UNITED STATES OF AMERICA
BEFORE THE FEDERAL TRADE COMMISSION

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

RESPONDENT SCHERING-PLOUGH CORPORATION'S OPPOSITION TO COMPLAINT COUNSEL'S MOTION TO PRECLUDE CERTAIN TESTIMONY OF RESPONDENTS' LAWYER WITNESSES

Complaint counsel has moved to preclude the testimony of three witnesses offered by Schering related to the settlement negotiations between Schering and ESI-Lederle, Inc. ("ESI"), and between Schering and Upsher-Smith.[1] Motion at 14-15. All three witnesses--John Hoffman, Anthony Herman, and Charles Rule--are lawyers who were directly involved in negotiating the settlement agreements that are being challenged in this case. Complaint counsel argues that their proposed testimony should be precluded because Schering is putting forth their testimony in support of a new "advice of counsel" defense. "Otherwise," complaint counsel asks, "what is the possible relevance of the expected testimony of attorneys Hoffman, Rule, Herman and Cannella?" *Id.* at 3.

[1] Complaint counsel also challenges the testimony of Mr. Nick Cannella, who served as Upsher-Smith's outside counsel in the patent infringement case, and who is being offered as a witness by Upsher-Smith. This opposition specifically addresses only the testimony of the witnesses offered by Schering: Mr. Hoffman, Mr. Herman, and Mr. Rule.

Schering is *not* interposing an advice of counsel defense. And the relevance of Mr. Hoffman's, Mr. Herman's and Mr. Rule's testimony could not be more obvious. This case directly and specifically challenges the settlements of two patent infringement lawsuits. Those three individuals participated directly in the settlement negotiations, and their testimony regarding the parties' *non-privileged* settlement discussions is directly relevant to this case. Complaint counsel's expert, Professor Bresnahan, purported to find "direct evidence" in the settlement conversations of an agreement to pay for delay. Testimony that Schering's settlement negotiators *refused* to pay for delay, citing antitrust concerns, is obviously relevant to refute Professor Bresnahan's testimony.[2]

Complaint counsel's effort to preclude this testimony is particularly remarkable in light of the fact that they have known the testimony these witnesses would give for many months, having elicited it themselves in depositions. Indeed, complaint counsel have offered much of it already in their direct case.

A. Testimony Related to Schering's Settlement with Upsher-Smith is Relevant

Schering's in-house counsel, John Hoffman, will testify at trial regarding the settlement discussions between Schering and Upsher-Smith. Mr. Hoffman will testify that he *told Upsher-Smith* that Schering would *not* pay for delayed entry, citing antitrust concerns. In a case in which complaint counsel is alleging that Schering *agreed* to pay for delay, such testimony is directly relevant because it shows that Schering *refused* to pay for delay. Mr. Hoffman's testimony concerning the discussions between Schering and Upsher-Smith is not privileged; and Schering permitted complaint counsel to question him fully about those conversations as long ago as July 2000. *See infra* at 4-6.

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[2] Notably, complaint counsel has not challenged the testimony of other, non-lawyer Schering negotiators as not relevant.

Mr. Hoffman also will testify that he told Upsher-Smith during the negotiations that Schering *would* agree to settle the patent infringement lawsuit by splitting the remaining life of Schering's K-Dur patent, and reaching a separate, fair-value license for other products. This testimony is also not privileged. And it is very important because all the parties in this case--including complaint counsel--agree that such a settlement is perfectly proper. *See* Complaint Counsel's Trial Brief, at 43 ("This case does not challenge the settlement of patent disputes by an agreement on a date of entry, standing alone, or the payment of fair market value in connection with 'side deals' to such an agreement.") Moreover, complaint counsel elicited this testimony from Mr. Hoffman over eighteen months ago, and introduced it during complaint counsel's direct case. *See* CX 1508, 1509.

Complaint counsel, through its economic expert, contended that Schering had a powerful incentive to pay for delay, and that the settlement discussions revealed evidence of an agreement to pay for delay. *See* Jan. 25, 2002 Hearing Tr. at 526-27; Jan. 28, 2002 Hearing Tr. at 560-71. Mr. Hoffman's testimony is directly responsive to that contention. *See* Jan. 30, 2002 Hearing Tr. at 1102.

B. Testimony Related to Schering's Settlement with ESI-Lederle is Relevant

Complaint counsel also seeks to preclude the testimony of three individuals--John Hoffman, Anthony Herman, and Charles Rule--who participated in Schering's settlement negotiations with ESI-Lederle. As noted, Mr. Hoffman is in-house counsel for Schering. Mr. Herman is a partner at Covington & Burling, and served as Schering's patent counsel in the ESI case. Mr. Rule was Mr. Herman's partner at Covington & Burling, and also represented Schering.

Because the ESI settlement was accomplished through court-supervised mediation, most of the discussions were necessarily conducted by lawyers. This does not make the substance of those discussions any less relevant, nor does it make them

privileged. And complaint counsel has been able to inquire fully into those discussions in depositions. *See infra* at 4-6. The testimony of Mr. Hoffman, Mr. Herman and Mr. Rule is particularly relevant to Schering's defense that the ESI settlement had the approval of Judge Rueter. All three witnesses will testify that Schering raised its antitrust concerns with Judge Rueter. The fact that the settlement had the approval of Judge Rueter, *after those antitrust issues were put before him*, strengthens the significance of Judge Rueter's approval of the settlement. And therefore it strengthens--and is directly relevant to--Schering's defense to the ESI case.

The testimony of Mr. Hoffman, Mr. Herman and Mr. Rule is not new to complaint counsel. Complaint counsel has known the details of Mr. Hoffman's testimony since July 2000 and, again, introduced that testimony in its direct case. *See* CX 1508, 1509. Complaint counsel has known of Mr. Herman's and Mr. Rule's involvement, and of the fact that antitrust issues were discussed with Judge Rueter, since that same time. And complaint counsel has known the details of Mr. Herman's and Mr. Rule's testimony since their depositions in October 2001.

C. Case Law Is Clear That The Witnesses' Proposed Testimony Waives No Privilege

Complaint counsel next complains that Schering is attempting to preserve its privilege claims while affirmatively relying on privileged material. Complaint counsel is wrong. Schering is not relying on privileged material. And Schering has consistently and rigorously guarded its privileged material, and has declined to waive any privileges.

Thus, during complaint counsel's investigation of this matter, and in the course of discovery of this case, complaint counsel sought the testimony of Mr. Hoffman, Mr. Herman, and Mr. Rule. Like any other witnesses with relevant, non-privileged information, they provided the requested testimony. They testified, however, only to their discussions with opposing counsel and third parties, because statements made by lawyers to opposing counsel and other third parties are not privileged. *See* 8 Wigmore on

Evidence § 2311-12, at 601-03, 609 (McNaughton rev. 1961) (communications to a third party, or to opposing party or his counsel not privileged); *see also Lorenz v. Valley Forge Ins. Co.*, 815 F.2d 1095, 1098 (7th Cir. 1987) (settlement discussions not privileged); *GTE Directories Service Corp. v. Pacific Bell Directory*, 135 F.R.D. 187, 191-92 (N.D. Cal. 1991) (communications from defendant's attorney to counsel for non-party not privileged).

By contrast, discussions between an attorney and the client are privileged, and so are the mental impressions of counsel. And Mr. Hoffman, Mr. Herman, and Mr. Rule were properly instructed not to testify regarding *any* attorney-client communications or *any* mental impressions about any issues in this case.[3]

The fact that Schering's attorneys participated in settlement negotiations, and testified about these *non*-privileged negotiations, does not constitute any sort of waiver of privilege.

> Bargaining, like litigation itself, partakes of the adversary process. Negotiated settlements are to be encouraged, and bargaining and arguments precede such settlements. Clients and lawyers should not have to fear that positions on legal issues taken during negotiations waive the attorney-client privilege so that the confidential facts communicated to the attorney and the private opinions and reports drafted by an attorney for his client become discoverable.

Sylgab Steel & Wire Corp. v. Imoco-Gateway Corp., 62 F.R.D. 454, 458-59 (D. Ill. 1974); *American Optical Corp. v. Medtronic, Inc.*, 56 F.R.D. 426, 431 (D. Mass. 1972) (same).[4]

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[3] Similarly, Schering withheld, or redacted, documents protected by the attorney-client or work product privileges, and provided complaint counsel with a privilege log of such documents. *See* 16 C.F.R. § 3.38A. Schering has an absolute right to withhold such privileged information, and as complaint counsel concedes, complaint counsel has never challenged any of Schering's privilege claims. Motion at 9.

[4] *See also National Education Corp. v. Martin*, 1994 U.S. Dist. LEXIS 7496, *2 (N.D. Ill. Jan. 26, 1994) ("[A] party cannot waive its privilege merely if its lawyer, bargaining on its behalf, contends vigorously and even in some detail that the law favors his client's position on a point in issue . . . .") (quoting *Sylgab*)

Schering has rigorously protected its privileges throughout the proceedings in this case. This is normal and proper. Moreover, there are dozens of private, class action lawsuits pending in federal court challenging these same settlements, in which significant money damages are sought. The issues in these federal court cases are potentially even broader than they are here. At the depositions of each attorney witness, Schering permitted unrestricted questioning of those attorneys regarding the settlement discussions, which are not privileged. But Schering declined to permit *any* inquiry either into discussions by their attorneys with their clients or into the mental impressions of those attorneys. Nothing has been waived.[5]

D. Complaint Counsel's Motion is Late

Finally, complaint counsel's motion comes late. Motions in limine were due on January 3, 2002. Complaint counsel has known the substance of Mr. Hoffman's testimony since July 2000. And complaint counsel has known the substance of Mr. Herman's and Mr. Rule's testimony since at least October 2001. Complaint counsel has been aware of Schering's planned use of those witnesses since the submission of witness lists in mid-December. Yet complaint counsel never filed a motion in limine to preclude their testimony.[6] Instead, complaint counsel waited to serve this motion until the day before Schering is to begin putting on its case-in-chief. Complaint counsel's motion is meritless and untimely. And it should be denied.

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[5] Commissioner Leary discussed this issue in his May 17, 2001 speech concerning settlements of patent infringement litigation. Commissioner Leary stated that "given the high likelihood of private litigation," he would expect respondents--"I think understandably"--to be "reluctant" to waive any privileges. Thomas B. Leary, "Antitrust Issues in the Settlement of Pharmaceutical Patent Disputes, Part II," May 17, 2001, at 3.

[6] Moreover, Schering further described the use of these witnesses in its pre-trial brief, which was filed on January 15, 2002. Even opening statements, which complaint counsel asserts alerted them to Schering's alleged use of an "advice of counsel" defense, were two weeks ago. Yet complaint counsel raised no concerns to Schering until complaint counsel filed this motion.

For the all the reasons set forth above, Schering respectfully requests that this Court deny complaint counsel's motion to preclude the testimony of three of its proposed witnesses.

Respectfully submitted,

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Dated: February 6, 2002

CERTIFICATE OF SERVICE

I hereby certify that this 6th day of February 2002, I caused an original, one paper copy and an electronic copy of Respondent Schering-Plough Corporation's Opposition To Complaint Counsel's Motion To Preclude Certain Testimony Of Respondents' Lawyer Witnesses to be filed with the Secretary of the Commission, and that two paper copies were served by hand upon:

Honorable D. Michael Chappell
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