A "Substantial Need" to Discover Settlement Documents?

Privilege and Work Product Protection in the Settlement Context

By Joel M. Cohen, Marc J. Tobak, and Anthony W. Mariano

A team of attorneys from Davis Polk & Wardwell LLP presented the January Monthly Update for In-House Counsel. The following article summarizes one of the recent developments discussed during the program.

As is likely familiar to readers of this newsletter, following the Supreme Court's 2012 decision in *Federal Trade Commission v. Actavis*, litigation challenging so-called reverse payment settlements as anticompetitive has focused on demonstrating that the "reverse" payments are "large and unjustified."[7] Plaintiffs have sought to find culpable explanations for such allegedly "large and unjustified" settlement payments in privileged or work product documents prepared during negotiation of the challenged settlement. Two recent decisions arising out of "reverse payment" litigation, *FTC v. Boehringer Ingelheim Pharmaceuticals* and *In re AndroGel Antitrust Litigation*, chart the limits of protections for settlement documents—and offer privilege and work product considerations for counsel negotiating settlements.

Settlement Analyses as "Fact Work Product": *FTC v. Boehringer Ingelheim Pharmaceuticals*

In *FTC v. Boehringer Ingelheim Pharmaceuticals*, 778 F.3d 142 (D.C. Cir. 2015), the U.S. Court of Appeals for the D.C. Circuit concluded that financial analyses of a settlement agreement provided to counsel for evaluation of a potential settlement were "fact work product" subject to discovery upon a showing of "substantial need." The D.C. Circuit further found that such a substantial need likely existed, as the settlement analyses were the "only documents" that could demonstrate whether the settlement was intended to be anticompetitive.

The *Boehringer Ingelheim* case arises out of 2005 patent infringement litigation between Boehringer Ingelheim Pharmaceuticals, manufacturer of the branded drugs Aggrenox and Mirapex, and Barr Industries, which developed generic versions of these drugs and which Boehringer sued for patent infringement. The parties settled the patent litigation in 2008. The settlement provided that Barr would not market its generics until an agreed-upon date prior to expiration of the patent, pursuant to a license from Boehringer. Barr and Boehringer also entered into a co-promotion agreement whereby Barr would help Boehringer promote Aggrenox in exchange for certain fees and royalties on Aggrenox sales.

In 2009, the Federal Trade Commission (FTC) began an antitrust investigation into the settlement and co-promotion agreements between Boehringer and Barr. The FTC subpoenaed documents from Boehringer, including documents containing analyses of alternative timelines for generic entry into the market and of the business terms of the settlement and co-promotion agreements. Boehringer's counsel had requested these analyses in connection with counsel's negotiation and evaluation of the settlement. Boehringer withheld the analyses as protected by the work product doctrine. After the FTC challenged Boehringer's withholding of the documents, the district court determined that the documents were protected from disclosure as opinion work product.

The work product doctrine generally holds that "a party may not discover documents and tangible things that are prepared in anticipation of litigation."[8] However, discovery is permissible where "the party shows that it has substantial need for the materials to prepare its case and cannot, without undue hardship, obtain their substantial

---

[7] *See Pharmaceutical Litigation Update: Changing Landscape*, Chahira Solh and Astor Heaven, The Antitrust Counselor, Vol. 10.1 (Sept. 2015); *Intellectual Property Settlements: Actavis Developments Trend Toward Broader Interpretations, with Some Interesting Guidance*, Rick Jucknless, The Antitrust Counselor, Vol. 9.2 (Dec. 2014).

[8] Fed. R. Civ. P. 26(b)(3)(A).

equivalent by other means," provided that the court "must protect against disclosure of the mental impressions, conclusions, opinions, or legal theories of a party's attorney or other representative concerning the litigation."[9] Courts have characterized this as a line between "fact work product," which is discoverable upon demonstration of a substantial need, and "opinion work product," which is discoverable only upon "an extraordinary showing of necessity."[10] The *Boehringer* district court found that while the challenged settlement analyses were primarily factual in nature, they gave insights into the mental impressions of counsel, as the documents "were prepared using information and frameworks provided by Boehringer counsel," and, thus, were opinion work product.[11]

The D.C. Circuit agreed generally that "[w]hen a factual document selected or requested by counsel exposes the attorney's thought processes and theories, it may be appropriate to treat the document as opinion work product, even though the document on its face contains only facts."[12] It concluded, however, that "[o]pinion work product protection is warranted only if the selection or request reflects the attorney's focus in a meaningful way."[13] As applied to the settlement analyses in question, the D.C. Circuit held that they were "the sort of financial analyses one would expect a company exercising due diligence to prepare when contemplating settlement options."[14] Because these documents did not sufficiently reveal attorney mental impressions, the court held they were fact work product. "In many documents, the only mental impression that can be discerned is counsel's general interest in the financials of the deal," the court explained, "[b]ut such interest reveals nothing at all: anyone familiar with such settlements would expect a competent negotiator to request financial analyses like those performed here."[15] Stated simply, "Where an attorney's mental impressions are those that a layman would have as well as a lawyer in these particular circumstances, and in no way reveal anything worthy of the description 'legal theory,' those impressions are not opinion work product."[16]

The D.C. Circuit then determined that the FTC had demonstrated "substantial need" for the settlement analyses as they contained "unique information about Boehringer's reasons for settling in the manner that it did," and that they were "the only documents that could demonstrate whether or not [Boehringer] was using the co-promotion agreement to pay Barr not to compete."[17] The D.C. Circuit remanded for the district court to determine the extent of the production in light of the opinion.

Joint Defense Agreements Protect Documents Shared Among Settling Adversaries: *In re AndroGel Antitrust Litigation*

The U.S. District Court for the Northern District of Georgia recently ruled that litigation adversaries may share settlement-related privileged or work-product documents pursuant to joint defense agreements covering a potential settlement without waiving the privilege or work-product protection.[18]

Solvay Pharmaceuticals, Inc. held the U.S. patent rights for the formulation of AndroGel, a testosterone replacement drug. Watson Pharmaceuticals, Inc. and Paddock Holdings, LLC, working with Par Pharmaceutical Companies, Inc., each had developed generic versions of AndroGel and were preparing for generic entry in January 2006. Solvay had filed patent infringement lawsuits against these companies in 2003. As part of settlement negotiations, the parties, aware that others might potentially file suits under antitrust laws attacking the settlements, entered into joint defense agreements to formulate a common legal defense with respect to potential antitrust litigation arising out of the settlements. In September 2006, the parties entered into settlements whereby Watson

---

[9] Fed. R. Civ. P. 26(b)(3)(A)-(B).

[10] *Boehringer*, 778 F.3d at 153 (quoting *In re Sealed Case*, 676 F.2d 793, 811 (D.C. Cir. 1982)).

[11] *Boehringer*, 778 F.3d at 147.

[12] *Id.* at 151.

[13] *Id.*

[14] *Id.* at 152 (quoting *FTC v. Boehringer Ingelheim Pharm., Inc.*, 286 F.R.D. 101, 110 (D.D.C. 2012)).

[15] *Boehringer*, 778 F.3d at 152.

[16] *Id.* at 153 (quoting *In re HealthSouth Corp. Sec. Litig.*, 250 F.R.D. 8, 11 (D.D.C. 2008)) (internal quotation marks omitted).

[17] *Boehringer*, 778 F.3d at 157-58 (quoting *FTC v. Boehringer Ingelheim Pharm., Inc.*, 286 F.R.D. at 110).

[18] *In re AndroGel Antitrust Litig.*, No. 1:09-CV-955-TWT, 2015 WL 9581828 (N.D. Ga. Dec. 30, 2015).

and Par/Paddock would receive fees for co-promotion of AndroGel and would delay generic entry until August 2015.

As anticipated, the FTC, a class of direct purchasers, a class of individual purchasers, and a class of end-payors sued, each alleging that the settlements were unlawful and anticompetitive. As discovery progressed, Solvay, Watson, Paddock, and Par sought to withhold documents and communications related to the settlements and negotiations as privileged, and argued that the prospective settling parties' sharing of these documents was protected by the common interest "privilege." The common interest doctrine "protects communications between the parties where they are part of an on-going and joint effort to set up a common defense strategy in connection with actual or prospective litigation,"[19] and so operates as an exception to the general rule that sharing privileged material with a third party or work product with an adversary waives the applicable protections. The *AndroGel* court ruled that a party claiming a common interest must demonstrate that (1) "the material is privileged," (2) "the parties had an identical legal and not solely commercial interest," and (3) "the communication was designed to further the shared legal interest."[20]

Plaintiffs challenged the existence of a "common legal interest" among adversaries—at the time, Solvay, Watson, Paddock, and Par were locked in patent infringement litigation and settlement negotiations, while ongoing, had not yet resulted in a final, binding settlement. The court rejected this argument: although the parties were adversaries, they shared the requisite common legal interest "in formulating a defense to any potential antitrust litigation" that might arise out of the settlements. *In re AndroGel*, 2015 WL 9581828, at *2. The court thus ruled that documents containing legal advice concerning potential antitrust liability or prepared in anticipation of future antitrust litigation were protected from disclosure under the attorney-client privilege or work-product doctrine and the common interest exception.[21]

Conclusion: The Limits of Privilege and Work Product Protection

Boehringer and *AndroGel* highlight several questions in-house and outside counsel would be prudent to ask when negotiating a settlement that may later be subject to attack.

First, are documents or information exchanged between attorneys (in-house and outside) and the business privileged or work product, and if work product, are they "fact" or "opinion" work product? The *AndroGel* opinion's catalogue of documents reviewed *in camera* demonstrates that the court carefully analyzed whether documents withheld as privileged or work product actually contained legal advice or were prepared in anticipation of litigation. And *Boehringer* serves as a reminder that many of the types of financial or business analyses that counsel may receive or commission when negotiating a settlement are susceptible to classification as "fact" work product that may be subject to less stringent protection than "opinion" work product. If counsel preparing or commissioning such analyses believe that these analyses in reality reflect counsel's opinions or mental impressions of the case, there may be value (and countervailing risks) in making that contemporaneous view explicit in the content of such documents.

Second, would a potential adversary challenging the settlement be able to articulate a "substantial need" to obtain "fact" work product documents generated in connection with a settlement? *Boehringer* shows that the focus on the intent of a reverse payment—and whether it is "large" and "unexplained"—means that plaintiffs likely will assert that nothing but internal settlement documents will reveal a settling party's "true" contemporaneous intent. It remains to be seen whether and to what extent these principles will be applied outside the context of reverse-payment cases.

Finally, do the parties to the litigation and settlement negotiation share a common legal interest, and should that common interest be formalized in a joint defense or common interest agreement? When competitors settle litigation concerning the markets and products in which they compete, antitrust litigation may be sufficiently foreseeable that a common interest in defending against such litigation is clear—as the *AndroGel* court determined. But in other

[19] *Id.* at *2 (quoting *Minebea Co., Ltd. v. Papst*, 228 F.R.D. 13, 15 (D.D.C. 2005)) (internal quotation marks omitted).

[20] *In re AndroGel*, 2015 WL 9581828, at *2 (quoting *Net2Phone, Inc. v. eBay Inc.*, No. 06-2469, 2008 WL 8183817, at *7 (D.N.J. June 26, 2008)).

[21] *In re AndroGel*, 2015 WL 9581828, at *3.

contexts, courts have divided on whether potential challenges to a prospective settlement are sufficient to create the requisite common interest among adversaries.[22] A formal common interest agreement may aid articulation of the shared legal interest—although, obviously, an agreement cannot create such an interest where none exists. It is also crucial to note that the common interest does not enhance the protection from discovery for documents, such as fact work product, that could be discovered upon a showing of substantial need. The common interest doctrine does not create an *independent* privilege, but instead permits the continued assertion of other privileges, such as work product or attorney-client, in situations in which they might otherwise be deemed waived. As courts continue to grapple with the intersection of the attorney-client privilege/work product doctrine and settlement negotiations, we can anticipate further disputes—and, hopefully, further judicial guidance—on these questions.

Joel M. Cohen is a partner in the New York, NY office of Davis Polk & Wardwell LLP, and a Vice Chair of the Corporate Counseling Committee.

Marc J. Tobak is an associate in the New York, NY office of Davis Polk & Wardwell LLP.

Anthony W. Mariano is an associate in the New York, NY office of Davis Polk & Wardwell LLP.

[22] In two prominent bankruptcy cases, for example, one court found that adversaries negotiating a settlement shared the requisite common interest in obtaining court approval of the settlement, while a second court found that no such common interest existed. *In re Tribune Co.*, No. 08-13141, 2011 WL 386827, at *4 (Bankr. D. Del. Feb. 3, 2011) (finding that common interest privilege "can apply to parties whose interests are not totally in accord"); *In re Lyondell Chem.*, No. 09-10023 (Bankr. S.D.N.Y. Jan. 7, 2010) (finding that prospective settling parties remained "adverse" until settlement was approved and thus did not share a common interest); s*ee generally* Elliot Moskowitz and Mathew S. Miller, *Bankruptcy Settlements and the Common Interest Privilege*, N.Y. Law Journal (Mar. 4, 2013).