

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

**COMPLAINT COUNSEL'S OPPOSITION AND RESPONSE TO THE EMERGENCY
MOTION OF AMERICAN HOME PRODUCTS CORPORATION TO STAY ORDER,
FOR CERTIFICATION FOR INTERLOCUTORY APPEAL AND APPLICATION FOR
FULL COMMISSION REVIEW**

In February and March 2000, American Home Products Corporation ("AHP") turned over nine documents now at issue to Commission staff.¹ In September 2001, AHP asked this Court for a protective order and a return of the documents, which it alleged were privileged.² This Court denied AHP's request on January 15, 2001.³ Now, seeking the relief it was already denied,

¹ See *In re Schering*, Dkt. No. 9297, Complaint Counsel's Opposition To AHP's Motion For Protective Order (Oct. 19, 2001) ("Complaint Counsel's Opposition") at 3.

² See *id.* at 7; *In re Schering*, Dkt. No. 9297, Motion of American Home Products Corporation For Protective Order And To Compel Return Of Privileged And Work Product Materials (Sept. 27, 2001) ("Original AHP Motion").

³ See *In re Schering*, Dkt. No. 9297, Order Denying American Home Products Corporation's Motion For Protective Order And To Compel Return Of Materials (Jan. 15, 2002) ("Order Denying Protective Order").

AHP moves,⁴ under Rule 3.23(c) of the Commission's Rules of Practice,⁵ that this Court stay its Order of January 15, 2001 and issue an order preventing complaint counsel or respondents from using the documents in question during trial. In the alternative, AHP asks that the documents in question be provided *in camera* protection.⁶ It also moves,⁷ under Rule 3.23(b) of the Commission's Rules of Practice,⁸ that this Court certify the Order Denying Protective Order to the Commission for interlocutory review and that the Commission hear its appeal.⁹ AHP's motion for a stay and order, which amounts to an injunction pending appeal, should be denied for

⁴ See *In re Schering*, Dkt. No. 9297, Emergency Motion Of American Home Products Corporation To Stay Order, For Certification For Interlocutory Appeal And Application For Full Commission Review (Jan. 15, 2002) ("Emergency Motion") at 1-2.

⁵ See 16 C.F.R. § 3.23(c) (2002). Rule 3.23(c) 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."

⁶ See Emergency Motion at 7. Complaint counsel does not oppose AHP's request for *in camera* treatment for the documents in question.

⁷ See Emergency Motion at 1-2.

⁸ See 16 C.F.R. § 3.23(b) (2002). Rule 3.23(b) states, in part, that "applications for review of a ruling by the Administrative Law Judge may be allowed only upon request made to the Administrative Law Judge and a determination by the Administrative Law Judge in writing, with justification in support thereof, that the ruling involves a controlling question of law or policy as to which there is a substantial ground for difference of opinion and that an immediate appeal from the ruling may materially advance the ultimate termination of the litigation or subsequent review will be an inadequate remedy. . . . The Commission may thereupon, in its discretion, permit an appeal."

⁹ For the reason explained below, complaint counsel does not oppose either AHP's request for certification or its request for Commission review of the Order Denying Protective Order.

the following reasons:

- AHP's request contradicts the purpose of Rule 3.23(c), under which it seeks the injunction, because it asks for a change in the status quo; and
- AHP does not meet the requirements for an injunction pending appeal as it will not suffer irreparable injury if the injunction is denied, is not likely to win on appeal, and the interests of complaint counsel, respondents, and the public would not be served by issuance of the injunction.

I. Background

Almost two years ago, in February and March 2000, AHP produced nine documents which currently are at issue.¹⁰ Seven months later, in October 2000, complaint counsel used five of the documents during the Investigational Hearing of Dr. Michael S. Dey of AHP. Present at that hearing were in-house counsel for AHP as well as outside counsel from Arnold & Porter.¹¹ During complaint counsel's investigation and preparations for trial, the documents were used by us as well as our economic expert, Professor Timothy Bresnahan.¹² Not until July 2001 did AHP communicate to complaint counsel that it believed it had inadvertently turned over privileged materials.¹³ Finally, in September 2001, AHP sought a protective order and the return of the nine documents it alleges are privileged.¹⁴

¹⁰ See Complaint Counsel's Opposition at 3. See generally Complaint Counsel's Opposition at 3-7 for a specific chronology of the relevant events.

¹¹ See Complaint Counsel's Opposition at 3-4.

¹² See *id.* at 5.

¹³ See *id.* at 5-6.

¹⁴ See *id.* at 7; Original AHP Motion.

Three briefs followed the Original AHP Motion.¹⁵ In its recent Order Denying Protective Order, this Court applied facts to the applicable law and found AHP has waived its privileges with respect to the nine documents. Applying the five-factor balancing test used by most courts for allegedly inadvertently produced documents and adopted recently in *In re Hoechst*, 2000 FTC LEXIS 155 (2000), this Court, in part, found that

- AHP's precautions to prevent the disclosure of privileged materials were inadequate;
- AHP did not act in a reasonable time to rectify the disclosure once it was on notice;
- "the extent of the disclosure is complete"; and
- our use and reliance upon the documents weighed in favor of finding waiver.

Based on its well-reasoned and thorough analysis, this Court held that AHP has waived the privileges it was asserting and that its request for a protective order and the return of the documents in question should be denied.¹⁶

II. AHP Is Not Entitled To An Injunction Pending Appeal

AHP now seeks a stay of the Order Denying Protective Order under Rule 3.23(c) and an order precluding any use of the documents in question until review by the Commission or federal courts. This amounts to an injunction pending appeal because it would bar our use of the

¹⁵ See Order Denying Protective Order at 1; Original AHP Motion; Complaint Counsel's Opposition; *In re Schering*, Dkt. No. 9297, Reply of American Home Products Corporation To Complaint Counsel's Opposition To American Home Products' Motion For Protective Order (Nov. 13, 2001) ("AHP's Reply"); *In re Schering*, Dkt. No. 9297, Complaint Counsel's Response To AHP's Reply In Support Of Motion For Protective Order (Nov. 27, 2001) ("Complaint Counsel's Response").

¹⁶ See Order Denying Protective Order at 4-7.

documents at the trial now underway. AHP's request should be denied because its requested injunction is inconsistent with the purpose of Rule 3.23(c) and does not meet the requirements for any such injunction.

A. AHP's Requested Injunction Contradicts The Purpose Of Rule 3.23(c)

Under Rule 3.23(c), an ALJ or the Commission may stay proceedings pending interlocutory review.¹⁷ Granting a stay "is an extraordinary form of reprieve."¹⁸ Its purpose is to "preserve, not change, the status quo pending the outcome of an appeal"¹⁹ and not to "pass on the merits of the orders of the trial court."²⁰ AHP's requested injunction preventing any use of the inadvertently disclosed documents contradicts these principles.

Maintenance of the status quo requires that all parties be able to continue using these documents.²¹ However, AHP asks this Court to *alter* the status quo. It requests that to which this Court has already decided it is not entitled: an order preventing use of the documents in question. Such an order both would change the status quo and revisit an issue which has been decided. It would, in effect, grant AHP the relief it sought and was denied. AHP's request should be denied again.

¹⁷ See 16 C.F.R. § 3.23(c) (2002).

¹⁸ *Reed v. Rhodes*, 472 F. Supp. 603, 605 (N.D. Ohio 1979).

¹⁹ *U.S. v. Michigan*, 505 F. Supp. 467, 472 (W.D. Mich. 1980) (denying motion for partial stay, in part, because it would have changed the status quo).

²⁰ *Reed*, 472 F. Supp. at 605.

²¹ All parties have even agreed not to oppose AHP's request to treat them *in camera*.

B. AHP Does Not Meet The Requirements For An Injunction Pending Appeal

AHP also has not met its burden²² of proving it meets the requirements for an injunction pending appeal which are that: (1) it will suffer “irreparable injury”; (2) it has “substantial likelihood of success on the merits” on appeal; (3) there is a lack of “substantial harm to others”; and (4) the “public interest would be served” by granting the injunction.²³

1. AHP Will Not Suffer Irreparable Injury

AHP must show a harm that is “certain and great and of such imminence that there is a clear and present need for equitable relief.”²⁴ It has not done so and cannot do so.

This Court notes in its Order Denying Protective Order that “the extent of the disclosure is complete.”²⁵ Complaint counsel, respondents, and any relevant witnesses and experts have already had access to these documents. If treated *in camera* during trial, further disclosure will be restricted, the public will be denied access, and AHP’s rights will be protected. Such use during trial will not injure AHP or “diminish [the documents’] privileged status.”²⁶

AHP’s legal support for its assertion of irreparable injury is also off the mark. The case it

²² See, e.g., *First Savings Bank v. First Bank System, Inc.*, 163 F.R.D. 612, 614 (D. Kan. 1995) (“movant bears the burden of proving these four factors”).

²³ *Lehnert v. Ferris Faculty Assoc.*, 707 F. Supp. 1490, 1492 (W.D.Mich. 1989) (applying standards to injunction pending appeal under Fed.R.Civ.P. 62(c)); *Jensen v. Farrell Lines, Inc.*, 1979 WL 2014 (S.D.N.Y. 1979) (noting the same basic requirements for staying a judgement pending appeal under either 28 U.S.C. §1292(b) or Fed.R.Civ.P. 62(b)). See also *Long v. Robinson*, 432 F.2d 977 (4th Cir. 1970).

²⁴ *Iowa Utilities Board v. FCC*, 109 F.3d 418, 425 (8th Cir. 1996).

²⁵ Order Denying Protective Order at 6.

²⁶ Emergency Motion at 4. AHP also fails to explain what it means that the documents’ privileged status would be “diminished.”

cites in support of its suffering irreparable injury, *United States v. Jones*, 1999 WL 1057210 (1999), involves a situation in which there had not yet been any disclosure of potentially privileged materials or information and the court acted to prevent it *ex ante*. Here, the disclosure has already happened and thus *Jones* is irrelevant.

2. AHP Has Not Shown That It Is Likely To Succeed On The Merits On Appeal

AHP concedes that in an appeal from the waiver ruling, the standard is abuse of discretion.²⁷ The question is thus not whether another decision-maker might reach a different result on the facts, but whether AHP is likely to be able to show that Your Honor's ruling is based on such clear error as to amount to an abuse of the administrative law judge's discretion. AHP plainly cannot do so.

First, AHP complains that it was an abuse of discretion to apply the five-factor balancing test to find waiver.²⁸ This is a remarkable claim, since that is the very test that AHP urged Your Honor to apply in its original motion for a protective order.²⁹

Furthermore, AHP's claim that application of the balancing test in this case constitutes legal error – on the basis of the decision in *Advertising to Women, Inc. v. Gianni Versace*, 1999 WL 608711 (N.D.Ill. 1999) – is plainly wrong. Even a cursory reading of *Versace* makes it clear that the case has nothing to do with the issues addressed in Your Honor's decision, because, unlike here, it involved the disclosure of material that the putative privilege holder said was *not*

²⁷ See, e.g., Emergency Motion at 18.

²⁸ See *id.*

²⁹ See Original AHP Motion at 17.

privileged. The dispute arose because plaintiffs attempted to use defendant Versace's production of two cover letters signed by Italian patent agents (transmitting material that the plaintiffs conceded was not privileged), as the basis to compel production of a broad category of other material – privileged documents and testimony relating to advice of counsel on a trademark. Versace asserted that no waiver arose because the letters contained no legal advice and thus no privileged material was produced.³⁰ Since plaintiffs had failed to show that the letters were privileged (they were written in Italian and plaintiffs had provided no translation), the court denied the motion to compel.³¹

Although AHP does not discuss the unusual facts in *Versace*, they are critical to the court's decision. AHP relies on *dicta* from the court that, even if the plaintiffs had succeeded in showing that the letters were privileged, such a showing would not justify granting the motion to

Second, the balance of AHP's complaint concerns its disagreement with the weighing of the circumstances under the balancing test, but shows no abuse of discretion. For example, AHP complains that Your Honor did not "cite the 'red flag' that should have put AHP or its counsel on alert" following Dr. Dey's investigational hearing.³⁵ But the failures are apparent and scarcely need be spelled out. For example, Mr. Shaheen, one of AHP's outside counsel, said that he withheld similar forecasts as privileged, without information as to their origins, but failed to make any inquiry after he was specifically put on notice that other forecasts had been produced. Moreover, at his Investigational Hearing, Dr. Dey made statements suggesting that at least some forecasts may have been created in connection with the patent litigation, yet even that did not prompt any inquiry.³⁶

AHP also complains that Your Honor failed to distinguish among the documents as to the degree of their dissemination and use.³⁷ But, the Order Denying Protective Order correctly recognizes that courts, in weighing the extent of the disclosure factor, look to see whether the disclosure was partial (such as when documents are merely designated for copying) or complete. There is ample legal support for the conclusion that the disclosure here was complete, which is

mistakenly sent out the wrong version of an expert report, thereby exposing attorney marginal notations. *See id.* at 575-576. There was no question that the attorney notes were privileged. The disclosure was purely accidental, and involved no erroneous judgment about whether deliberately-produced material was privileged. In light of all the circumstances, including the limited disclosure and timely action to rectify the error, the court found no waiver.

³⁵ Emergency Motion at 5.

³⁶ *See generally* Complaint Counsel's Opposition at 33-34.

³⁷ *See* Emergency Motion at 6.

sufficient to show that this factor weighs in favor of waiver.³⁸

In the end, AHP's claim of abuse of discretion amounts to no more than a disagreement with the result. Such disagreement is insufficient to justify an injunction pending appeal.³⁹

3. Complaint Counsel Will Be Substantially Injured By Proposed Injunction

Complaint counsel will be substantially injured by AHP's proposed injunction precluding use of the disputed documents. As noted in Complaint Counsel's Opposition, we have used and relied upon these documents during the investigation and in trial preparation. In particular, our economic expert reviewed and utilized some of these documents as part of his analysis in forming his opinions.⁴⁰ Barring use of these documents now, on the eve of trial, would be supremely unfair. Your Honor already has recognized as such, noting that "[c]omplaint [c]ounsel would be prejudiced if not allowed to use these documents on which it has reasonably relied."⁴¹

³⁸ See, e.g., *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 (4th Cir. 1989). In addition, AHP has no basis for its assertion that four of the nine documents "have played no role during the pre-Complaint investigation or the adjudication." Emergency Motion at 6. Six of the nine documents were sent to and considered by complaint counsel's economic expert, Professor Bresnahan, seven are listed on our exhibit list, and all were reviewed and used during the investigative and litigation stages of the proceeding.

³⁹ *Cf. Amgen, Inc. v. Hoechst Marion Roussel, Inc.*, 2000 U.S. App. LEXIS 5102 (Fed. Cir. 2000) (finding review of finding of waiver by inadvertent disclosure did not warrant interlocutory appeal; on petition for mandamus, appellate court found no error, only disagreement with trial court's determinations).

⁴⁰ See Complaint Counsel's Opposition at 36-37.

⁴¹ Order Denying Protective Order at 6.

4. No Public Interest In Injunction

Granting the injunction requested by AHP is not in the public interest. AHP sought a protective order and lost. It now seeks to reverse that decision, achieving the substantive relief it desires, with its proposed injunction. It is not in the public interest, or the interests of the proper administration of justice, to reward parties who have lost an initial decision the very relief they were denied, pending an appeal. This is particularly true when, as is the case here, denying the relief requested will cause no additional harm to the requesting party.⁴²

AHP's argument concerning the public interest in preserving the attorney-client privilege is irrelevant. As noted above, respondents and complaint counsel, as well as the respective witnesses and experts of each, have had access to the documents in question for a lengthy period of time. Precluding use of them at trial thus will do nothing to protect any applicable privilege as against such persons. The privilege can be easily protected as against the public by treating the documents *in camera*.

Finally, any "balancing of the equities" shows that AHP's motion for a stay and order should be denied.⁴³ Complaint counsel have articulated specific harms which will result if we are denied use of the documents in question. Assertions that AHP's or the public's interest in the attorney-client privilege would be harmed by allowing use of documents which all parties have already seen and relied upon are superficial and should carry no weight.

⁴² Treating the documents in question *in camera* will shield AHP from additional harm.

⁴³ See, e.g., *McGregor Printing Corp. v. Kemp*, 811 F. Supp. 10, 13-14 (D.D.C. 1993) (weighing equities of harm to movant, harm to non-movant and third parties, and harm to the public).

III. Certification and Commission Review

AHP moves that this Court certify its Order Denying Protective Order to the Commission and that the Commission, in turn, review that ruling.⁴⁴ Complaint counsel maintain that the issues raised by the Emergency Motion are *not* "controlling questions of law" on which there is a "substantial ground for difference of opinion." Also, under any standard of review, in no way did this Court abuse its discretion in deciding the discovery and privilege questions at issue.⁴⁵ Nonetheless, based solely on AHP's argument that, as a third party, it will not have a right under the Commission's Rules of Practice to appeal after an initial decision and thus must do so now,⁴⁶ complaint counsel do not oppose either AHP's request for certification or its request for Commission review. However, if the decision is certified, pursuant to Rule 3.23(b) complaint counsel will file an answer explaining why the ALJ's Order at issue should be affirmed by the Commission.

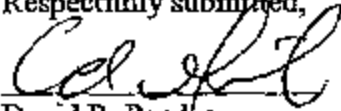
⁴⁴ See Emergency Motion at 1-2.

⁴⁵ See discussion *infra* Part II.B.2.

⁴⁶ See Emergency Motion at 14. *But see United Brands Co.*, Dkt. No. 8835, Order Denying Request For Permission To File Interlocutory Appeal, 81 F.T.C. 1031 (Oct. 30, 1972).

For the reasons articulated above, complaint counsel request that AHP's motion for an injunction pending appeal be denied.

Respectfully submitted,



David R. Pender

Elizabeth Hilder

Andrew S. Ginsburg

Counsel Supporting the Complaint

Dated: January 23, 2002

CERTIFICATE OF SERVICE

I, Andrew S. Ginsburg, hereby certify that on January 23, 2002:

I caused two copies of Complaint Counsel's Opposition And Response To The 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 person by hand delivery-

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

I caused one original and one copy of Complaint Counsel's Opposition And Response To The Emergency Motion Of American Home Products Corporation To Stay Order, For Certification For Interlocutory Appeal and Application For Full Commission Review to be served by hand delivery and one copy to be served by electronic mail upon the following person-

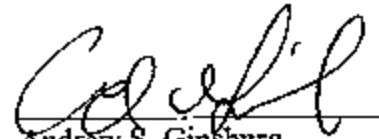
Office of the Secretary
Federal Trade Commission
Room H-159
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Washington, D.C. 20580

I caused copies of Complaint Counsel's Opposition And Response To The 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 persons by electronic mail and Federal Express-

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