



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; those 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 ESI, 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 (9th 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 (8th Cir. 1996); *Allread v. Grenada*, 988 F.2d 1425, 1434-35 (5th 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

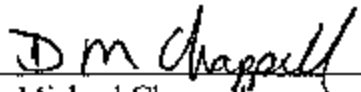
with the FTC's subpoena *duces tecum*. Shaheen Decl. at ¶¶ 2,7. *See F.C. Cycles*, 184 F.R.D. at 78 ("considering the lack of time constraints" and finding waiver).

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