether two other documents that were produced during the pre-complaint investigation are similarly protected, and will contact you once we have made that determination.

Please call me if you have any additional questions.

Sincerely,



Cathy Hoffman

cc: Laura Shores, Esq.  
Chris Curran, Esq.





UNITED STATES OF AMERICA  
FEDERAL TRADE COMMISSION  
WASHINGTON, D.C. 20580

Bureau of Competition

Bradley S. Albert, Esq.  
Direct Dial. 202-326-3570

July 27, 2001

VIA FACSIMILE AND U.S. MAIL

Cathy Hoffman, Esq.  
Arnold & Porter  
555 Twelfth Street, N.W.  
Washington, D.C. 20004-1206

Re: *In the Matter of Schering-Plough Corp., Upsher-Smith Laboratories, and  
American Home Products Corp., FTC Docket No. 9297*

Dear Cathy:

I am writing in response to your letters dated July 20, 2001 and July 25, 2001. You have asked complaint counsel to return . . . . . of the . . . . . , as well as . . . . . claiming that all were inadvertently produced. For the reasons described below, we have decided not to return any of these documents at this time.

First, you claim that returning these documents is mandated by the "language and spirit" of Paragraph 17 of the Protective Order. We disagree. Paragraph 17 applies only to "[t]he production or disclosure of any Discovery Material made *after* entry of this Protective Order" (emphasis added). The documents at issue were produced on February 22, 2000 and March 7, 2000, well *before* the filing of the Complaint, let alone the entry of the Protective Order.

In addition, as the title of Paragraph 17 makes clear, that provision covers only the "inadvertent" production of documents. AHP's production of the disputed documents can in no way be described as inadvertent. Inadvertent or involuntary disclosures occur, for example, when in the midst of a voluminous production, a privileged document is mistakenly included.

Here, by contrast, AHP turned the materials over to the FTC more than one year ago, among a very limited number of documents. Then, . . . . . complaint counsel used most of the documents asked to be returned in the . . . . . AHP's outside counsel, Kenneth A. Letzler and Randal M. Shaheen, as well as its inside counsel, Elliot Feinberg, were present. During a hearing which lasted an entire day in which the disputed documents were specifically reviewed by the witness and counsel, no one

Cathy Hoffman, Esq.  
July 27, 2001  
Page 2

raised any privilege issue concerning or relating to any of these Exhibits. Since that hearing, more than seven months ago, the documents have remained in the Commission's possession and still there was no assertion of any so-called "privilege" until last week. Under these facts, there is no credible argument that the documents were disclosed inadvertently.

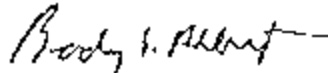
Second, even under the procedures laid out in the Protective Order for inadvertently produced documents, we are under no obligation to return materials which on their face appear to be non-privileged business documents. There is no evidence whatsoever that these documents, which include data, sales forecasts, and financial scenarios, reflect any communication between client and counsel needed for a claim of attorney-client privilege. Nor is there evidence of the thoughts or mental impressions of counsel, which could form the basis for a claim of work-product privilege. In addition, the explanation provided in your letter of July 25, 2001 as to why you believe the materials are privileged has not altered our analysis based on a facial review of the documents.

Finally, under the circumstances, AHP clearly has waived any privilege that may have attached at some point to the disputed documents.

We await the results of your investigation as to . . . . . in the . . . . .  
. . . . . as well as . . . . .

We expect that AHP promptly will either produce a witness, pursuant to Rule 3.33(e), in response to the Notice of Deposition dated June 25, 2001, or petition the court for a protective order. If you have any questions about our response, please contact me at 202-326-3670.

Sincerely,

  
Bradley S. Albert, Esq.

cc: Laura S. Shores, Esq.  
Christopher M. Curran, Esq.



**In The Matter Of:**

*SCHERING-PLOUGH & UPSHER-SMITH  
MATTER NO. 9910256*

---

.....

---

*For The Record, Inc.  
Court Reporting and Litigation Support  
603 Post Office Road  
Suite 309  
Waldorf, MD USA 20602  
(301) 870-8025 FAX: (301) 870-8333*

*Original File 010051DEYASC, 179 Pages  
Min-U-Script® File ID: 1738939488*

**Word Index included with this Min-U-Script®**



(1) now . . . . .  
 (2) A: I believe so.  
 (3) Q: Do you know who prepared it?  
 (4) A: No, I don't.  
 (5) Q: Do you know why it was prepared?  
 (6) A: I really don't know.  
 (7) Q: Did ESI at some point track sales of  
 (8) potassium chloride products?  
 (9) A: Yes.  
 (10) Q: For what purpose?  
 (11) A: To see if there was a business opportunity  
 (12) there for us.  
 (13) Q: What do you mean by a business opportunity?  
 (14) A: I referred to the NBSC committee. We would  
 (15) routinely scan products that are on the market and  
 (16) evaluate them to see whether there was an  
 (17) opportunity for us to launch a generic of somebody  
 (18) else's brand.  
 (19) Q: Did that committee also look at whether ESI  
 (20) should launch a generic of an ADHD brand?  
 (21) A: At that -- at that time, that committee  
 (22) existed -- was a -- was not nearly as developed as  
 (23) it was, we were a much smaller division, and so  
 (24) there would have been one or two of us that looked  
 (25) at the opportunity in terms of that -- the Micro K

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 (23) Q: All right, I think that's all the questions  
 (24) on that exhibit, but maybe we can just sort of leave  
 (25) it here in the middle in case we need to go back.

(1) market and made a decision whether we wanted to  
 (2) launch a generic or a rollover, we would call it a  
 (3) rollover of one of Wyeth's brands, yeah.  
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(1) Could we go off the record for just a  
 (2) second  
 (3) (Discussion off the record.)  
 (4) (Mr. Shaheen now present.)  
 (5) BY MS. BOKAI:  
 (6) Q: I just note for the record that Randy  
 (7) Shaheen has entered the room.  
 (8) I would like to turn now to the ESI ANDA for  
 (9) the generic version of K-Dur 20.  
 (10) A: Okay.  
 (11) Q: After the ANDA was submitted, did the Food &  
 (12) Drug Administration accept it for filing?  
 (13) A: Yes.  
 (14) Q: Did the FDA accept it right away, or --  
 (15) . . . . .  
 (16) . . . . .  
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119 business if we just lose money every year.  
 120 Because of that, when they realized the  
 121 problem that was created, we then budgeted products  
 122 that we, in fact, thought we would get second, third  
 123 and fourth quarter, which showed an actual increase  
 124 in the overall forecast going forward. I don't  
 125 remember the time frame that we made the decision to  
 126 change the way we budgeted vis-a-vis K-Dur.

127 So, I don't know — back to your original  
 128 question, I don't know whether K-Dur was actually  
 129 budgeted in outgoing years.

130 Q: For a product that is budgeted, is there an  
 131 annual budget prepared for that particular product?

132 A: Yes, Yes.

133 Q: Did retail, or does retail marketing use a  
 134 computer model to run the forecasts and budgets?

135 A: Sometimes we do and sometimes we do it on a  
 136 sort of just a basic assumptions based on what the  
 137 overall market trend is.

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 148 MR. LETZLER: We understand that this what  
 149 you handed us stapled is two exhibits the way it's  
 150 been marked.

151 MS. BOKAT: Right. Off the record for just  
 152 a second.

153 (Discussion off the record.)

154 BY MS. BOKAT:

155 Q: Have you seen previously . . . . .  
 156 . . . . .

157 A: I don't recall.

158 Q: Looking at them today, do you know what they  
 159 are?

160 A: I believe so.

161 Q: What are they?

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 178 Q: Can you tell from the documents when they  
 179 were prepared?

180 A: No, I can't.  
 181 Q: From your own experience, do you have a  
 182 sense of when they were prepared?

183 A: I really don't, no. If I were to look at  
 184 the brand sales, it was probably pretty early in the  
 185 process.

186 Q: Early in which process?

187 A: In the development process. Meaning this  
 188 was not at the end of the litigation with Schering.

189 Q: Was it probably before ISI's ANDA was even  
 190 filed?

191  
 192

193 Q: Do you know why these were prepared?

194 A: No, I don't.

195 Q: Do you know to whom they were distributed?

196 A: No, I don't.

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(1) assuming that another company would launch its  
(2) generic in January of '98?

(3) A: That's what it looks like.

(4) Q: Would you look at page 108, please, still  
(5) within . . . . .

(6) A: (Witness complied.)

(7) Q: In the second column there, it says, "Year  
(8) 1." Was that a total for 1998?

(9) A: Yes, I believe so.

(10) Q: And then on page 110, the second column is  
(11) headed Year 2. Was that 1999?

(12) A: Yes, I would believe so.

(13) . . . . .  
(14) . . . . .  
(15) . . . . .  
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(17) . . . . .  
(18) . . . . .

(19) MR. LETZLER: Karen, we've been going for a  
(20) while, could we take a break either before or after  
(21) this exhibit?

(22) MS. BOKAT: Sure, we could take a break  
(23) before.

(24) (A brief recess was taken.)

(25) BY MS. BOKAT:

(1) Q: Looking at the first page of . . . . .  
(2) which is numbered 158, do you know who prepared this  
(3) forecast? Or what group prepared it?

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UNITED STATES OF AMERICA  
FEDERAL TRADE COMMISSION  
WASHINGTON, D.C. 20580

Bureau of Competition

Andrew S. Ginsburg, Esq.  
Direct Dial: 202-326-3108

June 25, 2001

Via Federal Express and Electronic Mail

Cathy Hoffman, Esq.  
Arnold & Porter  
555 Twelfth Street, N.W.  
Washington, D.C. 20004-1206

Re: *Federal Trade Commission v. Schering-Plough Corporation, et al.*  
*Docket No. 9297*

Dear Cathy:

On behalf of Complaint Counsel, I have enclosed a copy of the Notice of Deposition. If you have any questions or concerns, do not hesitate to call me at 202-326-3108.

Sincerely,

A handwritten signature in cursive script, appearing to read "Andrew S. Ginsburg".

Andrew S. Ginsburg, Esq.

Enclosure

cc: Laura S. Shores, Esq.  
Christopher M. Curran, Esq.

UNITED STATES OF AMERICA  
FEDERAL TRADE COMMISSION

In the Matter of

SCHERING-PLOUGH CORPORATION,  
a corporation,

UPSHER-SMITH LABORATORIES, INC.,  
a corporation,

and

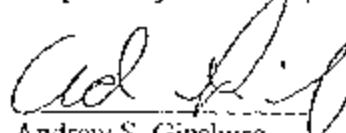
AMERICAN HOME PRODUCTS  
CORPORATION,  
a corporation.

Docket No. 9297

NOTICE OF DEPOSITION

PLEASE TAKE NOTICE, that pursuant to Rule 3.33(c) of the Federal Trade Commission's Rules of Practice for Adjudicative Proceedings, complaint counsel will take the deposition of respondent American Home Products Corporation, as represented by one or more designated officers, directors, or other employees most knowledgeable regarding the matters set forth in Exhibit A to this notice. This deposition will be conducted before some person authorized by law to administer oaths, and will continue from day to day until completed. The testimony will be recorded by stenographic means. The deposition will be taken at the offices of the Federal Trade Commission, 601 Pennsylvania Avenue, N.W., beginning on July 9, 2001 at 9:00 AM.

Respectfully Submitted,



Andrew S. Ginsburg  
Complaint Counsel

Dated: June 25, 2001

EXHIBIT A

TOPICS OF INQUIRY

1. Explanation of the document labeled . . . . . in the Investigational Hearing for . . . . . which took place on . . . . . This explanation would include, but is not limited to, testimony as to who created the document, why it was created, how it was created, when it was created, what are the assumptions which underlay the figures, analysis, or other facts presented, the meaning of any terms, assumptions, or other words listed, to whom it was distributed, who used it and in what capacity, and any other relevant information pertaining to the document.  
. . . . .  
. . . . .
  
2. Explanation of the document labeled . . . . . in the Investigational Hearing for . . . . . which took place on . . . . . This explanation would include, but is not limited to, testimony as to who created the document, why it was created, how it was created, when it was created, what are the assumptions which underlay the figures, analysis, or other facts presented, the meaning of any terms, assumptions, or other words listed, to whom it was distributed, who used it and in what capacity, and any other relevant information pertaining to the document.  
. . . . .  
. . . . .
  
3. Explanation of the document labeled . . . . . in the Investigational Hearing for . . . . . which took place on . . . . . This explanation would include, but is not limited to, testimony as to who created the document, why it was created, how it was created, when it was created, what are the assumptions which underlay the figures, analysis, or other facts presented, the meaning of any terms, assumptions, or other words listed, to whom it was distributed, who used it and in what capacity, and any other relevant information pertaining to the document.  
. . . . .  
. . . . .
  
4. Explanation of the document labeled . . . . . the Investigational Hearing for . . . . . which took place on . . . . . This explanation would include, but is not limited to, testimony as to who created the document, why it was created, how it was created, when it was created, what are the assumptions which underlay the figures, analysis, or other facts presented, the meaning of



any terms, assumptions, or other words listed, to whom it was distributed, who used it and in what capacity, and any other relevant information pertaining to the document.

.....

5. Explanation of the document labeled ..... in the Investigational Hearing for ..... which took place on ..... This explanation would include, but is not limited to, testimony as to who created each and every page of the document, why they were created, how they were created, when they were created, what are the assumptions which underlay the figures, analysis, or other facts presented, the meaning of any terms, assumptions, or other words listed, to whom they were distributed, who used them and in what capacity, and any other relevant information pertaining to Exhibit Seven. ....

.....

6. Explanation of the document labeled ..... in the Investigational Hearing for ..... which took place on ..... This explanation would include, but is not limited to, testimony as to who created each and every page of the document, why they were created, how they were created, when they were created, what are the assumptions which underlay the figures, analysis, or other facts presented, the meaning of any terms, assumptions, or other words listed, to whom they were distributed, who used them and in what capacity, and any other relevant information pertaining to Exhibit Eight. ....

.....


CERTIFICATE OF SERVICE

I, Andrew S. Ginsburg, hereby certify that on June 25, 2001, I caused a copy of the Notice of Deposition to be served upon the following persons by Federal Express and electronic mail.

Cathy Hoffman, Esq.  
Arnold & Porter  
555 Twelfth Street, N.W.  
Washington, D.C. 20004-1206

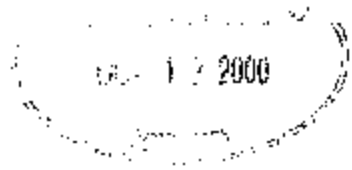
Laura S. Shores, Esq.  
Howrey Simon Arnold & White  
1299 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004-2402

Christopher M. Curran, Esq.  
White & Case LLP  
601 13th Street, N.W.  
Washington, D.C. 20005



Andrew S. Ginsburg  
Complaint Counsel





UNITED STATES OF AMERICA  
FEDERAL TRADE COMMISSION

In the Matter of )  
 )  
HOECHST MARION ROUSSEL, INC., )  
a corporation, )  
 )  
CARDERM CAPITAL L.P., )  
a limited partnership, )  
 )  
and )  
 )  
ANDRX CORPORATION, )  
a corporation. )  
\_\_\_\_\_ )

Docket No. 9293

**ORDER DENYING COMPLAINT COUNSEL'S MOTION REGARDING  
HOECHST'S WAIVER OF ATTORNEY-CLIENT PRIVILEGE AND  
MOTION TO COMPEL ANSWERS TO DEPOSITION QUESTIONS**

**I.**

On September 27, 2000, Complaint Counsel filed its Motion Regarding Hoechst's Waiver of Attorney-Client Privilege and Motion to Compel Answers to Deposition Questions. On October 11, 2000, Respondent Aventis Pharmaceuticals, Inc. ("Aventis"), formerly known as Hoechst Marion Roussel, Inc. ("Hoechst") filed its opposition thereto ("Aventis Opposition"). For the reasons set forth below, Complaint Counsel's motion is DENIED.

**II.**

Complaint Counsel seeks a ruling that it may use, in deposition and in trial, a document that Aventis produced to the Commission staff in the Mergers I Division of the Bureau of Competition in November 1997 in connection with a Commission review of the proposed acquisition of a subsidiary of Hoechst. The document at issue is a nine-page letter, written on September 25, 1997, from Aventis' outside counsel to Aventis' General Counsel concerning the

September 24, 1997 Stipulation and Agreement alleged in the instant Complaint to be anticompetitive. Both Complaint Counsel and Aventis agree that the document at issue is both relevant and privileged. The parties dispute whether Aventis' disclosure to the Commission waives the privilege.

Complaint Counsel asserts that Aventis' production to the Commission waives the privilege because voluntary disclosure of a confidential attorney client communication works as a forfeiture of the privilege and there need not be an intention to waive for a waiver of privilege to occur. What is key, Complaint Counsel asserts, is the conduct of the privilege holder in failing to maintain the confidentiality of privileged communications. Complaint Counsel seeks an order (1) declaring that Aventis' disclosure of this document to the Commission waived Aventis' claim of privilege and that the document may be used in litigation; and (2) requiring the author and the recipient of the document to submit to questioning concerning the contents of the document. Complaint Counsel does not assert that disclosure of this document operates as a broad subject matter waiver.

Aventis asserts that, analyzing Aventis' disclosure of the document under a "totality of the circumstances" test, the inadvertent production of the letter did not operate to waive the attorney-client or attorney work product privileges. Aventis seeks a protective order compelling Complaint Counsel to return or destroy the original and all copies of the privileged document and prohibiting Complaint Counsel from using the document in any manner in this case.

### III.

Pursuant to Commission Rule 3.31(c)(2), the Administrative Law Judge may enter a protective order to preserve the privilege of a person "as governed by the Constitution, any applicable act of Congress, or the principles of the common law as they may be interpreted by the Commission in the light of reason and experience." 16 C.F.R. § 3.31(c)(2). There is a dearth of Commission precedent addressing the circumstances under which privileges are waived. In *In re Atlantic Richfield Co.*, 1978 FTC LEXIS 560, \*1-2 (Sept. 12, 1978), where respondents sought the return of 25 privileged documents which they claimed had been inadvertently produced in response to an investigative subpoena, the Administrative Law Judge held that given the scope of production, the time constraints respondents were under, and the fact that respondents did have reasonable screening procedures in place, respondent had not waived its privileges. Complaint counsel was ordered to return the documents. *Id.* at \*2-3. *See also In re National Tea Co.*, 1979 FTC LEXIS 100, \*18 (Nov. 14, 1979) ("The work product privilege should not be deemed waived unless the disclosure is inconsistent with maintaining secrecy from possible adversaries.').

Judicial decisions and precedents under the Federal Rules of Civil Procedure concerning discovery motions, though not controlling, provide helpful guidance for resolving discovery disputes in Commission proceedings. *L.G. Balfour Co.*, 61 F.T.C. 1491, 1492, 1962 FTC LEXIS

367, \*4 (Oct. 5, 1962); *In re Int'l Ass'n of Conference Interpreters*, 1995 FTC LEXIS 21, \*17 (Jan. 24, 1995). Case law regarding waiver of privileges is widely divergent. "[C]ourts have generally followed one of three distinct approaches to attorney-client privilege waiver based on inadvertent disclosures: (1) the lenient approach, (2) the 'middle of the road' approach, . . . and (3) the strict approach." *Gray v. Gene Bicknell*, 86 F.3d 1472, 1483 (8<sup>th</sup> Cir. 1996).

"Under the lenient approach, attorney-client privilege must be knowingly waived." *Gray*, 86 F.3d at 1483. Mere inadvertent production by the attorney does not waive the client's privilege. *Georgetown Manor, Inc. v. Ethan Allen, Inc.*, 753 F. Supp. 936, 939 (S.D. Fla. 1991); *Mendenhall v. Barber-Green Co.*, 531 F. Supp. 951, 954-55 (N.D. Ill. 1982); *Dunn Chemical Co. v. Sybron Corp.*, 1975 U.S. Dist. LEXIS 15801, \*14-15 (S.D.N.Y. Oct. 9, 1975). Under the strict approach, "the privilege is lost even if the disclosure is inadvertent." *In re Sealed Case*, 877 F.2d 976, 980 (D.C. Cir. 1989). If a client wishes to preserve the privilege, it must guard confidential attorney-client communications zealously. *Id.*

Between these divergent views is a middle course – cases holding that one looks to the totality of the circumstances of disclosure to see if the privilege has been waived. "The majority of courts, . . . while recognizing that inadvertent disclosure *may* result in a waiver of the privilege, have declined to apply this 'strict responsibility' rule of waiver and have opted instead for an approach which takes into account the facts surrounding a particular disclosure." *Alldread v. Grenada*, 988 F.2d 1425, 1434 (5<sup>th</sup> Cir. 1993). "In determining whether the privilege should be deemed to be waived, the circumstances surrounding the disclosure are to be considered." *United States v. De Lajara*, 973 F.2d 746, 749 (9<sup>th</sup> Cir. 1992). *See also Genentech, Inc. v. International Trade Commission*, 122 F.3d 1409 (Fed. Cir. 1997) (privilege may not be waived if disclosure was inadvertent and the party used reasonable effort to protect a confidence.)

Under this "middle of the road," balancing test, courts consider the following factors: (1) the reasonableness of the precautions taken to prevent inadvertent disclosure; (2) the time taken to rectify the error; (3) the scope of discovery; (4) the extent of the disclosure; and (5) the overreaching issue of fairness and the protection of an appropriate privilege. *Gray*, 86 F.3d at 1484; *Alldread*, 988 F.2d at 1434-35. The reviewing court must weigh all relevant circumstances on a case-by-case basis. *Id.*

"When the producing party claims inadvertent disclosure it has the burden of proving that the disclosure was truly inadvertent, and that the privilege has not been waived." *Golden Valley Microwave Foods, Inc. v. Weaver Popcorn Co., Inc.*, 132 F.R.D. 204, 207 (N.D. Ind. 1990); *Parkway Gallery Furniture, Inc. v. Kittinger/Pennsylvania House Group, Inc.*, 116 F.R.D. 46, 50 (M.D.N.C. 1987), *aff'd* 878 F.2d 801 (4<sup>th</sup> Cir. 1989).

#### IV.

In Commission proceedings, it is appropriate to utilize the approach taken by the majority of courts and to consider the circumstances under which disclosure of a privileged document has been made to determine whether the disclosure waives the privilege. Adopting a balancing test results in flexibility, permitting consideration of the totality of the circumstances surrounding a particular inadvertent production on a case-by-case basis and a determination that is fair and just under the particular circumstances. As the Eighth Circuit noted:

This test strikes the appropriate balance between protecting attorney-client privilege and allowing, in certain situations, the unintended release of privileged documents to waive that privilege. The [balancing] test is best suited to achieving a fair result. It accounts for the errors that inevitably occur in modern, document-intensive litigation, but treats carelessness with privileged material as an indication of waiver. The [balancing] test provides the most thoughtful approach, leaving the trial court broad discretion as to whether waiver occurred and, if so, the scope of that waiver.

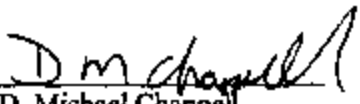
*Gray*, 86 F.3d at 1484. *See also Allread*, 988 F.2d at 1434.

Applying the balancing test and the above stated five factors to the disclosure made in the instant case, Aventis did not waive its privilege through the inadvertent disclosure of the September 25, 1997 letter. First, counsel for Aventis adopted reasonable procedures for reviewing, tabbing, and pulling from production privileged documents. Declaration of James R. Eiszner ("Eiszner Decl.") at ¶ 11-12. Second, three weeks after production of the September 25, 1997 letter, counsel for Aventis discovered its production and immediately thereafter called counsel for the Commission, requesting the return of the document. Eiszner Decl. at ¶ 15-16. Counsel for Aventis repeated its request that Commission counsel return the September 25, 1997 letter in several letters and in depositions. Eiszner Decl. at ¶ 17, 19, 20. Third, the document inadvertently disclosed was one document among over 4500 pages of documents from Aventis that were responsive to the Commission's production request and among 20,000 pages of documents that Aventis ultimately produced on a rolling basis. Eiszner Decl. at ¶ 11, Aventis Opposition at 25. Fourth, the extent of disclosure is minimal as the letter has not been referred to in any pleading in this proceeding and has not been identified as a document upon which any party's expert has relied. Aventis Opposition at 27. Fifth, considerations of fairness and the policy behind the privilege weigh in favor of finding that the privilege was not waived. Aventis has met its burden of showing that, under the totality of these circumstances, Aventis did not waive its privilege.

v.

Complaint Counsel's Motion Regarding Hoechst's Waiver of Attorney-Client Privilege and Motion to Compel Answers to Deposition Questions is DENIED. Complaint Counsel is hereby ORDERED to return or destroy the original and all copies of the privileged document and any notes taken therefrom. Complaint Counsel is prohibited from using the document in any manner in this case.

ORDERED:

  
D. Michael Chappell  
Administrative Law Judge

Date: October 17, 2000



UNITED STATES OF AMERICA  
FEDERAL TRADE COMMISSION

In the Matter of

SCHERING-PLOUGH CORPORATION,  
a corporation,

UPSHER-SMITH LABORATORIES, INC.,  
a corporation,

and

AMERICAN HOME PRODUCTS  
CORPORATION,  
a corporation.

Docket No. 9297

**PUBLIC VERSION**

COMPLAINT COUNSEL'S OPPOSITION TO AHP'S MOTION  
FOR PROTECTIVE ORDER

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**PUBLIC VERSION**

To: The Honorable D. Michael Chappell  
Administrative Law Judge

**COMPLAINT COUNSEL'S OPPOSITION TO AHP'S MOTION  
FOR PROTECTIVE ORDER**

The motion of American Home Products Corporation ("AHP") for a protective order raises two basic issues: (1) are the nine documents it claims to have inadvertently produced in fact privileged? and (2) if they are, has AHP by its conduct impliedly waived any privilege?

Various facts relevant to those questions are clear and beyond dispute:

- AHP produced all of these documents to FTC staff in February and March 2000.
- Several of these documents were used without objection at an October 2000 FTC investigational hearing of AHP/ESI Division President Michael S. Dey.
- AHP made no claim of privilege as to any of these documents until July 20, 2001, by which time complaint counsel had already relied on the documents and provided most of them to our economic expert, Professor Timothy Bresnahan.
- Most of these documents were considered by Professor Bresnahan in forming his opinion regarding the economic effects of AHP's agreement with Schering-Plough Corporation ("Schering-Plough"), and are specifically cited in his report in support of his conclusions.

As these few facts reveal, AHP's claim of inadvertent disclosure is not the typical one addressed by the cases, where one or more stray privileged documents are accidentally included in a large document production, and the fact that they were produced is only discovered later on. Here, AHP was well aware since at least October 2000 that FTC staff had the documents in question. The error that AHP confesses is failing to realize until quite recently that these documents were (it claims) privileged.

AHP's motion fails because it has through its conduct waived any possible claim of privilege.<sup>1</sup> And, in any event, AHP has not shown that the documents are privileged, either under the attorney-client privilege or the work product privilege. The nine documents (which include five used at the investigational hearing of Dr. Dey) are market analyses, forecasts, and other matters of the sort that pharmaceutical companies prepare in the ordinary course of business:

- Document 1 (Dey Exhibit 1; AHP 13 00025) is a market analysis of potassium chloride supplement sales broken down among five companies.
- Document 2 (Dey Exhibit 4; AHP 13 00115), Document 3 (Dey Exhibit 5; AHP 13 00117), Document 4 (Dey Exhibit 6; AHP 13 00118), Document 5 (Dey Exhibit 8; AHP 13 00158-184), and Document 8 (AHP 00130-131) are market forecasts relating to branded and generic K-Dur 20.
- Document 6 (AHP 13 00089-93) is a memorandum and two tables that relate to the cost of "detailing" (a type of marketing used for prescription drugs) K-Dur 20.
- Document 7 (AHP 13 00097-99) is three pages of handwritten notes, the first page of which carries the heading " . . ."

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<sup>1</sup> Disclosure to any third party can cause waiver of the attorney-client privilege, while work-product privilege is only waived through disclosure to an adversary. In this case, because the disclosure was to FTC staff, an adversary, the disclosure serves to waive both claims of privilege. See *ICC v. IBM*, 573 F.2d 646, 647 n. 1 (9<sup>th</sup> Cir. 1978); *Chub Integrated Systems Ltd. v. National Bank of Washington*, 103 F.R.D. 52, 63 (D.D.C. 1984) (reasoning that disclosure to adversary waives work product privilege because it is "inconsistent with the adversary system.")

- Document 9 (AHP 1300121-125) contains market data relating to 20 mg/kg potassium chloride.

AHP has failed to carry its burden on many of the elements necessary to prevail on its claim that these documents are protected by attorney-client and work product privilege.<sup>2</sup>

## **I. Factual Background**

### **A. February/March 2000 – AHP Submits the Documents to FTC Staff**

The nine documents that AHP seeks to have returned were provided to FTC staff in response to a November 5, 1999 subpoena issued in connection with the investigation that led to the issuance of the FTC's complaint in this matter. AHP began making submissions in response to the subpoena approximately three months after it issued, in February 2000. One of the nine documents was included in a February 2000 submission, under a cover letter from Mr. Randal Shaheen of Arnold & Porter, outside counsel to AHP. The other eight documents were part of a submission produced to the FTC on March 7, 2000.<sup>3</sup>

The documents were reviewed by FTC staff, who had certain documents copied and put in binders for review by senior attorneys on the investigation.<sup>4</sup>

### **B. October 2000 – Five of the Documents Are Used Without Objection at an FTC Investigational Hearing of ESI President Michael S. Dey.**

Approximately seven months after Commission staff received AHP's forecast documents,

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<sup>2</sup> AHP's entry into a proposed consent agreement in this matter does not eliminate complaint counsel's need for the disputed documents. The legality of AHP's agreement with Schering remains an issue to be decided in this proceeding, and, as is discussed below, the documents are important to establishing essential elements of the violation.

<sup>3</sup> See Bokai Decl. ¶ 4 (Tab 1).

<sup>4</sup> See *id.* at ¶ 5-7.

on October 5, 2000, FTC attorney Karen G. Bokak conducted an investigational hearing to question Michael S. Dey, who was President of AHP's ESI-Lederle Division from 1995 until early 2001. AHP in-house lawyer Elliot Feinberg accompanied Dr. Dey, as did two lawyers from AHP counsel Arnold & Porter: Kenneth A. Letzler and Randal M. Shaheen. Mr. Shaheen supervised AHP's production of documents in response to the November 1999 subpoena.

During the course of the hearing, Ms. Bokak questioned Dr. Dey regarding five of the nine market forecast documents that AHP now asserts are privileged:

Dey Exhibit 1 (AHP 13 00025);  
Dey Exhibit 4 (AHP 13 00115);  
Dey Exhibit 5 (AHP 13 00117);  
Dey Exhibit 6 (AHP 13 00118); and  
Dey Exhibit 8 (AHP 13 00158-184).

These items were five of only 13 exhibits that Ms. Bokak used at the hearing. Testimony regarding these five documents accounts for approximately 35 pages of the hearing transcript.<sup>5</sup>

Neither Dr. Dey nor any of the attorneys attending the hearing objected to Ms. Bokak's use of these market forecast documents or in any way suggested that they might be subject to a claim of privilege.<sup>6</sup>

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<sup>5</sup> See Dey IH at 32-35, 78-81, 84-95, 104-120 (Tab 1, Exhibit A).

<sup>6</sup> See Bokak Decl. ¶¶ 13-24. Mr. Shaheen was not present during questioning regarding Dey Exhibit 1.

insistence that AHP produce a witness to testify concerning the creation of Dey Exhibits 1 and 4-8. On June 25, 2001, complaint counsel noticed a Rule 3.33(c) deposition to take testimony regarding these exhibits. On July 3, and again on July 13, AHP counsel Cathy Hoffman told complaint counsel that she had been unable to find individuals who were able to testify as to the documents as requested in the Notice of Deposition.<sup>9</sup> Finally, by letter dated July 20, 2001, Ms. Hoffman informed complaint counsel that she had recently learned that Dey Exhibits 4-6 and 8 were privileged, that the other two items subject to the June 25 Notice of Deposition were likely privileged, and that two other documents might also be privileged.<sup>10</sup> After complaint counsel asked for additional information concerning the privilege claims, Ms. Hoffman, by letter dated July 25, 2001, claimed privilege for Dey Exhibits 4-6 and 8, and also an additional two documents not mentioned in the June 20 letter. She did not claim privilege for any of the four documents referred to in the July 20 letter as likely or possibly privileged, but noted that she was continuing to investigate whether two others were privileged.<sup>11</sup>

Complaint counsel responded two days later, writing that Ms. Hoffman's letter did not demonstrate that the documents in question were privileged, and that even if the documents were at one time properly subject to a claim of privilege, under the circumstances AHP had waived any privilege. Complaint counsel also noted that it was awaiting AHP's decision on whether to claim privilege for the four documents previously identified as possibly privileged (Dey Exhibits

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<sup>9</sup> See Ginsburg Decl. ¶¶ 3-5 (Tab 3).

<sup>10</sup> See *id.* at ¶¶ 8-9.

<sup>11</sup> See Hoffman Decl., Ex. B.



1 and 7, AHP 1300121-125, and AHP 13 00130-131).<sup>12</sup>

**E. September 2001 – AHP Seeks a Protective Order for Nine Documents**

Two months after asserting privilege for six of the forecast documents, AHP filed the instant motion for protective order, claiming privilege for the six documents previously claimed as privileged in July, as well as three others, and arguing that all nine documents were “inadvertently” produced. Along with its motion, it submitted several declarations, including one from Dr. Dey (who was asked about five of the documents at his investigational hearing) and one from Mr. Shaheen (who supervised AHP’s document production, reviewed documents for privilege claims, and was present during Dr. Dey’s investigational hearing).

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<sup>12</sup> See Hoffman Decl., Ex. C.

created in October 1994 is a privileged communication, when the alleged request from counsel for information was made in April 1996, a year and a half after the document's creation. See Shaughnessy Decl. ¶ 6.

**b. AHP has not shown that the documents or their contents were communicated to AHP counsel.**

Nowhere on the documents themselves or in AHP's motion is there any evidence or even assertion that the documents or the specific information that they contain were in fact actually communicated to AHP's counsel.

<sup>18</sup> From this conclusory statement, it is not even clear whether or to what degree the conversation revealed information from the document, rather than the "work."

While there may have been conversations between AHP representatives and counsel concerning the same subjects covered by the documents at issue, such possibly privileged communications would not create a privilege for the uncommunicated documents, unless disclosure of the document would "clearly reveal those facts . . . specifically discussed with counsel." *Alexander*, 192 F.R.D. at 46. AHP has failed to make any showing that disclosure of the contested documents would reveal directly or indirectly client confidences. AHP has failed to carry its burden of establishing a

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<sup>18</sup> See Doy Decl. ¶ 8 (concerning Document 1 - AHP 13 00025).

“communication” protected by the attorney-client privilege, and thus its motion for a protective order should be denied.

**2. The Attorney-Client Privilege is Inapplicable Unless the Communication Relates to the Seeking, or Providing of, Legal Advice**

Not every communication between an attorney and his or her client is privileged. Rather, the attorney-client privilege is limited to situations in which the attorney is acting as legal advisor. Thus, “[w]hen a client’s ultimate goal is not legal advice, but rather business advice, the attorney-client privilege is inapplicable.” *Cooper Hospital/University Medical Center v. Sullivan*, 1998 WL 1297329, at \*8 (D.N.J. May 7, 1998).<sup>19</sup>

AHP claims blanket privilege for the challenged documents because they supposedly relate to “litigation strategy and settlement-related theories.” AHP Mot. at 12. But nowhere does AHP explain what legal advice was requested or how these documents, which on their face appear like ordinary business forecasting materials, are related to “litigation strategy and settlement-related theories.” Settlements, including the one at issue here, involve substantial financial and business considerations regarding the terms and conditions of settlement. Where the attorney-client communication during litigation settlement relates to these business issues, the communication will not be afforded any privilege. *See Softview*, 2000 WL 351411 at \*19 (finding that a document which contains “counsel’s notes of the financial terms of a proposed settlement. . . reflects business, not legal advice”).

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<sup>19</sup> *See also Softview Computer Products Corp. v. Haworth, Inc.*, 2000 WL 351411, at \*18 (S.D.N.Y. March 31, 2000) (“[t]he attorney-client privilege attaches to communications seeking legal advice, not business advice”); *United States v. IBM*, 66 F.R.D. 206, 212 (S.D.N.Y. 1974) (holding that “in the case where a lawyer responds to a request not made primarily for the purpose of securing legal advice, no privilege attaches to any part of the document.”).

Given the nature of the information contained in the documents, which nowhere mentions or even hints at legal issues, it appears likely that the information primarily was of importance for AHP's business considerations regarding settlement. At the least, AHP has failed to show that the information was solely or even primarily for legal, rather than business, advice purposes. AHP's general and conclusory assertions are insufficient to carry its burden. See *Alexander v. FBI*, 192 F.R.D. at 45.

### **3. The Attorney-Client Privilege is Inapplicable When the Communication Has Not Been Maintained As Confidential**

The proponent of the attorney-client privilege has the burden to establish that the communication has been "maintained as confidential between attorney and client." *Brinton v. Dept. of State*, 636 F.2d 600, 603 (D.C. Cir. 1980); see also *United States v. Zolin*, 809 F.2d 1411, 1415 (9th Cir. 1987) (the party asserting attorney-client privilege has the burden of proving that no waiver has occurred); *Coastal States Gas Corp. v. DOE*, 617 F.2d 854, 863 (D.C. Cir. 1980) (privilege requires "confidentiality both at the time of the communication and maintained since"). As applied to a corporation, only a limited set of employees can be considered to constitute "the client" for any particular issue. See generally *Upjohn Co. v. United States*, 449 U.S. 383 (1981). Therefore, if a document is circulated widely throughout a corporation, it is doubtful that all of the recipients would qualify as clients, as would be necessary to maintain the privilege. Applying the *Coastal States* standard, AHP has the burden of identifying each and every recipient of the challenged documents and proving that each of these recipients was "authorized to speak or act" for AHP on the particular subject at issue, or stated somewhat differently, had a "need to know" with respect to that particular subject matter. *Coastal States*,

617 F.2d at 863.<sup>40</sup> Clearly, this is a burden which AHP has failed to carry.

Nowhere in its Motion, supporting memorandum, or attached declarations does AHP provide any evidence (or even make the conclusory assertion) that the documents at issue were properly limited in their distribution to persons within AHP with a "need to know" both at the time of their creation and since. AHP simply does not address the extent to which the documents were distributed, whether prohibitions on reproduction were imposed, whether all copies of the documents were collected and held by counsel after the patent infringement lawsuit was settled, or whether AHP undertook any of the myriad other actions that could, and likely would, have been taken to maintain the documents' confidentiality if they in fact were privileged communications involving legal advice.

Moreover, none of the documents at issue include any warning about limiting their distribution because of their relation to the provision of confidential legal advice.

AHP's failure to offer such evidence is not surprising, given its lengthy delay in identifying these documents as ones for which it might even raise a claim of privilege. If nobody at AHP considered the documents privileged during the several years from their creation until

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<sup>40</sup> Other courts also have adopted or used this "need to know" standard. See, e.g., *Smithkline Beecham Corp. v. Apotex Corp.*, 194 F.R.D. 624, 626 n.1 (N.D.Ill. 2000); *Verschoth v. Time Warner, Inc.*, 2000 WL 286763, at \*2 (S.D.N.Y. Mar. 22, 2001).

These conclusory declarations fail to provide the concrete facts necessary for the Court to determine whether the documents are covered by the work-product doctrine.

AHP also claims that five of the disputed documents (Documents 2-5 and 7) constitute “opinion work-product,” and therefore should be entitled to greater protection from discovery.

To establish “opinion work-product,” AHP must show that the documents contain the mental impressions, conclusions, opinions, or legal theories of an attorney. *See Williamson v. Moore*, 221 F.3d 1177, 1182 (11<sup>th</sup> Cir. 2000). A document does not constitute “opinion work-product” merely because it may “reveal some inkling of a lawyer’s mental impressions.” *In re San Juan Dupont Plaza Hotel*

*Fire Litigation*, 859 F.2d 1007, 1015 (1<sup>st</sup> Cir. 1988).<sup>24</sup> Instead, the heightened opinion work-product protection should be triggered only when “disclosure creates a real, nonspeculative danger of revealing a lawyer’s thoughts.” *Id.* AHP fails to carry its burden that these documents are entitled to opinion work product protection.

**C. Even if Work Product Applies, Complaint Counsel’s Showing is Sufficient to Overcome the Qualified Nature of the Privilege for Six of the Documents At Issue**

Even assuming AHP has carried its burden of establishing that the documents at issue were prepared as part of the Schering/ALP patent litigation and fall within the work product doctrine, disclosure of certain of these documents is nonetheless appropriate. The work product privilege is not an absolute protection against disclosure, but rather a qualified one. *United States v. American Tel. and Tel. Co.*, 642 F.2d 1285, 1302 (D.C. Cir. 1980). According to the Commission’s Rules, the privilege can be overcome by a showing that (1) “the party seeking

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<sup>24</sup> See also *Simon v. G.D. Searle & Co.*, 816 F.2d 397, 402 (8<sup>th</sup> Cir. 1987) (the work-product doctrine is “not violated by allowing discovery of documents that incorporate a lawyer’s thoughts in . . . an indirect and diluted manner”).

discovery has substantial need of the materials in the preparation of its case” and (2) “the party is unable without undue hardship to obtain the substantial equivalent of the materials by other means.” 16 C.F.R. §3.31(c)(5). As stated below, complaint counsel has met our burden to overcome the work-product privilege for six of the nine documents at issue, including Documents 1-5 and 8.

“Substantial need” for material otherwise protected by the work product doctrine “is demonstrated by establishing that the facts contained in the requested documents are essential elements of the requesting party’s prima facie case.” 6 Moore’s Federal Practice (3d ed.) § 26.70(5)(c) at 26-221; *See Fletcher v. Union Pacific Railroad Co.*, 194 F.R.D. 666, 672 (S.D.Ca. 2000) (relying on standard from Moore’s Federal Practice). As shown below, complaint counsel readily demonstrates “substantial need” for six of the nine documents at issue - Documents 1-5 and 8.

- **Evidence of Schering’s Motivation for Entering into Challenged Agreement:** The Commission’s complaint charges that AHP was a competitive threat to Schering’s profitable K-Dur 20 franchise and that to eliminate this threat, Schering paid AHP millions of dollars to delay AHP’s entry of a low-cost generic alternative. The disputed documents are market forecasts that show how AHP was a threat to Schering’s K-Dur 20 profits. The documents provide forecasts of the They  
demonstrate how the entry of a potential generic competitor will have a substantial adverse economic impact on Schering’s profits, and therefore demonstrates how Schering-Plough benefit by delaying entry.
- **Evidence of Competitive Effects of Schering/AHP Agreement:** The disputed market forecast documents also demonstrate the importance of and the  
substantial harm to consumers of delaying entry by a potential generic competitor, even if that party is not the . Specifically the documents show that upon entry of an additional generic manufacturer of K-Dur 20, the generic price of K-Dur is driven lower, directly benefitting consumers. The documents reflect AHP’s views of the effects on market participants and consumers of just prior  
to its entry into the agreement with Schering. Such contemporaneous business documents



are uniquely valuable in understanding the competitive effects of that agreement.

- **Evidence of AHP's Motivation in Entering into the Challenged Agreement:** The documents reflect AHP's views of \_\_\_\_\_ just prior to entering into its agreement with Schering. They demonstrate that AHP believed it could have been, under one of these scenarios, the first generic entrant, and thus provide significant evidence of why AHP would demand, and Schering would pay, at least \$15 million to delay AHP's potential entry. This evidence is important, among other things, to complaint counsel's proof on the conspiracy to monopolize count of the complaint, which requires evidence of specific intent to monopolize from at least one of the co-conspirators.<sup>25</sup>

The second "prong" of complaint counsel's required showing is to establish that it cannot, "without undue hardship. . . obtain the substantial equivalent of the materials by other means." 16 C.F.R. §3.31(c)(3). There is no "substantial equivalent" of these documents. These documents reflect the only contemporaneous evidence of AHP's market forecasting for its generic version of K-Dur 20. Such contemporaneous business documents are far more valuable and reliable than any other potential evidence (such as depositions taken after-the-fact) that could be available to the complaint counsel. Moreover, these documents already have been reviewed and relied upon by our economic expert in this case, Professor Bresnahan, in developing his economic theory about the competitive implications of the Schering/AHP agreement. For this reason as well, complaint counsel is unable to obtain the "substantial equivalent" of these materials through any other mode of discovery.

AHP claims that Documents 2-5 constitute "opinion work-product." As discussed in Section 213, AHP has failed to satisfy its burden in establishing this privilege claim. Nonetheless, even opinion work-product is discoverable upon demonstrating "extraordinary circumstances." *Moore's Federal Practice* §26.705(c) at 26-224. As one court has explained: "[T]here may be

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<sup>25</sup> See *Syufy Enters. v. American Multicinema, Inc.*, 793 F.2d 990 (9<sup>th</sup> Cir. 1987).

rare situations. . . where weighty considerations of public policy and a proper administration of justice would militate against the non-discovery of an attorney's mental impressions." *Murphy v. United States*, 560 F.2d 326, 336 (8th Cir. 1973); *see also P. & B. Marina v. Logrande*, 136 F.R.D. 50, 57 (E.D.N.Y. 1991) (citing *Murphy* and stating that "[p]ublic policy may require the disclosure of information that is clearly protected"). This is one of those situations. The documents AHP seeks to withhold are unique contemporaneous evidence of AHP's views of the relevant market just prior to entering into the challenged agreement and they already have been reviewed and relied upon by our economic expert in formulating his opinions on the competitive effects of the Schering-Plough/AHP agreement. Requiring Professor Bresnahan to "unlearn" these documents or "unrely" on them as part of the basis for his expert opinions would be inconsistent with public policy and impede the proper administration of justice.

Accordingly, even if this court were to determine that the challenged documents fall within the ambit of the work-product doctrine (whether as "fact" or "opinion work-product"), disclosure of Documents 1-5 and 8 is still appropriate because complaint counsel has made the requisite showing to overcome the privilege.

### **III. AHP Has Waived Any Privilege**

Even if AHP could demonstrate that the documents are privileged, AHP must also demonstrate that their disclosure did not waive privilege. To do so it must show both (1) that the disclosure was truly inadvertent and (2) that in light of the circumstances the disclosure did not effect a waiver.<sup>26</sup> AHP cannot show inadvertence, because the disclosure here was not

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<sup>26</sup> *See* Order Denying Complaint Counsel's Motion Regarding Hoechst's Waiver of Attorney-Client Privilege, *In re Hoechst*, D. 9293 (October 17, 2000), citing *Golden Valley Microwave Foods, Inc. v. Weaver Popcorn Co., Inc.*, 132 F.R.D. 204, 207 (N.D. Ind. 1990);

accidental, but instead was the result of an allegedly erroneous judgment about whether the documents were privileged. Moreover, even if AHP's initial disclosure to the FTC in early 2000 were considered an inadvertent disclosure, its failure to take any action in October 2000 after the disclosure of these documents was brought to its attention in the investigational hearing of Dr. Dey represents a level of disregard that waives any possible claim to inadvertence that it might once have had.

**A. The Disclosure Was Not Inadvertent**

**1. A deliberate but erroneous decision that material is not privileged is not an inadvertent disclosure**

Claims of inadvertent disclosure are often made when documents known to be privileged are accidentally produced, typically where there has been an extensive document production. A few cases, however, address the type of situation presented here, in which allegedly privileged material has been deliberately produced because it is erroneously judged to be non-privileged, or a party fails to claim privilege because of a failure to recall the circumstances of the creation of the document. Courts have found that such disclosures were not "inadvertent."

For example, in *In re Brand Name Prescription Drugs Antitrust Litigation*, 1995 WL 683777, \*2 (N.D. Ill. 1995), the court observed that to be "inadvertent" a disclosure must be accidental, and not merely the result of a conscious but erroneous judgment. Thus, where disclosures occurred because different lawyers reached different conclusions as to the privileged nature of certain materials, the disclosures were not deemed "inadvertent."

*Transonic Sys., Inc. v. Non-Invasive Med. Tech.*, 192 F.R.D. 710, 715 (D.Utah 2000), also

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*Parkway Gallery Furniture, Inc. v. Kittinger/Pennsylvania House Group, Inc.*, 116 F.R.D. 46, 50 (M.D.N.C. 1987), *aff'd*, 878 F.2d 801 (4<sup>th</sup> Cir. 1989).

disclosure, it is important to recognize that "the volume of documents involved in the production process is important only if it can be shown to have influenced the mistaken disclosures that were made."<sup>33</sup> In this case, while neither the volume of documents produced nor time pressures were overwhelming, the important fact is that these factors had little or nothing to do with the mistaken disclosures. This is plain from AHP's failure to take any action after the Dey investigational hearing to correct what it claims are mistaken disclosures. Three attorneys for AHP, along with Dr. Dey, considered a mere 13 exhibits during a deposition that extended over several hours. Even under these circumstances, however, there was no determination -- or even apparently any suspicion -- that these documents were privileged. Thus, it seems clear that the size of the overall production did not influence the allegedly mistaken disclosure.

**3. AHP's action to correct its errors was not timely, because the time for correcting errors in disclosure begins when AHP reasonably should have discovered its error**

Cases relied on by AHP make it clear that in assessing the timeliness of action to correct an inadvertent disclosure, courts should consider not merely when the privilege holder discovered the error, but also when it reasonably should have discovered it. For example, in *Zapata v. IBP, Inc.*, 175 F.R.D. 574 (D. Kan.1997), the court explained that:

*The relevant time for rectifying any error begins when a party discovered or with reasonable diligence should have discovered the inadvertent disclosure.*

*Id.* at 577 (emphasis supplied). *Kansas City Power & Light Co. v. Pittsburg & Midway Coal Mining Co.*, 133 F.R.D. 171 (D. Kan. 1989), likewise held that in assessing the time taken to rectify an inadvertent disclosure, the court should look to when a privilege proponent discovered

---

<sup>33</sup> Rice, *Attorney-Client Privilege in the United States*, § 9:72 at 331.

or “with reasonable diligence should have discovered” the inadvertent disclosure. *Id.* at 172.

The rationale behind this rule is plain. To hold otherwise would reward a party who chooses, either deliberately or carelessly, to remain ignorant of its errors, and would be inconsistent with the concepts of fairness and justice that are critical in the balancing test applied to inadvertent disclosure cases. Courts should not excuse pleas of ignorance when the circumstances would prompt a reasonable person to investigate a disclosure.

In this case, AHP, if acting with reasonable diligence, should have discovered its error long before July 2001, the time at which it was essentially forced to investigate as a result of complainant counsel’s Notice of Deposition seeking testimony regarding the Dey Exhibits. Instead, at various point along the way, AHP officers and attorneys failed to make inquires that would likely have lead them to discover the circumstances that AHP now claims make the documents privileged:

- *During the production phase:* Mr. Shaheen, the Arnold & Porter attorney supervising AHP’s document production, he apparently made no effort to investigate whether the document reviewers under his supervision had seen any similar market forecast documents.
- *During preparation for Dr. Dey’s October 2000 investigation hearing:*
- *During and immediately after the October 2000 investigational hearing:* At the hearing, Dr. Dey and Messrs. Feinberg, Shaheen, and Letzler were all confronted with the fact that the various market forecast documents embodied in Exhibits 1, 4-6, and 8 had been

proof on the conspiracy to monopolize count of the complaint.

AHP's suggestion that it is never prejudicial to retrieve a privileged document that has been inadvertently disclosed (AHP Mot. at 24) is plainly wrong. Such a rule would effectively mean that inadvertent disclosure of a privileged document would never result in waiver.<sup>48</sup>

**c. Waiver would not be unfair to AHP**

Given the circumstances here, it would be unfair to reward AHP's behavior by granting the requested protective order. As one court has observed, "it would not be fair to reward [a party's] carelessness with a protective order."<sup>49</sup> Here, even if the production itself could be excused, AHP's failure to investigate the origins of the documents promptly after the Dey investigational hearing should not be. Moreover, this is not merely a case of failures by an outside attorney (*i.e.*, Mr. Shaheen, who knew he had personally withheld other forecast documents). AHP officials themselves -- Dr. Dey and Mr. Feinberg -- also bear responsibility for the failure to make a timely discovery of the origins of the documents in question.

**d. The disclosure cannot be effectively cured**

This is truly a situation in which the genie cannot be put back in the bottle. For example, Professor Bresnahan based his expert opinion in part on several of the disputed documents. There is simply no effective way to deal with this fact. If he is barred from discussing these

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<sup>48</sup> AHP's attempts (AHP Mot. at 24-25) to find significance in (1) the absence of a discussion of prejudice in Mr. Albert's brief July 25, 2001 letter to Ms. Hoffman, or (2) complaint counsel's acceptance of paragraph 17 of the Protective Order, are likewise without merit. Mr. Albert's letter did not purport to do an analysis of the five-factor balancing test that we address here. We acceded to paragraph 17 because it represents the approach adopted in the *Hoechst* case, over the objections of complaint counsel in that matter.

<sup>49</sup> *New Bank of New England v. Marine Midland Realty Corp.*, 138 F.R.D. 479, 483 (E.D. Va. 1991).



**UNITED STATES OF AMERICA  
BEFORE FEDERAL TRADE COMMISSION**

In the Matter of

SCHERING-PLOUGH CORPORATION,  
a corporation,

UPsher-SMITH LABORATORIES, INC.,  
a corporation,

and

AMERICAN HOME PRODUCTS  
CORPORATION,

a corporation.

Docket No. 9297

**DECLARATION OF KAREN G. BOKAT**

I, Karen G. Bokar, declare as follows:

1. I am an attorney employed by the Federal Trade Commission ("FTC") in Washington, D.C. I am the lead attorney for complaint counsel in *In re Schering-Plough Corporation, et al.*, FTC Docket No. 9297.
2. I have personal knowledge of the facts stated in this declaration.
3. I was assigned to the investigation of Schering-Plough Corporation's ("Schering-Plough") agreements with Upsher-Smith Laboratories, Inc. ("Upsher-Smith") and American Home Products Corporation ("AHP") in April or May 2000. It was this investigation which led to the complaint being issued in *Schering et al.*
4. According to FTC records, AHP had sent approximately four boxes of documents by the time I was assigned to the investigation. The documents that AHP has asked be returned were provided in response to a subpoena issued on November 5, 1999. AHP sent one of the nine documents to the FTC in February 2000 and the other eight on March 7, 2000. All nine documents were provided as part of larger submissions.
5. FTC staff working on the investigation had reviewed these documents and selected certain ones to be placed in binders ("Subject Matter Binders") organized by particular issues, before I was assigned to the investigation.



# **EXHIBIT A**

**In The Matter Of:**

*SCHERING-PLOUGH & UPSHER-SMITH  
MATTER NO. 9910256*

---

*MICHAEL S. DEY, Ph.D  
October 5, 2000*

---

*For The Record, Inc.  
Court Reporting and Litigation Support  
603 Post Office Road  
Suite 309  
Waldorf, MD USA 20602  
(301) 870-8025 FAX: (301) 870-8333*

Original File 01005DEY.ASC, 179 Pages  
Min-U-Script® File ID: 1738939488

**Word Index included with this Min-U-Script®**

The remaining pages of the investigational hearing have been redacted.

# **EXHIBIT B**

UNITED STATES OF AMERICA  
BEFORE THE FEDERAL TRADE COMMISSION

In the Matter of

SCHERING-PLOUGH CORPORATION,  
a corporation

UPSHER-SMITH LABORATORIES, Inc.  
a corporation; and

AMERICAN HOME PRODUCTS  
CORPORATION,  
a corporation

Docket No. 9297

EXPERT REPORT OF  
PROFESSOR TIMOTHY BRESNAHAN

Restricted Confidential,  
Attorney's Eyes Only

The remaining pages of the expert report have been redacted.

US OFFICE PRODUCTS

**UNITED STATES OF AMERICA  
BEFORE FEDERAL TRADE COMMISSION**

In the Matter of

SCHERING-PLOUGH CORPORATION,  
a corporation,

UPSHER-SMITH LABORATORIES, INC.,  
a corporation,

and

AMERICAN HOME PRODUCTS  
CORPORATION,

a corporation.

Docket No. 9297

**DECLARATION OF YAA A. APORI**

I, Yaa A. Apori, declare as follows:

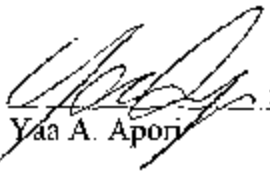
1. I am an attorney employed by the Federal Trade Commission ("FTC") in Washington, D.C. and serve as complaint counsel in *In re Schering-Plough Corporation, et al.*, FTC Docket No. 9297.
2. I have personal knowledge of the facts stated in this declaration.
3. I was assigned to the investigation of Schering-Plough Corporation's agreements with Upsher-Smith Laboratories, Inc. and American Home Products Corporation ("AHP") in early 2000. It was this investigation that led to the FTC's complaint in this matter.
4. I am the Contracting Officer's Technical Representative for Stanford University Professor Timothy Bresnahan, the economic expert that FTC staff retained in this matter. I, along with other staff members, have been working with Professor Bresnahan to familiarize him with the facts and issues raised in this matter. Prior to September 2001, I maintained a record of all documents sent to Professor Bresnahan.
5. On February 9, 2001, as part of his preparation, I sent to Professor Bresnahan the transcript and all accompanying exhibits for the investigational hearing of Dr. Michael S. Dey. Among these exhibits were Dey Exhibit 1 (AHP 13 0025), Dey



Exhibit 4 (AHP 13 00115), Dey Exhibit 5 (AHP 13 00117), Dey Exhibit 6 (AHP 13 00118), and Dey Exhibit 8 (AHP 13 00158-184).

6. When I sent these to Professor Bresnahan in February 2001, I was not aware that there was any question of privilege concerning these documents.
7. It is my understanding, based on conversations with other FTC staff, that Professor Bresnahan received AHP 13 00130-131 in August 2001.

I declare under penalty of perjury that the foregoing is true and correct.

  
Yaa A. Apori

Dated: October 19, 2001



**UNITED STATES OF AMERICA  
BEFORE FEDERAL TRADE COMMISSION**

In the Matter of

SCHERING-PLOUGH CORPORATION,  
a corporation,

UPSHER-SMITH LABORATORIES, INC.  
a corporation,

and

AMERICAN HOME PRODUCTS  
CORPORATION,

a corporation.

Docket No. 9297

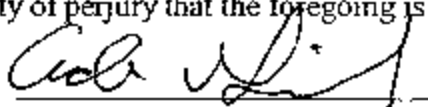
**DECLARATION OF ANDREW S. GINSBURG**

I, Andrew S. Ginsburg, declare as follows:

1. I am an attorney employed by the Federal Trade Commission ("FTC") in Washington, D.C. I am a member of complaint counsel in *In re Schering-Plough Corporation, et al.*, FTC Docket No. 9297.
2. I have personal knowledge of the facts stated in this declaration.
3. On June 25, 2001, I served on American Home Products ("AHP") a Rule 3.33(c) Notice of Deposition ("Deposition Notice"), requesting that AHP produce someone knowledgeable to testify about Exhibits 1 and 4-8 to the investigational hearing of Dr. Michael S. Dey held on October 5, 2001 ("Dey Exhibits"). Exhibits 1 and 4-8 are AHP 13 00025, AHP 13 00115, AHP 13 00117, AHP 13 00118, AHP 13 00104-114, and AHP 13 00158-184, respectively. *See Exhibit A.*
4. On or about July 3, 2001, I spoke with Ms. Cathy A. Hoffman of Arnold & Porter, counsel to AHP. She informed me that she had been unable to find a person to testify as requested in the Deposition Notice. On behalf of complaint counsel, I agreed to forgo holding the deposition on July 9, 2001, as originally stated in the Deposition Notice. *See Exhibit B.* At no point did Ms. Hoffman make any assertion of attorney-client or work-product privilege with respect to any of the Dey Exhibits.

would not be producing someone to testify about those documents per the Deposition Notice. She was to inform me of the results of their investigation into Exhibits 1 and 7 as to their privilege status and we were to discuss at that future date holding of a deposition concerning those documents, if they were found not to be privileged. *See id.*

I declare under penalty of perjury that the foregoing is true and correct.



Andrew S. Ginsburg

Dated: October 19, 2001

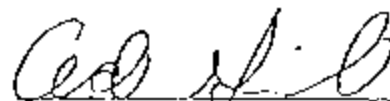
**CERTIFICATE OF SERVICE**

I, Andrew S. Ginsburg, hereby certify that on June 25, 2001, I caused a copy of the Notice of Deposition to be served upon the following persons by Federal Express and electronic mail.

Cathy Hoffman, Esq.  
Arnold & Porter  
555 Twelfth Street, N.W.  
Washington, D.C. 20004-1206

Laura S. Shores, Esq.  
Howrey Simon Arnold & White  
1299 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004-2402

Christopher M. Curran, Esq.  
White & Case LLP  
601 13th Street, N.W.  
Washington, D.C. 20005

  
Andrew S. Ginsburg  
Complaint Counsel



UNITED STATES OF AMERICA  
FEDERAL TRADE COMMISSION  
WASHINGTON, D.C. 20580

Bureau of Competition

Andrew S. Ginsburg, Esq.  
Direct Dial: 202-326-3108

July 3, 2001

VIA FACSIMILE AND U.S. MAIL

Cathy Hoffinan, Esq.  
Arnold & Porter  
555 Twelfth Street, N.W.  
Washington, D.C. 20004-1206

Re: *In the Matter of Schering-Plough Corp., Upsher-Smith Laboratories, and  
American Home Products Corp., FTC Docket No. 9297*

Dear Cathy:

Thanks for the call today.

This is to confirm you have been unable to find a person to testify as requested in the Notice of Deposition communicated to you by complaint counsel on June 25, 2001. Therefore, we have agreed to forgo holding the deposition on July 9, 2001.

You will call me on July 9, 2001, to let me know whether or not you have been able to locate someone responsive to the deposition notice. I look forward to speaking with you then.

Have a happy holiday.

Sincerely,

A handwritten signature in cursive script, appearing to read "A.S. Ginsburg".

Andrew S. Ginsburg, Esq.

# EXHIBIT C



UNITED STATES OF AMERICA  
FEDERAL TRADE COMMISSION  
WASHINGTON, D.C. 20580

Bureau of Competition

Andrew S. Ginsburg, Esq.  
Direct Dial: 202-326-3108

July 13, 2001

VIA FACSIMILE AND U.S. MAIL

Cathy Hoffman, Esq.  
Arnold & Porter  
555 Twelfth Street, N.W.  
Washington, D.C. 20004-1206

Re: *In the Matter of Schering-Plough Corp., Upsher-Smith Laboratories, and  
American Home Products Corp., FTC Docket No. 9297*

Dear Cathy:

This letter is to confirm our discussion yesterday.

I understand that you continue to be unable to find a complete set of persons able to testify as requested in the Notice of Deposition communicated to you by complaint counsel on June 25, 2001, concerning all issues listed in Exhibit A. I appreciate your continued efforts to locate persons responsive to said notice and understand in particular the difficulty of dealing with people no longer employed by American Home Products. However, continued delays will impede the process of discovery.

I hope and expect that by Friday, July 20, 2001, you will have a more definitive answer responsive to the Notice of Deposition. I will call you on that date and at that time you can provide me with the requisite information.

If you need to reach me, please feel free to give me a call at 202-326-3108. Thank you.

Sincerely,

A handwritten signature in cursive script, appearing to read "A. S. Ginsburg".

Andrew S. Ginsburg, Esq.



# EXHIBIT D

---

# ARNOLD & PORTER

---

Cathy Hoffman  
Cathy\_Hoffman@porter.com

202.942.5123  
202.942.5999 Fax

555 Twelfth Street, NW  
Washington, DC 20004-1206

July 20, 2001

**BY TELECOPY & U.S. MAIL**

Andrew S. Ginsburg, Esq.  
Bureau of Competition  
Federal Trade Commission  
601 Pennsylvania Avenue, NW  
Washington, D. C. 20580  
Telecopy: (202) 326-3384

Re: *In the Matter of Schering-Plough Corp., Upsher-Smith  
Laboratories, and American Home Products, Docket No. 9297*

Dear Andrew:

I am writing in response to your letter dated July 13, 2001 and to complaint counsel's rule 3.33(c) Notice of Deposition, dated June 25, 2001. As you know from our prior discussions, we have been working diligently to locate responsive information and a company witness to testify about those documents and matters set forth in the Notice of Deposition. While conducting that investigation, we recently have learned that most and likely all of the documents referenced in the Notice of Deposition are protected from discovery by the attorney-client privilege and by the attorney work product doctrine. Specifically, during the course of our investigation to respond to the Notice of Deposition, we have learned that those documents marked as Exhibits 4-6 and 8 to the October 5, 2000 pre-Complaint deposition of Michael Dey, Ph.D. were prepared at the request of counsel and contain the mental impressions of counsel. Based upon what we have learned, it also is likely that Exhibits 1 and 7 to Dr. Dey's deposition were prepared at the request of counsel, and therefore also are privileged. However, we still are finalizing our investigation of that question.

Similarly, during our Rule 3.33(c) investigation, we also learned that two additional documents, bearing bates numbers AHP 13 00089 - 93 and AHP 13 00097 - 99, were prepared at the request of counsel and contain the mental impressions of counsel.<sup>1</sup> Those documents therefore also are protected from discovery by the attorney-

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<sup>1</sup> Two other documents, bearing bates numbers AHP 13 000121 - 125 and AHP 13 00130 - 131, also may have been prepared at the request of counsel, and therefore may also be privileged, but we still are finalizing our investigation of that question.

---

# ARNOLD & PORTER

---

202.942.5000  
202.942.5999 Fax

555 Twelfth Street, NW  
Washington, DC 20004-1206

Andrew S. Ginsburg, Esq.  
July 20, 2001  
Page 2

client privilege and the attorney work product doctrine. Each of these documents was inadvertently produced to the staff at the Bureau of Competition during the FTC's pre-Complaint investigation.

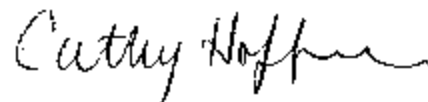
We hereby request that you immediately return the six documents that we have confirmed are privileged and were inadvertently produced, as well as any copies you may have made thereof, to me by no later than Friday, July 27, 2001. We also hereby request that you immediately retrieve and return any copies of these documents which complaint counsel has distributed to others, including experts, by that date. If you have any copies of these documents that contain the mental impressions of counsel and/or other work product notations, we ask that you immediately destroy those copies. Lastly, we ask that you return to me all copies of Dr. Dey's October 5, 2000 deposition transcript so that we may redact all testimony relating to the privileged documents. We will return the redacted copies of the transcripts to you once we have done so. The return of these privileged documents is mandated by the law applicable to this case, Judge Chappell's prior rulings on similar issues in the Hoechst/Andrx matter and by the language and spirit of the Protective Order in this case, specifically paragraph 17 thereof.

By copy of this letter, we are requesting counsel for respondents Schering-Plough and Upsher-Smith to follow the same procedures.

Because most and likely all of the documents identified in Complaint Counsel's June 25<sup>th</sup> Notice of Deposition are privileged, AHP will not be producing a Rule 3.33(c) witness in response to the Notice at this time. As soon as we determine whether Exhibits 1 and 7 are privileged, we will notify you. Should it turn out that those documents are not privileged, then we will contact you to determine whether complaint counsel would like a Rule 3.33 (c) witness as to those documents.

If you have any questions about any of the issues set forth in this letter, then please call me.

Sincerely,



Cathy Hoffman

cc: Karen Bokal, Esq.

---

# ARNOLD & PORTER

---

202.942.5000  
202.942.5999 Fax

555 Twelfth Street, NW  
Washington, DC 20004-1206

Andrew S. Ginsburg, Esq.  
July 20, 2001  
Page 3

Laura Shores, Esq.  
Christopher Curran, Esq.

**CERTIFICATE OF SERVICE**

I, Andrew S. Ginsburg, hereby certify that on October 26, 2001, I caused a copy of the public version of Complaint Counsel's Opposition To AHP's Motion For Protective Order to be served upon the following persons by hand delivery or by Federal Express and electronic mail.

Hon. D. Michael Chappell  
Administrative Law Judge  
Federal Trade Commission  
Room 104  
600 Pennsylvania Avenue, N.W.  
Washington, D.C. 20580

Office of the Secretary  
Federal Trade Commission  
Room H-159  
600 Pennsylvania Avenue, N.W.  
Washington, D.C. 20580

Cathy Hoffman, Esq.  
Arnold & Porter  
555 Twelfth Street, N.W.  
Washington, D.C. 20004-1206

Laura S. Shores, Esq.  
Howrey Simon Arnold & White  
1299 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004-2402

Christopher M. Curran, Esq.  
White & Case LLP  
601 13th Street, N.W.  
Washington, D.C. 20005

  
Andrew S. Ginsburg

UNITED STATES OF AMERICA  
BEFORE FEDERAL TRADE COMMISSION

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In the Matter of )  
 )  
 )  
 Schering-Plough Corporation, )  
 a corporation, )  
 ) Docket No. 9297  
 )  
 Upsher-Smith Laboratories, Inc., )  
 a corporation, )  
 )  
 )  
 and ) **PUBLIC RECORD**  
 )  
 )  
 American Home Products Corporation, )  
 a corporation )  
 )  
 )  
 )

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RECEIVED  
01/10/20 11:12:00  
FEDERAL TRADE COMMISSION

REPLY OF AMERICAN HOME PRODUCTS CORPORATION  
TO COMPLAINT COUNSEL'S OPPOSITION TO  
AMERICAN HOME PRODUCTS' MOTION FOR PROTECTIVE ORDER

ARNOLD & PORTER  
MICHAEL N. SOHN  
CATHY A. HOFFMAN  
DAVID M. ORTA  
EMILY M. PASQUINELLI  
555 Twelfth Street, N.W.  
Washington, D.C. 20004  
Telephone: (202) 942-5000  
Facsimile: (202) 942-5999

Attorneys for American Home Products

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**INTRODUCTION**

In their Opposition, complaint counsel argue that the documents at issue are not protected from disclosure by the attorney-client privilege or the work-product doctrine. They also argue that even if the documents are protected from discovery by these doctrines, AHP has waived its right to protect the documents from disclosure. Complaint counsel are wrong on all counts.

Complaint counsel claim that the attorney-client privilege does not apply because AHP offers only “conclusory allegations” in support of the privilege. The initial and supplemental declarations proffered by AHP in support of its Motion establish through specific uncontested facts – each and every element of the attorney-client privilege. Contrary to complaint counsel’s assertions, the documents at issue are not “business” documents relating to the provision of “business advice.” Rather, they are

.....  
.....  
.....

The documents were intended as confidential when created and were maintained confidential.

The work-product doctrine likewise applies. Each of the documents was prepared at the request of counsel to enable counsel to provide legal advice to AHP

..... The declarants all agree on these facts, which establish the documents as work-product. ....of the documents, numbers ....., incorporate counsel’s mental impressions and are therefore opinion work-product.

Nothing in complaint counsel's Opposition changes these conclusions. Complaint counsel are simply wrong when they argue that the documents appear to have been created in the ordinary course of business and not in response to a request from counsel.

While complaint counsel argue that they have made a sufficient showing of need to pierce the work-product doctrine, their proof falls far short of the mark. First, because the attorney-client privilege applies to each of the documents, complaint counsel's professed need for these documents does not matter, a showing of need does not overcome the attorney-client privilege. Second, complaint counsel have failed to demonstrate a "substantial need" for these documents. Simply asserting that the documents constitute "contemporaneous evidence" — which all that complaint counsel have done here — is not sufficient. Where, as here, the documents are at best corroborative evidence, "substantial need" does not exist. Moreover, complaint counsel have failed to offer any evidence that they sought the same or similar information from AHP and failed to obtain it. That deficiency alone requires a denial of complaint counsel's request to pierce the work-product doctrine. Lastly, alternative means — such as a deposition of AHP employees — exist for complaint counsel to obtain substantially equivalent information.

Complaint counsel assert that AHP's production of these documents was not inadvertent because it resulted from an erroneous judgment that the documents were not privileged, rather than the mistaken production of a document known to be privileged. Complaint counsel misstate the law. At least two courts that apply the same five-factor waiver analysis used by this Court have found that a party who mistakenly concludes that a document is not privileged, when it in fact is, has made an inadvertent production that

should not result in waiver. At least one court has reached that conclusion without engaging in the five-factor balancing test. This Court should do the same.

If the Court elects to apply the five-factor balancing test, it should hold that a balancing of the factors requires a finding of non-waiver. AHP had adequate procedures in place to safeguard its privileged documents. Only • • • documents were inadvertently produced out of tens of thousands that were produced to the FTC. The disclosure of these documents has been minimal, and complaint counsel's professed reliance on and need for these documents do not withstand scrutiny. AHP will be irreparably prejudiced if the Court finds that a waiver has occurred whereas complaint counsel cannot make any showing of prejudice. Simply put, the balancing test requires a finding of non-waiver.

I. **AHP HAS ESTABLISHED THAT THE ATTORNEY-CLIENT PRIVILEGE AND THE WORK-PRODUCT DOCTRINE APPLY TO EACH OF THE INADVERTENTLY PRODUCED DOCUMENTS**

A. **The Attorney-Client Privilege Applies to Each of the Documents**

Complaint counsel's argument that the inadvertently produced documents are not protected by the attorney-client privilege lacks merit. The sacrosanct nature of the attorney-client privilege and the important role that it plays in our legal system are well established:

The attorney-client privilege is the oldest of the privileges for confidential communications known to the common law. 8 J. Wigmore, *Evidence* § 2290 (McNaughton rev. 1961). Its purpose is to encourage full and frank communication between attorneys and their clients and thereby promote broader public interests in the observance of law and administration of justice. The privilege recognizes that sound legal advice or advocacy serves public ends and that such advice or advocacy depends upon the lawyer's being fully informed by the client. As we stated last Term in Trammel v. United States, 445 U.S. 40,

51, 100 S. Ct. 906, 913 (1980): “The lawyer-client privilege rests on the need for the advocate and counselor to know all that relates to the client’s reasons for seeking representation if the professional mission is to be carried out.” And in Fisher v. United States, 425 U.S. 391, 403, 96 S. Ct. 1569, 1577 (1976), we recognized the purpose of the privilege to be “to encourage clients to make full disclosure to their attorneys.”

Upjohn v. United States, 449 U.S. 383, 389 (1981). Mere suspicion that the privilege does not apply – which is all that has been alleged by complaint counsel – cannot vitiate the privilege. See, e.g., Dunn Chem. Co. v. Sybron Corp., Misc. No. 8-85, 1975 WL 970, at \*3 (S.D.N.Y. Oct. 9, 1975) (“[The attorney-client privilege] cannot be deemed non-existent on *mere suspicion*.”) (emphasis added).

1. **AHP Has Proffered Sufficient Facts To Sustain Its Claim of Privilege**

Complaint counsel assert that AHP offers only “conclusory statements” in support of its claim of attorney-client privilege. They contend that AHP has failed to come forward with “specific facts that provide information sufficient to allow the court to make an independent judgment as to the privileged nature of the documents.” Opp. at 9. Once again they are wrong.

The declarations submitted by AHP in support of its Motion for Protective Order establish that all of the privileged documents were created in response to a request from AHP’s counsel.....

.....

See.....<sup>1</sup>

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<sup>1</sup> .....  
.....  
.....See .....  
.....; see also Exhibit A to  
.....

.....See  
.....  
.....See.....  
.....See.....  
.....<sup>2</sup>.....See id......;

see also.....

.....  
.....See.....  
.....  
.....  
.....See.....See

See.....  
.....  
.....

---

<sup>2</sup>.....  
.....  
.....See.....  
....., AHP is not claiming attorney-client privilege or work-product protection as to that typewritten text. The remaining writing on  
..... is attorney-client privileged information and attorney work-product.

.....  
.....  
.....  
.....  
.....  
See Exhibit B to .....

see also .....

These facts are not merely “conclusory allegations,” as complaint counsel suggest.<sup>3</sup> Rather, they establish that:

- Each document is a communication from AHP employees to in-house counsel or outside counsel for AHP;
- Each document was prepared by AHP employees in response to a request by counsel in the underlying patent litigation;
- Each document first came into existence as part of a communication to AHP’s counsel and is an effort by AHP employees to respond to inquiries put to them by AHP’s counsel;
- The content of each document was communicated to AHP’s counsel to assist counsel .....  
.....  
.....;
- Each document was considered confidential when created, and AHP employees intended that the contents of the documents be communicated confidentially to outside and in-house counsel; and,
- Each document was prepared solely at the request of counsel and was not prepared in the ordinary course of AHP’s business.

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<sup>3</sup> Courts routinely accept privilege assertions for documents listed on privilege logs that reveal far less information than AHP proffered in its supporting declarations.

These facts establish that each of the . . . inadvertently produced privileged documents is protected from discovery by the attorney-client privilege. See, e.g., Upjohn, 449 U.S. at 394-96 (finding that written communications from lower level employees to in-house counsel for purposes of putting the in-house lawyer in a position to give legal advice were protected by the attorney-client privilege). Confidential communications between a client and its lawyer relating to settlement of anticipated or ongoing litigation – . . . . . – are protected by the attorney-client privilege. See Florentia Contracting Corp. v. The Resolution Trust Corp., No. 92 Civ. 1188(PKL), 1993 WL 127187, at \*5 (S.D.N.Y. Apr. 22, 1993) (“It is well established that confidential communications between attorney and client are privileged when conducted for the purpose of . . . settlement negotiations . . . . .”); see also Gould, Inc. v. Mitsui Mining & Smelting Co., 825 F.2d 676, 679 (2d Cir. 1987) (same). The privilege also applies where the documents are confidential drafts exchanged between client and lawyer. See N.V. Organon v. Elan Pharm., Inc., No. 99 Civ. 11674JGKRLE, 2000 WL 1576875, at \*1-2 (S.D.N.Y. Oct. 23, 2000) (draft settlement agreement is protected by the attorney-client privilege and work-product doctrine); United States v. Schlegel, 313 F. Supp. 177, 179 (E.D. Mich. 1988) (privilege applies to draft tax return provided by client to counsel); Schenet v. Anderson, 678 F. Supp. 1280, 1284 (E.D. Mich. 1988) (privilege applies to draft of stock purchase offers and tender offers; rejecting claim that privilege did not apply because drafts were used in preparing a document intended for public disclosure). Moreover, where a document first comes into existence as part of a communication to an attorney – . . . . . – the privilege applies. See

8 WIGMORE, EVIDENCE § 2307 (rev. ed. 1961) (“The test is whether the document first came into existence as part of a communication to an attorney.”)

Not one of the cases cited by complaint counsel in support of the proposition that conclusory allegations are insufficient involved the amount of information or level of detail that is contained in AHP’s declarations. Moreover, the cases cited by complaint counsel indicate that the level of detail provided in AHP’s declarations is sufficient to establish the privilege. For example, in Alexander v. FBI, 192 F.R.D. 42 (D.D.C. 2000), the declaration submitted in support of the claim of privilege as to over fifty documents listed on a privilege log simply provided that “each of the documents listed on the privilege log . . . was collected and prepared in anticipation of the congressional and Independent Counsel investigations” and that the production of the documents on the privilege log “would reveal information that [the client] provided to his attorneys in confidence.” Id. at 45. The court found these general, blanket statements to be insufficient because the declarations failed to mention when the documents were created, what attorneys actually received them, when they were received by the attorneys and the names of other persons, if any, that were given the documents. Id. at 45-46. The clear implication of the court’s holding is that declarations providing such information would have been sufficient. AHP’s declarations answer each of these questions and provide additional facts to support the privilege. Thus, applying the reasoning in Alexander, AHP’s declarations are sufficient to sustain a claim of attorney-client privilege.



2. **The Contents of the Documents Were Communicated To, and Contained Communications From, Counsel**

Complaint counsel next challenge AHP's assertion of attorney-client privilege by arguing that AHP has not demonstrated that the documents or their contents were communicated to AHP's counsel. Opp. at 10-11.

The declarations make clear that ••• verbally communicated the contents of the privileged documents to AHP's counsel, ••••••••••, and sent counsel certain of the ••••••••••contained in these documents. See••••••••••••••••••••; ••••••••••••••••••••intended these communications to be confidential. See••••••••••••••••••••. The witnesses also attest that disclosure of the documents would reveal those facts discussed with counsel. See••••••••••••••••••••. As complaint counsel acknowledge, where, as here, a document "clearly reveal[s] those facts . . . specifically discussed with counsel," the document is protected from disclosure by the attorney-client privilege. See Alexander, 192 F.R.D. at 46 n.3.

3. **The Communications Related to the Providing of Legal Advice and Services, Not Business Advice**

Complaint counsel assert that the attorney-client privilege and work-product doctrine do not apply because, they speculate, the documents relate to communications "primarily . . . of importance for AHP's business considerations regarding settlement," and AHP's counsel was providing "business advice." Opp. at 15. They also claim that AHP has not shown that the documents are attorney-client communications rather than "business" documents. See, e.g., Opp. at 11-13, 18-19. As an example, they point to ••••••••••testimony during his investigational hearing where, in discussing privileged document number ••••••••••••••••••••notes that a portion of the analysis

in this document was prepared in response to .....  
See....., attached as Exhibit 8 to AHP’s Mot. for Protective Order. They  
conclude from this testimony that .....was generated to analyze a “possible  
business arrangement” between Key and ESI. Opp. at 19.

They also attempt to support this argument by mischaracterizing one sentence  
from page 33 of .....investigational hearing. See Opp. at 18-19. Complaint  
counsel assert that “[t]o the extent ..... remembered anything about certain  
documents . . . , he believed they were created [t]o see if there was a business opportunity  
there for [AIIP].” Id. at 18. A fair reading of .....testimony makes clear  
that the statement quoted by complaint counsel was in response to a general question  
about .....

Once again complaint counsel’s arguments distort the facts. The declarants  
confirm that the privileged documents were created solely at the request of counsel and  
not in the ordinary course of ESI’s business. See .....  
....., attached as Exhibit 4 to AIIP’s  
Mot. for Protective Order; ..... , attached as Exhibit 3 to  
AHP’s Mot. for Protective Order; ..... , attached as  
Exhibit 5 to AHP’s Mot. for Protective Order. These communications with counsel were  
for purposes of soliciting legal advice relating to .....  
.....  
.....See .....  
Complaint counsel has offered no evidence to rebut these points. That the documents

contain business or economic data does not make them non-privileged. “[D]ocuments setting forth business and economic data fall within the scope of the privilege if such data is included merely for the purpose of giving or receiving legal advice.” Weeks v. Samsung Heavy Indus. Co., No. 93 C 4899, 1996 WL 341537, at \*3 (N.D. Ill. June 20, 1996); see also In re Brand Name Prescription Drugs Antitrust Litig., No. 94 C 897, 1995 WL 557412, at \*2 (N.D. Ill. Sept. 19, 1995) (same).<sup>4</sup>

4. **The Communications Were Intended To Be and Were Kept Confidential**

Citing Coastal States Gas Corp. v. D.O.E., 617 F.2d 854 (D.C. Cir. 1980), complaint counsel question whether the confidentiality of the documents at issue has been compromised. Opp. at 15-17. They suggest, incorrectly, that the documents were circulated “widely” throughout AHP, possibly even to persons who did not “need to know” the information at issue in order to communicate with counsel. Id. at 16. As their only example in support of this argument, complaint counsel cite to .....  
.....  
.....Id. From these speculative assertions, complaint counsel question whether the communications at issue were from the “client” and whether they retained a sufficient level of confidentiality to be privileged. Id. at 15-17.

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<sup>4</sup> Even if the documents at issue were communications between AHP and its counsel that mixed both legal and business advice – which they are not – they nevertheless would be protected by the attorney-client privilege and the work-product doctrine. See SCM Corp. v. Xerox Corp., 70 F.R.D. 508, 517 (D. Conn. 1976) (recognizing that confidential communications between lawyer and client remain privileged even though they involve an intermingling of business and legal considerations); see also In re Papst Licensing, No. CIV.A.MDL-1298, 99-CA-3118, 2001 WL 1135265, at \*3 (E.D. La. Sept. 24, 2001) (same).

The facts here bear no resemblance to the facts in Coastal States. There, the party seeking the privilege admitted that it did not know who had access to the documents, and there was undisputed testimony that “the memoranda were circulated to all area offices, filed and indexed for future use, relied on as precedent and used as training materials for new personnel.” Coastal, 617 F.2d at 863. Here, the undisputed facts confirm that an appropriate level of confidentiality was maintained.

.....confirms that he discussed these documents and their contents only with counsel and persons within AHP who assisted him in preparing the documents. See..... After receiving the documents, he did not distribute them to anyone else within AHP except in-house counsel. Id. at..... The only persons who received these documents within AHP are those persons whose names appear on the documents and in-house counsel – all persons who needed to review the documents to respond to counsel’s requests. Id. at..... Likewise, .....attests that neither he nor any of his staff that assisted in preparing the documents disseminated these documents to anyone other than .....  
.....See ....., attached hereto as Exhibit 3. ....also confirms that he and his staff understood that these documents were being created as confidential communications to counsel. Id. at ..... Thus an appropriate level of confidentiality was maintained, and the attorney-client privilege applies. See Upjohn, 449 U.S. at 383 (written communications from lower level employees to in-house counsel for purposes of putting the in-house lawyer in a position to give legal advice were protected by the attorney-client privilege).

B. **The Work-Product Doctrine Applies to Each of the Documents and Complaint Counsel Have Not Satisfied Their Burden To Overcome This Protection**

Complaint counsel assert that the work-product doctrine does not protect the documents at issue from disclosure. Their arguments in this regard also fail.

1. **AHP Has Proffered Sufficient Facts To Establish the Work-Product Doctrine**

Complaint counsel argue that AHP has failed to assert facts to support a work-product claim because it proffers only “conclusory assertions.” Opp. at 17-18. They are wrong.

The declarants attest that the documents at issue were created in response to a request for information from counsel to assist them in .....  
.....See.....  
....., While complaint counsel incorrectly suggest that .....is now unclear as to whether the documents at issue were created at the request of AHP’s counsel, .....clarifies in his supplemental declaration that he has no such doubts. See..... Likewise, .....dispels complaint counsel’s suggestion that his current recollection is a fabrication. See id. at .....

The other underpinnings for AHP’s claim of work-product are similarly intact. Contrary to complaint counsel’s suggestion, .....is certain that .....requested that the .....contained in the documents at issue be created. See..... And, while it is true that .....has no first-hand knowledge that the documents at issue were created at counsel’s request, he is certain that .....told him that the documents were being created for that

purpose and that the documents were not created in the ordinary course of ESI's business.

See.....

These facts, which are much more than "conclusory allegations," establish AHP's work-product claim. Documents, like those at issue here, that are created at the request of counsel to assist with ongoing litigation are protected from discovery by the work-product doctrine. See, e.g., Mobil Oil Corp. v. E.P.A., 879 F.2d 698, 703 (9th Cir. 1989) (holding that a draft document prepared for "internal use to analyze and clarify settlement strategy" was protected from discovery by the work-product doctrine); In re Subpoena Duces Tecum Served On Rosenman & Colin, No.M8-85(RLE)3:92CV00301-WWE, 1996 WL 527331, at \*2-6 (S.D.N.Y. Sept. 16, 1996) (holding that "attorney's draft notes and research concerning the settlement are protected by the work-product privilege and, if involving the client, may also be protected by the attorney-client privilege"); Santiago v. Miles, 121 F.R.D. 636, 640 (W.D.N.Y. 1988) (holding that computer printouts generated at request of counsel in response to filing of suit were protected from discovery by work-product doctrine).

2. **Opinion Work-Product Applies to Documents**.....

Complaint counsel argue that AHP has not met its burden to establish that  
•••documents are opinion work-product. Opp. at 20-21. Once again they are wrong.

To establish a claim of opinion work-product, one must show that the documents at issue contain, or that production of the documents would reveal, a lawyer's mental impressions, conclusions, opinions or legal theories about a case. See, e.g., 16 C.F.R. § 3.31(c)(3) (defining opinion work-product as the "mental impressions, conclusions,

opinions or legal theories of an attorney . . . .”): Upjohn, 449 U.S. at 397-98 (same); Nat’l Educ. Training Group, Inc. v. Skillsoft Corp., No. M8-85 (WHP), 1999 WL 378337, at \*6 (S.D.N.Y. June 10, 1999) (same).

For each of the •••documents for which AHP claims opinion work-product, .....  
.....  
.....  
..... In his supplemental declaration, ..... confirms that these documents contain counsel’s mental impressions. See ..... similarly recalls that the documents incorporated the mental impressions of AHP’s counsel. See ..... If produced, these •••documents ..... would reveal the mental impressions of counsel. See ..... Contrary to complaint counsel’s assertions, one need not speculate to reach this conclusion. They, therefore, constitute opinion work-product.

3. **Complaint Counsel Have Not Made a Sufficient Showing To Discover Any of the Documents**

Complaint counsel argue that even if one accepts that the documents at issue are protected by the work-product doctrine, disclosure of •••of the •••documents is “nonetheless appropriate.”<sup>5</sup> Opp. at 21. In support of this argument, they claim that they have a “substantial need” for •••of the documents and are unable without undue

<sup>5</sup> Complaint counsel do not assert a “substantial need” for documents ..... as described in AHP’s motion.

hardship to obtain the substantial equivalent of these documents by other means. *Id.* at 21-23. As for the documents to which AHP claims opinion work-product •••••, complaint counsel acknowledge that a showing of “substantial need” will not entitle them to production of the documents, but go on to argue that “extraordinary circumstances” exist that warrant production of these documents. *Opp.* at 23-24. These arguments lack merit.

a. **A Showing of Need Does Not Overcome the Attorney-Client Privilege**

Complaint counsel’s arguments fail to recognize that AHP claims attorney-client privilege for each of the documents at issue. The attorney-client privilege cannot be overcome by a showing of need. *See, e.g., Admiral Ins. Co. v. U.S. Dist. Court for Dist. of Arizona*, 881 F.2d 1486, 1494 (9th Cir. 1989) (“The principal difference between the attorney-client privilege and the work product doctrine, in terms of the protections each provides, is that the privilege cannot be overcome by a showing of need, whereas a showing of need may justify discovery of an attorney’s work product.”). Thus, even if one were to assume that complaint counsel could make a sufficient showing to warrant disregarding the protection afforded to these documents by the work-product doctrine, production would still be inappropriate because the documents would be shielded from discovery by the attorney-client privilege.

b. **Complaint Counsel Have Not Met Their Burden To Establish Substantial Need or that a Substantial Equivalent for the Materials Does Not Exist**

Complaint counsel have the burden of proof and persuasion in attempting to pierce the work-product doctrine. *See, e.g., Mason C. Day Excavating, Inc. v.*





Here, complaint counsel have failed to offer any evidence that they sought the same or similar information as appears in the privileged documents through other means and that those efforts were fruitless. Instead, they rely simply on the allegation that the documents provide them with ..... As the holdings in Fontaine and Plessey make clear, mere allegations of contemporaneousness are not sufficient to pierce AHP's work-product. See Fontaine, 87 F.R.D. at 93; Plessey, 1981 WL 2441, at \*2.

Complaint counsel acknowledge that alternative means exist by which they could obtain the information contained within the privileged documents, because they admit that they can depose AHP employees to obtain the information. Opp. at 23. They claim, however, that "after-the-fact" depositions are not as valuable. Id. That testimony is taken "after-the-fact" does not mean that the testimony does not serve as a "substantial equivalent" to the privileged documents. Indeed, it is well accepted that "substantial need" cannot be shown where persons with substantially equivalent information are available for deposition. See, e.g., Horn & Hardart Co. v. Pillsbury Co., 888 F.2d 8, 12 (2d Cir. 1989); Tribune Co. v. Purcigliotti, No. 93 CIV 7222, 1998 WL 175933, at \*5 (S.D.N.Y. Apr 14, 1998); Hendrick v. Avis Rent A Car Sys., Inc., 944 F. Supp. 187, 191 (W.D.N.Y. 1996). If, as here, other means are available to obtain substantially equivalent information, then the work-product protection should not be pierced. See, e.g., Horn, 888 F.2d at 12; Tribune, 1998 WL 175933, at \*5; Hendrick, 944 F. Supp. at 191.

Similarly, where, as here, the evidence sought merely corroborates a point on which other evidence already is available, the party seeking the documents cannot make the requisite showing of "substantial need." See Baker v. General Motors Corp., 209

F.3d 1051, 1054 (8th Cir. 2000) (where document sought is merely corroborative of other evidence, “substantial need” is not shown); Office of Thrift Supervision v. Vinson & Elkins, LLP, 124 F.3d 1304, 1308 (D.C. Cir. 1997) (same). Complaint counsel assert that the documents will (i) .....; (ii) .....; .....(iii).....<sup>6</sup> But, as evidenced by the report of complaint counsel’s economist, complaint counsel have alternative means of proving each of these points.

For example, as to the first point listed above, complaint counsel will have the testimony of their expert economist – who will rely on Schering documents, testimony adduced from Schering and ESI witnesses during investigational hearings and on the testimony of complaint counsel’s other expert, Mr. Hoffman – to demonstrate .....See Bresnahan report at 36-37, attached as Tab 1, Exhibit B to Opposition. Similarly, with respect to the second point, complaint counsel will proffer, *inter alia*, the testimony of their economist and the studies cited in their economist’s report. See id. at 3 n.2, 36 n.72. And, as to the third point, complaint counsel plan to offer the testimony of AHP employees, including ..... In fact, in his report, complaint counsel’s economist relies on the testimony of ESI and Schering employees, and not on the privileged documents, in advancing his argument that .....See id. at 37-38 nn.73-78.

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<sup>6</sup> Given the circumstances under which the privileged documents were created, AHP doubts highly that any of these documents can be used to support the propositions set forth by complaint counsel in their  
Footnote continued on next page

Thus, while complaint counsel argue at length that these privileged documents are unique and essential to their case, the truth is that these documents, at best, act as corroborating evidence. Complaint counsel, therefore, have not shown that they have a “substantial need” for these documents. See Baker, 209 F.3d at 1054; Vinson & Elkins, 124 F.3d at 1308.

c. **There Is No Justification To Overcome Opinion Work-Product**

Notwithstanding that complaint counsel have failed to make the showing necessary to overcome the protection of fact work-product, they astonishingly assert that they have demonstrated the “extraordinary circumstances” needed to pierce AHP’s claim of opinion work-product on Documents ..... In support of that argument, they again claim that the documents are “unique contemporaneous evidence.” Opp. at 24.

FTC Rule 3.31(c)(3) mandates that “[i]n ordering discovery of [work-product] when the required showing has been made, the Administrative Law Judge *shall protect against disclosure of the mental impressions, conclusions, opinions, or legal theories of an attorney or other representative of a party.*” (emphasis added). The mandatory language within Rule 3.31(c)(3) suggests that in Part 3 proceedings opinion work-product enjoys an absolute immunity from discovery. Some federal courts agree with this approach. See, e.g., United States v. Leggett & Platt, Inc., 542 F.2d 655, 660 (6th Cir. 1976); Duplan Corp. v. Moulinage et Retorderie de Chavanoz, 509 F.2d 730, 734

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Footnote continued from previous page  
Opposition. That said, and for purposes of this Reply brief only, AHP will accept as true complaint counsel’s assertions in this regard.

(4th Cir. 1974). Assuming that to be the case, Documents ..... are not discoverable under any circumstances. Other courts recognize that opinion work-product is discoverable only in very limited, rare and extraordinary circumstances. See, e.g., United States v. Pfizer, Inc., 560 F.2d 326, 336 (8th Cir. 1977) (holding that opinion work-product “enjoys a nearly absolute immunity and can be discovered only in very rare and extraordinary circumstances”). Even if that were the rule in Part 3 proceedings, complaint counsel, having failed to demonstrate the lesser showing of need necessary to pierce the work-product doctrine for ordinary work-product, have failed to make the requisite showing to discover AHP’s opinion work-product.

C. **Complaint Counsel’s Attacks on .....Recollection of the Events Are Unfounded**

Complaint counsel question the veracity of ..... recollection of the circumstances surrounding the creation of the ..... inadvertently produced privileged documents. *Opp.* at 7. They further complain that ..... “offers no explanation for this recent recovery of his memory.” *Id.* They argue that ..... declaration cannot support AHP’s claim of attorney-client privilege or work-product protection. *Id.* at 12, 19. Complaint counsel have no credible basis to challenge ..... veracity.

.....makes clear in his declarations that he recalled the circumstances relating to the creation of the privileged documents after .....  
See ..... During those meetings, .....  
.....  
.....See ..... These exchanges caused .....to recall the circumstances leading to the creation of the .....documents at issue. *Id.*

Complaint counsel's suspicions about .....  
.....  
..... The documents were created in .....  
.....was asked about these documents at the hearing. The questions posed to  
.....during the hearing did not place the documents in any context or chronology that  
refreshed his recollection about the circumstances of their creation. Id. at  
.....  
..... It hardly seems odd that .....was unable to recall the  
circumstances surrounding the creation of some of the privileged documents .....  
....., especially when the questioning failed to place the documents in any  
context or chronology and addressed a multitude of issues.

**II. AHP'S PRODUCTION OF THE - - - - PRIVILEGED DOCUMENTS WAS INADVERTENT**

Complaint counsel argue that AHP's production of the documents at issue was not inadvertent. Complaint counsel err in two material respects. First, and perhaps most important, complaint counsel are incorrect when they imply that the production of a privileged document is "inadvertent" only in a situation where a party produces large quantities of documents in a compressed time frame and a document known at the time to be privileged is unwittingly produced. Courts specifically have found that the production of a document may be "inadvertent" where the producing party did not recognize the privileged nature of the document at the time the document was produced. See Advertising To Women, Inc. v. Gianni Versace, No. 98 C 1553, 1999 WL 608711, at \*5 (N.D. Ill. Aug. 4, 1999); Zapata v. IBP, Inc., 175 F.R.D. 574, 577 (D. Kan. 1997). An

error in the assessment of whether a document is protected by the attorney-client privilege should not result in waiver. See Gianni Versace, 1999 WL 608711, at \*5.

Second, complaint counsel rely upon cases that are not applicable to the circumstances surrounding AHP's inadvertent production. These cases allegedly stand for the proposition that "a deliberate but erroneous decision that material is not privileged is not an inadvertent disclosure." Opp. at 25. However, the parties in those cases either knew that the documents were privileged when they were produced or were consciously aware at the time of production of all the facts that made the documents privileged. In stark contrast, AHP's counsel was unaware – both when the documents were initially produced and during the investigational hearing of •••••— of the circumstances surrounding the creation of the privileged documents.

A. **Production of a Document that a Party Mistakes as Non-Privileged May Constitute an "Inadvertent" Production**

Complaint counsel argue that the "inadvertent" production of a document is limited to the situation where a known privileged document is embedded in a sea of other non-privileged documents during production. The case law does not bear out such a limitation. As one expert on attorney-client privilege and waiver matters has explained:

Inadvertent disclosures are those resulting from the production of written communications or transmission of verbal communications to third parties under circumstances in which the client is reasonably unaware of the fact that confidential attorney-client communications are being revealed.

Paul R. Rice, Attorney-Client Privilege in the United States, Section 9:71 (2d ed. 1999).

When AHP inadvertently produced the .....privileged documents  
in....., it was “reasonably unaware” that it was disclosing privileged  
communications. Similarly, during .....investigational hearing, AHP and its counsel  
were “reasonably unaware” that .....were privileged. The documents do  
not facially reveal their privileged status. Moreover, .....  
.....  
.....

At least two courts have found that the production of a privileged document is  
“inadvertent” where a party erroneously believes the document is not privileged when  
produced. In Gianni Versace, a case involving trademark infringement claims, defendant  
Versace produced two cover letters that transmitted trademark searches to the plaintiffs.  
1999 WL 608711, at \*1. At the time that Versace produced the cover letters, it did not  
think that the documents were protected by the attorney-client privilege. Although two  
foreign attorneys authored the cover letters, Versace believed that the attorneys were  
acting in a non-legal capacity. Id. at \*2.

There, the court found that the five-factor balancing test did not fit well because  
the facts did not fall within the typical “inadvertent” production scenario, where a party  
unwittingly produces a privileged document in the context of a large document  
production. Id. at \*5. Versace admitted that it intentionally produced the cover letters,  
but it did so because it believed they were not privileged, and Versace had no intention of  
knowingly producing privileged documents. Id. Because Versace did not know that the  
cover letters were privileged, the court found that the cover letters were “inadvertently”  
produced, reasoning that “Versace never intended to turn over privileged



communications.” Id. The court explained that “[i]n these circumstances, fairness would be ill-served by applying waiver simply because a court later found that Versace erred in its [privilege] assessment.” Id.

As in Gianni Versace, AHP produced the documents during the investigation and did not object to their use at •••••investigational hearing because it did not know, or appreciate, the privileged status of the documents at issue. Like the Gianni Versace court, this Court should bypass the analysis under the five-factor balancing test, and hold that AHP’s production of the •••••documents did not waive the attorney-client privilege or the work-product doctrine. As in Gianni Versace, fundamental fairness dictates this result.

The court in Zapata v. IBP, Inc., 175 F.R.D. 574 (D. Kan. 1997), likewise found that the production of a document may be “inadvertent” even where the factual circumstances do not follow the traditional “inadvertent” production scenario. In Zapata, an attorney for IBP had her secretary send IBP’s expert a copy of the opposing party’s expert’s report. Id. at 575-76. The secretary mistakenly sent to IBP’s expert a copy that contained the attorney’s handwritten comments. In response to a deposition notice, IBP’s expert produced his file to the opposing party, which contained the document bearing the lawyer’s handwritten remarks. At the deposition, another IBP attorney defended the IBP expert’s deposition. Because the other IBP attorney did not know the origin of the handwritten comments, she did not object to the document during the deposition. Id. at 576. The court found that the production of the document containing the attorney’s handwritten notations was “inadvertent,” and that the privilege had not been waived. Id. at 577.

This case undermines complaint counsel's assertions that AHP's production of the •••••documents and failure to object at •••••investigational hearing is tantamount to an "intentional" production of privileged materials. The attorney's secretary who sent the expert report containing the attorney's notes deliberately and consciously sent that report, but did not know that the report contained privileged material. Likewise, the attorney defending the deposition of the IBP expert knew that the document was introduced as an exhibit at the deposition, but did not know that the document was privileged. Similarly, here, AHP's counsel did not know the privileged nature of the documents when it produced them or during •••••investigational hearing.

Based on the reasoning in Gianni Versace and Zapata, this Court should conclude that AHP's production of the •••••privileged documents at issue here was "inadvertent," and that AHP has not waived the attorney-client privilege or the work-product doctrine.

**B. The Cases Relied Upon By Complaint Counsel To Support Their Claim that AHP's Production of the Privileged Documents Was Not Inadvertent Are Readily Distinguishable**

Complaint counsel cite three cases to support their argument that AHP's production of the privileged documents could not have been "inadvertent." Opp. at 25-26. Complaint counsel then ask this Court to conclude that because the production could not be "inadvertent," an automatic waiver occurs. They are wrong.

Complaint counsel first cite to In re Brand Name Prescription Drugs Antitrust Litig., No. 94 C 897, 1995 WL 683777, at \*3 (N.D. Ill. Nov. 16, 1995), for the proposition that a conscious but erroneous decision to produce a document does not

amount to an “inadvertent” disclosure. In that case, unlike this case, the producing party knew at the time of the production that the document was privileged. Id. at \*2. Merck produced an initial set of documents, including documents redacted for privilege. Id. Merck then produced a second set of documents, apparently at plaintiffs’ request, that contained some inconsistent redactions. Id. The court found that Merck had made a conscious decision to redact the privileged documents inconsistently, and noted that “Merck all but admit[ted] that its inconsistent disclosures were not ‘accidental.’” Id. at \*3. The court went on to note that another, and more important, issue was motivating the court’s decision – that the inconsistent redactions showed that the documents did not contain privileged material. Id.<sup>7</sup>

Unlike the producing party in Brand Name, AHP’s counsel did not know that the ..... documents at issue were privileged when the documents were produced to FTC staff. AHP therefore did not “consciously” produce privileged documents as occurred in Brand Name. Moreover, in Brand Name, the inconsistent redactions revealed that the documents were not actually privileged. Here there is no such circumstance.

Complaint counsel’s reliance upon Transonic Sys., Inc. v. Non-Invasive Med. Tech., 192 F.R.D. 710 (D. Utah 2000) is equally unavailing. There, the producing party, Transonic, turned over a document prepared by its in-house counsel discussing the patent at issue in the litigation. Id. at 711-12. The Transonic court found that the production of the privileged document (which was one among only 451 pages that were produced at

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<sup>7</sup> The court stated “[m]oreover as the Class has demonstrated, a number of the communications revealed as a result of Merck’s inconsistent redactions do not contain privileged material. Thus, in all fairness, Merck should not be allowed to press its privilege claim as to these communications.” Brand Name, 1995 WL 683777, at \*3.

that time) was not “inadvertent” because “when the subject document was produced, its content was known and it was produced with Transonic’s counsel *being aware of what it was and what it related to.*” Id. at 715 (emphasis added). The court further explained that the document was clearly marked as to subject matter and was designated “attorneys’ eyes only.” Id. Based on the evidence that Transonic knew that the document was privileged, the court found its production was not “inadvertent.”

The facts in Transonic are fundamentally different from the circumstances surrounding AHP’s inadvertent production. The Transonic court concluded that the production of the document was not “inadvertent” because the document contained indicia revealing its privileged status and because Transonic’s counsel was aware of what the document was and to what it related. Here, however, none of the documents at issue ..... and AHP’s counsel did not know the privileged nature of the documents. Likewise, during .....investigational hearing, there was nothing to alert AHP and its counsel that .....were privileged.

Moreover, the Transonic court appeared to apply the “strict” approach to waiver, or something closely approximating such a rigid analysis.<sup>8</sup> In essence, the court held that any time a party produces a document during discovery, and that document bears a confidential designation, then the production of such document cannot be “inadvertent.”

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<sup>8</sup> In Hoechst/Andrx, this Court adopted the five-factor balancing test as the proper methodology for determining whether an inadvertent production constituted a waiver. In doing so, this Court rejected the “strict” approach, which only a minority of courts follow. Under the “strict” approach, any production of a privileged document, whether inadvertent or not, results in waiver. See Order Denying Complaint Counsel’s Motion Regarding Hoechst’s Waiver of Attorney-Client Privilege and Motion To Compel Answers to Deposition Questions, No. 9293, 2000 F.T.C. LEXIS 155, at \*4-5 (Oct. 17, 2000).

Such analysis flies in the face of this Court's opinion in Hoechst/Andrx, which involved Hoechst's production of an opinion letter labeled "Confidential and Privileged Attorney Client Communications." See Respondent Aventis Pharmaceuticals, Inc.'s Memorandum In Opposition To Complaint Counsel's Motion Regarding Waiver of Privilege at 7, attached hereto as Exhibit 4. This Court found that the production of the labeled document in Hoechst/Andrx was inadvertent, applied the five-factor balancing test, and found that no waiver had occurred. See Order, 2000 F.T.C. LEXIS 155, at \*8-9. The Transonic case upon which complaint counsel rely, is at direct odds with this Court's opinion in Hoechst/Andrx, and therefore, should be given no weight.

Finally, complaint counsel rely upon Baxter Travenol Laboratories, Inc. v. Abbott Laboratories, 117 F.R.D. 119 (N.D. Ill. 1987). Contrary to complaint counsel's assertions, the court in Baxter did not hold that waiver resulted because of a deliberate but erroneous decision that the material was not privileged. Moreover, the facts in Baxter are appreciably different from those here.

In Baxter, the defendant had repeatedly attached the privileged document to several of its motions and legal memoranda. See id. at 121. The court, applying the five-factor balancing test, found that such repeated and extensive reliance on the privileged document weighed in favor of a finding of waiver. See id. Here, the •••••privileged documents at issue are, at best, corroborative evidence for complaint counsel (see supra § I.B.3.b.), and an analysis of the five factors in AHP's case demonstrates that the equities weigh in favor of a finding of non-waiver, as explained more fully below in § III.

**III. UNDER THE FIVE-FACTOR BALANCING TEST, AHP'S INADVERTENT PRODUCTION OF THE DOCUMENTS DOES NOT WAIVE THE ATTORNEY-CLIENT PRIVILEGE OR WORK- PRODUCT PROTECTION**

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Under the five-factor balancing test, which this Court already has adopted as the proper methodology for determining waiver, AHP's inadvertent production does not result in waiver. See Order in Hoecht/Andrx, 2000 F.T.C. 155, at \*7-8; Order Denying AHP's Motion Seeking Leave to Require That All Briefing Regarding Its Motion For Protective Order Be Filed Under Seal (Sept. 25, 2001), attached as Exhibit 2 to AHP's Mot. for Protective Order.

**A. AHP Undertook Reasonable Precautions To Protect the Documents from Disclosure**

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AHP satisfies the first factor of the balancing test – it took reasonable precautions to prevent disclosure of the privileged documents. See AHP's Mot. for Protective Order at 8-9, 18-19. In arguing that AHP did not take reasonable precautions, complaint counsel point out that the .....privileged documents .....  
....., Opp. at 30. But, complaint counsel cite no case where a court found a document review process to be unreasonable because a privileged document was not marked privileged. Indeed, complaint counsel admit, because they must, that courts have found precautions to be reasonable where the documents were not labeled as privileged. Opp. at 30 (citing Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co., 104 F.R.D. 103, 105 (S.D.N.Y. 1985)).

Complaint counsel also speculate that no instructions were given to the attorneys reviewing the materials to enable them to identify privileged documents. Opp. at 31. This is not true. In his supplemental declaration, ....., the attorney supervising the

document review, explains in detail the instructions that were given to, and the knowledge possessed by, the reviewing attorneys on how to identify privileged documents. See....., attached hereto as Exhibit 5. These instructions were comprehensive and eminently reasonable.

Complaint counsel also claim that AHP should have investigated the origins of the documents after .....investigational hearing, and that its failure to do so was unreasonable. Opp. at 31. AHP's decision not to investigate the origins of ..... after .....investigational hearing was entirely reasonable under the circumstances. ....  
.....  
.....  
.....After the Commission brought suit against AHP and complaint counsel served a Notice of Deposition regarding ....., AHP promptly undertook a thorough investigation of these documents. See ..... , attached as Exhibit 7 to AHP's Mot. for Protective Order. Any argument that AHP should have conducted an extensive investigation into the documents at issue after .....investigational hearing rests solely on hindsight.

**B. AHP Inadvertently Disclosed Only .....Privileged Documents Out of the Tens of Thousands that Were Produced to the Commission During the Investigation**

This motion concerns only .....inadvertently produced privileged documents out of the approximately 27,000 pages that AHP produced to the Commission during the investigation. Complaint counsel do not dispute that this was a large document

production. Instead, complaint counsel argue that “the volume of documents involved in the production process is important only if it can be shown to have influenced the mistaken disclosures that were made.” Opp. at 32. Complaint counsel cite no case to support this proposition. However, even assuming that this argument accurately reflects the law, the volume of documents involved in AHP’s production likely influenced the inadvertent disclosures.

The scope of the Commission’s investigatory subpoena was extremely broad, and AHP was under time pressure to produce the documents. The Commission issued its subpoena on November 5, 1999, and the subpoena called for all responsive documents to be produced within thirty days. AHP responded with its first production only a month later in December 1999. See Exhibit A to ••••••••••••••••••••, Letter from Randal Shaheen to Daniel Kotchen, December 20, 1999.<sup>9</sup> The production process took place during the busy holiday season, and AHP reviewed approximately 100,000 pages of documents and produced roughly 27,000 pages to FTC staff within a short time frame. There is no way of knowing for certain whether AHP would have discovered the privileged nature of the •••••documents at issue had the subpoena not been as expansive or had AHP not been required to produce such a large volume of documents under such constraints, but the fact that AHP made a very large production in a short time period cannot be blinked away.

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<sup>9</sup> In its Opposition, complaint counsel erroneously assert that AHP was not under any time constraints during the production because AHP did not begin producing documents until February 2000. See Opp. at 3. As evidenced by Exhibit A to ••••••••••••••••••••, complaint counsel are flatly wrong in their assertion.



C. **Upon Discovering the Inadvertent Production, AHP Immediately Demanded Return of the Documents, and Thereafter Moved for a Protective Order**

Once a party discovers that it inadvertently produced a document, the party must move promptly to rectify the error. How quickly a party must act to avoid waiver depends on the particular circumstances. See R.J. Reynolds Tobacco Co. v. Premium Tobacco Stores, Inc., No. 99 C 1174, 2001 WL 1286727, at \*7 (N.D. Ill. Oct. 24, 2001).

Complaint counsel do not refute that AHP at all times acted reasonably and promptly in demanding the return of the privileged documents once they discovered the inadvertent production in July and August of this year. Instead they argue that AHP should reasonably have discovered that the documents at issue contain privileged communications before July and August of 2001. They first claim that AHP and its counsel should have discovered the inadvertent production before it produced the documents in the first place. Opp. at 33. This argument is nothing but a further attack on the procedures AHP's counsel had in place to safeguard against inadvertent disclosures. As explained above, the procedures in place were reasonable.

Next, complaint counsel argue that the inadvertent production should have been discovered either during the preparation sessions before •••••investigational hearing or during the hearing itself. Opp. at 33-34. They claim that AHP's counsel had "some reasons . . . to think such an inquiry was warranted." Id. •••••

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•••••  
•••••

..... Both of these arguments ignore the facts and are merely a product of hindsight.

As ..... explains in his supplemental declaration, counsel for AHP, in response to the FTC's investigational subpoena, .....  
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..... See ..... Approximately seven months after the inadvertent production of the documents, FTC staff contacted ..... and requested the deposition of, among others, the person within AHP most knowledgeable about certain ..... documents that AHP had produced. *Id.* at ..... Counsel for AHP consulted with AHP's in-house counsel and informed complaint counsel that ..... would be testifying about the ..... documents. *Id.*

Counsel for AHP met with ..... to prepare him for his investigational hearing. ....  
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..... *Id.* at ..... *Id.*  
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.....Id. at ..... There, likewise, was nothing about the questioning during the hearing that suggested that the documents were privileged. Id. If AHP's counsel had known at the time of .....investigational hearing that these ..... documents had been prepared at the request of AHP's counsel during the underlying patent case with Key or that many of these documents contained the mental impressions of counsel, counsel for AHP would have objected to the use of, and any testimony relating to, these documents. Id. That information was not known at the time, and therefore, those objections were not made. Id. For the same reasons, counsel did not believe that a further inquiry regarding the origins of the documents was reasonably warranted during .....hearing. Id.

Complaint counsel also question why, following .....hearing, AHP and its counsel did not conduct a further investigation regarding the privileged nature of the ..... documents that were the subject of questioning during the hearing. Opp. at 34. What complaint counsel fail to acknowledge is that .....  
.....With that in mind, following .....investigational hearing, AHP and its counsel had no reason to believe that a further investigation as to these documents was warranted or would yield more information regarding the creation of these documents. Id. at ..... Had AHP or its counsel become aware of any facts prior to July 2001 that would have caused it to suspect that privileged documents had been inadvertently produced to the FTC, a further investigation would have been conducted. Id. However,

no such facts came to light during that timeframe. *Id.* Simply put, AHP's actions during every step of the investigation and the current adjudication with respect to the •••••privileged documents have been reasonable.

**D. Despite Complaint Counsel's Assertion that Their Economic Expert Relies Heavily on •••••of the •••••Privileged Documents, the Extent of Disclosure Has Been Minimal**

The disclosure of the privileged documents remains minimal. Complaint counsel argue that some of the documents were used in •••••investigational hearing. *Opp.* at 35. But, as explained in AHP's Motion for Protective Order, because •••••could not remember the circumstances surrounding the creation of •••••, he gave no meaningful testimony on these documents. *See* AHP's Mot. for Protective Order at 22-23. •••••testimony regarding the privileged documents was purely speculative. Furthermore, only •••••of the •••••documents at issue were used as exhibits at •••••investigational hearing; the disclosure as to the other •••••privileged documents is even more minimal.

Complaint counsel also claim that its economist has reviewed and relied upon some of the privileged documents in preparing his report. Complaint counsel state that they sent Professor Bresnahan •••••of the •••••disputed documents, including •••••as well as the document bates numbered •••••. *Opp.* at 35 n.36. Complaint counsel admit that they sent Professor Bresnahan the document bates numbered •••••in August 2001, after AHP informed complaint counsel that it was investigating whether this particular document was privileged. Clearly, any reliance by Professor Bresnahan on this document in his report is without justification. Sending a

document to an expert after the opposing party puts one on notice of a possible claim of privilege is conduct more deserving of reproach than of reward.

As to the other ••••• documents complaint counsel sent Professor Bresnahan •••••, complaint counsel state that it is “apparent” from Professor Bresnahan’s report that he relied upon “many” of the disputed documents. Opp. at 35-36. Yet, complaint counsel do not state which documents Professor Bresnahan actually relied upon in his report, or how he relied on those documents, or to what extent he based his analysis on the documents. Nowhere in his report does Professor Bresnahan actually state that he is “relying” upon these privileged documents. In the body of his report, Professor Bresnahan does not even specifically discuss •••••, or any of the other inadvertently produced documents.

At the end of his report, Professor Bresnahan cites to a few of these privileged documents in an endnote (“endnote c”) and references some of the documents at issue in appendices. However, Professor Bresnahan’s only cite to “endnote c” is on page 24 of his report, under Section (b) “Schering has monopoly power in its K-Dur 20 mEq product.” Clearly, as evidenced in his report, Professor Bresnahan does not need ••••• to argue that Schering had monopoly power in the K-Dur 20 mEq market. Nor does he need these documents to show the effect of generic entry on a branded product’s market share. As previously discussed, Professor Bresnahan cites to various other sources to support these propositions. Moreover, Professor Bresnahan does not rely on any of the privileged documents to render his ultimate conclusions. Rather, he cites to testimony given by several different witnesses during the investigation and to various studies. Complaint counsel’s professed need for these documents is specious given that

their primary expert does not rely upon these documents to support his conclusions and merely uses .....of the documents as corroborative evidence.

E. **Issues of Fairness Strongly Support a Finding of Non-Waiver**

Perhaps the strongest factor supporting a finding of non-waiver is fundamental fairness. Despite complaint counsel's claims to the contrary, they will not be prejudiced if this Court grants AHP's motion for a protective order. As previously discussed, complaint counsel's professed need for and reliance upon these documents do not withstand scrutiny. The reasons need not be repeated here.

On the other hand, a finding of waiver would greatly prejudice AHP. AHP has demonstrated that it has acted reasonably and with due diligence at every point in the process. AHP had reasonable screening procedures in place during its document production. ....  
..... Any full-scale investigation into the documents before complaint counsel's Notice of Deposition relating to the documents was not reasonably warranted. Once AHP recognized the privileged nature of the documents, it immediately demanded their return from all parties.

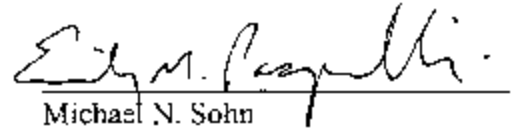
**CONCLUSION**

WHEREFORE, for the reasons set forth herein and in AHP's Motion for Protective Order, AHP respectfully requests that this Court grant the relief sought by AHP in its Motion.

Dated November 20, 2001

Respectfully Submitted,

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Attorneys for American Home  
Products Corporation

**UNITED STATES OF AMERICA  
BEFORE FEDERAL TRADE COMMISSION**

In the Matter of	)	
	)	
Schering-Plough Corporation,	)	
a corporation,	)	
	)	Docket No. 9297
Upsher-Smith Laboratories, Inc.,	)	
a corporation,	)	
	)	
	)	<b>PUBLIC RECORD</b>
and	)	
American Home Products Corporation,	)	
a corporation	)	
	)	

**CERTIFICATE OF SERVICE**

I, Emily M. Pasquinelli, hereby certify that on November 20, 2001, I caused a true and correct copy of the Public Version of *Reply of American Home Products Corporation To Complaint Counsel's Opposition To American Home Product's Motion for Protective Order* to be served upon the following as follows:

**Two paper copies by hand delivery to:**

Hon. D. Michael Chappell  
Administrative Law Judge  
Federal Trade Commission  
Room 104  
600 Pennsylvania Ave., N.W.  
Washington, D.C. 20580 (2 copies)

**The paper original and one paper copy by hand delivery and one electronic copy to:**

Office of the Secretary  
Federal Trade Commission  
Room H-159  
600 Pennsylvania Ave., N.W.  
Washington, D.C. 20580 (original and 1 copy)

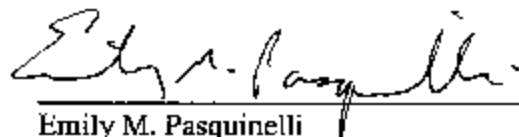


**One paper copy by delivery to:**

Karen G. Bokat  
Federal Trade Commission  
601 Pennsylvania Ave., N.W.  
Room 3115  
Washington, D.C. 20580  
Fax (202) 326-3384

Christopher Curran  
White & Case, LLP  
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Washington, D.C. 20005  
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1299 Pennsylvania Ave., N.W.  
Washington, D.C. 20004  
Fax (202) 383-6610

  
Emily M. Pasquinelli  
Arnold & Porter

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**UNITED STATES OF AMERICA  
BEFORE FEDERAL TRADE COMMISSION**

In the Matter of	)	
	)	
Schering-Plough Corporation, a corporation,	)	
	)	
Upsher-Smith Laboratories, Inc., a corporation,	)	Docket No. 9297
	)	
and	)	
	)	<b>PUBLIC RECORD</b>
	)	
American Home Products Corporation, a corporation	)	
	)	

**SUPPLEMENTAL DECLARATION OF .....IN SUPPORT OF  
RESPONDENT AMERICAN HOME PRODUCTS CORPORATION'S MOTION  
FOR A PROTECTIVE ORDER**

I, ....., declare as follows:

1. I am .....  
.....  
..... I have personal knowledge of the facts set forth herein.
2. I submit this declaration in reply to certain points made by complaint counsel in their Opposition to AHP's Motion for a Protective Order, served on October 19, 2001.
3. In their Opposition, complaint counsel question how it is that I am now able to recall the circumstances surrounding the creation of the documents referenced in my original declaration when I admittedly could not remember the privileged nature of ..... of these documents .....  
..... during my investigational hearing on .....  
..... Complaint counsel insinuate that there is something suspicious about my

recent recollection that the .....documents referenced in my initial declaration were prepared at the request of ESI's counsel, ..... , during the patent litigation between Key Pharmaceuticals, Inc. ("Key") and ESI Lederle, Inc. ("ESI"). They also question how I am now able to recall that ESI's counsel requested the information and analysis contained in these documents to assist them in providing legal advice and services to AHP and ESI relating to.....

4. Their suspicion is unwarranted. ....  
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5. During the hearing, FTC staff questioned me about ...of the ...privileged documents. The questions asked during the hearing did not place those documents in any context or chronology of events that refreshed my recollection about the circumstances of their creation. ....  
.....

6. In July of 2001, counsel informed me that complaint counsel had filed a Notice of Deposition specifically relating to documents marked as .....  
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..... As a result of  
these detailed discussions with counsel, I was able to remember that .....  
....., ESI's counsel in the patent suit with Key, had asked me to prepare  
the information and analysis contained in the .....documents referenced herein. I also  
remembered that counsel requested this information to assist them in .....  
.....

7. In their Opposition, complaint counsel assert that I cannot specifically remember  
counsel requesting the information and analysis contained in the documents at issue.  
They claim that I am relying on certain assumptions about .....  
.....to arrive at the conclusion that counsel  
requested me to prepare these documents. This is incorrect. I independently recall that  
..... asked me to gather information and analysis, and my staff and I  
prepared the documents referenced herein – .....  
..... – in order to respond to their requests to assist  
them in ..... That ESI was  
.....  
....., only validates that the contested documents were generated at the  
request of counsel and not in the ordinary course of business.

8. In their Opposition, complaint counsel assert that the .....documents at issue  
appear to be "business documents" created in the ordinary course of ESI's business and

with no connection to the patent litigation. These assumptions are wrong. My staff and I generated each of the privileged documents at ..... requests. They made those requests in order to provide legal advice to the company about how to comply with .....  
.....

9. For example, on November 19, 1996, ESI and Key attended a mediation conference presided over by Magistrate Reuter. I was present at that conference. At the conclusion of the mediation conference, .....  
.....  
..... Documents bates numbered ..... were created in response to that request, and I communicated the substance of these documents to counsel.

10. ....  
....., in response to an earlier request from ..... for information he needed to provide legal advice regarding ..... That request was made during the patent litigation. This document pertained solely to the patent litigation and possible settlement thereof, and was not generated for any ordinary business purpose.

11. During an August 20, 1997 settlement conference, the magistrate judge instructed the parties to resume settlement negotiations. ....  
.....  
..... Documents bates numbered .....

.....are analyses and corresponding back-up that my staff and I prepared in order to generate various .....  
.....Counsel requested the information in these .....in order to provide legal advice concerning compliance with the magistrate's directive, and to .....

12. I understand that in their Opposition, complaint counsel assert that the document bates numbered .....appears to be purely an analysis of a possible business arrangement. This document was generated by my staff and I at the specific request of .....  
..... This document evaluates .....  
.....This document was created to allow counsel to provide legal advice regarding ....., and was maintained confidentially between ESI and its counsel. This document was not created for any general business purpose, but to provide counsel with the information and analysis they needed in order to give sound legal advice during the patent litigation.

13. In their Opposition, complaint counsel also conclude incorrectly that I did not communicate the information and analysis contained in the .....documents to..... With respect to the .....documents referenced in the prior paragraph, after my staff and I prepared these documents, I verbally communicated the conclusions contained therein to ESI's counsel during various meetings and discussions.  
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Disclosure of the ..... documents referenced herein would reveal the substance of the various confidential discussions I had with ESI's counsel regarding these documents.

14. In their Opposition, complaint counsel also assume that the documents at issue were not maintained confidential because, they claim, these documents were distributed to persons at AHP and/or ESJ who did not "need to know" this information to respond to counsel's requests. Complaint counsel are wrong in their assumption. As I stated in my previous declaration, I asked my staff to assist me in preparing the information and analysis that ESI's counsel had requested. The only persons with whom I discussed counsel's request for information and analysis, and to whom the documents at issue were distributed, were those persons directly involved in the preparation of the requested information and analysis.

15. In their Opposition, complaint counsel also question why the contested documents  
.....  
.....  
.....

..... However, that does not mean that the documents were not maintained confidential. They were.

16. In their Opposition, complaint counsel also question whether the ... documents numbered .....  
..... reflect counsel's thoughts. They claim that I failed to clarify in my initial declaration whether the .....



....., There is no question in my mind that .....

.....

.....

.....

I declare under penalty of perjury that the foregoing is true and correct.

Executed on November \_\_\_\_, 2001.

Respectfully submitted,

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**UNITED STATES OF AMERICA  
BEFORE FEDERAL TRADE COMMISSION**

In the Matter of	)	
	)	
Schering-Plough Corporation, a corporation,	)	
	)	
Upsher-Smith Laboratories, Inc., a corporation,	)	Docket No. 9297
and	)	
	)	
American Home Products Corporation, a corporation	)	<b>PUBLIC RECORD</b>
	)	

**SUPPLEMENTAL DECLARATION OF .....IN SUPPORT OF  
RESPONDENT AMERICAN HOME PRODUCTS CORPORATION'S MOTION  
FOR A PROTECTIVE ORDER**

I, ....., declare as follows:

1. I am .....  
.....  
.....I have personal knowledge of the facts set forth herein.
2. I submit this declaration in reply to certain points made by complaint counsel in their Opposition to AHP's Motion for a Protective Order, served on October 19, 2001.
3. In their Opposition, complaint counsel claim that I do not specifically recall whether .....requested any of the information contained in the ... documents discussed in my declaration dated September 21, 2001. Complaint counsel misconstrue my prior declaration submitted in this matter.
4. I specifically remember that .....  
.....during the patent litigation between ESI Lederle, Inc. ("ESI") and Key Pharmaceuticals, Inc. ("Key"). I have no doubt that the underlying information used to

prepare certain of these .....  
.....  
.....asked .....to prepare the  
.....in order to assist .....in providing ESI with legal advice concerning  
..... I explain further on this issue below.

5. As I stated in my previous declaration, I cannot specifically recall whether  
..... requested .....to provide the information and analysis  
contained in documents bates numbered .....  
.....I do specifically recall, however, that information of this type was  
generated and discussed between ..... Indeed, I have no doubt that each  
and every document page in dispute on this motion was prepared and/or gathered by  
.....at the request of .....in connection with .....  
.....

6. In their Opposition, complaint counsel imply that .....requested  
.....to generate the documents identified above in order to provide  
business, rather than legal, advice. That implication is incorrect. During the patent  
infringement lawsuit between ESI and Key, neither .....requested any  
documentation from AHP or FSI in order to render business advice to ESI.  
....., represented ESI only in ..... legal capacities and advised ESI  
solely on legal-related issues. Any information and analysis that .....asked  
.....to prepare was to aid ..... in providing legal advice and services to  
ESI.

7. During the patent litigation between ESI and Key, .....made  
specific requests to .....

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See Exhibit A attached hereto. Documents .....  
.....  
.....

8. The parties attended another settlement conference with the magistrate on August 20, 1997. ....

.....

Documents listed numbered .....  
.....

are some or all of the analyses and back-up work prepared by ..... in connection with ..... request. These .....

.....

..... Although I do not

recall that ..... sent ..... all of his back-up work, he did send or otherwise

communicated to ..... the conclusions that he reached in these documents relating to

the ..... that ..... had requested. Following various communications with

.....

.....

..... See Exhibit B attached hereto.

9. In their Opposition, complaint counsel also incorrectly assume that ..... did not communicate to .....the information and analysis that ..... asked him and his staff to prepare during the patent litigation with Key. After .....  
.....  
.....  
Additionally, as I stated above, .....  
.....  
Although I cannot recall requesting .....to prepare the specific documents bates numbered ..... , I do specifically recall .....generated information of this type and it was discussed  
.....

10. Disclosure of the ..... documents referenced herein would reveal the substance of the various confidential discussions .....had with ..... regarding these documents.

11. In their Opposition, complaint counsel question whether ....., in fact, provided assumptions that were incorporated into documents bates numbered .....  
..... They also question why ..... would be providing .....in "what seem to be purely, business forecasts." As I have explained herein, these were not business forecasts. Let there be no doubt about it, ..... to assist ..... in providing legal advice and services to ESI in the underlying patent litigation with Key. Many of those ..... and are contained within the documents bates numbered .....

..... Stated another way, these .....documents reveal .....thought  
process and that of .....

I declare under penalty of perjury that the foregoing is true and correct.

Executed November \_\_, 2001.

Respectfully submitted,

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202 662 6291 P. 82

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December 10, 1996

**SUBJECT TO SETTLEMENT PRIVILEGE**

**VIA FACSIMILE**

Paul H. Heller, Esq.  
Kenyon & Kenyon  
One Broadway  
New York, New York 10004

Re: Key Pharmaceuticals, Inc. v. ESI-Lederle, Inc.

Dear Paul:

This letter follows up on the mediation session held in this matter by Judge Rueter on November 19 and Tony Herman's letter of December 6 to Judge Rueter.

As you know from Tony's letter, we undertook to provide you with a revised framework within which Key would be prepared to consider a settlement proposal by ESI.

That framework is as follows:

.....  
.....  
.....

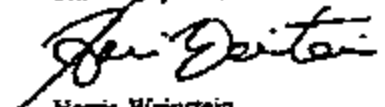
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COVINGTON & BURLING

Paul H. Heller, Esq.  
December 10, 1996  
Page 2

We hope that ESI will determine to provide Key with a proposal that reflects this proposed structure. Also, as indicated in Tony's letter to Judge Rueter, we would appreciate hearing from you within the next two weeks.

Sincerely yours,

  
Harris Weinstein

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RECEIVED, WASHINGTON OFFICE  
SEPTEMBER 24 1997

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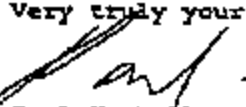
September 24, 1997

VIA FACSIMILE

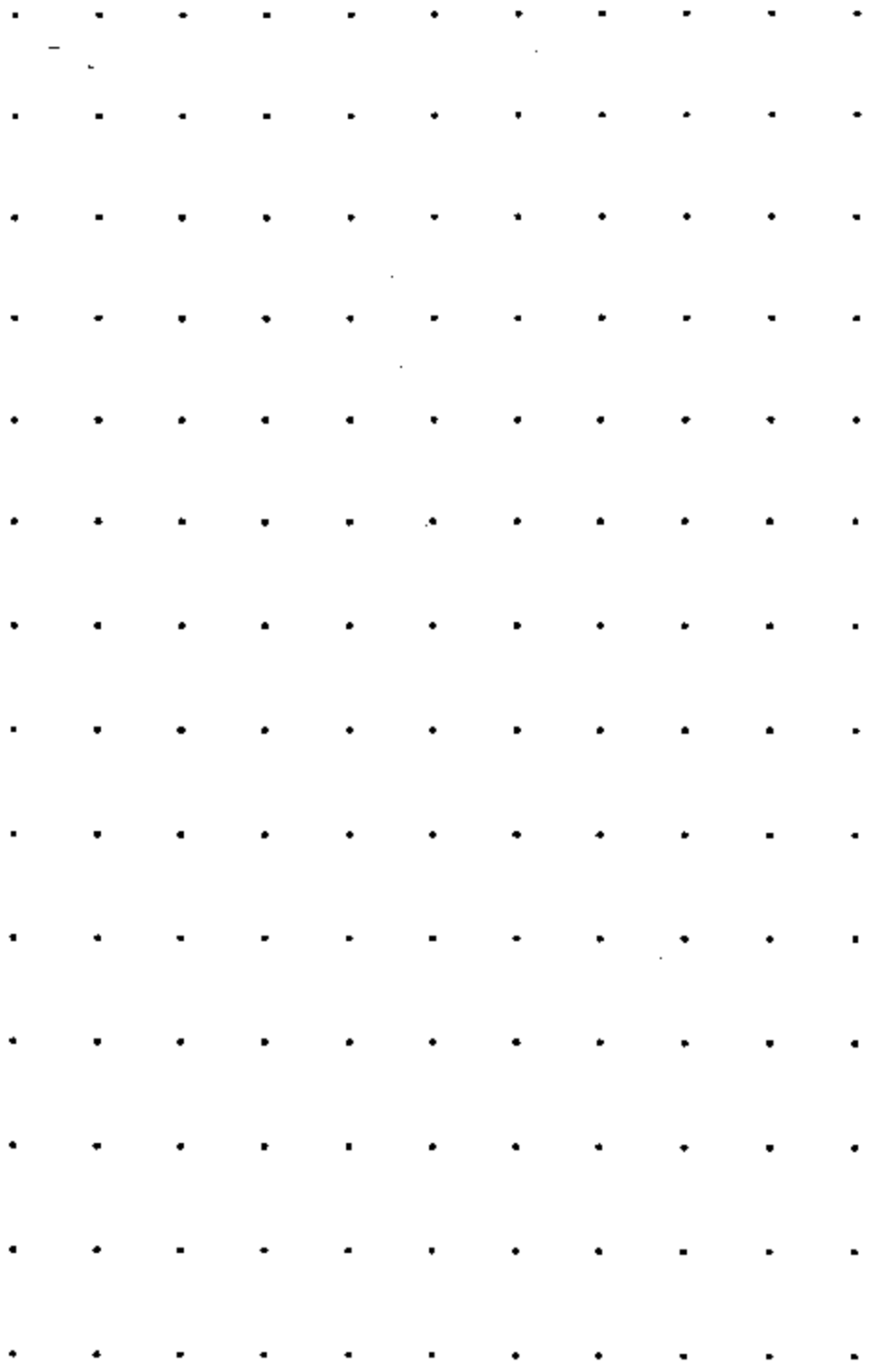
Anthony Herman, Esq.  
Covington & Burling  
1201 Pennsylvania Avenue, NW  
P.O. Box 7566  
Washington, DC 20044-7566

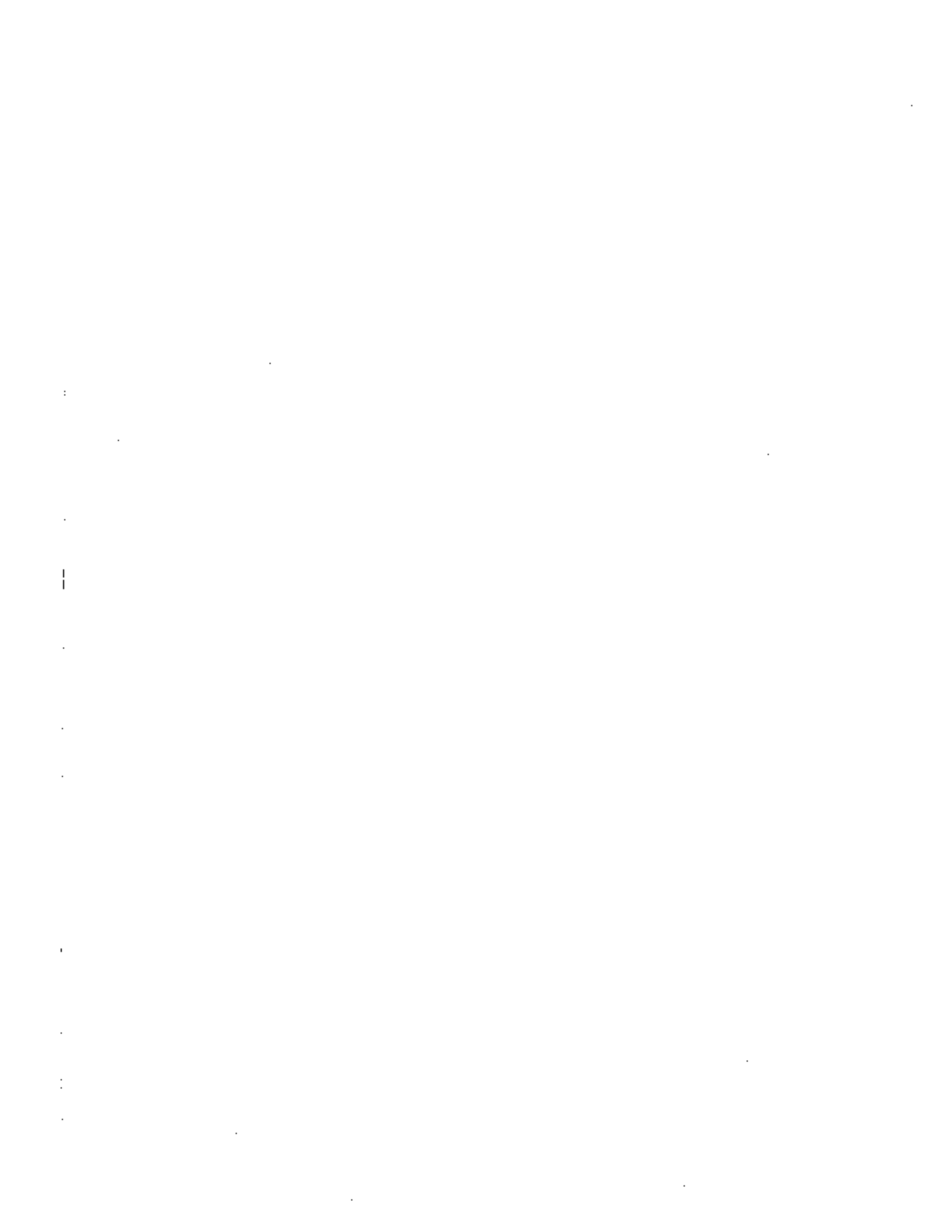
Re: Key Pharmaceuticals, Inc. v. ESI-Lederle, Inc.  
U.S.D.C., E.D. Pa. / Civil Action No. 96-1219

Dear Tony:

Very truly yours,  
  
Paul H. Keller

Enclosure





**UNITED STATES OF AMERICA  
BEFORE FEDERAL TRADE COMMISSION**

In the Matter of	)	
Schering-Plough Corporation, a corporation,	)	
Upsher-Smith Laboratories, Inc., a corporation,	)	Docket No. 9297
and	)	
American Home Products Corporation, a corporation	)	<b>PUBLIC RECORD</b>
	)	

**SUPPLEMENTAL DECLARATION OF .....IN SUPPORT OF  
RESPONDENT AMERICAN HOME PRODUCTS CORPORATION'S MOTION  
FOR A PROTECTIVE ORDER**

I, ....., declare as follows:

1. I am the .....  
.....

..... I have personal knowledge of the facts set forth herein.

2. I submit this declaration in reply to certain points made by complaint counsel in their Opposition to AHP's Motion for a Protective Order, served on October 19, 2001.

3. In their Opposition, complaint counsel question why I distributed document bates numbered .....

..... As I stated in my original declaration, .....requested that I prepare the information and analysis contained in this document in response to a request he received from AHP's

lawyers in the ongoing patent litigation between ESI and Key Pharmaceuticals, Inc. ("Key"). I sent this document to .....  
....., to provide her with the information that she would need to conduct the analysis requested by ..... As I stated in the second paragraph of the memorandum that appears at ....., I sent a copy of this document to ..... I wanted to ensure that the information that I was providing to ..... was as accurate as possible because I had instructed ..... to incorporate this information into her analysis. I did not send this document to ..... for any business purpose.

4. In their Opposition, complaint counsel assert that I have no first-hand knowledge that counsel requested the information and analysis contained in documents batches numbered .....  
....., or that such information was used in connection with the provision of legal advice. While I was not present when counsel requested the information from ....., I do recall that ..... informed me that he needed the information to respond to a request from AHP's counsel to assist them in the underlying patent litigation between Key and ESI. At the time my staff and I created these documents, we understood that they were going to be communicated confidentially to counsel. I transmitted these documents to ..... and did not discuss or circulate them to anyone other than those persons that assisted me with their preparation. I did not use these documents for any business purpose.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on November \_\_, 2001.



Respectfully submitted,

---

.....



UNITED STATES OF AMERICA  
FEDERAL TRADE COMMISSION

In the Matter of

HOECHST MARION ROUSSEL, INC.,  
a corporation,

CARDERM CAPITAL L.P.,  
a limited partnership,

and

ANDRX CORPORATION,  
a corporation.

Docket No. 9293

**RESPONDENT AVENTIS PHARMACEUTICALS, INC.'S  
MEMORANDUM IN OPPOSITION TO COMPLAINT COUNSEL'S  
MOTION REGARDING WAIVER OF PRIVILEGE**

Pursuant to Rules 3.22(c) and 3.31(d) of the Federal Trade Commission's ("FTC") Rules of Practice for Adjudicative Proceedings, 16 C.F.R. §§ 3.22(c) & 3.31(d), Respondent Aventis Pharmaceuticals, Inc., formerly known as Hoechst Marion Roussel, Inc. ("HMR"), submits this memorandum in opposition to Complaint Counsel's motion regarding waiver of privilege and to compel answers to deposition questions.

For the reasons set forth below, HMR respectfully requests that this Court deny Complaint Counsel's motion and enter a protective order: (i) compelling Complaint Counsel to return or destroy the original and all copies of the privileged document that was inadvertently produced to FTC staff; and (ii) prohibiting Complaint Counsel from using the inadvertently produced privileged document in any manner in this case.

## PRELIMINARY STATEMENT

In November, 1997, a letter containing legal analyses which was sent by outside counsel to HMR's general counsel was inadvertently produced to FTC staff during a merger investigation. HMR learned of the inadvertent production three weeks later and immediately called and wrote FTC staff advising of the inadvertent production and seeking the return of the letter. FTC refused to return the letter and said the matter was under consideration. Shortly thereafter, FTC questioned Edward Stratemeier, HMR's general counsel and the recipient of the letter, about the letter's contents. HMR's counsel refused to permit Mr. Stratemeier to answer any substantive questions about the letter once again claiming that the letter was inadvertently produced and was protected by the attorney-client and attorney work product privileges. In February, 1998, at the close of the merger investigation, HMR once again asked for the return of the letter. In March, 1998, FTC staff advised that the letter would not be returned.

On October 15, 1998, the FTC issued a Resolution Authorizing Use of Compulsory Process in a Nonpublic Investigation focusing on the Stipulation and Agreement which HMR and Andrx entered into on or around September 24, 1997. During the investigation, FTC attorneys asked James Spears, HMR's outside counsel and the author of the letter, questions concerning the letter's contents. Mr. Spears was instructed not to answer any questions relating to the letter on privilege grounds.

On March 15, 2000, Complaint Counsel filed the instant Complaint. On September 28, 2000, Complaint Counsel filed the instant motion seeking to compel Messrs. Stratemeier and Spears to answer questions concerning the letter in any upcoming depositions. According to Complaint Counsel, the letter is fair prey since any privileges attaching to the letter were waived by its production. Specifically, Complaint Counsel asserts: (i) HMR has the burden to prove the

production was inadvertent and has failed to meet its burden; (ii) even if HMR's burden has been met, a waiver has occurred under either the "strict rule" or the "case-by-case" approach for determining waiver. Complaint Counsel also contends that they have no ethical obligation to return the inadvertently produced document.

Complaint Counsel's arguments are frivolous and entirely without merit. The facts surrounding the production of the letter unequivocally show:

- neither HMR nor its counsel ever intended to waive any privilege associated with the document;
- HMR was under extreme time pressures at the time the production was made;
- the inadvertently produced document was one of over 20,000 documents produced to staff during the merger investigation;
- HMR undertook reasonable efforts, using personnel experienced in HMR document productions, to screen out privileged documents from the production;
- the document was conspicuously labeled as a privileged document and was unambiguously described as such on a privilege log HMR delivered to Commission staff shortly after the production;
- HMR took appropriate action immediately upon discovery of the inadvertent production – and continually and repeatedly thereafter – to seek return of the document and maintain its confidentiality;
- the document has not served as the basis for any motion or pleading, other than Complaint Counsel's present motion, nor has it been a subject of substantive interrogation in any deposition;
- Complaint Counsel has not specifically demonstrated any detrimental reliance on the document, nor can it demonstrate any prejudice that it may suffer from a finding of non-waiver that was not of its own making.

In determining whether waiver has occurred, the Commission and a majority of federal and state courts which have considered the issue, have applied a test which evaluates all of the circumstances surrounding an inadvertent production, including the precautions taken to protect

applicable privileges, the overall context in which the inadvertent production occurred, and the relative fairness to the parties of maintaining or waiving applicable privileges. The flexible standard that courts and Commission tribunals typically apply in inadvertent disclosure cases is intended to achieve a fair result by “strick[ing] the appropriate balance between protecting attorney-client privilege” and other valid privileges, on the one hand, and sanctioning “carelessness with privileged material as an indication of waiver,” on the other. *Gray v. Bicknell*, 86 F.3d 1472, 1484 (8th Cir. 1996). HMR respectfully submits, that when this standard is properly applied to facts surrounding the production of the privileged letter, the balance tips overwhelmingly in favor of preserving the privileges and a finding of no waiver.

## I. BACKGROUND

### A. The Rugby Investigation

In the Summer of 1997, HMR was negotiating the sale of one of its subsidiaries, The Rugby Group, Inc. (“Rugby”), to Watson Pharmaceuticals, Inc. (“Watson”). On or about August 28, 1997, HMR filed a premerger notification report pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, 15 U.S.C. § 18a (“HSR Act”) with the FTC and the U.S. Department of Justice.<sup>1</sup> On October 9, 1997, the FTC issued a request for additional information to HMR (the “Second Request”) and advised that it had commenced an investigation into HMR’s proposed sale of Rugby to Watson (FTC File No. 981-0006). Although HMR’s patent litigation with Andrx and the Stipulation were ancillary, at best, to the Rugby transaction, the Second Request specifically sought documents concerning diltiazem, the molecule which was the subject of the Stipulation.

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1. During this same time period, HMR entered into the Stipulation and Agreement with Andrx Pharmaceuticals, Inc. which serves as the basis for the Complaint in this action.

**B. Circumstances Surrounding Production of the Letter**

In an effort to expedite the expiration of the waiting period applicable to the transaction under the HSR Act, HMR approached Watson about the possibility of modifying the acquisition so that HMR would retain the Rugby diltiazem product line. It took some time to negotiate these matters with Watson, but ultimately Watson agreed to the concept in light of concerns that delays caused by the issuance of the second request would harm the competitive viability of Rugby. See Declaration of James R. Eiszner at ¶ 4 attached hereto as Exhibit 1. ("Eiszner Declaration").

Accordingly, James Eiszner, HMR's outside counsel, asked Commission staff responsible for the Rugby investigation whether, if the parties agreed to modify the acquisition agreement so that HMR retained the Rugby diltiazem business, the Commission would delete matters relating to diltiazem products from the Second Request. Mr. Eiszner also advised staff that time was of the essence as HMR and Watson had previously agreed that Watson could abandon the Rugby acquisition if the transaction did not close by November 30, 1997. Eiszner Declaration at ¶ 5.

Confident that its proposal to restructure the transaction was reasonable, HMR began to focus on obtaining information relating to matters other than diltiazem that was sought by the Second Request. In the meantime, concerns about the competitive viability of Rugby continued to grow as increasing numbers of Rugby employees resigned their positions in light of the uncertainty created by the Commission's investigation. Eiszner Declaration at ¶ 6.

On November 18, 1997, six business days prior to the walk-away date, Mr. Ingiefield finally replied staff was concerned that there was a relationship between HMR's agreement to sell Rugby to Watson and HMR's stipulation with Andrx Corporation in the HMR/Andrx patent litigation. Accordingly, he advised that a production of the diltiazem-related documents would need to be made even if the parties modified the transaction to exclude Rugby's diltiazem business from the sale. As

a result of Mr. Inglefield's demand, HMR hurriedly searched for and collected the requested diltiazem-related information from internal and outside counsel files. Eiszner Declaration at ¶¶ 7 and 8.

In a November 21, 1997 fax, HMR asked Mr. Inglefield to consider several additional modifications to the Second Request and to consider scheduling any necessary depositions for the following week in light of the November 30, 1997 walk-away date which by now was only three business days away. HMR also asked whether privilege logs were necessary for a number of the productions. Eiszner Declaration at ¶ 9.

Mr. Inglefield responded by facsimile the same day demanding that HMR produce "all non-privileged materials" and insisting that HMR "produce a privilege log covering all documents withheld from production based on a claim of privilege."<sup>2</sup> Eiszner Declaration at ¶10.

On November 21, 1997, Mr. Eiszner received over 4500 pages of documents from HMR which were responsive to the Second Request. These documents came from the files of HMR's senior executives including Edward Stratemeyer, the General Counsel. Prior to receiving these documents, several legal assistants, who routinely work on document productions and are trained and responsible for identifying potentially privileged information, tabbed those documents which they believed were privileged. Mr. Eiszner reviewed the tabbed documents to ensure that they were, in fact, privileged communications, pulled the tabbed documents from the production, had the

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2. In a Declaration attached to Complaint Counsel's Motion, Mr. Inglefield recalls he was told the production of documents from Mr. Stratemeyer's files would be delayed because of the need for a privilege review. Mr. Inglefield's recollection is in error. Mr. Inglefield was never told that the production of documents from Mr. Stratemeyer's files would delay the production of those documents because of the need for an extensive privilege review. Instead, several days after Stratemeyer Specification 20, No. 000283-291 was produced, Mr. Inglefield was told that compliance with the Quick Look would be materially delayed if submission of a privilege log that catalogued all of the privileged documents relating to patent litigations involving diltiazem to which HMR was a party were required to be prepared. Eiszner Declaration at ¶ 21.



remaining documents numbered and copied, and, because the walk-away date was three business days away, express shipped these documents to Mr. Inglefield for Saturday delivery. Eiszner Declaration at ¶ 11.

Unbeknownst to HMR and Mr. Eiszner late that Friday night when the documents were shipped to Mr. Inglefield, was the fact that one privileged document, a copy of a September 25, 1997 opinion letter sent to Mr. Stratemeier from his outside counsel, James M. Spears of Gadsby & Hannah LLP, had inadvertently not been tabbed as privileged and was therefore not pulled from the production. The inadvertently produced document bore bates number "HMRI Spec 20 Stratemeier 000283 - 291." The document was marked "CONFIDENTIAL AND PRIVILEGED ATTORNEY CLIENT COMMUNICATIONS" at the top of each page. Eiszner Declaration at ¶ 12. Mr. Eiszner had no authority to waive any privileges on behalf of HMR and neither Mr. Eiszner nor HMR had any intention of waiving the privileges attached to the inadvertently produced opinion letter. Eiszner Declaration at ¶ 13.

On December 9, 1997, a privilege log covering HMR's internal files and the files of several of HMR's outside counsel including Mr. Spears was finalized. One of the documents listed on the privilege log was the September 25, 1997 opinion letter. While this document is listed only once on the privilege log, there were multiple identical copies that had been withheld on the ground of privilege. The privilege log was sent to Mr. Inglefield on December 11, 1997, along with a Declaration from Mr. Stratemeier wherein he attested to the fact that, with the exception of privileged documents noted on the attached privilege log, HMR fully complied with the "Quick Look" procedure. Eiszner Declaration at ¶ 14.

**C. HMR's Efforts to Retrieve the Inadvertently Produced Document**

Although the Letter was clearly marked "privileged," contained numerous other indications that both demonstrated its privileged character and set it apart from the other documents produced to the FTC in the November 21 production, was easily identified on HMR's privilege log, and in content, character and context possessed numerous features that should have sounded the peal of warning bells to any reasonable and prudent attorney who cared to heed them that the document was produced by mistake and that further inquiry of HMR was appropriate, the FTC did nothing following its receipt to bring the matter to HMR's attention. Rather than notify HMR, the FTC allegedly promptly set about reviewing the document. (FTC Br. at 5, 13.)

On December 16, 1997, while reviewing the November 21, 1997 production in anticipation of the scheduled deposition of HMR's general counsel in the Rugby investigation, Mr. Eiszner discovered that the September 25, 1997 letter from Mr. Spears to Mr. Stratencier was inadvertently produced. Mr. Eiszner immediately called David Inglefield of the FTC investigative staff. Unable to reach Mr. Inglefield directly, Mr. Eiszner left a message explaining production of the letter was inadvertent, HMR did not intend to waive any privileges, and that outside counsel was not authorized to waive any privileges on behalf of HMR. Mr. Eiszner requested the FTC to immediately return the letter. He followed up with a facsimile letter the same day, which reiterated this information and reminded Mr. Inglefield that HMR had asserted that the letter was privileged on HMR's privilege log. Eiszner Declaration at ¶¶ 15 and 16.

Mr. Eiszner's December 16 call and correspondence would be the first of numerous attempts by HMR and its representatives to recover the letter and continue in place all applicable privileges. Among other things:

- On December 19, 1997, three days after his December 16 notice to FTC staff, Mr. Eiszner sent Mr. Inglefield another letter seeking the document's return and reminding the staff of its ethical obligations under District of Columbia Bar rules.<sup>3</sup>
- In a December 22, 1997 investigational hearing with Mr. Stratemeier, Mr. Eiszner again asserted the privileged nature of the letter and demanded that staff return it immediately. Mr. Eiszner did not permit Mr. Stratemeier to answer questions concerning the substance of the letter. He did, however, permit Mr. Stratemeier to answer questions concerning circumstances surrounding its production, but only after reaching a "standing agreement" on the record that answers to such questions would be "without prejudice to the issue of the inadvertent production of" the letter and without waiving any privileges. The letter was not marked as an exhibit at Mr. Stratemeier's deposition.<sup>4</sup>
- The Commission closed the Rugby investigation on or about February 10, 1998 without taking further action. By letter of February 10, 1998, Mr. Eiszner repeated his request that staff return the letter.<sup>5</sup> Two weeks after the close of the FTC's investigation, and more than two months after Mr. Eiszner first notified staff of the inadvertent production and requested that the letter be returned, FTC staff advised Mr. Eiszner that the matter was still "under review" inside the Commission.<sup>6</sup> Finally, three months to the day after Mr. Eiszner first requested that the document be returned, FTC staff finally informed Mr. Eiszner that it would not return the document.<sup>7</sup>
- On or about October 15, 1998, the Commission opened its investigation into the HMR/Andrx Stipulation and Agreement (FTC File No. 981-0368), the investigation that preceded the Complaint in this matter, and shortly thereafter it issued an investigative subpoena *duces tecum* to HMR. In responding to the Commission's subpoena, HMR withheld the letter and once again claimed it as privileged on an accompanying privilege log.
- In the course of discussions with FTC staff over its stated interest in deposing Mr. Spears in the HMR/Andrx investigation, Michael L. Koon, outside counsel to HMR and a partner of Mr. Eiszner's, wrote to FTC staff to "renew HMRI's objections to the FTC's refusal to return a privileged document which was inadvertently produced

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3. Eiszner Declaration at ¶ 17.

4. Eiszner Declaration at ¶ 19.

5. Eiszner Declaration at ¶ 20.

6. Id.

7. Id.

to the Commission in connection with" the Rugby investigation and reminding staff that, in light of the D.C. Bar rules and opinion of which Mr. Eiszner had advised the staff, "any use of this document in any manner whatsoever or the failure of the Commission staff to promptly return this document may result in the disqualification of counsel and sanctions for the attorneys involved."<sup>8</sup> When staff's reply failed even to acknowledge Mr. Koon's concerns over the inadvertently produced document, Mr. Koon tersely reminded staff in a September 14, 1999 follow-up letter that "the FTC's handling of the inadvertently disclosed privileged document" remained an open issue.<sup>9</sup>

- At a February 23, 2000 investigational hearing of Mr. Spears in the Hoechst/Andrx investigation, counsel to Mr. Spears refused to permit him to answer any questions concerning the letter. Commission investigative staff marked the letter as an exhibit to Mr. Spears' deposition over the objections of the Mr. Spears' counsel.
- Complaint Counsel included the letter on its September 8, 2000 list of confidential documents that it may use in an exhibit or document to be filed with the Court. In a memorandum in support of a motion for *in camera* treatment filed with this Court on October 6, 2000, HMR once again "assert[ed] that this [] inadvertently produced, privileged document must be immediately returned."

## II. ARGUMENT

It is beyond any reasonable dispute that the letter is privileged and was inadvertently produced.<sup>10</sup> In its Motion, however, Complaint Counsel asserts that even if the privileged letter was inadvertently produced, the privileges no longer apply since: (a) under an alleged *per se* rule, the privileges disappeared upon production regardless of inadvertence; and (b) under the case-by-case approach, the letter lost its privileges because (i) HMR did not take reasonable precautions to protect the letter; (ii) HMR waited three weeks after making the inadvertent production to notify

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8. A copy of Mr. Koon's September 1, 1999 letter to staff in the Hoechst/Andrx investigation is attached hereto as Exhibit 2.

9. A copy of Mr. Koon's September 14, 1999 letter to staff in the HMR/Andrx investigation is attached hereto as Exhibit 3.

10. Complaint Counsel does not challenge the fact that the letter is subject to the attorney-client and attorney work product privileges.

Commission staff; (iii) the production was small and its timing was within HMR's control; (iv) Commission staff read and analyzed the document before HMR's counsel demanded its return; and (v) if the letter is returned Commission attorneys would have "to pretend to forget the contents" of the letter. Complaint Counsel's arguments are specious at best.

**A. The *Per Se* Waiver and Non-Waiver Rules Do Not Apply.**

Complaint Counsel gently suggest this Tribunal should adopt a rigid *per se* rule recognized by a minority of federal courts. Under this rule, disclosure of a privileged communication, whether voluntary or inadvertent, automatically and irrevocably sweeps away all privileges otherwise attaching to the communication. (See FTC Br. at 9-10). The rule is premised on the theory that disclosure under any circumstances "breaches the confidentiality of the document and destroys the purpose of the privilege"<sup>11</sup> and that the producing party should be held accountable for errors in production.<sup>12</sup> While the *per se* rule is easy to apply, "its pronounced lack of flexibility and its significant intrusion on the attorney-client relationship"<sup>13</sup> produces harsh results in cases of inadvertent production.<sup>14</sup> Moreover, while purporting to be true to the foundations of the attorney-client privilege, the *per se* waiver rule "sacrifices the value of protecting client confidences for the sake of certainty of results."<sup>15</sup> As a result, most courts have rejected the *per se* waiver rule in favor

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11. *Asian Vegetable Res. & Dev. Ctr.*, No. 94 CIV. 6551 (RWS), 1995 WL 491491, at \*7 (S.D.N.Y. Aug. 17, 1995) ("*Asian Vegetable*").

12. *Gray*, 86 F.3d at 1483.

13. *Id.*

14. See, e.g., *Mendenhall v. Barber-Greene Co.*, 531 F. Supp. 951, 955 n.8 (N.D. Ill. 1982) (rejecting *per se* waiver rule because it "generat[es] (in much the same way as a flawed pleading in the era of common law pleading) harsh results out of all proportion to the mistake of inadvertent disclosure").

15. *Id.*; *Hydraflow, Inc. v. Enidine Inc.*, 145 F.R.D. 626, 637 (W.D.N.Y. 1993).

of the “middle-of-the-road” balancing test.<sup>16</sup> No Commission tribunal has ever embraced a *per se* waiver rule for inadvertent disclosure issues.

Not only does Complaint Counsel fail to advise this Tribunal that the *per se* waiver rule has never been applied by a Commission tribunal, Complaint Counsel also fails to advise of another *per se* rule which has been adopted by some courts. Under this *per se* non-waiver rule, an inadvertent disclosure of a privileged communication never waives the privilege.<sup>17</sup> This *per se* non-waiver rule is premised on the theory that the concept of waiver requires an intentional relinquishment of a known right by the holder of the privilege, and that, by definition, “[i]nadvertent production is the antithesis of that concept.”<sup>18</sup> Like the *per se* waiver rule, the non-waiver rule has the advantage of being relatively simple and straightforward to apply, and it furthers one of the policies of the attorney-client privilege, namely, the privilege exists to protect the client and may only be waived by or at the direction of the client (rather than as a result of counsel’s error).<sup>19</sup> Like the *per se* waiver rule, a majority of courts have rejected the *per se* non-waiver rule, finding the non-waiver rule to provide inadequate incentives to handle privileged documents with care.<sup>20</sup> And, finally, like the *per se* waiver rule, no Commission tribunal has ever adopted the *per se* non-waiver rule to resolve inadvertent disclosure disputes.

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16. *Allread v. City of Grenada*, 988 F.2d 1425, 1434 (5th Cir. 1993).

17. *See, e.g., Mendenhall*, 531 F. Supp. at 954-55; *Dunn Chemical Co. v. Sybron Corp.*, Misc. No. 8-85, 1975 WL 970, at \*5-6 (S.D.N.Y. Oct. 9, 1975).

18. *Mendenhall*, 531 F. Supp. at 955.

19. *See Gray*, 86 F.3d at 1483.

20. *See Gray*, 86 F.3d at 1483; *Asian Vegetable*, 1995 WL 491491, at \*6.

Although the *per se* non-waiver rule is as beneficial to HMR as the *per se* waiver rule is to Complaint Counsel, since neither rule is consistent with Commission precedent or the sound reasoning of a substantial majority of federal courts, HMR does not urge the application of either rule in these proceedings.<sup>21</sup>

**B. Under the Majority Rule, the Attorney-Client and Attorney Work Product Privileges were Not Waived by the Inadvertent Production of the Letter**

In recent years, as the pace, volume and complexity of modern<sup>22</sup> litigation has accelerated, courts have increasingly been called upon to decide whether a party's mistaken production of a privileged communication to its opponent in discovery effects a waiver of the attorney-client privilege or work product protection for the communication. By far the most widely adopted

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21. Complaint Counsel impliedly suggests this Tribunal should abandon precedent and adopt the *per se* waiver rule because the inadvertent disclosure "occurred" in the District of Columbia. (FTC Br. at 9.) Complaint Counsel offers no support for this assertion, however, and it is not self-evident whether disclosure would be deemed to have occurred in the District of Columbia, where Commission staff are headquartered, or in Missouri, the place at which HMR surrendered dominion and control over the documents to the Commission. Were it the latter, by Complaint Counsel's reasoning, Missouri or Eighth Circuit law would apply. Both Missouri and Eighth Circuit courts adopt the balancing test favored by most courts. See *Gray*, 86 F.3d at 1483-84; *Starway v. Independent Sch. Dist. No. 625*, 187 F.R.D. 595, 596-97 (D. Minn. 1999).

Moreover, the law of the D.C. Circuit does not control these proceedings. Although federal privilege and other evidentiary interpretations may be persuasive in Commission proceedings, the Commission adheres to its own evidentiary rules and interpretations and follows Commission precedent where such authority exists. See, e.g., 2 *Federal Trade Comm'n, Operating Manual* ch. 10.6, 10.7 (1991); cf. 16 C.F.R. § 3.31(c)(2)&(3) (FTC privilege and work product rules). As discussed herein, Commission tribunals have previously spoken on the issue of inadvertent disclosure, and have joined most courts in adopting the "middle-of-the-road" balancing test. In addition, because HMR may seek judicial review of adverse Commission action in any Circuit in which HMR resides or conducts business (see 15 U.S.C. § 45(c)) – which, in HMR's case, effectively encompasses virtually every federal circuit – Complaint Counsel's advocacy of a standard expressly rejected by most federal courts finds no support in logic or common sense.

22. Under the balancing test, courts only consider waiver of the specific document. *Parkway Gallery Furniture, Inc. v. Kittinger/Pennsylvania House Group, Inc.*, 116 F.R.D. 46, 52 (M.D.N.C. 1987). *Accord Martin v. Valley Nat'l Bank of Ariz.*, No. 89 Civ. 8361 (PKL), 1992 WL 196798, at \*4 (S.D.N.Y. Aug. 6, 1992); *Colt Indus., Inc. v. Aetna Cas. & Surety Co.*, CIV. A. No. 87-4107, 1989 WL 46189, at \*2 (E.D. Pa. Apr. 28, 1989); *International Digital Sys. Corp. v. Digital Equip. Corp.*, 120 F.R.D. 445, 446 n.1 (D. Mass. 1988). Inasmuch as Complaint Counsel is not seeking waiver beyond the letter itself, no discussion of scope is necessary. (See FTC Br. at 15).

standard for determining questions of waiver in cases of inadvertent production<sup>23</sup> – and the one previously embraced by Commission tribunals<sup>24</sup> – is a balancing test, referred to as the “middle-of-the-road,” “case-by-case,” “balancing” or “totality of the circumstances” test. These “tests” represent an attempt by Commission and the judiciary to reach a fundamental fairness<sup>25</sup> and a recognition of the potential for human error in complex, accelerated and document-intensive proceedings<sup>26</sup> and the important societal interests served by these privileges in encouraging citizens to seek legal guidance to conform their conduct to the law.<sup>27</sup> The appeal of these tests lay in their flexibility, permitting courts to consider the totality of the circumstances surrounding a particular inadvertent production on a case-by-case basis and make decisions that are fair and just under the particular circumstances. As the Eighth Circuit noted,

This test strikes the appropriate balance between protecting attorney-client privilege and allowing, in certain situations, the unintended release of privileged documents to waive that privilege. The [balancing] test is best suited to achieving a fair result. It accounts for the errors that inevitably occur in modern, document-intensive litigation, but treats carelessness with privileged material as an indication of waiver. The [balancing] test provides the most thoughtful approach, leaving the trial court broad discretion as to whether waiver occurred and, if so, the scope of that waiver.

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23. See, e.g., *Asian Vegetable*, 1995 WL 491491, at \*7.

24. See, e.g., *Atlantic Richfield Co.*, 1978 FTC Lexis 560 (Sept. 12, 1978).

25. See, e.g., *Baker's Aid v. Hussmann Foodservice Co.*, No. CV 87-0937 (JMM), 1988 WL 138254, at \*6 (E.D.N.Y. Dec. 19, 1988).

26. See, e.g., *Gray v. Bicknell*, 86 F.3d at 1483.

27. See, e.g., *Kansas City Power & Light Co. v. Pittsburg & Midway Coal Mining Co.*, 133 F.R.D. 171, 174 (D. Kan. 1989).



*Gray*, 86 F.3d at 1484.<sup>28</sup> The balancing test favors neither party and is fair to both. It not only is the test that has been used in Commission proceedings, but is also consistent with a more generalized Commission sensitivity toward avoiding the potentially harsh consequences of a waiver of privilege in circumstances arising from human error and inadvertence.<sup>29</sup>

For these reasons, HMR respectfully submits that the balancing test is best suited to facilitate the efficient and proper conduct of this Commission proceeding.

**1. Application of the “Totality of the Circumstances” Test Unequivocally Shows There Was No Waiver in This Case**

In considering whether a party has waived applicable privileges by the inadvertent disclosure of an otherwise privileged document, courts typically evaluate the totality of the circumstances surrounding the inadvertent disclosure<sup>30</sup> under the rubric of a five-factor balancing test. The factors considered include: (1) the reasonableness of the precautions undertaken to prevent inadvertent disclosure; (2) the time taken to rectify the error; (3) the scope of the discovery; (4) the extent of the disclosure; and (5) the “overreaching issue of fairness and the protection of an appropriate privilege.” *Lois Sportswear, U.S.A., Inc. v. Levi Strauss & Co.*, 104 F.R.D. 103, 105 (S.D.N.Y. 1985); *see also*

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28. *See also Allread*, 988 F.2d at 1434; *Asian Vegetable*, 1995 491491, at \*7 (“This rule best reconciles the principles underlying the attorney-client privilege with the realities of the discovery process in complex litigation.”).

29. *See, e.g., Harold Honickman*, 1990 FTC Lexis 61, at \*8 (Apr. 3, 1990) (providing, in court’s Order for the Protection of Confidential Documents and Information, that “[t]he inadvertent disclosure of privileged documents or information by a party or its counsel shall not constitute a waiver of any applicable privilege”); *cf. National Dietary Res., Inc.*, 1994 FTC Lexis 126, at \*1, 6 (July 18, 1994) (noting that protective order, which includes provision that “[i]nadvertent production of documents or information which do not contain a designation of confidential will not waive a party’s claim that the documents or information are confidential or estop a party from designating the documents or information confidential at a later date” – “comports with existing law regarding the treatment of confidential information” and “provides adequate safeguards against unauthorized disclosure of such information”).

30. *See, e.g., Telephonics Corp. v. United States*, 32 Fed. Cl. 360, 361 (1994) (“All circumstances that surround an inadvertent disclosure must be considered.”).

*Gray*, 86 F.3d at 1484; *Kansas City Power & Light Co. v. Pittsburg & Midway Coal Mining Co.*, 133 F.R.D. 171, 172 (D. Kan. 1989) (“*KCP&L*”). No single factor is determinative. The reviewing court must weigh all relevant circumstances on a case-by-case basis.

When these factors are considered in this case, it is clear that the inadvertent production of the letter HMR did not operate to waive the attorney-client or attorney work product privileges.

**a. The Precautions Taken by HMR were Reasonable**

In applying the balancing test, “inadvertent production will not waive the privilege unless the conduct of the producing party or its counsel evinced such extreme carelessness as to suggest that it was not concerned with the protection of the asserted privilege.” *Desai v. American Int’l Underwriters*, No. 91 CIV. 7735 (LBS), 1992 WL 110731, at \*1 (S.D.N.Y. May 12, 1992).<sup>31</sup>

Here, the procedures adopted by HMR to protect its privileged documents were reasonable. HMR used trained and experienced paralegal personnel to collect and review responsive documents. These personnel had significant prior experience with the collection and privilege review of HMR’s internal files. They were familiar with the company as well as the types and locations of documents responsive to the Second Request. In light of the time pressures HMR faced, these individuals were well suited to identify privileged documents in HMR’s internal files in the most efficient manner. Moreover, once the initial review was in place, the identified privileged documents were then reviewed by outside counsel to confirm that a privilege applied. The procedures HMR put in place to control the production and review for privileged documents were very successful. In this ongoing

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31. See also *Asian Vegetable*, 1995 WL 491491, at \*7 (most courts hold that inadvertent disclosure waives attorney-client privilege “only if the disclosing party failed to take reasonable steps to maintain the confidentiality of the assertedly privileged documents”); *KCP&L*, 133 F.R.D. at 174 (“If the attorney-client privilege is to serve its purpose of fostering attorney-client communications, then documents inadvertently produced should not lose their privileged status without some substantial reason.”).

rolling production that ultimately produced some 20,000 pages of documents, only one privileged document, totaling nine pages, inadvertently slipped through.

The record further demonstrates the time pressures HMR faced at the time of the Second Request. Hopeful that the “quick look” review could be completed before the “walk away” date was triggered, HMR began a rolling production as it continued to negotiate with staff. When the last of its attempts to bring the scope of staff’s requests within reasonable limits failed -- with 6 business days remaining before the November 30 “walk-away” date and an ongoing “brain drain” of employee resignations from Rugby – HMR stepped up its efforts to collect, review and produce non-privileged responsive documents. Within 24 hours of its failed last attempt to limit the scope of staff’s requests, HMR had collected, reviewed and produced to Commission staff roughly one-third of the remaining internal HMR documents which were responsive to staff’s request, a collection totaling some 4,500 pages.<sup>32</sup>

Moreover, the letter was always treated by HMR and its counsel as subject to the attorney-client and attorney work product privileges. At the time the letter was created, counsel conspicuously marked each page with a privilege legend and accompanied this with enough other indicia of the document’s privileged character to put the recipient on notice of the validity of the asserted privileges. The facial and contextual features of this document were more than adequate to cause a reasonably prudent recipient of this document during the course of an accelerated document production to question whether its production was voluntary and knowing.<sup>33</sup>

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32. Outside counsel also coordinated the production that same day of another 1,000 pages of materials from outside patent counsel and had begun the process of collecting and producing in the coming days an additional 12,500 additional pages of responsive materials.

33. See *Telephonics Corp.*, 32 Fed. Cl. at 361-62 (document that “was stamped with an appropriate protective legend in bold capital letters so that even someone taking a cursory review of the document would recognize (continued...)”)

HMR also buttressed facial indications of privilege with the clear and unambiguous identification of the letter on the privilege log it produced in the Rugby investigation. "Including privileged material on a privilege log puts the opposing party on notice that if any document listed on the log is produced, its production was inadvertent and the document should be returned." *Liz Claiborne, Inc. v. Mademoiselle Knitwear, Inc.*, No. 96 Civ. 2064, 1996 WL 668862, at \*4 (S.D.N.Y. Nov. 19, 1996).<sup>34</sup>

Finally, it is undisputed that neither HMR nor its outside counsel intended to waive the privileges attaching to the document. Contrary to the suggestion in Complaint Counsel's brief (FTC Br. at 7-8), the intent of the disclosing party is one element that should be factored into the Court's evaluation of the totality of the circumstances. *See, e.g., Telephonics Corp. v. United States*, 32 Fed. Cl. 360, 362 (1994); *Lois Sportswear, U.S.A., Inc.*, 104 F.R.D. at 106; *KCP&L*, 133 F.R.D. at 174 (in applying balancing test, court factors in "the modern trend that focuses on the intent of the producing party"); *cf. Zapata v. IBP, Inc.*, 175 F.R.D. 574, 576 (D. Kan. 1997) (disclosure of work product "was inadvertent, inasmuch as such disclosure was not intended by IBP's attorneys"); *Baker's Aid v. Hussmann Foodservice Co.*, No. CV 87-0937 (JMM), 1988 WL 138254, at \*6 (E.D.N.Y. Dec. 19, 1988) ("A predominant theme of all these [inadvertent production] cases is one of fundamental fairness. It is for this reason that I must accord great weight to defendants [*sic*] subjective intent in producing the [privileged] document." (citation omitted)). As Judge Sweet of

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33. (...continued)

the protected nature of the material" put recipient on notice that further inquiry might be appropriate and constituted an element supporting court's finding of "reasonable and careful" procedures).

34. *See United States v. Pepper's Steel & Alloys, Inc.*, 742 F. Supp. 641, 642-43, 645 (S.D. Fla. 1990) (facts that inadvertently produced documents were included on producing party's privilege log and that it was clear on the face of the documents that they were privileged supported finding that producing party "made every effort to protect its privilege").

the Southern District of New York has pointed out, the Proposed Rules of the Federal Evidence concerning attorney-client privilege, which “were approved by the Supreme Court and are accepted as a restatement of the law applied in the federal courts,” emphasizes intent as a factor in the creation of the privilege and “would appear to make that factor equally crucial to destruction of the privilege through forfeiture.” *Lois Sportswear, U.S.A., Inc.*, 104 F.R.D. at 106.<sup>35</sup>

**b. HMR Attempted to Retrieve the Letter Immediately Upon Discovering its Inadvertent Production.**

Complaint counsel argues that the privilege should be waived because HMR waited until three weeks after the production to notify FTC staff of the inadvertent production. Complaint Counsel misstates the proper inquiry. The issue is not whether HMR waited one day, one week or one year after *producing* the document to before notifying the FTC of the inadvertent production,<sup>36</sup> the issue is whether HMR acted promptly to retrieve the document after *discovering* the inadvertent production.<sup>37</sup> As the record demonstrates, the letter was inadvertently sent to FTC staff on

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35. Complaint Counsel hypothesizes that HMR’s production of the letter was not inadvertent and was intended as a means of obtaining some sort of strategic advantage. Complaint Counsel fails to define or describe, much less support these statements with any hard evidence. (See FTC Br. at 2, 8, 14-15.) The record, in fact, contradicts Complaint Counsel’s hypothetical ruminations. HMR never sought to use the letter or the information contained in it during the Rugby investigation, during the Commission’s investigation that preceded these proceedings, during these proceedings, or at any other time. To the contrary, HMR immediately sought to retrieve the document upon discovery of its disclosure and repeatedly thereafter, HMR claimed the document on its privilege log and repeatedly removed copies of the letter from its productions to the FTC whenever such copies were found, and HMR’s representatives have refused to answer deposition questions concerning the letter in both the Rugby investigation and the investigation that preceded these proceedings.

36. See, e.g., *Asian Vegetable*, 1995 WL 491491, at \*7 (actions taken promptly after discovering erroneous production, which was within two weeks after making privileged documents available to opposing counsel, held sufficiently prompt upon balancing of *Lois Sportswear* factors); *Bayer AG v. Barr Labs., Inc.*, No. 92 Civ. 0381 (WK), 1994 WL 705331, at \*3 (S.D.N.Y. Dec. 16, 1994) (where only apparent specific use of inadvertently produced documents was to prepare a motion based on their contents, producing party did not behave negligently in waiting more than one year before moving to compel return of the documents).

37. See, e.g., *In re Southeast Banking Corp. Secs. & Loan Loss Reserves Litig.*, 212 B.R. at 393 (prompt action to rectify found where, “after it learned of the inadvertent disclosure, [the producing party] immediately and persistently took steps to recover the documents”); *Chavez v. Illinois State Police*, No. 94CV5307, 1996 WL (continued...)

November 21, 1997. On December 16, 1997, while reviewing the November 21 production in the course of preparing HMR's general counsel for an investigational hearing requested by FTC staff, Mr. Eiszner discovered the inadvertent production of the letter.<sup>38</sup> Mr. Eiszner immediately attempted to call David L. Inglefield, one of the principal FTC staff attorneys assigned to the Rughy investigation. Upon reaching Mr. Inglefield's voicemail, Mr. Eiszner left a message explicitly advising him that the letter had been inadvertently produced and requesting the return of the produced copy and all copies made by FTC staff. Mr. Eiszner followed this call with a letter, which he sent by facsimile to Mr. Inglefield that same day, in which he unambiguously identified the letter, reiterated that the document had been inadvertently produced to the FTC, directed Mr. Inglefield's attention to HMR's explicit claims of attorney-client privilege and work product protection on HMR's privilege log to the FTC, and again requested return of the document.

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37. (...continued)  
65992, at \*2 (N.D. Ill. Feb. 12, 1996) (producing counsel found to have acted promptly to rectify when he "called [recipient's] attorney as soon as he was aware of the error - the evening he arrived from his vacation" - and counsel "called [recipient's] attorney again the next day, and finally spoke to him the following day"); *KCP&L*, 133 F.R.D. at 172 (noting that "the relevant time should begin when plaintiff discovered or with reasonable diligence should have discovered the inadvertent disclosure" because the producing party "could not have taken action to rectify the error until it learned of it," court finds that actions by producing party to rectify inadvertent disclosure 14 months after production but two weeks after producing party's discovery of the error constituted action "within a reasonable amount of time"); *Data Sys. of N.J., Inc. v. Philips Bus. Sys.*, No. 78 Civ. 6015-CSH, 1981 U.S. Dist. Lexis 10290, at \*17 (S.D.N.Y. Jan. 8, 1981) (finding no slothfulness where "plaintiffs' counsel raised the claim as soon as the matter was brought to his attention").

38. Mr. Eiszner's discovery was obviously inconvenient to FTC staff. During the entire period that staff possessed the letter, it never once brought the matter to HMR's attention, despite the fact that each page carried a privilege legend, HMR had clearly claimed attorney-client and work product protection for the document on its privilege log, and FTC investigative staff remained in contact with HMR's counsel as to related matters throughout this period. With an investigational hearing of the letter's only recipient scheduled to occur on December 22, 1997, FTC staff evidently hoped to use the letter to "bushwhack" Mr. Stratencier, and perhaps resolve any issue of inadvertent disclosure by effecting a waiver from an unwary deponent at deposition. This Court should not sanction such questionable litigation tactics. "Such a result would give recognition and reward to defendant's sharp practices at the examination, and is contrary to standards reasonably pertaining to discovery conduct." *Telephonics Corp.*, 32 Fed. Cl. at 362.

Three days later, on December 19, 1997, Mr. Eiszner again sent Mr. Inglefield another letter, repeating his request for the return of the letter and all copies. Mr. Eiszner reminded Mr. Inglefield that the letter was included on HMR's privilege log and the FTC was notified of the error immediately upon discovery. He further advised Mr. Inglefield that FTC staff had an ethical obligation to not review the privileged document and to return it to HMR.

Three days after that, on December 22, 1997, Mr. Eiszner stated on the record of Mr. Stratemeier's deposition that FTC staff was required to return the inadvertently produced document. Mr. Eiszner did not permit the FTC to question Mr. Stratemeier concerning the letter, and permitted questioning as to the Stipulation only after FTC staff agreed on the record that such questioning would not be deemed to constitute a waiver of privilege as to the letter.<sup>39</sup>

Accordingly, HMR's actions to recover the letter were taken promptly upon learning of the inadvertent disclosure. No waiver should be found on these facts.<sup>40</sup>

**c. HMR Was Not Required to Provide the FTC with a Detailed Factual Explanation of the Circumstances of the Inadvertent Production**

Throughout its Brief, Complaint Counsel asserts that the privileges no longer apply since HMR never produced evidence to the FTC's satisfaction of the circumstances surrounding the inadvertent production. (FTC Br. at 1, 5, 8-9, 11). Complaint Counsel's assertions are disingenuous and misleading. First of all, FTC staff never asked for a detailed factual explanation of the circumstances surrounding the inadvertent production. Moreover, the law neither imposes such an

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39. See *Desai*, 1992 WL 110731, at \*1 ("once defendants learned, in the course of a deposition, of the disclosure of the document, they promptly invoked the privilege and refused to permit the deposition witness to answer any questions about it. This is not tantamount to a waiver.")

40. See, e.g., *Asian Vegetable*, 1995 WL 491491, at \*7; *Bayer AG*, 1994 WL 705331, at \*3; *In re Southeast Banking Corp. Secs. & Loan Loss Reserves Litig.*, 212 B.R. at 393; *Chavez* 1996 WL 65992, at \*2; *KCP&L*, 133 F.R.D. at 172; *Data Sys. of N.J., Inc.*, 1981 U.S. Dist. Lexis 10290, at \*17; *Telephonics Corp.*, 32 Fed. Cl. at 362; *Desai*, 1992 WL 110731, at \*1.

obligation on HMR, nor creates the adverse “presumption” which Complaint Counsel now contends. In addition, the sources cited by Complaint Counsel in support of this proposition merely address who has the burden of persuasion in the event of a motion to compel or motion for protective order.<sup>41</sup> HMR was obligated to assert the privilege and to seek return of the document from the FTC reasonably promptly following its inadvertent production and to refrain from answering deposition questions or responding to other discovery requests directed at the substance of the letter. That is exactly what HMR did.<sup>42</sup>

On the other hand, FTC staff counsel, who practice in the District of Columbia, violated their ethical obligations to call to HMR’s attention the inadvertently produced letter and return the document and all copies upon HMR’s request. As Complaint Counsel acknowledges in its opening brief, the District of Columbia Bar has recently spoken on this issue. In a 1995 ethics opinion, the D.C. Bar determined, in pertinent part, that

where the receiving lawyer has not examined the misdirected material before gaining knowledge of the inadvertence of the disclosure, it is our opinion that the lawyer should, at a minimum, seek guidance from the sending lawyer and, if that lawyer confirms the inadvertence of the disclosure and requests return of the material, unread, the receiving lawyer should do so.

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41. See, e.g., *IBM v. United States*, 37 Fed. Cl. 599, 605 (1997) (producing party’s failure “to educate the court about its screening procedures” was fatal to its motion for a protective order (emphasis added)); *Amgen, Inc. v. Hoechst Marion Roussel, Inc.*, 190 F.R.D. 287, 289 (D. Mass. 2000), *appeal dismissed*, Nos. 610 and 611, 2000 WL 290346 (Fed. Cir. Feb. 25, 2000), and *appeal dismissed*, No. 00-1230, 2000 WL 290804 (Fed. Cir. Mar. 3, 2000) (on motion to compel return of documents, producing party has burden to demonstrate no waiver); *Golden Valley Microwave Foods, Inc. v. Weaver Popcorn Co.*, 132 F.R.D. 204, 207 (N.D. Ind. 1990) (same); 2 Paul R. Rice, *Attorney-Client Privilege in the United States* § 9:72, at 320, 328 (2d ed. 1999) (describing burden of persuasion in litigated cases).
42. For example, HMR has once again included the letter on its privilege log in this action, and Mr. Spears, the author of the letter, refused to answer questions concerning the letter at his investigational hearing in the investigation that culminated in the Commission’s Complaint.



Legal Ethics Comm. of the D.C. Bar, Op. No. 256 (1995). As the Bar Opinion notes, the critical factors in determining a lawyer's ethical duty in cases of inadvertent disclosure rests with "the receiving lawyer's knowledge of the inadvertence of the disclosure" and his "good faith" in utilizing the document. "Thus, for example, *where the document has no facial or contextual indication of privilege* and the receiving lawyer has not learned of its inadvertent disclosure, the receiving lawyer who reads such a document commits no breach of ethics." *Id.* (emphasis added).

The letter carried *both* facial *and* contextual indications of privilege. Each page was conspicuously marked "Confidential and Privileged Attorney Client Communications." The letter was transcribed on law firm stationery, specifically identified the recipient as the general counsel of HMR, specifically identified the author (who, as a former FTC general counsel, was well known to be a member of the bar), and specifically identified the litigation to which it pertained. Even if all these features, readily identifiable from a cursory glance, did not commence the ringing of warning bells, the document's introductory paragraph, which indicated that the letter responded to a request by HMR for legal advice, should have signaled prudent and conscientious counsel to proceed no further. Its inclusion on HMR's privilege log provided further confirmation to FTC staff that the production of the document was a product of inadvertence.

Everything about the letter ought to have put Commission staff on inquiry.<sup>43</sup> Staff's failure to seek guidance from HMR as to the inadvertence of the document's disclosure in the face of such tell-tale signs of inadvertence, and in light of the time sensitivities repeatedly expressed by HMR to Commission staff, is contrary to both the staff's ethical obligations and professional litigation practice.<sup>44</sup>

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43. Complaint Counsel cites to a footnote in the Bar Opinion in support of its assertion that its silence and inaction in the face of these numerous warning signs were appropriate because the letter was produced to Commission staff as part of a larger production of documents by HMR. (FTC Br. at 13-14.) When taken in context, however, the language from the Bar Opinion cited by Complaint Counsel does not support Complaint Counsel's proposition. As the footnote makes clear, in circumstances where the only potential sign of inadvertence is a privilege legend and such legend has been indiscriminately used, the legend loses its legal significance and "the receiving lawyer may be entitled to assume with respect to the document was being voluntarily waived." Legal Ethics Comm. of the D.C. Bar, Op. No. 256, n.12 (1995) (emphasis added). Here, by contrast, the privilege legend was just one of a series of facial and contextual features that put FTC staff on notice of its inadvertent production, those features confirmed that the document was privileged and that the privilege marking was not used "without regard to whether the document was actually entitled to some legal evidentiary privilege" (*id.*), and the "privilege" stamp was not indiscriminately used in the production. As the collection of facial and contextual characteristics makes clear, Complaint Counsel's suggestion that "[n]othing suggested that the letter was not intended to be included in the production" (FTC Br. at 14) is without foundation.

44. See *Telephonics Corp.*, 32 Fed. Cl. at 361-62 (criticizing defendant-recipient's failure to act following inadvertent disclosure of privileged document by producing plaintiff as part of larger document production; "Notwithstanding plaintiff's steps to mark the document and notify defendant of its intent not to produce privileged material, and notwithstanding plaintiff's counsel being on site during the actual production or otherwise available, defendant did not alert plaintiff when it found the [privileged document]. Instead, defendant shared the document with its several representatives at the production and took notes on the document."); *First of America Bank*, 868 F. Supp. at 220 (where seven-page, clearly marked litigation strategy letter from attorney to client was inadvertently produced to RTC, "common sense and a high sensitivity toward ethics and the importance of attorney-client confidentiality and privilege should have immediately caused the [RTC's] attorneys to notify defendant's counsel of his office's mistake. . . . While lawyers have an obligation to vigorously advocate the positions of their clients, this does not include the obligation to take advantage of a clerical mistake in opposing counsel's office where something so important as the attorney-client privilege is involved."); *Hydraflow, Inc. v. Enidine Inc.*, 145 F.R.D. 626, 638 (W.D.N.Y. 1993) (noting that, even while asserting waiver, "Defendant's counsel promptly, and commendably, . . . informed the court and Plaintiff's counsel that the [privileged] documents [that were the subject of a motion to compel filed by defendant] filed with the court . . . had also been delivered to his office"); *Pepper's Steel & Alloys, Inc.*, 742 F. Supp. at 645 (critical of recipient's failure to return privileged documents mistakenly included in larger document production; "At best, these situations are resolved amicably, by counsel returning documents which are obviously privileged and inadvertently produced. It is unfortunate that such could not be the case here and that the Court was forced to expend a great deal of time on this relatively minor matter. However, such has been the case throughout the course of this litigation."); see also *In re Southeast Banking Corp. Secs. & Loan Loss Reserves Litig.*, 212 B.R. at 396 (counsel given access to documents should have known from circumstances "that he had accidentally come into possession of privileged materials" and "admit[ted] that the documents were conspicuously labeled as confidential and privileged," but nevertheless failed to notify producing party (continued...))

**d. Waiver is Inappropriate Since Only One Document Among a Significant, Accelerated and Time-Sensitive Production was Inadvertently Produced**

The “scope of discovery” element is intended to evaluate the volume of discovery between the parties as compared to the amount of privileged material inadvertently disclosed in the matter. *See Asian Vegetable*, 1995 WL 491491, at \*7. The inadvertent disclosure here occurred in the late stages of a rolling production that produced approximately 20,000 pages of documents. Only one copy of one privileged document – a nine-page legal opinion letter – fell through the cracks when it was produced as part of a set of documents that were collected, reviewed by Legal Department personnel for privilege, Bates-stamped, copied and sent to FTC staff in a 24-hour period.

The November 21 stage of the production was accelerated because, by the time the FTC had responded to HMR’s repeated efforts to modify the transaction and/or the scope of the second request to expedite antitrust clearance of the Rugby transaction, HMR was facing a “drop dead” provision in its sale agreement that would go into effect less than 10 days from the production date. HMR also felt pressured to produce documents quickly because each day of delay beyond this “walk-away” date was expected to result in an erosion of Rugby’s value as key personnel responded to the uncertainty presented by FTC’s drawn-out review.

When viewed in light of the significant volume of documents collected (both internally and from outside sources such as outside counsel and securities professionals) and reviewed by HMR in-house and outside legal personnel and produced to the FTC in the few weeks following the determination of the scope and procedures of the “quick look” review, HMR’s inadvertent

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44. (...continued)  
(FDIC) of disclosure and made copies of privileged documents; recipient discounted conspicuous privilege legend on the grounds that “the FDIC would have put that label on a roll of toilet paper”; court concludes that “[t]his type of conduct is unacceptable”).

production of a single nine-page privileged document constitutes “a relatively small number of privileged documents [that] were disclosed in comparison to the total number of documents produced.” See *Asian Vegetable*, 1995 WL 491491, at \*7; see *Starway*, 187 F.R.D. at 596-97 (inadvertent production of four-page memorandum from attorney to client that was conspicuously labeled attorney-client privileged as part of a document production that totaled approximately 541 pages – which the court called “a significant number of documents” – in response to 10 requests for production did not give rise to waiver of privilege as to that document).<sup>45</sup>

**e. The Letter Has Not Played Any Significant Role in this Case**

The fourth factor, concerning the “extent of the disclosure,” considers the extent to which the document has been incorporated into the recipient’s case preparation at the time the disclosing party brought its error to the recipient’s attention. See, e.g., *In re Grand Jury Investigation*, 142 F.R.D. at 281. Courts typically evaluate the extent to which the recipient has incorporated privileged materials into its case preparation, such as by use at deposition or as an integral part in framing dispositive motions.<sup>46</sup>

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45. See also *In re Grand Jury Investigation*, 142 F.R.D. 276 (M.D.N.C. 1992) (no waiver by inadvertent disclosure where 18 privileged documents produced out of 22,000 pages of documents produced); *Lois Sportswear, U.S.A., Inc.*, 104 F.R.D. at 105 (no waiver by inadvertent disclosure where 22 privileged documents produced out of 16,000 pages of documents reviewed); *Data Sys. of N.J., Inc.*, 1981 U.S. Dist. Lexis 10290, at \*9-17 (no waiver by inadvertent disclosure of “only one five-page document” amidst a production requiring review of “thousands of documents”); see generally 2 Paul R. Rice, *supra* § 9:72, at 333-34 (“the fewer the number of undetected privileged communications relative to the total volume of production, the more conscientious the client seems to have been”).

46. See, e.g., *Zapata*, 175 F.R.D. at 578 (“extent of disclosure” element does not support waiver where “the use of [the privileged material] has been minimal” and “the brief questioning by [opposing counsel] during . . . deposition [of disclosing party’s expert] is the only use of the [privileged material] in the entire case”); *Hydraflow, Inc.*, 145 F.R.D. at 637-38 (noting that court must consider “[t]he degree to which the disclosed information has been allowed to ‘weave itself into the fabric’ of pre-trial discovery so as to create reliance by the opponent,” failure to demonstrate that inadvertently disclosed documents “have become directly involved in the discovery process” results in conclusion that “there is no showing of any significant reliance on the documents”); *In re Grand Jury Investigation*, 142 F.R.D. at 281 (documents inadvertently produced to government investigator that had not been presented to grand jury nor shown to witnesses or experts “have not  
(continued...)”).

Here, the letter was produced during a merger investigation which was unrelated to this case. In fact, FTC staff was aware of HMR's inadvertent production claim (December 16, 1998) ten months before FTC began its formal investigation into the Stipulation and Agreement (October 15, 1998) and fifteen months before it filed the instant Complaint (March 15, 2000). Thus, FTC was well aware of the inadvertency of the production long before it commenced this case. Moreover, it begs to be noted that the letter was introduced as an exhibit in Mr. Stratemeier's deposition in the Rugby investigation and in a deposition of Mr. Spears in the investigation that preceded the Commission's Complaint. Counsel for HMR objected to staff's use of the document in each case and neither deponent was permitted by counsel to answer any questions concerning the substance of the letter.<sup>47</sup> While Complaint Counsel has included the letter on its list of confidential documents that it may later include in a motion or other document to be filed with the Court, to date the document has not been referred to in any motion, pleading or other document in these or any other proceedings. Finally, the letter has not been identified as a document upon which any party's expert has relied. Under these circumstances, disclosure must be considered to be minimal.

Complaint Counsel suggests that the letter has permeated this case because Commission attorneys have "read and analyzed" it (FTC Br. at 11, 12, 13). Yet Complaint Counsel cannot point to a single deposition, pleading, motion, or other concrete aspect of this case in which the letter has

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46. (...continued)  
worked their way into the fabric of the case," thereby minimizing extent of disclosure); *KCP&L*, 133 F.R.D. at 172-73 (on balance, extent of disclosure weighs against waiver where (i) one privileged document, though identified in one deposition, was met with objection from disclosing party's counsel and testimony concerned foundational and incidental, rather than substantive, details of the document and (ii) though the privileged documents were allegedly used to prepare an amended counterclaim, the documents were neither crucial to nor even referred to in such counterclaim).

47. See FTC Br. at 15.

played a significant, much less critical, role.<sup>48</sup> Regardless, intensive review is not the same as extensive disclosure. *KCP&I*, 133 F.R.D. at 173. Since the letter “ha[s] not worked [its] way into the fabric of th[is] case” and can therefore “be protected from becoming, in [itself], evidence in the case,”<sup>49</sup> the extent of disclosure in this case tips decidedly in favor of preserving the letter’s privileges.

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48. In its brief, Complaint Counsel describes the letter as “a critical document” (FTC Br. at 12), yet nowhere demonstrates any concrete, significant role that the document has played in any deposition, motion, filing with this Court, or any other objective indicator of case preparation. Such bare, unsupported hyperbole carries no weight in determining whether the privileges attaching to the letter will be waived.

49. See *In re Grand Jury Investigation*, 142 F.R.D. at 281.

**f. Considerations of Fairness Demand that the Privileges Attaching to the Opinion Letter be Preserved.**

Finally, HMR respectfully submits that fundamental fairness and the interests of justice demand that the attorney-client privilege and work product protection be preserved for the letter and that Complaint Counsel be prohibited from retaining the document or using it in its case.

**i. A Waiver of Privileges Would Prejudice HMR and Ultimately Impair the Commission's Performance of its Investigative Activities.**

This document contained all the earmarks of an inadvertent production – from the privilege header, to the identity of the correspondents, to the case caption, to the explicit response to a request for advice, to its listing on HMR's privilege log – and a prudent recipient would have been alerted by these glaring “red flags.” Rather than notify, and seek guidance from, HMR, however, Commission counsel allegedly spent three weeks reviewing the document before HMR's counsel discovered the inadvertent production and sought the document's return. By failing to notify HMR of its receipt of such an auspicious document, Commission staff deprived HMR of the very meaningful opportunity to object that Complaint Counsel now alleges that HMR failed timely to exercise. *See KCP&L*, 133 F.R.D. at 174 (“Defendant fortuitously obtained the privileged documents. It could not have expected to obtain them and could not have reasonably relied on them. To the extent defendant did rely on them, it did so without plaintiffs' knowledge or consent. Thus plaintiffs had no opportunity to object to defendant's use of them.”). Fairness dictates that such practices should not be rewarded with a waiver.

Moreover, the policy behind the privilege – one of the factors to be weighed in a fairness analysis<sup>50</sup> – weighs in favor of maintaining the privileges. “There is an important societal need for people to be able to employ and fully consult with those trained in the law for advice and guidance.” *Gray*, 86 F.3d at 1483. Accordingly, standards for waiver of privilege must be wielded with care to avoid “chilling communications between attorneys and clients.” *Id.* HMR acted with prudence and in accordance with the fundamental objectives of the privilege when it sought advice of counsel as to any legal implications presented by the Stipulation – all the more so since the Commission had only recently closed an investigation into HMR’s patent litigation practices concerning diltiazem and other products. In light of the reasonable procedures followed by HMR to maintain applicable privileges and the time pressure that it faced during this accelerated production of documents, the interests of justice would not be served by a finding of waiver.

**ii. Complaint Counsel’s Claims of Reliance and Prejudice are Without Merit.**

Complaint Counsel essentially makes three fairness arguments. First, Complaint Counsel asserts that the letter “is directly relevant to a key issue in the case.” (FTC Br. at 12.) Second, Complaint Counsel alleges that it relied on the letter in some unspecified way and that a finding of non-waiver would require Complaint Counsel to engage in a fiction of expunging from its mind any memory of the document’s content. (*See id.* at 1-2, 12.) Third, Complaint Counsel suggests that, in any event, it is not inherently unfair to “allow the truth to be made public.” (*Id.* at 12.) Complaint Counsel’s arguments are not persuasive.

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50. *KCP&L*, 133 F.R.D. at 174.



As to Complaint Counsel's first fairness justification, while courts will consider the relevance and probativeness of an inadvertently produced document in evaluating the relative fairness of maintaining or waiving the privilege, even a finding

[t]hat the documents are relevant and probative does not determine the waiver question. The court also weighs other factors, such as the policy behind the privilege. If the attorney-client privilege is to serve its purpose of fostering attorney-client communications, then documents inadvertently produced should not lose their privileged status without some substantial reason.

*KCP&L*, 133 F.R.D. at 174; see also *Starway*, 187 F.R.D. at 598 (rejecting recipient's fairness argument that inadvertently produced privileged document was favorable to, and would help recipient prove, recipient's case; "The interests of justice does [*sic*] not weigh in [the recipient's] favor where the outcome of the dispute is to deny him something to which he was never entitled.").

Complaint Counsel's argument that it relied on the document also falls short of the showing necessary to find a waiver. Complaint Counsel must demonstrate that its alleged reliance was reasonable.<sup>51</sup> It cannot do so. HMR first acted to obtain the document's return a mere three and a half weeks after its production, and immediately upon discovery of its error, and has made repeated efforts thereafter to obtain its return. Because of the FTC staff's silence, this was effectively HMR's first opportunity to object to the FTC's possession and use of the letter. Any alleged element of "reliance" resulting from the FTC staff's review of the document during the period that staff failed to disclose its production and verify its inadvertence cannot be reasonable. Moreover, HMR's earliest efforts to recover the letter, in December 1997, preceded the opening of the Commission investigation that culminated in this Complaint (October 1998) by almost a year. Despite HMR's

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51. See, e.g., *KCP&L*, 133 F.R.D. at 174 (fairness militates against waiver where recipient could not have reasonably relied on inadvertently produced document).

repeated efforts to retrieve the document in what even Complaint Counsel has referred to as a separate and unrelated investigation, Complaint Counsel now alleges that it has relied on the document in unspecified ways in this investigation. Under these circumstances, any prejudice that might result to Complaint Counsel from recognition of the privileges is a prejudice of its own creation.

Complaint Counsel's suggestion that knowledge of the letter cannot be expunged from the minds of Commission staff who improperly reviewed the document does not preclude the entry of effective relief to prevent waiver of the privilege. Since the letter has not figured prominently to date in any motion or other document filed with the Court or in any deposition in this action,

confidentiality can in some measure be restored, or at least further erosion can be prevented. Of course, the minds of the government attorney and investigator cannot be expunged, but the document[] can be protected from becoming, in [itself], evidence in the case. The restoration of privilege that would be effected by a court order would not be meaningless or an empty gesture.

*In re Grand Jury Investigation*, 142 F.R.D. at 281. Conversely, any alleged prejudice to Complaint Counsel that might arise from denying its waiver claim is a result of staff's and Complaint Counsel's own improper review of the document before (and without) notifying HMR, their improper refusal to return the document upon HMR's prompt request, and their commingling of a document that was the subject of an outstanding privilege dispute with a second, separate investigation. In light of these circumstances, to find waiver because "it is impossible to 'unring the bell'" (FTC Br. at 10) "would give recognition and reward to [such] sharp practices . . . , and is contrary to standards reasonably

pertaining to discovery conduct.” *Telephonics Corp.*, 32 Fed. Cl. at 362.<sup>52</sup> The interests of justice would not be served by such a result.

Finally, Complaint Counsel’s third justification – that waiver of privilege is inherently fair because it furthers the truth-seeking process – is little more than another attempt, however indirect, to argue for the application of a *per se* rule of waiver<sup>53</sup> – a rule of decision that, as previously noted, Commission tribunals and most courts have refused to embrace. Many rules of evidence, and virtually every privilege, arguably impair some pure “truth-seeking” ideal, yet this surely cannot justify their abandonment. The evaluation of the effect (if any) that an inadvertently disclosed privileged document may have “on the search for truth” must be tempered, at the very least, by considerations of the policies served by the asserted privileges. *See KCP&L*, 133 F.R.D. at 174.

On balance, therefore, the interests of justice heavily favor the maintenance of the privileges and the return or destruction of the letter.

### III. CONCLUSION

WHEREFORE, for the reasons set forth herein, Respondent HMR respectfully requests that this Court enter an Order (i) denying Complaint Counsel’s motion regarding waiver of attorney-client privilege and to compel answers to deposition questions, (ii) compelling Complaint Counsel to return or destroy the original and all copies of, and notes, entries and other materials

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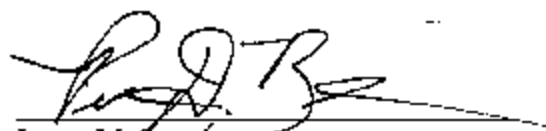
52. Moreover, any prejudice to Complaint Counsel “is minimal, inasmuch as they are not entitled to discover privileged material, and their receipt of the[] document[] was a windfall.” *Pepper’s Steel & Alloys, Inc.*, 742 F. Supp. at 645.

53. *Cf. Floyd v. Coors Brewing Co.*, 952 P.2d 797, 808 (Colo. Ct. App. 1997), *rev’d on other grounds en banc*, 978 P.2d 663 (Colo. 1999) (describing case quoted by Complaint Counsel for this proposition – *FDIC v. Marine Midland Realty Credit Corp.*, 138 F.R.D. 479 (E.D. Va. 1991) – as a *de facto per se* case in the same category as *In re Sealed Case*, 877 F.2d 976 (D.C. Cir. 1989)).

relating to, the inadvertently produced letter, and (iii) prohibiting Complaint Counsel from using the letter during any deposition, during the presentation of evidence in this case, or in any other manner.

Dated: October 11, 2000

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'P. S. Schleifman', written over a horizontal line.

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UNITED STATES OF AMERICA  
BEFORE FEDERAL TRADE COMMISSION

<hr/>		
in the Matter of	)	
	)	
Schering-Plough Corporation,	)	
a corporation,	)	
	)	Docket No. 9297
Upsher-Smith Laboratories, Inc.,	)	
a corporation,	)	
	)	<b>PUBLIC RECORD</b>
and	)	
	)	
American Home Products Corporation,	)	
a corporation	)	
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**SUPPLEMENTAL DECLARATION OF .....IN SUPPORT OF  
RESPONDENT AMERICAN HOME PRODUCTS CORPORATION'S MOTION  
FOR A PROTECTIVE ORDER**

I, ....., declare as follows:

1. I am .....

.....

..... I have personal knowledge of the facts set forth herein.

2. I submit this declaration in reply to certain points made by complaint counsel in their Opposition to AHP's Motion for Protective Order, served on October 19, 2001.

3. In their Opposition, complaint counsel question why I did not assert attorney-client and work product objections to .....

..... In particular, they question why I did not raise such objections even though I withheld certain .....documents as privileged in response to a subpoena duces tecum issued to AHP by the Federal Trade Commission ("FTC") on November 5, 1999.

4. Complaint counsel claim that no instructions were given to the attorneys reviewing the documents for privilege. That is not true. It is important to note that these attorneys were experienced at performing privilege reviews and done so on various prior occasions. The attorneys reviewing the documents for privilege were given a list of in-house counsel and relevant outside counsel and knew to pull documents containing those attorneys' names. They knew to pull any documents that contained privilege or confidential designations or that were on legal stationary or letterhead. They also knew to pull any documents that appeared to contain discussions relating to legal advice and any document they thought could even potentially be privileged.

5. The Commission's subpoena called for all responsive documents to be produced within thirty days. AHP responded with its first production only a month later in December 1999. See Letter from Randal Shaheen to Daniel Kotchen, December 20, 1999, attached as Exhibit "A" hereto. In February and March 2000, .....  
.....that carried a "Confidential Attorney-Client Privileged For Settlement Purposes Only" designation. I also .....  
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6. Approximately seven months after the inadvertent production of the documents, Karen Bokar of the FTC contacted .....and requested the deposition of, among others, the person within AHP most knowledgeable about .....  
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7. In their Opposition, complaint counsel incorrectly assume that no investigation was conducted regarding .....

That assumption is incorrect. ....  
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8. During .....investigational hearing ....., approximately 7-8 months after the ..... has been produced to the FTC, FTC staff questioned

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9. Complaint counsel note that there is a tension between .....willingness to .....from production on grounds of privilege in response to the FTC's November 5<sup>th</sup> subpoena and .....decision not to object to questioning regarding ..... As I explained in the prior paragraph, .....

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10. Complaint counsel further question why AHP, or its counsel, did not conduct a further investigation regarding .....immediately following .....investigational hearing. It is important to place this issue in proper context. Both prior to and during .....was unable to recall the origins of ..... The .....

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I declare under penalty of perjury that the foregoing is true and correct.

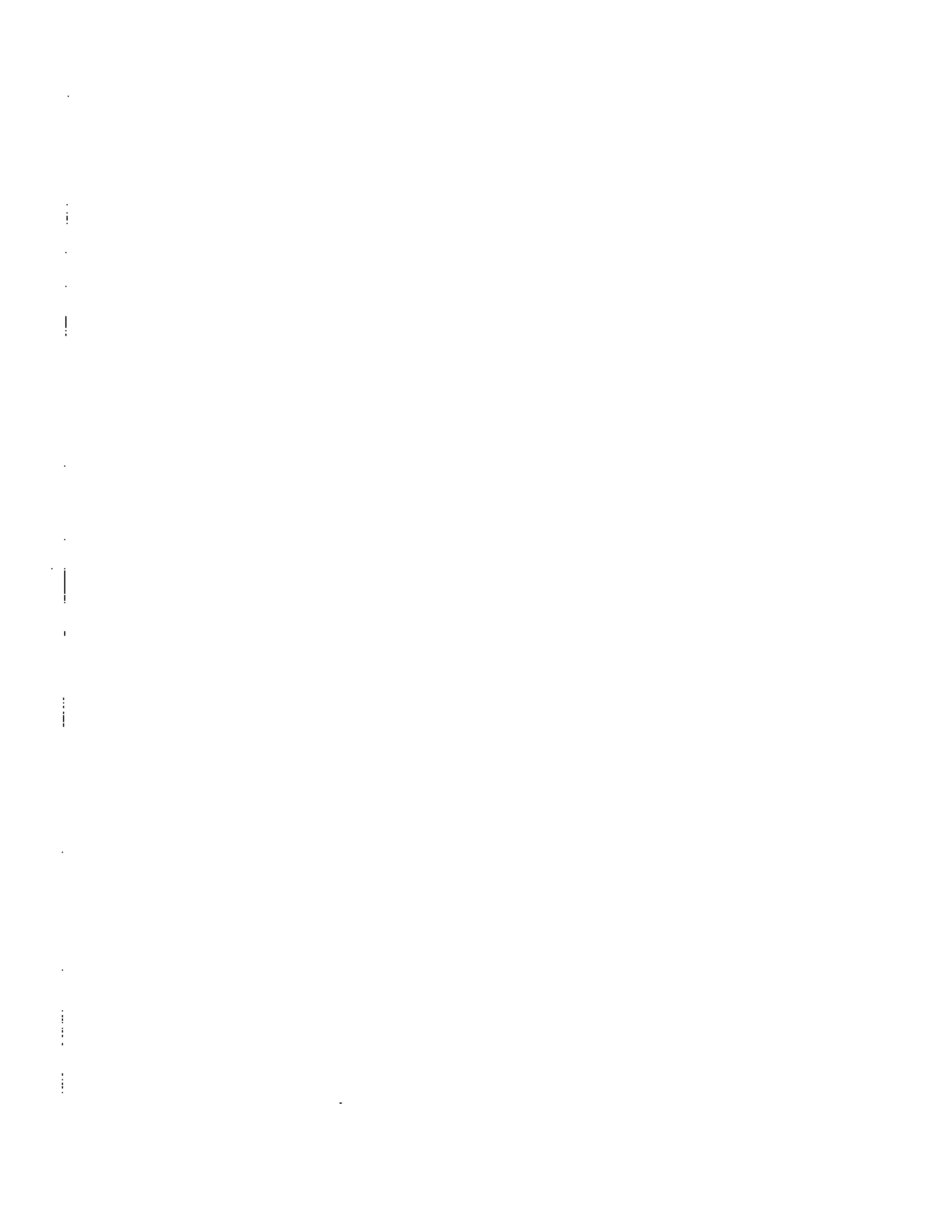
Executed on November \_\_\_\_, 2001

Respectfully submitted,

\_\_\_\_\_  
.....

5)

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(202) 942-5734

NEW YORK  
DENVER  
LOS ANGELES  
LONDON

December 20, 1999

BY HAND DELIVERY

Daniel A. Kotchen, Esq.  
Federal Trade Commission  
Room 3410  
601 Pennsylvania Avenue, N.W.  
Washington, D.C. 20580

Re: AHP, File No. 9910256

Dear Mr. Kotchen:

Enclosed please find materials response to Paragraph 1, 2, 3 and 4 of the above referenced Subpoena. American Home Products is designating these materials as confidential pursuant to the Commission's applicable rules and regulations.

Sincerely,



Randal M. Shaheen

UNITED STATES OF AMERICA  
FEDERAL TRADE COMMISSION

In the Matter of

SCHERING-PLOUGH CORPORATION,  
a corporation,

UPSHER-SMITH LABORATORIES, INC.,  
a corporation,

and

AMERICAN HOME PRODUCTS  
CORPORATION,  
a corporation.

Docket No. 9297

**PUBLIC VERSION**

To: The Honorable D. Michael Chappell  
Administrative Law Judge

**COMPLAINT COUNSEL'S RESPONSE TO AHP'S REPLY IN SUPPORT OF MOTION  
FOR PROTECTIVE ORDER**

After two briefs and two rounds of declarations, AHP still cannot explain away its failure over many months to protect documents that it claims are highly confidential. For example, Mr. Shaheen still cannot explain why he did *nothing* after he knew that market forecasts similar to ones he had withheld as privileged had been turned over to the FTC. In addition, AHP's reply clearly demonstrates that it failed to make even a threshold showing that the documents are privileged. The reply repeatedly cites "supplemental" declarations that address for the first time such basic issues as the extent to which the documents were maintained confidential or distributed to others and the extent to which documents were actually given to, or their contents disclosed to, attorneys in connection with legal advice. In attempting to explain away inconsistencies, the supplemental

declarations only serve to raise more questions about AHP's claims of privilege.<sup>1</sup>

Our opposition papers lay out our position as to AHP's privilege claims. We submit this brief response to address two new matters raised in AHP's reply: first, AHP's suggestion that complaint counsel acted improperly in sending one of the documents to its economic expert, Professor Bresnahan; and second, its assertions regarding Professor Bresnahan's reliance on five of the contested documents.

### **I. AHP's Allegations of Improper Conduct Regarding Document 8 Should Be Rejected**

AHP contends that Professor Bresnahan's reliance on Document 8 (AHP 13 00130-131) was "without justification" and insinuates that complaint counsel acted improperly in sending him the document. Reply at 37. These claims are based on AHP's assertion that at the time the document was sent, complaint counsel knew that AHP was investigating the status of the document. *Id.* The facts show that complaint counsel acted in good faith.

- On July 20, 2001, Arnold & Porter attorney Cathy Hoffman notified complaint counsel that AHP claimed privilege for certain documents used without objection at Dr. Dey's investigational hearing. In addition, she noted that she was investigating the status of four other documents, stating that Dey Exhibits 1 and 7 were "likely" privileged, and that AHP 13 00121-125 and AHP 13 00130-131 [Document 8] "may also be privileged."<sup>2</sup>
- Five days later, Ms. Hoffman wrote that she was still investigating two documents, but did

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<sup>1</sup> For example, like Dr. Dey, Mr. Alaburda's memory has improved with time and he now recalls matters he was uncertain about in his earlier declarations. However, in his supplemental declaration, Mr. Alaburda states that documents 1, 6, 7, and 9 were created by AHP following a November 1996 settlement conference, but then includes documents 6 and 7 in the group of documents that he says were created in response to an August 1997 settlement conference. Alaburda Supp. Decl. at ¶ 7, 8.

<sup>2</sup> See Hoffman Decl. Ex. A (Letter from Cathy Hoffman to Andrew S. Ginsburg (July 20, 2001)), appended to AHP's Motion.

not identify them.<sup>3</sup>

- AHP made no claim that Document 8 was privileged until it filed its motion for protective order on September 27, 2001, more than one month after our expert report was due.

Furthermore, the privilege claim as to Document 8 was particularly suspect. The document bears the date "10/9/94," which is before the commencement of Schering's patent litigation against AHP (the suit that forms the basis for AHP's privilege claims). Indeed, AHP has finally conceded that the document itself is not privileged. It now asserts privilege only as to handwritten notations on the document (Reply at 5 n.2), though to date AHP has not provided complaint counsel a redacted version of the document.

Thus, in early August, when complaint counsel sent the last set of documents to Professor Bresnahan before the August 15<sup>th</sup> due date for his expert report, there was no reason to believe that Document 8 -- which was not even one of the "likely" to be privileged documents -- was the subject of a *claim* of privilege, let alone actually privileged. Use of this document, by complaint counsel and Professor Bresnahan, was and continues to be entirely proper.

## **II. AHP's New Contentions about Professor Bresnahan's Report**

Only in its reply brief does AHP directly address the single most inconvenient fact it must explain away: Professor Bresnahan's use of five of the contested documents. In addition to showing the documents are privileged, AHP has the burden to demonstrate non-waiver under the five-factor balancing test it advocates. This means AHP must show that the disclosure to and use by Professor Bresnahan of the documents should not result in waiver of privilege. AHP has been well aware since August 15<sup>th</sup> that Professor Bresnahan used the documents in his report.

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<sup>3</sup> See Hoffman Decl. Ex. B (Letter from Cathy Hoffman to Bradley S. Albert (July 25, 2001)), appended to AHP's Motion.

# TAB 1



UNITED STATES OF AMERICA  
BEFORE THE FEDERAL TRADE COMMISSION

In the Matter of

SCHERING-PLOUGH CORPORATION,  
a corporation

UPSHER-SMITH LABORATORIES, Inc.  
a corporation; and

AMERICAN HOME PRODUCTS  
CORPORATION,  
a corporation

Docket No. 9297

**EXPERT REPORT OF  
PROFESSOR TIMOTHY BRESNAHAN**

Restricted Confidential,  
Attorney's Eyes Only

The remaining pages of the expert report have been redacted.

UNITED STATES OF AMERICA  
FEDERAL TRADE COMMISSION

In the Matter of

SCHERING-PLOUGH CORPORATION,  
a corporation,

UPSHER-SMITH LABORATORIES, INC.,  
a corporation,

and

AMERICAN HOME PRODUCTS  
CORPORATION,  
a corporation.

Docket No. 9297

PUBLIC VERSION

To: The Honorable D. Michael Chappell  
Administrative Law Judge

**MOTION FOR LEAVE TO FILE RESPONSE TO AHP'S REPLY IN SUPPORT OF  
MOTION FOR PROTECTIVE ORDER**

Complaint counsel requests leave to file a brief response to Respondent American Home Products' November 13, 2001 reply in support of its Motion for Protective Order, which concerns AHP's claim of privilege for nine documents it turned over to FTC staff during the pre-complaint investigation. We make this motion because:

- AHP and complaint counsel have been unable to resolve the issues raised by AHP's motion; and
- AHP's reply suggests that complaint counsel acted improperly in sending one of the documents in question over to economic expert, Professor Bresnahan, and makes new assertions regarding Professor Bresnahan's reliance on five of the contested documents.

Respectfully submitted,

*Karen B. Bokar*

Karen Bokar  
Counsel Supporting the  
Complaint

Dated: November 27, 2001