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## Civil Procedure

### Settlement

The Sixth Circuit recognizes that statements made in furtherance of settlement are privileged communications, but in *FTC v. Actavis*, a patent, antitrust reverse payment suit, the Supreme Court said that where a settlement is challenged, antitrust laws may forbid the arrangement. Kaye Scholer LLP attorneys Andrew K. Solow and David A. Kerschner argue that parties need to know that their communications are protected so they will negotiate freely, and that the policy considerations underpinning *Actavis* have no place in the application of the settlement privilege.

## Settling the Dispute Over the Settlement Privilege: Upholding the Existence of a Settlement Privilege After *FTC v. Actavis*



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### I. Introduction

It is well-settled that settlement communications between parties in a dispute are not admissible at a subsequent trial involving those same parties to determine liability. However, whether these communications are privileged and therefore exempt from third-party discovery is another issue.

In 2003, the Sixth Circuit heard this issue in *Good-year Tire & Rubber Co. v. Chiles Power Supply, Inc.*<sup>1</sup> and ruled that any communications made in furtherance of settlement are privileged.

Recently, in a case involving claims that a brand pharmaceutical manufacturer acted in violation of the antitrust laws to delay the entry of a generic competitor, *In re Skelaxin (Metaxalone) Antitrust Litig.*,<sup>2</sup> the U.S. District Court for the Eastern District of Tennessee had occasion to examine whether any exception to the application of the privilege should be made. The plaintiffs argued that the case was a so-called “reverse payment” case – one in which a brand pharmaceutical manufac-

<sup>1</sup> 332 F.3d 976 (6th Cir. 2003).

<sup>2</sup> No. 1-12-md-02343 (E.D. Tenn.).

turer makes a payment in a settlement of patent litigation with a generic challenger – and that the settlement privilege should not apply in that context.

In a landmark “pay-for-delay” case, *FTC v. Actavis, Inc.*,<sup>3</sup> the U.S. Supreme Court recently decided that determining if these “reverse payment” settlements violate the antitrust laws requires a review of, among other things, the parties’ reasons for settling their patent dispute.

In *Skelaxin* the plaintiffs challenged a defendant’s assertion of the settlement privilege over prior settlement communications, arguing that the Supreme Court’s holding in *Actavis*, which did not actually discuss a privilege, created an exception to the Sixth Circuit’s holding in *Goodyear* due to a need to understand the parties’ motivations behind settlement.

As discussed below, although whether *Skelaxin* even was a “reverse payment” case was a contested point, ultimately the court held that, regardless of the Supreme Court’s indication in *Actavis* that settlement communications may be relevant, the court did not have the authority to limit the already-existing settlement privilege.

## II. Sixth Circuit Creates Settlement Privilege

In *Goodyear*, the Sixth Circuit addressed, as a matter of first impression, “whether statements made in furtherance of settlement are privileged and protected from third-party discovery,”<sup>4</sup> by looking to Federal Rule of Evidence 501 and the Supreme Court’s decisions in *Trammel v. United States*<sup>5</sup> and *Jaffe v. Redmond*.<sup>6</sup>

Rule 501 and the Supreme Court precedent explained that courts have the “flexibility to develop rules of privilege on a case-by-case basis”<sup>7</sup> but emphasized that the “flexibility” lies in the creation of a *new* privilege, not with regard to applying an already accepted privilege.

As the court explained in *Jaffe*, “[m]aking the promise of confidentiality contingent upon a trial judge’s later evaluation of the relative importance of the [party’s] interest in privacy and the evidentiary need for disclosure would eviscerate the effectiveness of the privilege.”<sup>8</sup>

Thus, “if the purpose of the privilege is to be served, the participants in the confidential conversation ‘must be able to predict with some degree of certainty whether particular discussions will be protected. An uncertain privilege, or one which purports to be certain but results in widely varying applications by the courts, is little better than no privilege at all.’”<sup>9</sup>

The Sixth Circuit in *Goodyear* recognized that a new privilege “should be judged on a case-by-case basis . . . [v]iewed in the light of reason and experience,” and “must serve some public interest.”<sup>10</sup> With respect to settlement, the court looked at the importance of confi-

dentiality in settlement discussions and the unreliable nature of settlement communications.<sup>11</sup>

Weighing these factors, the Sixth Circuit concluded that communications made in furtherance of settlement should be protected by a privilege.

Despite *Goodyear*’s unanimous holding, the decision was not without its critics.

For instance, a judge in the U.S. District Court for the Northern District of Ohio referred to his “latent misgivings” in applying *Goodyear* and limited the settlement privilege to apply only to those documents that were “authored or created for the purpose of settlement negotiations.”<sup>12</sup>

The court reasoned that in order to garner the protections afforded under *Goodyear*, documents must “be the type of communications that the privilege was designed to protect: namely, those that are inherently unreliable because of the likelihood of puffery.”<sup>13</sup> Therefore, those documents that were created for another purpose but used during settlement “do not get clothed in a settlement privilege” and are not protected by *Goodyear*.<sup>14</sup>

Similarly other district courts have ruled that the “documents such as finalized settlement agreements . . . are not necessarily protected from third-party discovery.”<sup>15</sup>

However, while the case has been criticized, the Eastern District of Tennessee has held that *Goodyear* “is, nevertheless the law in the Sixth Circuit until an en banc panel of the Sixth Circuit or the Supreme Court overturns the *Goodyear* decision.”<sup>16</sup>

## III. So-Called ‘Reverse Payment’ Cases

In antitrust reverse payment litigation, sometimes called “pay-for-delay” cases, the plaintiff’s theory of liability is premised on allegations that a patent holder made payments to one or more parties that were challenging its patent in connection with a settlement of the patent litigation, thereby delaying any adjudication on the merits of the challenged patent, and thus excluding generic competitors from entering the market and competing with the branded product.

In *Actavis* the Supreme Court decided that determining whether such settlements violate the antitrust laws requires a review of a series of considerations, one of which is the parties’ motive in entering into the settlement agreement in their patent litigation.

Justice Breyer, writing for the majority, explained that “[i]f the basic reason [for the settlement] is a desire to maintain and to share patent-generated monopoly profits, then, in the absence of some other justification, the antitrust laws are likely to forbid the arrangement.”<sup>17</sup>

<sup>3</sup> 81 U.S.L.W. 4455, 2013 BL 158126, 133 S. Ct. 2223 (U.S. June 17, 2013) (No. 12-416).

<sup>4</sup> *Goodyear*, at 977.

<sup>5</sup> 445 U.S. 40 (1980).

<sup>6</sup> 518 U.S. 1 (1996).

<sup>7</sup> *Trammel*, 445 U.S. at 47.

<sup>8</sup> *Jaffe*, 518 U.S. at 17.

<sup>9</sup> *Id.* at 17-18 (citing *Upjohn Co. v. United States*, 449 U.S. 383, 393 (1981)).

<sup>10</sup> *Goodyear*, at 980.

<sup>11</sup> *Id.* at 980-981.

<sup>12</sup> *Grupo Condumex, S.A. de C.V. v. SPX Corp.*, 331 F. Supp. 2d 623, 629 (N.D. Ohio 2004).

<sup>13</sup> *Id.*

<sup>14</sup> *Id.*

<sup>15</sup> *Grant, Konvalinka & Harrison v. United States*, No. 1:07-cv-88, 2008 WL 4865571, at \*9 (E.D. Tenn. June 27, 2008).

<sup>16</sup> *Id.*

<sup>17</sup> *Actavis*, 133 S. Ct. at 2237.

## IV. In Re Skelaxin

As noted, the plaintiffs in *Skelaxin*, an ongoing anti-trust litigation, allege that the brand manufacturer defendant, King Pharmaceuticals (“King”) and a generic challenger defendant,<sup>18</sup> had entered into a reverse payment settlement.

Plaintiffs claim that through this alleged settlement, and potentially through settlement discussions with other generic challenger defendants, King was able to hinder the efforts of a number of generic drug companies that had also filed ANDAs from bringing their generic equivalents to Skelaxin to the market.

**Privilege Status of Settlement Documents Dispute.** During discovery, King, relying on *Goodyear*, asserted the settlement privilege to protect the disclosure of certain communications with generic challenger defendants (“Settlement Documents”).

The plaintiffs responded by moving to compel production of the Settlement Documents, arguing that the Settlement Documents at issue were relevant as they were likely to lead to admissible evidence concerning “King’s attempts at illegal generic suppression through a variety of improper tactics alleged in the Plaintiffs’ complaints, including but not limited to perpetuating sham litigation”<sup>19</sup> and that the settlement privilege was not absolute.<sup>20</sup>

In support of their arguments, plaintiffs tried to use *Actavis*. They claimed that *Actavis* “highlights the anti-competitive nature of [reverse payment] settlements,” and therefore the application of the settlement privilege as announced in *Goodyear* would inhibit their ability to pursue discovery concerning the potential anticompetitive effects of any alleged settlements of the Skelaxin patent litigations.<sup>21</sup>

Plaintiffs further claimed that precluding such discovery would be incongruous to the Supreme Court’s intentions “not to hinder prosecution of antitrust claims arising out of settlement of patent litigations.”<sup>22</sup>

Furthermore, the plaintiffs claimed that while “a settlement privilege theoretically promotes the resolution of litigation when such a resolution is sought by the parties in good faith . . . it is unlikely that the Sixth Circuit intended settlement privilege to extend to when . . . the privilege has the negative side effect of protecting parties who allegedly illegally conspired to resolve the litigation, in bad faith with the specific intent of using such resolution to suppress generic competitors from entering the market.”<sup>23</sup>

**Magistrate’s Ruling.** Rather than accepting the *Goodyear* holding that a settlement privilege existed in the Sixth Circuit, the magistrate judge in *Skelaxin* framed

the issue before him on plaintiffs’ motion to compel as “whether a settlement privilege applies” to protect disclosure of the Settlement Documents,<sup>24</sup> noting that the “recognition of a new privilege must be considered on a case-by-case basis and the proposed privilege must promote a public interest that is sufficiently important to outweigh the need for probative evidence.”<sup>25</sup>

The magistrate judge then accepted plaintiffs’ arguments regarding the relevance of *Actavis*, stating that the Supreme Court was clear that “the reasons for entering into a reverse payment settlement agreement are essential to the determination of whether the agreement is in violation of anti-trust laws.”<sup>26</sup>

Accepting plaintiffs’ disputed premise that *Skelaxin* involved any sort of reverse payment, the court concluded therefore that “in this particular case” the probative value of the Settlement Documents outweighed the public policies espoused in *Goodyear* in favor of the settlement privilege and the Settlement Documents should not be withheld from production.<sup>27</sup>

**District Court Ruling.** King filed a motion for review of the magistrate judge’s decision arguing that *Goodyear* held “unconditionally that any communications made in furtherance of settlement are privileged,” and that the *Goodyear* court “did not weigh the probative value of the evidence at issue in that particular case.”<sup>28</sup>

The district court agreed, holding that the documents were privileged because “as the Court reads *Goodyear*, the Sixth Circuit has recognized a settlement communications privilege and the Court may not reconsider the public policy rationales that led it there.”<sup>29</sup>

The district court noted that it could not reject the privilege in *Goodyear* “even if its application may deprive plaintiffs of valuable evidence.”<sup>30</sup>

Thus, the law is clear that *Actavis*-based policy considerations have no place in determining the application of the settlement privilege in the Sixth Circuit.

## V. Outside Sixth Circuit

While the settlement privilege has been upheld in the Sixth Circuit, the recognition of the settlement privilege is not universal in all U.S. jurisdictions.

Some courts have followed the Sixth Circuit and held that settlement communications are privileged.<sup>31</sup> On

<sup>24</sup> Feb. 28, 2014 Memorandum and Order, 1:12-md-02343 No 531, at 3 (“Magistrate’s Order”).

<sup>25</sup> *Id.* at 5 (internal quotations omitted).

<sup>26</sup> *Id.* at 7 (emphasis in original).

<sup>27</sup> *Id.* at 6-8.

<sup>28</sup> King’s Memo. in Support of King’s Objections to the Ruling to Produce Inadvertently Disclosed Material, dated March 14, 2014, at 8-9 (“King’s March 14 Memo”) (emphasis in original).

<sup>29</sup> Memorandum and Order, dated July 29, 2014, at 3-4 (“District Court Order”).

<sup>30</sup> *Id.* at 3-5 (“[T]he Court agrees with [the Magistrate] Judge [ ]’s conclusion that the communications at issue are highly probative of King’s liability in this case. Were the Court empowered to reweigh the public policy considerations underlying this privilege, it would likely agree with [the Magistrate] Judge [ ]’s ruling.”).

<sup>31</sup> See, e.g., *California v. Kinder Morgan Energy Partners, L.P.*, No. 07-1883, 2010 WL 3988448, at \*4 (S.D. Cal. Oct. 12, 2010) (“communications made in furtherance of settlement negotiations are protected from third-party discovery because of the public policy favoring confidentiality of such communica-

<sup>18</sup> The generic manufacturer defendant had filed an Abbreviated New Drug Application (or ANDA) to receive FDA approval for a generic version of Skelaxin and was challenging the validity of King’s Skelaxin-related patents.

<sup>19</sup> Mem. in Support of Pls.’ Mot. Challenging The Privileged Status of Inadvertently Disclosed Material, dated December 18, 2013, at 5 (“Pls.’ Dec. 18 Memo.”).

<sup>20</sup> *Id.* at 4-6.

<sup>21</sup> *Id.* at 6.

<sup>22</sup> *Id.*

<sup>23</sup> Pls.’ Reply in Further Support of Pls.’ Mot. Challenging The Privileged Status of Inadvertently Disclosed Material, dated January 15, 2014, at 2-3 (Pls.’ Jan. 15, 2014 Memo).



the other hand, many courts have declined to recognize the privilege.<sup>32</sup>

Some courts have also developed a middle approach, requiring a showing of a heightened standard of relevance in order to allow the discovery of settlement communications.

For example, in *Eisai Inc. v. Sanofi-Aventis U.S., LLC*,<sup>33</sup> antitrust plaintiffs sought documents from a previous litigation and settlement. The court held that “[w]ith respect to requests for discovery related to settlement materials, although the Third Circuit does not recognize a settlement privilege, parties seeking to discover such communications must make a heightened, more particularized showing of relevance and demonstrate that the evidence is calculated to lead to the discovery of admissible evidence.”<sup>34</sup>

tions”); *Software Tree, LLC v. Red Hat, Inc.*, No. 6:09-CV-097, 2010 WL 2788202, at \*4 (E.D. Tex. June 24, 2010) (“this Court recognizes a settlement privilege that applies to negotiations underlying licensing agreements arising out of litigation. The Court permits discovery of negotiations pertaining to agreements and licenses entered into outside the context of litigation, but not of negotiations pertaining to agreements that settle law suits.”).

<sup>32</sup> See e.g., *In re General Motors Corp. Engine Interchange Litigation*, 594 F.2d 1106, (7th Cir. 1979) (declining to adopt a settlement privilege); *Spilker v. Medtronic, Inc.*, 2014 BL 265426, 2014 WL 4760292, at \*3 (E.D.N.C. Sept. 24, 2014) (No. 4:13-CV-76-H) (applying the standard of relevance to determine whether a settlement agreement is producible in discovery, noting that the Fourth Circuit has declined to recognize a federal settlement privilege); *In re Urethane Antitrust Litig.*, 2009 BL 151690, 2009 WL 2058759, at \*3-4 (D. Kan. July 15, 2009) (No. 04-MD-1616-JWL) (declining to follow *Goodyear* and adopt a settlement privilege); *Bd. of Trustees of Leland Stanford Junior Univ. v. Tyco Int'l Ltd.*, 253 F.R.D. 521, 522 (C.D. Cal. 2008) (granting a motion to compel a prior settlement agreement, as well as the underlying negotiation and drafting documents, noting that “there is no federal privilege preventing the discovery of settlement agreements and related documents”); *Matsushita Electric Indus. Co. v. Mediatek, Inc.*, 2007 BL 250970, 2007 WL 963975 (N.D. Cal. Mar. 30, 2007) (No. C-05-3148) (holding that Federal Rules of Evidence 501 and 408 do not create a federal settlement privilege); *In re Subpoena Issued to Commodity Futures Trading Commission*, 370 F. Supp. 2d 201, 208-213 (D.D.C. 2005) (refusing to recognize a settlement privilege under federal law that would protect the documents from third-party discovery).

<sup>33</sup> 2011 BL 285533, 2011 WL 5416334 (D.N.J. Nov. 7, 2011) (No. 08-4168 (MLC)).

<sup>34</sup> *Id.* at \*7 (internal quotations omitted); see also *In re Telligent, Inc.*, 640 F.3d 53, 59 (2d Cir. 2011) (holding that a “party seeking disclosure of confidential mediation communications must demonstrate (1) a special need for the confidential material, (2) resulting unfairness from a lack of discovery, and (3) that the need for the evidence outweighs the interest in maintaining confidentiality.”)

## VI. Take Aways From *Skelaxin*

In the Sixth Circuit, the *Skelaxin* plaintiffs attempted to chip away at *Goodyear* by trying to persuade the court to constrain the settlement privilege where a party claims that the process of settlement itself “may be part and parcel of Defendants’ anticompetitive conduct.”<sup>35</sup>

But, as courts have held repeatedly, privileges either exist or they do not. They cannot be chipped away by public policy or other concerns, because one of the keys of privilege is that the parties involved in the communications know at the time that the communications are taking place that the communications are protected.

As the Supreme Court stated in the *Jaffe* case, “[m]aking the promise of confidentiality contingent upon a trial judge’s later evaluation of the relative importance of the patient’s interest in privacy and the evidentiary need for disclosure would eviscerate the effectiveness of the privilege.”<sup>36</sup>

Uncertainty regarding the degree of protection communications will have in the future “is little better than no privilege at all.”<sup>37</sup> Therefore, while the *Skelaxin* decision only applied to the Sixth Circuit’s settlement privilege, the district court’s reversal can be used to support future arguments regarding the need for consistency in the application of privileges in general.

More specifically, in the settlement privilege context, knowing that their communications are protected allows parties the freedom to negotiate without the fear that their statements will later be used against them in other contexts.

Future antitrust plaintiffs may argue that, nonetheless, these negotiation communications should be presented as evidence, as these communications can hold the key to unlocking the parties’ true intentions behind their settlement. However, to counter such an argument, as the Sixth Circuit noted in *Goodyear*, it is important to emphasize that these statements may be motivated more by desires for peace, which devalues their relevance.<sup>38</sup>

Thus, while these communications can appear to be a Rosetta Stone for mapping the motivations behind settling parties, they may present an imprecise view of the parties’ true positions.

Therefore, future parties arguing to maintain a settlement privilege in the face of precedent or public policy indicating the potential relevance of such communications must be vigilant in reasoning that these communications do not always dictate a party’s true motivation, and therefore have little if any relevance.

<sup>35</sup> Pls.’ December 18 Memo. at 6.

<sup>36</sup> *Jaffe*, 518 U.S. at 17.

<sup>37</sup> *Id.* at 18.

<sup>38</sup> See *Goodyear*, at 983.