Saving Federal Settlement Privilege after *Actavis*

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INTRODUCTION

A reverse-payment agreement, also known as a "pay-for-delay" agreement, is a type of patent settlement in which a brand-name drug manufacturer pays a prospective generic manufacturer not to challenge the brand-name manufacturer's patent. These settlements are relatively common,[1] but they are also controversial because they can enable the brand-name manufacturer to maintain monopoly power over an invalid patent, which leaves consumers paying too-high prices for too-small quantities of the drug. In the 2013 case *FTC v Actavis, Inc*,[2] the Supreme Court held that these settlements are subject to antitrust scrutiny because of their potential to artificially extend the monopoly power conferred by a patent.[3] This Comment explores whether and how federal settlement privilege—which, in several jurisdictions, shields from discovery in future lawsuits any communications that parties make in the course of reaching a settlement—applies in antitrust litigation concerning reverse-payment agreements.

Because *Actavis* held that the anticompetitive harm of reverse payments stems from the settling parties' attempts "to prevent the risk of competition,"[4] courts hearing reverse-payment cases must examine parties' reasons for settling to determine liability: "If the basic reason is a desire to maintain and to share patent-generated monopoly profits, then, in the absence of some

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1 In fiscal year 2014 (the most recent year for which data is available), American pharmaceutical companies entered into twenty-one reverse-payment settlements, which accounted for 13 percent of all patent settlements between brand-name and generic manufacturers. The combined value of these settlements exceeded $6 billion. See *Agreements Filed with the Federal Trade Commission under the Medicare Prescription Drug, Improvement, and Modernization Act of 2003: Overview of Agreements Filed in FY 2014; A Report by the Bureau of Competition* *1, 4, archived at http://perma.cc/BP8K-AB3N.

2 133 S Ct 2223 (2013).

3 Id at 2227.

4 Id at 2236.

other justification, the antitrust laws are likely to forbid the arrangement."[5] But if settlement is motivated by "traditional [ ] considerations," such as a desire to avoid litigation costs or to compensate the generic manufacturer for services that it has agreed to perform, the settlement will not be found anticompetitive.[6]

Now that courts presiding over reverse-payment cases must consider the motivations of the manufacturers who entered the settlement agreement, it is crucial to know whether and to what extent communications made in furtherance of reverse-payment settlements are protected by settlement privilege. This Comment proposes an answer to that question.

Part I of this Comment explains the origins of reverse payments and why these agreements are uniquely attractive to drug manufacturers. It concludes by discussing the *Actavis* opinion and the current legal status of reverse-payment agreements, paying special attention to the implications that *Actavis* has for those courts that recognize settlement privilege. Part II explains what settlement privilege is and why some federal courts—but not others—have decided to recognize the privilege. Part III examines the evidentiary dilemma faced by courts that must scrutinize reverse payments under the constraints of settlement privilege. Most importantly, Part III suggests two ways in which courts that recognize settlement privilege can reconcile that privilege with the mandate of *Actavis*. Part III.A explores how the crime-fraud doctrine, according to which no privilege attaches to communications undertaken in furtherance of crime or fraud, could provide a work-around to settlement privilege in many reverse-payment cases, but also describes the difficulties inherent in such an approach. Part III.B then offers an alternative solution: instead of relying on the complex, obstacle-laden crime-fraud doctrine, courts can invoke the common-law "necessity exception" to confine settlement privilege so that it does not apply in lawsuits, such as reverse-payment suits, in which the legality of the settlement itself is at issue. Careful application of either the crime-fraud doctrine or, more promisingly, the necessity exception would allow courts to adjudicate reverse-payment cases without abandoning settlement privilege altogether.

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5 Id at 2237.

6 *Actavis*, 133 S Ct at 2236.

I. Reverse-Payment Settlements and *Actavis*

A reverse-payment agreement—also called a "pay-for-delay" agreement—is a type of patent settlement in which a patent holder pays a prospective rival to settle patent challenges.[7] From their inception, the legal status of these agreements has been controversial. By giving patent holders the power to stifle challenges to their monopoly power, reverse payments strain the tension between patent law, which grants innovators monopoly rights over their creations, and antitrust law, which seeks to eradicate monopolies and similar restraints on trade.[8]

This Part explores this tension and its legal implications. Part I.A provides an overview of the regulatory framework that has made reverse-payment agreements uniquely popular in the pharmaceutical industry. Part I.B discusses the legal controversy surrounding these agreements, eventually turning to the Supreme Court's resolution of that controversy in *Actavis*. Finally, Part I.C outlines some important questions that remain unanswered in the wake of *Actavis*. These questions directly bear on whether and to what extent communications made in furtherance of reverse-payment settlements are protected by settlement privilege.

A. Background and Regulatory Framework

For reasons discussed in this Section, reverse-payment agreements are especially—if not uniquely[9]—attractive to pharmaceutical manufacturers. Pharmaceutical drugs are one of the many types of "composition[s] of matter" eligible for protection under US patent law.[10] The creator of a drug whose patent is approved by the US Patent and Trademark Office receives the exclusive right to manufacture and sell that drug for a twenty-year term.[11] This monopoly term is widely considered to be a necessary incentive for drug manufacturers: without some period of exclusivity during which the manufacturer can charge above-market

7 Einer Elhauge and Alex Krueger, *Solving the Patent Settlement Puzzle*, 91 Tex L Rev 283, 284 & n 1 (2012).

8 For a discussion of this tension and its implications, see generally E. Thomas Sullivan, *The Confluence of Antitrust and Intellectual Property at the New Century*, 1 Minn Intel Prop Rev 1 (2000).

9 See *Actavis*, 133 S Ct at 2227 ("Apparently most if not all reverse payment settlement agreements arise in the context of pharmaceutical drug regulation.").

10 35 USC § 101. See also Michael Enzo Furrow, *Pharmaceutical Patent Life-Cycle Management after* KSR v. Teleflex, 63 Food & Drug L J 275, 289 (2008) (noting that drug patents are often filed as compositions of matter).

11 35 USC §§ 154(a)(2), 271(a).

prices and reap monopoly profits, many drug manufacturers would not be able to recover their research and development costs.[12]

In addition to obtaining a patent for its new drug, the manufacturer must obtain approval from the Food and Drug Administration (FDA) in order to legally market that drug.[13] The Drug Price Competition and Patent Term Restoration Act of 1984,[14] commonly known as the "Hatch-Waxman Act,"[15] outlines the process by which pharmaceutical companies gain FDA approval to bring a drug to market.[16]

The Hatch-Waxman Act also prescribes procedures designed to resolve patent disputes between brand-name and generic drug manufacturers. A manufacturer seeking to market a new drug must submit a New Drug Application[17] (NDA) providing details about the drug's composition and "full reports of investigations which have been made to show whether or not such drug is safe for use and whether such drug is effective in use."[18] This clinical testing and approval process is long, arduous, and extremely expensive.[19] The manufacturer also provides "the patent number and the expiration date of any patent" that a generic manufacturer would infringe by manufacturing the drug.[20] The upshot of this process for the applicant is that, if the FDA approves the NDA, it publishes the drug and patent information in a book called "Approved Drug Products with Therapeutic Equivalence Evaluations,"[21] nicknamed the "Orange Book."[22]

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12 See Wendy H. Schacht and John R. Thomas, *Patent Law and Its Application to the Pharmaceutical Industry: An Examination of the Drug Price Competition and Patent Term Restoration Act of 1984 ("The Hatch-Waxman Act")* *2–5 (Congressional Research Service, Jan 10, 2005), archived at http://perma.cc/E3SR-KPW9.

13 See 21 USC § 355(a).

14 Pub L No 98-417, 98 Stat 1585.

15 *Actavis*, 133 S Ct at 2228.

16 See 21 USC § 355(b), (j).

17 See 21 CFR § 314.50.

18 21 USC § 355(b)(1).

19 See Joseph A. DiMasi, Ronald W. Hansen, and Henry G. Grabowski, *The Price of Innovation: New Estimates of Drug Development Costs*, 22 J Health Econ 151, 161–66 (2003) (estimating that the costs of NDA clinical testing constitute half the cost of drug development and that the average successful drug costs $282 million to develop).

20 21 USC § 355(b)(1).

21 See 21 USC § 355(j)(7)(A).

22 See Julie Dohm, Comment, *Expanding the Scope of the Hatch-Waxman Act's Patent Carve-Out Exception to the Identical Drug Labeling Requirement: Closing the Patent Litigation Loophole*, 156 U Pa L Rev 151, 152 n 2 (2007) (describing the Orange Book).

A quicker and simpler method of approval is available to prospective generic manufacturers of drugs listed in the Orange Book. A generic drug manufacturer need file only an Abbreviated New Drug Application (ANDA),[23] which incorporates the safety and effectiveness findings of the previously approved brand-name drug. This method allows the generic manufacturer "to piggyback on" the research and testing of the original manufacturer and thereby gain FDA approval so long as it can prove that the generic drug is chemically identical to the original.[24]

However, the ANDA applicant must certify to the FDA that its generic drug will not infringe the original manufacturer's patent. There are several ways in which an ANDA applicant can make this certification. Commonly, the applicant will certify that the original patent has expired or will expire before the generic goes to market.[25] Alternatively, the applicant can assert that the original manufacturer's "patent is invalid or will not be infringed by the manufacture, use, or sale of the new drug for which the application is submitted."[26] This latter filing is called a "[P]aragraph IV certification."[27]

If the generic applicant files a Paragraph IV certification, it must notify the patent holder that it is challenging the validity of the patent.[28] The notification must "include a detailed statement of the factual and legal basis" for the generic's belief that the patent is invalid.[29] The patent holder then has forty-five days to sue the ANDA applicant for infringement.[30] If the patent holder does not sue, then the FDA proceeds with the approval process for the generic drug.[31] But if the patent holder files a timely suit, the FDA stays approval for thirty months.[32] If, during the stay, a court determines that the patent is invalid, the FDA's approval of the ANDA becomes effective on the date the court enters judgment.[33] Because a Paragraph IV certification amounts to constructive infringement[34] and usually challenges the validity of an extremely

23 See 21 USC § 355(j).

24 *Valley Drug Co v Geneva Pharmaceuticals, Inc*, 344 F3d 1294, 1296 (11th Cir 2003).

25 21 USC § 355(j)(2)(A)(vii)(II)–(III).

26 21 USC § 355(j)(2)(A)(vii)(IV).

27 *Valley Drug*, 344 F3d at 1297.

28 See 21 USC § 355(j)(2)(B).

29 21 USC § 355(j)(2)(B)(iv)(II).

30 21 USC § 355(j)(5)(B)(iii).

31 21 USC § 355(j)(5)(B)(iii).

32 21 USC § 355(j)(5)(B)(iii).

33 21 USC § 355(j)(5)(B)(iii)(I)(aa).

34 35 USC § 271(e)(2)(A).

valuable patent, it almost always triggers litigation by the brand-name manufacturer to defend its patent.[35] If the generic manufacturer wins at trial, then it and other generic firms are allowed to enter the market. The competition among multiple generic manufacturers rapidly drives down the price of the drug, effectively transferring millions or billions of dollars in potential monopoly profits from the brand-name manufacturer to consumers.[36]

However, because Paragraph IV litigation can be extremely expensive, a prospective generic filer faces first-mover *disadvantages* in bringing its patent challenge. The Paragraph IV filer's lawsuit, if successful, enables other generic firms to free ride on its legal efforts. These competing generics can enjoy the benefits of the patent challenge (namely, market entry) without having to incur the costs and risks of the lawsuit. The presence of free riders who can immediately enter the market and drive down the price of the drug seriously reduces the incentive of generic firms to challenge patents in the first place.[37]

This is where the unique regulatory provisions of the Hatch-Waxman Act kick in. The Hatch-Waxman Act gives generic manufacturers a powerful incentive to incur the heavy litigation costs of a Paragraph IV suit: it grants the first successful Paragraph IV filer a minimonopoly—a 180-day period during which only it may legally manufacture a generic version of the challenged drug.[38] Importantly, the first "successful" filer is the first generic firm to file an approved Paragraph IV certification, not the first firm to actually win a patent challenge.[39] Thus, even if the first filer loses or settles an infringement lawsuit, subsequent generic firms do not become eligible for the 180-day exclusivity period.[40]

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35 *Caraco Pharmaceutical Laboratories, Ltd v Novo Nordisk A/S*, 132 S Ct 1670, 1677 (2012) ("Filing a paragraph IV certification means provoking litigation.").

36 See C. Scott Hemphill, *Paying for Delay: Pharmaceutical Patent Settlement as a Regulatory Design Problem*, 81 NYU L Rev 1553, 1557, 1564–67 (2006).

37 See id at 1605 ("[P]otential challengers [ ] face a serious free-rider problem. Not only will a firm fail to internalize the full benefits of its challenge, . . . but in addition the gains will tend to be rapidly dissipated, as other firms enter and compete away the benefits of the favorable judgment.").

38 See 21 USC § 355(j)(5)(B)(iv).

39 See 21 USC § 355(j)(5)(B)(iv)(II)(bb), (D)(iii).

40 See 21 USC § 355(j)(5)(B)(iv). See also Hemphill, 81 NYU L Rev at 1583–86 (cited in note 36) (explaining why this is the correct interpretation of § 355(j)(5)(B)(iv)); *Arkansas Carpenters Health and Welfare Fund v Bayer AG*, 604 F3d 98, 101 & n 4 (2d Cir 2010) (citing the Hemphill article and acknowledging that that the court had erred as a matter of law when it wrote, in an earlier case, "that the exclusivity period cedes to the first ANDA filer to successfully *defend*") (emphasis added).

The 180-day exclusivity period begins to run, if it runs at all, as soon as the first ANDA applicant commercially markets its drug.[41] Because the price of a drug—and, hence, manufacturers' opportunity for profit—rapidly declines as additional competing generic manufacturers enter the market, the exclusivity period can be extremely valuable, often worth hundreds of millions of dollars.[42] Without the exclusivity guarantee, generic manufacturers often have little incentive to challenge the brand-name manufacturer's patent in the first place.[43]

As is the case with most lawsuits, legal challenges brought by brand-name manufacturers in response to Paragraph IV filings are often settled by the parties in a private agreement, rather than by a court at trial.[44] When these settlement agreements involve cash consideration, they are described as involving "reverse" payments because, "rather than demanding damages in settlement the brand manufacturer pays a sum of money—often a very large sum of money—to the generic manufacturer."[45] This flips the usual settlement scenario, in which the alleged infringer pays the alleged victim, to one in which the victim pays the alleged infringer.

Under ordinary circumstances in a competitive market, a high-value reverse payment would trigger additional patent challenges, because it signals to other potential generic manufacturers that the patent holder either doubts the validity of its patent or is sufficiently risk-averse that it is willing to settle on terms that are highly attractive to generic challengers.[46] The threat of inviting additional litigation would discourage patentees from entering high-value reverse payments in the first place. And, in any case, the onslaught of future challenges would make it difficult or impossible for a patentee to "buy off" *all* of its generic challengers.

41 21 USC § 355(j)(5)(B)(iv). If the validity of the patent is fully litigated, the 180-day exclusivity period begins to run as soon as the court issues a final order that the patent is invalid or not infringed. 21 CFR § 314.107(c)(1).

42 Hemphill, 81 NYU L Rev at 1579 (cited in note 36).

43 See id.

44 See *Overview of Agreements Filed in FY 2014* at *4 (cited in note 1) (citing data indicating that potential reverse-payment settlements involving "first filers"—in other words, Paragraph IV settlements—accounted for 7 percent to 23 percent of all patent settlements between generic and brand-name manufacturers in each year from 2010 to 2014).

45 Joshua P. Davis, *Applying Litigation Economics to Patent Settlements: Why Reverse Payments Should Be Per Se Illegal*, 41 Rutgers L J 255, 257 (2009).

46 See, for example, Hemphill, 81 NYU L Rev at 1582 (cited in note 36) (noting that the Hatch-Waxman Act alters the normal presumption that "there are many potential challengers, and paying one merely attracts others").

But these assumptions do not hold under the terms of the Hatch-Waxman Act. Because only the first generic challenger is eligible for the Act's 180-day exclusivity period—and because, without this exclusivity period, the expected costs of litigation would likely often exceed the expected gains from a lawsuit[47]—a brand-name manufacturer can often effectively protect a patent, even a likely invalid one, by "buying off" the first challenger.

B. Legal Controversy and *Actavis*

Federal antitrust enforcers were wary of reverse-payment settlements from the beginning, because of their potential to harm consumers by keeping prices artificially high and supply artificially low. The legal controversy surrounding reverse payments came to a head in the early 2000s, when the Federal Trade Commission (FTC) began challenging these agreements as anticompetitive—and thus illegal[48]—restraints of trade.[49] The FTC argued that these agreements implicate antitrust issues because a patent has no exclusionary potential—and thus confers no legitimate monopoly rights—if its holder would not win the underlying infringement suit.[50] According to the FTC, because it is usually impossible to know in advance whether the patent holder would win at trial, reverse-payment agreements are presumptively unlawful unless the court finds by a preponderance of the evidence that the plaintiff would have won at trial.[51]

47 See text accompanying notes 42–43. See also generally Tom Engellenner, *Comparison of Federal Court, ITC, and USPTO Proceedings in IP Disputes* (American Intellectual Property Law Association, Jan 2014), archived at http://perma.cc/8E54-ED2G (detailing the average cost of patent litigation).

48 See 15 USC §§ 1–2 (outlawing contracts and conspiracies in restraint of trade and attempts to monopolize trade). See also 15 USC § 45(a) (granting the FTC the authority to prevent all "unfair methods of competition in or affecting commerce").

49 See generally, for example, *Andrx Pharmaceuticals, Inc v Biovail Corp International*, 256 F3d 799 (DC Cir 2001); *In re Cardizem CD Antitrust Litigation*, 332 F3d 896 (6th Cir 2003). The FTC was initially a plaintiff in the litigation underlying both of these cases, but settled with the defendants via a consent decree. See *Andrx*, 256 F3d at 817 n 20. See also *Consent Agreement Resolves Complaint against Pharmaceutical Companies Hoechst Marion Roussel, Inc. and Andrx Corp.* (FTC, Apr 2, 2001), archived at http://perma.cc/EK67-AB5S.

50 See, for example, *FTC v Watson Pharmaceuticals, Inc*, 677 F3d 1298, 1312 (11th Cir 2012).

51 See id. There are many reasons why the holder of a valid patent might settle in spite of a well-justified belief that it would win at trial. These reasons include risk aversion, concern for negative publicity, and financial prudence (such as when the litigation costs exceed the value of the lawsuit). Id at 1313.

The federal appellate courts disagreed about the merits of the FTC's argument. Three circuit courts rejected the FTC's argument outright, holding that reverse-payment agreements should be "immune from antitrust attack so long as [their] anticompetitive effects fall within the scope of the exclusionary potential of the patent" because the Patent Act's grant of monopoly power to brand-name drug manufacturers shielded agreements concerning that lawfully granted monopoly power from antitrust scrutiny.[52] This held true regardless of whether the patent was subsequently declared invalid. As the Eleventh Circuit put it, "even a court judgment about a patent's *actual* exclusionary power, unless that judgment comes before settlement, does not count. What does count is the patent's '*potential* exclusionary power' as it appeared at the time of settlement."[53] At the time of the settlement, a patent holder has apparent legal monopoly power—and that is what matters.

Courts were also concerned about the implications of accepting the FTC's argument. Some judges worried that applying antitrust scrutiny to reverse-payment agreements within the patent term would require courts to adjudicate the likelihood of the patent holder's success on the merits, as those merits stood at the time of the settlement. Doing this would "require[ ] mining through mountains of evidence" and essentially litigating the very trial that the settlement was designed to avoid.[54] This would obviate the benefits of settlement, a consequence that the "legal system can ill afford."[55] In addition to being expensive and difficult, after-the-fact estimates about the likelihood of success on the merits are inherently tenuous: "Predicting the future is precarious at best; retroactively predicting from a past perspective a future that never occurred is even more perilous."[56] Many courts thought it poor public policy to apply antitrust scrutiny, and the

52 Id at 1312. See also *In re Ciprofloxacin Hydrochloride Antitrust Litigation*, 544 F3d 1323, 1332–37 (Fed Cir 2008); *In re Tamoxifen Citrate Antitrust Litigation*, 466 F3d 187, 205–13 (2d Cir 2005).

53 *Watson Pharmaceuticals*, 677 F3d at 1308, quoting *Valley Drug*, 344 F3d at 1311.

54 *Watson Pharmaceuticals*, 677 F3d at 1314. See also *In re Tamoxifen Citrate*, 466 F3d at 203–04.

55 *Watson Pharmaceuticals*, 677 F3d at 1314. See also *In re Ciprofloxacin Hydrochloride*, 544 F3d at 1333 ("[T]here is a long-standing policy in the law in favor of settlements, and this policy extends to patent infringement litigation.").

56 *Watson Pharmaceuticals*, 677 F3d at 1313.

treble damages often entailed by a finding of liability, to such a "precarious" inquiry.[57]

Judge Richard Posner of the Seventh Circuit went a step further, reasoning that subjecting reverse payments to antitrust scrutiny would not only discourage settlements—which are, as a general matter, extremely socially valuable[58]—but also discourage generic manufacturers from challenging the brand-name manufacturer's patent in the first place, because removing the possibility of a reverse-payment settlement substantially decreases the expected value of suing.[59] If reverse-payment settlements are permitted, the expected value of a patent challenge includes not only the expected value of winning, but also the expected value of settlement. But if reverse payments are forbidden, generic challengers' only hope of recovery is to win at trial—a risky prospect. By discouraging patent challenges at the outset, a prohibition on reverse payments could have the effect of *reducing* competition in the long run.[60]

Despite these concerns, some circuit courts took the opposite stance and found reverse-payment agreements presumptively unlawful, at least when they involve cash consideration and an explicit promise by the generic to delay or prevent triggering of the 180-day exclusivity period.[61] These courts rested this judgment on the "common sense" observation that a "payment flowing from the [monopolist] to the challenging generic firm" inherently suggests an anticompetitive motive.[62]

The Supreme Court resolved the divide among lower courts in 2013, when it decided *Actavis*. In *Actavis*, the Supreme Court struck a middle ground, holding in a 5–3 ruling[63] that reverse-payment

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57 Id. See also *In re Tamoxifen Citrate*, 466 F3d at 228; *In re Ciprofloxacin Hydrochloride*, 544 F3d at 1333.

58 The judicial policy favoring settlements in patent cases is over a century old. See, for example, *Bement v National Harrow Co*, 186 US 70, 93 (1902) (noting the efficiency gains of settlement and emphasizing that the settlement of complex patent litigation, in particular, is "a legitimate and desirable result in itself"). For an analysis of the circumstances in which patent settlements involving cash consideration are uniquely socially valuable, see John E. Lopatka, *A Comment on the Antitrust Analysis of Reverse Payment Patent Settlements: Through the Lens of the Hand Formula*, 79 Tulane L Rev 235, 251–53 (2004).

59 See *Asahi Glass Co v Pentech Pharmaceuticals, Inc*, 289 F Supp 2d 986, 994 (ND Ill 2003) (Posner sitting by designation).

60 See id.

61 See *In re K-Dur Antitrust Litigation*, 686 F3d 197, 214–18 (3d Cir 2012); *Andrx Pharmaceuticals*, 256 F3d at 807–12; *In re Cardizem CD*, 332 F3d at 907–09.

62 *In re K-Dur*, 686 F3d at 218.

63 Justice Samuel Alito did not take part in the decision. *Actavis*, 133 S Ct at 2226.

agreements are subject to antitrust scrutiny.[64] The fact that the anticompetitive effects of a reverse payment might fall within the monopoly power granted by a patent, the Court held, does not immunize the agreement from antitrust scrutiny.[65]

The Court outlined "five sets of considerations" in support of this conclusion.[66] First, the Court determined that some reverse payments have the "potential for genuine adverse effects on competition," because they result in the extension of monopoly power over some patents that would otherwise be invalidated.[67] This extension of monopoly power can result in higher prices to consumers, often amounting to hundreds of millions of dollars.[68] Second, the Court found that "these anticompetitive consequences will at least sometimes prove unjustified" by "traditional settlement considerations, such as avoided litigation costs or fair value for services."[69] Third, "where a reverse payment threatens to work unjustified anticompetitive harm," the patent holder usually possesses enough market power "to bring that harm about in practice."[70] Fourth, the Court determined that antitrust scrutiny is administratively feasible, in part because "it is normally not necessary to litigate patent validity to answer the antitrust question," given that "[a]n unexplained large reverse payment itself would normally suggest that the patentee has serious doubts about the patent's survival," and using a settlement payment "to prevent the risk of competition" leads to "the relevant anticompetitive harm."[71] Finally, the Court emphasized that litigants may still "settle in other ways" such as "by allowing the generic manufacturer to enter the patentee's market prior to the patent's expiration, without the patentee paying the challenger to stay out prior to that point."[72]

For these reasons, the Court determined that reverse-payment agreements are not immune from antitrust scrutiny. However, the Court rejected the FTC's argument that reverse-payment agreements should be deemed "presumptively unlawful."[73] Instead, it

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64 Id at 2227.

65 Id at 2236.

66 Id at 2234.

67 *Actavis*, 133 S Ct at 2234.

68 Id.

69 Id at 2235–36.

70 Id at 2236.

71 *Actavis*, 133 S Ct at 2236.

72 Id at 2237.

73 Id.

held that courts must analyze these agreements under the "rule of reason."[74] Rule-of-reason analysis requires the trier of fact to conduct a thorough, searching evaluation of the facts of a case to determine whether an agreement that restrains trade unreasonably suppresses competition, "taking into account a variety of factors, including specific information about the relevant business, its conditions before and after the restraint was imposed, and the restraint's history, nature, and effect."[75]

In the context of reverse-payment suits, the Court emphasized that determining whether a settlement violates antitrust laws also requires a trier of fact to scrutinize the parties' reasons for settling: "If the basic reason 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."[76] But reverse payments are not forbidden if they are motivated by the parties' desire to avoid litigation costs or reputational harms, or to compensate the generic manufacturer for counterclaims or services provided.[77] Consequently, courts should consider any (admissible) "evidence that the patentee seeks to induce the generic challenger to abandon its claim with a share of its monopoly profits that would otherwise be lost in the competitive market."[78]

C. Open Questions and Evidentiary Obstacles

Despite announcing the legal status of reverse payments and the level of scrutiny to be applied, *Actavis* left many questions unanswered, several of which are important for the purposes of this Comment.

First, *Actavis* emphasized that trial courts must examine parties' motivations for settling in order to determine liability, but provided lower courts with no guidance on how to uncover those motivations. As Part II of this Comment explains, many federal courts have held that settlement communications—which are likely to be the best, if not the only, direct evidence of parties' motivations—are shielded by a nearly impenetrable privilege. Because the Supreme Court did not address how the *Actavis* framework interacts with settlement privilege, lower federal courts

74 Id.

75 *State Oil Co v Khan*, 522 US 3, 10 (1997).

76 *Actavis*, 133 S Ct at 2237.

77 See id at 2235–36.

78 Id at 2235.

that recognize settlement privilege are left between a rock and a hard place. How should these courts reconcile their need for evidence in antitrust cases with a robust protection for settlement communications? Must courts either roll back settlement privilege or else let some percentage of reverse-payment cases slip by for lack of evidence?[79]

Second, it is not clear whether the validity of the patent underlying the reverse payment can operate as a defense to an antitrust claim. As discussed in Part III.A.2, the answer to this question impacts not only the ultimate finding of liability, but also the ease with which courts can invoke the crime-fraud doctrine—an evidentiary rule according to which no privilege attaches to communications undertaken in furtherance of a crime or fraud[80]—to uncover the settlement communications that led to the reverse-payment agreement. If the Court's description of "the relevant anticompetitive harm" of reverse payments as relating to the patent holder's attempt to "prevent the risk" of its patent being invalidated[81] is read literally, then it appears that even the holder of a valid patent violates antitrust laws when it settles out of risk aversion. But this logic would also seem to subject settlements concerning early market entry—in which the generic manufacturer is not paid cash consideration, but is instead allowed to market its product before the patent holder's patent has expired—to antitrust scrutiny,[82] a result that the Court expressly disclaimed.[83]

Third, it is not obvious how a court should proceed if it finds that *only one* of the settling parties entered the reverse-payment agreement for impermissible reasons. Presumably the party who settled for anticompetitive reasons would be held liable, while the

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79 At least one court has suggested that courts do, in fact, face this harsh, binary choice. See *In re Skelaxin (Metaxalone) Antitrust Litigation*, Case No 1:12-md-02343, *3–6 (ED Tenn July 29, 2014) ("Skelaxin Order") (holding that settlement privilege must be upheld even if it deprives reverse-payment plaintiffs of valuable or necessary evidence, but noting that this result might mean that settlement privilege should be abandoned entirely).

80 For a complete definition of the crime-fraud exception, see notes 132–34 and accompanying text.

81 *Actavis*, 133 S Ct at 2236.

82 See id at 2245 (Roberts dissenting) ("[T]his logic—that taking away any *chance* that a patent will be invalidated is itself an antitrust problem—cannot possibly be limited to reverse-payment agreements, or those that are 'large.'").

83 Id at 2237 (explaining that litigants may avoid antitrust scrutiny by "settl[ing] in other ways," such as "by allowing the generic manufacturer to enter the patentee's market prior to the patent's expiration, without the patentee paying the challenger to stay out prior to that point").

party who settled for innocent reasons likely could not.[84] But, for reasons discussed in Part III.A.2, it is likely impossible to invoke the crime-fraud doctrine to uncover settlement communications if only one party entered the settlement for unlawful reasons.

Part III suggests a way to resolve these ambiguities. But first, Part II provides an overview of the origins, purpose, and scope of settlement privilege.

II. FEDERAL SETTLEMENT PRIVILEGE

Rules governing privilege and discovery in federal cases are outlined in both the Federal Rules of Civil Procedure (FRCP) and the Federal Rules of Evidence (FRE). The FRCP sketch the scope of discovery, explaining that a party "may obtain discovery regarding any nonprivileged matter that is relevant to any party's claim or defense," but that this "information need not be admissible at the trial if the discovery appears reasonably calculated to lead to the discovery of admissible evidence."[85] In other words, privileged information is shielded from discovery. Nonprivileged information is, in principle, discoverable so long as it is relevant, but it is not necessarily admissible at trial,[86] and in some circumstances courts may require the party seeking discovery to make a heightened showing of need.[87]

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84 One reason for this presumption is that most reverse-payment cases are brought under § 5 of the Federal Trade Commission Act (FTC Act), 38 Stat 717, 719–21 (1914), codified as amended at 15 USC § 45, which, unlike § 1 of the Sherman Antitrust Act, 26 Stat 209, 209 (1890), codified as amended at 15 USC § 1, does not require an anticompetitive agreement between multiple parties (and can therefore be invoked against a single actor acting by itself).

85 FRCP 26(b)(1).

86 For example, FRE 408 provides that evidence of an offer to settle a claim "is not admissible . . . to prove or disprove the validity or amount of a disputed claim," but it leaves open the possibility that these communications could be admitted for other purposes. Thus, even courts that do not recognize a federal settlement privilege would still refuse to admit settlement communications into evidence for the purpose of establishing liability or damages in the claim about which the settlement communications were made.

More generally, FRE 403 specifies that a court may refuse to admit "relevant evidence if its probative value is substantially outweighed by a danger of . . . unfair prejudice, confusing the issues, misleading the jury, undue delay, wasting time, or needlessly presenting cumulative evidence."

87 For example, attorney work product is not privileged, but is protected under FRCP 26(b)(3)(A)(ii), which requires that the party seeking to discover work product demonstrate "substantial need" for the materials sought and show that it cannot obtain the same information through other means.

The FRE govern the privileges that federal courts apply in federal question cases.[88] When Congress first considered the proposed FRE in the 1970s, the proposed rules contained nine enumerated privileges.[89] But disagreement about which privileges should be recognized and what their scope should be was so widespread that Congress eventually erased the proposed privilege rules and in their place passed FRE 501,[90] which provides: "The common law—as interpreted by United States courts in the light of reason and experience—governs a claim of privilege unless any of the following provides otherwise: the United States Constitution; a federal statute; or rules prescribed by the Supreme Court."

When FRE 501 was enacted in 1975, there were a handful of privileges widely recognized by federal courts, including marital testimonial privilege, marital communicative privilege, attorney-client privilege, and privileges for voting and state secrets.[91] But rather than freeze these privileges as they existed in 1975, FRE 501 manifested Congress's "affirmative intention . . . to provide the courts with the flexibility to develop rules of privilege on a case-by-case basis, and to leave the door open to change."[92]

In the first two decades following the enactment of FRE 501, courts did not exercise their ability to create new privileges.[93] This changed in 1996, when the Supreme Court decided *Jaffee v Redmond*,[94] creating a new "psychotherapist-patient" privilege in the process.[95] *Jaffee* marks the first and only time that the Supreme Court has exercised its authority under FRE 501 to recognize a privilege not already established in the common law.[96] In *Jaffee*, the Court found that four factors are especially relevant to determining whether to recognize a new privilege. Those factors are: (1) whether the asserted privilege is "rooted in the imperative need for confidence and trust"; (2) whether the privilege would

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[88] In diversity cases, federal courts must apply state privilege law. See FRE 501.

[89] See *Rules of Evidence for United States Courts and Magistrates*, 56 FRD 183, 234–58 (1972). The proposed privilege rules were originally numbered Rules 502–10. Settlement privilege was not one of them. See id.

[90] See Timothy P. Glynn, *Federalizing Privilege*, 52 Am U L Rev 59, 87–93 (2002).

[91] See Jeffrey J. Lauderdale, *A New Trend in the Law of Privilege: The Federal Settlement Privilege and the Proper Use of Federal Rule of Evidence 501 for the Recognition of New Privileges*, 35 U Memphis L Rev 255, 260–61, 263–64 (2005).

[92] *Trammel v United States*, 445 US 40, 47 (1980) (quotation marks and citation omitted).

[93] See Lauderdale, 35 U Memphis L Rev at 276–79 (cited in note 91).

[94] 518 US 1 (1996).

[95] Id at 15.

[96] See Lauderdale, 35 U Memphis L Rev at 279–81 (cited in note 91).

further normatively desirable public policy ends; (3) whether the evidentiary detriment caused by an exercise of the privilege is "modest"; and (4) whether denial of the federal privilege would frustrate a parallel privilege adopted by the states.[97]

In 2003, the Sixth Circuit became the first circuit court to follow the Supreme Court's lead in *Jaffee*, using its FRE 501 authority to recognize another privilege not established in common law. In *Goodyear Tire & Rubber Co v Chiles Power Supply, Inc*,[98] the Sixth Circuit determined that the *Jaffee* factors weigh in favor of privileging communications made in furtherance of a settlement.[99] Specifically, the court noted that: (1) confidentiality is imperative for effective settlement negotiations;[100] (2) settlements serve important public interests by benefiting both parties, dramatically reducing litigation costs, unburdening the court system, and enhancing judicial efficiency;[101] and (3) the evidentiary detriment caused by exercise of the privilege is minimal because settlement negotiations involve a great deal of "puffing," hypothetical concessions, and similarly unreliable statements.[102] The court did not explicitly address the fourth *Jaffee* factor, but it did emphasize that settlements serve substantial state and federal interests, and that there is a "historical" tradition at both the state and federal levels of protecting settlement negotiations in some form.[103]

The *Goodyear* court noted that settlement communications are already protected, in a limited way, by FRE 408,[104] which prevents parties from using settlement communications to "prove or disprove the validity or amount of a disputed claim."[105] But the court concluded that FRE 408 was seriously underprotective of settlement communications because it "does not require exclusion

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97 See *Jaffee*, 518 US at 10–13.

98 332 F3d 976 (6th Cir 2003).

99 See id at 979–82. Importantly, *Goodyear* did not hold that a settlement agreement itself is privileged—only that communications made in furtherance of such an agreement are privileged. Id at 981–82 ("[A]s with other privileges, the relationship itself is not privileged, but only the underlying communications.").

100 Id at 980.

101 Id.

102 *Goodyear*, 332 F3d at 981, quoting *Cook v Yellow Freight System, Inc*, 132 FRD 548, 554 (ED Cal 1990).

103 See *Goodyear*, 332 F3d at 980–81.

104 Id at 979.

105 FRE 408(a). For example, if A sues B for $100,000 and B offers to settle the suit for $80,000, A cannot use the settlement offer as evidence that her claim must be worth at least $80,000.

when the evidence is offered for another purpose, such as proving bias or prejudice of a witness, negativing a contention of undue delay, or proving an effort to obstruct a criminal investigation or prosecution."[106] The court was especially concerned that FRE 408 does not prevent "some future third party" from admitting settlement communications "on cross examination, under the ruse of 'impeachment evidence'" or bias evidence, when the actual purpose and effect of such an admission is to prejudice the fact finder against the settling party.[107]

The evidentiary "ruse" mentioned by the court frequently arises in tort suits against product manufacturers,[108] many of which follow a similar pattern: Plaintiff A brings a product liability suit against Manufacturer; the parties settle on terms favorable to Plaintiff A; later, Plaintiff B sues Manufacturer for a similar defect; at trial, Manufacturer's witness testifies that Plaintiff B's suit lacks merit; Plaintiff B then admits into evidence the prior settlement negotiations, claiming that statements in those negotiations show that the witness is "bias[ed] or prejudice[d]."[109] Whether or not the settlement negotiations actually do show the witness's bias, admission of the unfavorable settlement details is likely to prejudice the fact finder against Manufacturer. This result deters parties from "propos[ing] the types of compromises that most effectively lead to settlement" in the first place, with the end result being fewer settlements and an accompanying loss of "judicial efficiency."[110]

These policy arguments notwithstanding, the Sixth Circuit is an outlier among its sister circuits. Only two other appellate courts have considered whether to recognize federal settlement privilege, and both declined to do so. The Seventh Circuit was the first circuit court to consider the issue, in dictum, in the 1979 case *In re General Motors Corp Engine Interchange Litigation*.[111] In that case, the Seventh Circuit summarily remarked in a footnote that it found "no convincing basis for . . . [recognizing a settlement privilege] here."[112] However, the issue of whether settlement communications should be privileged was not raised by the parties,

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106 *Goodyear*, 332 F3d at 979, quoting FRE 408(b) (1975), amended Apr 12, 2006 (quotation marks omitted).

107 *Goodyear*, 332 F3d at 980.

108 See, for example, id.

109 FRE 408(b).

110 *Goodyear*, 332 F3d at 980.

111 594 F2d 1106 (7th Cir 1979).

112 Id at 1124 n 20.

and—because *Jaffee* had not yet been decided—the Seventh Circuit did not have the benefit of examining the issue under the *Jaffee* factors. More recently, the Federal Circuit categorically rejected the possibility of recognizing settlement privilege in *In re MSTG, Inc*,[113] concluding that the benefits of encouraging settlement are outweighed by the evidentiary deficit that could result from shielding all settlement communications from discovery.[114]

Although the Sixth, Seventh, and Federal Circuits are the only appellate courts to have explicitly considered the merits of recognizing settlement privilege, many district courts have considered the issue, and they are divided. The Southern District of California[115] and Eastern District of California[116] have employed reasoning similar to that of the *Goodyear* decision in recognizing a settlement privilege. Seven district courts have come out the other way, usually in cursory opinions that cite the Federal Circuit's analysis in *In re MSTG*.[117] And at least one district court has issued inconsistent opinions on the matter.[118]

113 675 F3d 1337 (Fed Cir 2012).

114 See id at 1342–48.

115 See *California v Kinder Morgan Energy Partners, LP*, 2010 WL 3988448, *3–4 (SD Cal) (recognizing settlement privilege on public policy grounds).

116 See *Cook*, 132 FRD at 554 ("[W]hile it is true that Rule 408 is addressed to the inadmissibility of evidence at trial . . . the same consideration of policy . . . also appl[ies] to settlement [negotiations between the defendant and a third party].").

117 See *Spilker v Medtronic, Inc*, 2014 WL 4760292, *3 (ED NC) ("[W]hen determining whether a settlement agreement is producible in discovery . . . relevance, rather than admissibility, is the appropriate inquiry."); *ABT Systems, LLC v Emerson Electric Co*, 2012 WL 6594996, *2 (ED Mo) ("The Eighth Circuit has not adopted a settlement negotiation privilege and this Court agrees with the Federal Circuit's analysis of the issue in *In re MSTG*."); *Eisai Inc v Sanofi-Aventis US, LLC*, 2011 WL 5416334, *7 (D NJ) (holding that settlement negotiations are not privileged but that parties seeking to discover the contents of these negotiations must make a heightened showing of relevance); *In re Urethane Antitrust Litigation*, 2009 WL 2058759, *3–4 (D Kan) ("[P]laintiffs have not met their burden of establishing that a settlement privilege exists."); *Board of Trustees of Leland Stanford Junior University v Tyco International Ltd*, 253 FRD 521, 523 (CD Cal 2008) (noting that there is no widespread acceptance of a federal settlement privilege and declining to recognize such a privilege); *Phoenix Solutions Inc v Wells Fargo Bank, NA*, 254 FRD 568, 585 (ND Cal 2008) ("The court finds no convincing basis for Phoenix's proposition that its licensing negotiation communications are protected from discovery by a settlement privilege."); *Matsushita Electric Industrial Co v Mediatek, Inc*, 2007 WL 963975, *6 (ND Cal); *In re Subpoena Issued to Commodity Futures Trading Commission*, 370 F Supp 2d 201, 208–13 (DDC 2005).

118 Contrast *Datatreasury Corp v Wells Fargo & Co*, 2010 WL 903259, *2 (ED Tex) (allowing discovery of litigation-related documents from previous lawsuits in a case in which the parties did not raise the privilege), with *Software Tree, LLC v Red Hat, Inc*, 2010 WL 2788202, *4 (ED Tex) (holding that any communications made in furtherance of settlement are privileged and hence cannot be discovered).

In sum, 12 percent of federal trial courts in the United States recognize settlement privilege,[119] and more may do so in the future. As reverse-payment cases are litigated in these courts, judges and parties will continue to confront difficult questions about how to reconcile a principled protection of settlement communications with the evidentiary inquiry into the settling parties' motivations that *Actavis* demands. Part III explores these questions in detail and proposes two possible solutions.

III. Application: Settlement Privilege in the Context of Reverse-Payment Agreements

Because a defendant's liability in reverse-payment suits under *Actavis* hinges on the motivation and terms of the settlement agreement,[120] it is imperative for courts to determine whether communications made in furtherance of those settlements are shielded from discovery by a settlement privilege.

One district court in the Sixth Circuit, the Eastern District of Tennessee, has confronted this issue in an ongoing antitrust case, *In re Skelaxin (Metaxalone) Antitrust Litigation*.[121] The *Skelaxin* plaintiffs—three drug stores who brought suit under § 4 of the Clayton Act[122]—allege that the brand-name defendant and generic-challenger defendant had entered into an anticompetitive reverse-payment settlement that allowed the brand-name defendant to preserve its invalid patent over the muscle-relaxant metaxalone (also known by its brand name, "Skelaxin").[123] According to the drug stores, the reverse payment injured their businesses by forcing them to pay "hundreds of millions of dollars

119 The nine district courts in the Sixth Circuit plus the two district courts discussed above account for eleven of the ninety-four federal district courts in the United States.

120 *Actavis*, 133 S Ct at 2235, 2237 (explaining that courts should consider "evidence that the patentee seeks to induce the generic challenger to abandon its claim with a share of its monopoly profits that would otherwise be lost in the competitive market" and stating that "[i]f the basic reason 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").

121 Case No 1:12-md-2343 (ED Tenn 2014).

122 38 Stat 730, 731 (1914), codified as amended at 15 USC § 15 (authorizing injured private parties to sue "by reason of anything forbidden in the [federal] antitrust laws").

123 Complaint and Demand for Jury Trial, *In re Skelaxin (Metaxalone) Antitrust Litigation*, Case No 1:12-md-2343, *3 (ED Tenn filed Jan 4, 2013) (available on Westlaw at 2013 WL 146097).

more" to obtain the drug than they would have paid under competitive conditions.[124] The plaintiffs sought to discover the settlement communications in order to help prove their case. The court recognized that the settlement communications would be "highly probative" of the defendant's liability, and expressed concern about the wisdom of *Goodyear*'s creation of a settlement privilege in light of *Actavis*.[125]

Nevertheless, the district court concluded that it did not have authority to roll back the settlement privilege created in *Goodyear* or "to reweigh the public policy considerations underlying" that decision.[126] The district court therefore held that the settlement communications at issue were privileged—even though upholding such a privilege "deprive[s] plaintiffs of valuable evidence."[127]

Skelaxin is the first (and, so far, the only) case to grapple with the application of settlement privilege in the context of a reverse-payment suit. The court in that case was right to suggest that the application of settlement privilege to reverse-payment communications makes little sense from a public policy perspective: it has the effect of protecting all communications surrounding an agreement that is alleged to be unlawful, but whose unlawfulness can only be determined through a detailed evaluation of the parties' motivations and of the "context" in which the agreement took place.[128] But courts and litigants seeking discovery of reverse-payment settlement communications have options for reaching those documents that the *Skelaxin* court did not explore. These options, detailed in this Part, could allow courts to access settlement communications in reverse-payment cases without abandoning their commitment to—or compromising the integrity of—settlement privilege.

Part III.A explains how plaintiffs—whether federal antitrust enforcers or private parties suing under the Clayton Act's private right of action[129]—can use the crime-fraud doctrine to pierce defendants' settlement privilege in certain reverse-payment challenges. The crime-fraud doctrine has the advantage of being a well-established rule of evidence that applies to nearly all—if not

124 Id.
125 Skelaxin Order at *3–5 (cited in note 79).
126 Id at *3–4.
127 Id at *5.
128 *Actavis*, 133 S Ct at 2237.
129 See 15 USC §§ 15–15a.

all—recognized privileges.[130] And it is likely to be quite successful in a certain class of suits—suits in which there is strong prima facie evidence that both parties to the reverse payment entered into the settlement for anticompetitive reasons.[131] However, the crime-fraud doctrine is often difficult and expensive to invoke, and there are many cases in which it is unlikely to be successful.

Part III.B suggests a simpler, more straightforward alternative to the crime-fraud doctrine. Namely, courts could invoke the common-law "necessity exception" to find settlement privilege inapplicable when the settlement itself is the subject of a lawsuit. The necessity exception is less well-established than the crime-fraud doctrine—and so in some sense is a riskier litigation strategy—but there are powerful reasons for thinking that it applies in the context of settlement privilege. Importantly, the necessity exception, unlike the crime-fraud doctrine, is inexpensive for plaintiffs to invoke, easy for judges to apply, and is not likely to lead to inconsistent results across cases.

By pursuing one or both of these approaches, plaintiffs in reverse-payment suits will likely be able to discover communications leading up to reverse-payment settlements, thereby enabling courts to comply with the mandate of *Actavis* and evaluate parties' motivations in settling.

A. The Crime-Fraud Limitation in the Context of Reverse-Payment Suits

The crime-fraud limitation[132] on evidentiary privileges is a common-law doctrine with roots in eighteenth-century English

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[130] See Edward J. Imwinkelried, *The New Wigmore: A Treatise on Evidence; Evidentiary Privileges* § 6.13.2(d) at 1167–68 (Aspen 2d ed 2010) (explaining that "[a]lthough most of the published opinions" discuss the crime-fraud doctrine in terms of the attorney-client privilege, apparently "all other professional privileges, including the psychotherapist-patient, general medical, and accountant-client privileges, are subject to the exception," as are "personal privileges such as the spousal privilege"). There has been some controversy as to whether the crime-fraud doctrine fully applies in the context of the priest-penitent privilege, but this controversy is "more apparent than real" because the priest-penitent privilege, as traditionally understood, cannot be invoked at all when a penitent communicates with a religious leader for a "bad faith" purpose, such as furthering crime or fraud. See id § 6.13.2(d) at 1167 n 151.

[131] For example, postsettlement statements by executives—to associates, employees, or one another—boasting that the settlement allows either company to maintain or share monopoly profits would constitute strong prima facie evidence of anticompetitive intent.

[132] Many courts and scholars refer to the crime-fraud doctrine as an "exception" to privilege rather than as a "limitation" on privilege, but that terminology is somewhat misleading. The rationale underlying the crime-fraud doctrine is that privilege *never attaches in the first place* to communications that are undertaken in furtherance of crime or fraud.

jurisprudence.[133] According to the crime-fraud doctrine, no privilege attaches to communications undertaken in furtherance of crime, fraud, or similar misconduct.[134]

At first blush, it may seem inappropriate to apply the crime-fraud doctrine to reverse-payment suits, most of which are neither criminal nor fraudulent in the strict sense of those terms. But this intuition is incorrect for two reasons. First, even though most reverse-payment suits are brought in a civil action—either by FTC enforcers or by private parties—anticompetitive reverse payments are also prohibited by the Sherman Act, which is a criminal statute.[135] Because the crime-fraud doctrine prevents privilege from attaching to covered communications in the first place, the doctrine is not confined to suits centered on the alleged crime or fraud.[136] In other words, once a communication has been made in furtherance of a crime or fraud, *any* future litigant can discover that communication and admit it as evidence at trial.[137]

See note 136 and accompanying text. Understood in this way, the crime-fraud doctrine is a limitation on the scope of privilege, rather than a mechanism for admitting legitimately privileged information. This distinction is of little practical importance, however, since it is only after examining the supposedly privileged communications (and thereby piercing any privilege that might exist) that courts can determine whether the crime-fraud doctrine applies. See text accompanying notes 161–62.

133 See David J. Fried, *Too High a Price for Truth: The Exception to the Attorney-Client Privilege for Contemplated Crimes and Frauds*, 64 NC L Rev 443, 446–50 (1986) (tracing the origins of the crime-fraud doctrine to a 1743 English case).

134 *Clark v United States*, 289 US 1, 15 (1933).

135 See 15 USC §§ 1–2 (outlawing and defining criminal penalties for contracts and conspiracies in restraint of trade and attempts to monopolize trade). See also *Actavis*, 133 S Ct at 2227, 2232–33 (noting that anticompetitive reverse payments—as defined by the Court in that opinion—are prohibited by the Sherman Act in addition to the FTC Act).

136 See Imwinkelried, *The New Wigmore* § 6.13.2(d)(1) at 1184 (cited in note 130) (noting that "all [ ] courts" agree with this view).

137 Id ("If there is no privilege to begin with, it is immaterial whether the exception is invoked in a prosecution for that crime or in another proceeding."). For example, suppose a plaintiff sues an auto manufacturer for wrongful death after her spouse dies in a car crash. In gathering evidence for her suit, the plaintiff wants to access communications about the crash that took place between the car's manufacturer and its attorneys—communications that are subject to attorney-client privilege. The plaintiff can pierce attorney-client privilege and access the communicative documents by making out a prima facie case that the internal investigations included a plan to falsify evidence or testimony, even though the underlying lawsuit is a civil tort claim and not a criminal perjury charge. See, for example, *Ake v General Motors Corp*, 942 F Supp 869, 876 (WDNY 1996) (finding the crime-fraud doctrine applicable on similar facts, though ultimately concluding that the plaintiff did not meet her burden of proof in showing that a crime had occurred). For this same reason, the crime-fraud doctrine could be invoked to forfeit the privilege surrounding settlement communications made in furtherance of an antitrust violation, even if the underlying charge is brought in a civil context (such as § 5 of the FTC Act) rather than a criminal one (such as § 1 of the Sherman Act).

Second, every court to consider the issue has held that the crime-fraud doctrine encompasses civil antitrust violations and similar quasi-fraudulent business torts.[138]

But in order to invoke the crime-fraud doctrine, a litigant must do more than simply allege that an antitrust violation occurred. To invoke the crime-fraud doctrine to pierce an evidentiary privilege, the party seeking discovery of privileged communications—in the reverse-payment case, the plaintiff or prosecutor—must make a two-part showing.

First, the plaintiff must convince the court to undertake an in camera (that is, private and confidential) review of the communicative documents being sought. This requires the plaintiff to make a factual showing "adequate to support a good faith belief by a reasonable person that *in camera* review of the materials may reveal evidence to establish the claim that the crime-fraud [doctrine] applies."[139] If the party seeking discovery makes this threshold showing, the judge must exercise his discretion in deciding whether to conduct in camera review, "in light of the facts and circumstances of the particular case," including the length and number of documents in question, their probative value, and the likelihood that the crime-fraud doctrine will, in fact, apply.[140] If this showing is not made, the inquiry ends and the plaintiff is barred from discovering the documents.

Second, once the judge has examined the documents through in camera review, the plaintiff must show that the documents establish a "*prima facie* case" of crime or fraud.[141] Only the specific documents found to be in furtherance of crime or fraud may be admitted or relied upon at trial.[142]

Because anticompetitive restraints of trade violate the federal antitrust laws,[143] the crime-fraud limitation applies to anticompetitive reverse-payment agreements. But this generalization

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138 See *In re Fresh Del Monte Pineapple Antitrust Litigation*, 2007 WL 64189, *17 (SDNY) (collecting cases).

139 *United States v Zolin*, 491 US 554, 572 (1989) (quotation marks and citation omitted).

140 Id.

141 *Clark*, 289 US at 14. See also *Zolin*, 491 US at 563 n 7 (cautioning that the *Clark* Court's use of the phrase "*prima facie* case" does not necessarily mean that the defendant is not allowed to present evidence rebutting the plaintiff's showing).

142 See, for example, *In re Grand Jury Subpoena*, 419 F3d 329, 343 (5th Cir 2005) (explaining that the crime-fraud limitation "does not extend to all communications made [between two parties] . . . but rather is limited to those communications and documents in furtherance of the contemplated or ongoing criminal or fraudulent conduct").

143 15 USC §§ 1, 45.

is question-begging, since not all reverse-payment agreements are anticompetitive. Because *Actavis* held that the legality of reverse-payment agreements must be adjudicated on a case-by-case basis,[144] litigants seeking to invoke this exception in reverse-payment suits can expect to encounter fact-specific procedural and practical hurdles. These difficulties are explored below.

1. Preliminary hurdles: ownership and waivability of settlement privilege.

Although the crime-fraud limitation applies to every privilege, the precise contours of the crime-fraud doctrine vary depending on the nature of the privilege at issue and the function that the privilege serves. Because settlement privilege is a relatively new doctrine, some of its features have not yet been defined by federal courts. Nevertheless, these details will be highly relevant to litigants in reverse-payment cases (and other cases in which settlement privilege is invoked).

One fundamental principle of privilege law is that a privilege may be waived only by the person to whom it belongs.[145] Different types of privileges belong to different persons. For example, because attorney-client privilege exists to protect the interests of the client, the privilege belongs to the client.[146] For this reason, only the client may waive the privilege.[147] It therefore follows that attorney-client privilege is forfeited under the crime-fraud doctrine only when the *client* seeks an attorney's advice in order to commit a crime, even if the attorney is unaware that her advice is assisting in a criminal plan.[148] In contrast, marital communicative privilege exists to protect open and honest communication in

144 See text accompanying notes 73–78.

145 Charles Alan Wright and Kenneth W. Graham Jr, 24 *Federal Practice and Procedure* § 5507 at 577 (West 1986) ("[C]ommon law permits waiver only by a 'holder' of the privilege.") (citation omitted).

146 See *Upjohn Co v United States*, 449 US 383, 389 (1981); *Trammel v United States*, 445 US 40, 51 (1980) (noting that the privilege "rests on the need for the advocate and counselor to know all that relates to the client's reasons for seeking representation if the professional mission is to be carried out").

147 See *In re United States*, 590 F3d 1305, 1310 (Fed Cir 2009) (explaining that attorney-client privilege "belongs to the client, who alone may waive it").

148 See *Zolin*, 491 US at 563 ("It is the purpose of the crime-fraud exception to the attorney-client privilege to assure that the seal of secrecy between lawyer and client does not extend to communications made for the purpose of getting advice for the commission of a fraud or crime.") (quotation marks and citation omitted); Imwinkelried, *The New Wigmore* § 6.13.2(d)(1) at 1170 (cited in note 130).

marriage,[149] an interest held by both spouses. Because marital communicative privilege serves both members of a married couple, waiver of the privilege typically requires the consent of both spouses.[150] Just as both spouses are required to disclaim the privilege in the case of explicit waiver, the crime-fraud limitation does not dissolve marital privilege unless *both* spouses engaged in the communication for the purpose of furthering a crime or fraud.[151]

Because settlement privilege protects the ability of *all* parties to a lawsuit "to negotiate and settle a case,"[152] the privilege almost certainly attaches to each party, rather than to only one party.[153] And because each party has a right to exercise privilege over settlement communications, waiver of the privilege requires the consent of each party. It therefore follows that privilege is waived under the crime-fraud doctrine only if *both* parties undertake settlement communications for purposes of committing crime or fraud. But this result limits the applicability of the crime-fraud doctrine in the reverse-payment context, because occasionally only one party—the patent holder—enters the agreement with the forbidden purpose "to share patent-generated monopoly profits" and thereby "prevent the risk of competition."[154] The challenger may have entered the agreement for innocent reasons, including a belief that it was likely to lose the underlying litigation (a motive that is anticompetitive when held by the patentee, but competitively neutral when held by the challenger).[155] In other

149 *Wolfle v United States*, 291 US 7, 14 (1934) ("The basis of the immunity given to communications between husband and wife is the protection of marital confidences, regarded as so essential to the preservation of the marriage relationship as to outweigh the disadvantages to the administration of justice which the privilege entails.").

150 See Charles Alan Wright and Kenneth W. Graham Jr, 25 *Federal Practice and Procedure* § 5584 at 699 (West 1989).

151 See, for example, *United States v Rakes*, 136 F3d 1, 4 n 5 (1st Cir 1998) ("In federal courts, the marital communications privilege typically is forfeited only where both husband and wife are jointly engaged in criminal activity [or fraud] or where the victim is the other spouse or some other family member.").

152 *Goodyear*, 332 F3d at 980.

153 At least one case has acknowledged in passing that settlement privilege belongs to both parties, although the question has apparently not been litigated directly. See, for example, *Grupo Condumex, SA de CV v SPX Corp*, 331 F Supp 2d 623, 629–30 (ND Ohio 2004) (finding that neither of the two parties to a settlement "waived *their* settlement privilege") (emphasis added).

154 *Actavis*, 133 S Ct at 2236–37.

155 See note 156. Note also that the generic challenger has a strong incentive to claim this innocent motive because doing so allows it to avoid antitrust liability in the present case and signals to other defendants in future cases that it is a "safe" party to settle with. Antitrust enforcers who set out to refute this claimed motive face an uphill battle because,

words, there are likely to be reverse-payment cases in which only one party harbors the intent needed to trigger the crime-fraud limitation.[156] In these cases, the crime-fraud doctrine cannot be invoked to forfeit the privilege.

2. The two-step analysis in reverse-payment suits.

If the plaintiff can overcome the ownership obstacle, it must complete a two-part showing to demonstrate that the communications were actually undertaken in furtherance of an antitrust violation.[157] This showing entails its own procedural hurdles.

Recall that the first step of the crime-fraud showing requires the moving party (in reverse-payment cases, the plaintiff) to present enough factual evidence to convince a reasonable trier of fact that it is likely that the crime-fraud exception will apply.[158] This showing is not difficult in the reverse-payment context. To make it past the first step, the plaintiff need convince a judge only that it is reasonable to believe that (1) the reverse-payment settlement might be an illegal restraint of trade, and (2) the communications were made in furtherance of that settlement.[159] The second showing is easily met because all settlement communications are, by definition, "made in furtherance" of the settlement.[160] The first

even if a litigant believes it is likely to lose a case at trial, a savvy litigant will likely avoid spelling out its pessimism during negotiations.

156 This result stems from basic elements of the Supreme Court's formulation of liability in *Actavis*. Namely, if antitrust liability really is predicated on the attempt to "prevent the risk of competition," *Actavis*, 133 S Ct at 2236, then it follows that entrance into a settlement could be illegal for one party (the party whose motive is to benefit from suppression of competition) but legal for its counterpart (who is unaware of the anticompetitive effects). For example, suppose that—midway through patent litigation—the generic manufacturer determines that the brand-name manufacturer's drug patent is likely valid after all, while the patent holder becomes convinced (perhaps on the basis of evidence yet unavailable to the generic challenger) that it is not. The patent-holder proposes a reverse payment to avoid losing its monopoly power, while the generic challenger accepts the agreement for the simple and innocent reason that it believes it would lose the underlying litigation. From the challenger's perspective, the agreement poses no anticompetitive harms (because the challenger believes that the monopoly will remain in place regardless of whether or not it settles), and therefore the challenger—unlike the defendant patent holder—would not be liable for violating federal antitrust law under a literal reading of *Actavis*.

157 See text accompanying notes 139–41.

158 See *Zolin*, 491 US at 572.

159 See *Mattenson v Baxter Healthcare Corp*, 438 F3d 763, 768–69 (7th Cir 2006). The party seeking to invoke the crime-fraud doctrine has wide latitude in making this threshold showing and may rely on "any relevant evidence, lawfully obtained, that has not been adjudicated to be privileged." *Zolin*, 491 US at 575.

160 *Goodyear*, 332 F3d at 983.

showing is also easily met; it asks only whether a reasonable person could believe that the settlement agreement might be illegal.[161] In reverse-payment cases, the subject of the crime-fraud inquiry is also the subject of the lawsuit, so the first showing will be met any time a case has made it past the pleading stage—that is, any time the plaintiff has presented "enough fact to raise a reasonable expectation that discovery will reveal evidence of illegal agreement."[162]

Once the judge has examined the settlement communications, the plaintiff must show that these communications establish a "*prima facie* case" of an antitrust violation.[163] Appellate courts have struggled to characterize the exact quantum of proof needed to establish a prima facie case,[164] although all agree evidence must do more than raise mere suspicion of an antitrust violation. For example, the DC, Third, Fourth, and Fifth Circuits have held that the crime-fraud limitation may be invoked only if the materials at issue constitute a showing that, if unrebutted, would result in a finding of crime or fraud.[165] The First, Second, Sixth, and Ninth Circuits have been less stringent, defining a prima facie case as a case in which there is probable cause to believe, based on the evidence, that the crime or fraud occurred.[166]

Under either standard, there are ambiguities about what a prima facie case should look like in the reverse-payment context. One source of confusion is that *Actavis* leaves some room for doubt

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161 *Zolin*, 491 US at 572.

162 *Bell Atlantic Corp v Twombly*, 550 US 544, 556 (2007).

163 *Clark*, 289 US at 14.

164 See *Zolin*, 491 US at 563 n 7.

165 See *In re Sealed Case*, 107 F3d 46, 50 (DC Cir 1997) ("The government satisfies its burden of proof if it offers evidence that if believed by the trier of fact would establish the elements of an ongoing or imminent crime or fraud."); *United States v Doe*, 429 F3d 450, 454 (3d Cir 2005) ("A prima facie showing requires evidence which, if believed by the fact-finder, would be sufficient to support a finding that the elements of the crime-fraud [limitation] were met.") (quotation marks omitted); *In re Grand Jury Proceedings*, 401 F3d 247, 251 (4th Cir 2005) ("[Evidence] must be such as to subject the opposing party to the risk of non-persuasion if the evidence as to the disputed fact is left unrebutted.") (quotation marks omitted); *In re International Systems and Controls Corp Securities Litigation*, 693 F2d 1235, 1242 (5th Cir 1982).

166 See *In re Grand Jury Proceedings*, 417 F3d 18, 22–23 & n 4 (1st Cir 2005) (requiring "a reasonable basis to believe that the [communications furthered] . . . a crime or fraud," which the court went on to define as "something less than a mathematical (more likely than not) probability"); *In re Richard Roe, Inc*, 68 F3d 38, 40 (2d Cir 1995); *In re Antitrust Grand Jury*, 805 F2d 155, 165–66 (6th Cir 1986) ("[T]here are not practical differences between the probable cause standard and the *prima facie* standards formulated in the circuits.") (citations omitted); *In re Grand Jury Proceedings*, 87 F3d 377, 381 (9th Cir 1996).

about whether a patent's validity can operate as a defense in the underlying antitrust lawsuit.[167] If a patent's validity can operate as a defense, almost no communications made in furtherance of the settlement could make out a prima facie case of an antitrust violation, at least when an apparently legitimate validity defense is raised in the underlying lawsuit. Even a statement by the patent holder acknowledging poor probability of success on the merits would not raise a prima facie case of invalidity, since patent validity is an objective inquiry determined by the courts.[168] In other words, a party's opinion about the validity of its patent is not directly relevant to a court's analysis of the validity—unless, of course, this opinion is based on evidence not in the record.

However, if validity is not a defense—if the *only* relevant legal question is whether the patent holder intended to restrain trade by avoiding the chance of its patent being invalidated—then the content of settlement negotiations is likely to be quite relevant. These communications may well reveal whether a patent holder is motivated by uncertainty about its patent, or by other legitimate factors like a desire to compensate the other party for services provided[169] or to avoid litigation costs, including the reputational harms and negative press attention that often accompany lawsuits.

A more basic problem has to do with the standard of liability in reverse-payment cases. As discussed above, *Actavis* suggests that the relevant anticompetitive harm results from the parties' *attempt* to suppress the risk of competition.[170] But imagine a reverse-payment lawsuit in which it is ambiguous—based on the evidence in the record—whether the motivation behind the settlement was suppression of competition or something else. To overcome its burden of proof, the plaintiff needs to access the settlement communications, which are shielded by privilege. In

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167 The Supreme Court has suggested, without holding, that courts should take into account defenses raised to the underlying claim when evaluating whether or not the moving party has made out a prima facie showing of crime or fraud. See note 141. As of the time of writing, only one lower court has grappled with the issue. See *Time Insurance Co v AstraZeneca AB*, 52 F Supp 3d 705, 710–12 (ED Pa 2014) (holding that when damages, as opposed to injunctive relief, are sought parties may be required to litigate the validity of a patent).

168 See *Actavis*, 133 S Ct at 2239–40 (Roberts dissenting) (observing that patent validity is an objective inquiry).

169 For example, many patent settlements—including reverse payments—contain provisions in which the challenger agrees to market or otherwise promote some of the patentee's products. See *Actavis*, 133 S Ct at 2229.

170 Id at 2237.

many circuits, the plaintiff can invoke the crime-fraud limitation to access these communications only if it can prove by a preponderance of the evidence that they were in furtherance of an antitrust violation. But whether the reverse payment amounts to an antitrust violation depends on the motivations of the parties—motivations that can be determined (in this hypothetical) only by examining the settlement communications. This circularity could thwart many plaintiffs,[171] and it seems likely to arise in those reverse-payment cases in which nonprivileged evidence about the settling parties' motives is either ambiguous or nonexistent.

* * *

As the preceding discussion illustrates, the crime-fraud doctrine can be invoked to forfeit settlement privilege in at least some reverse-payment cases. But litigants seeking to uncover privileged communications will face a number of obstacles in applying the doctrine, including (1) the potential dual ownership of the privilege,[172] (2) the patent-validity defense,[173] and (3) the somewhat circular requirement inherent in the standard for liability, which requires the introduction of nonprivileged evidence of anticompetitive intent before the exception can be invoked.[174]

B. A Necessity Exception to Settlement Privilege

Although the crime-fraud doctrine will likely allow plaintiffs to admit critical evidence in *some* reverse-payment cases, invoking the crime-fraud doctrine is costly, error prone, and time consuming—and plaintiffs will not always be able to meet the doctrine's evidentiary requirements. This Section proposes an alternative solution, which has the benefit of uniformly applying to all reverse-payment suits: courts can invoke the common-law "necessity doctrine" and hold settlement privilege inapplicable in lawsuits in which the settlement itself is at issue.

Like the crime-fraud limitation, the necessity exception limits parties' ability to claim evidentiary privilege in certain narrow

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171 See, for example, Richard McMillan Jr, Mary Bram, and M. Brinkley Tappan, *Solving the Procedural Quagmire for Testing Reverse Payment Settlements*, 11 Minn J L Sci & Tech 801, 823–26 (2010) (noting the possibility that prosecutors could invoke the crime-fraud doctrine in reverse-payment prosecutions, but observing that procedural obstacles would likely prevent the doctrine from applying in all but the most "exceptional case[s]").

172 See text accompanying notes 146–56.

173 See text accompanying notes 167–68.

174 See text accompanying notes 170–71.

circumstances. But unlike the crime-fraud doctrine, the necessity exception to privilege is a straightforward, rule-like doctrine that is easy for plaintiffs to invoke and equally easy for courts to administer. This Part discusses the important role that the necessity doctrine has played in other areas of evidence law—most importantly attorney-client privilege—and then analyzes how that doctrine would apply in the settlement privilege context. This Part concludes that litigants can invoke the necessity exception to settlement privilege in any case in which the legality of the settlement itself is at issue. Reverse-payment cases plainly fall into this category: in reverse-payment lawsuits, the legality of the settlement agreement is precisely the legal question that courts must adjudicate.

1. Origins and applications of the necessity exception.

The so-called necessity exception has deep common-law roots.[175] It limits privilege in a narrow, clearly defined set of cases. In this sense, it operates similarly to the crime-fraud doctrine. But while the crime-fraud limitation prevents privilege from attaching to communications that are undertaken in furtherance of illegal activity, the necessity exception allows privilege to be overcome when the privileged communications—or the relationship at the heart of those communications—are themselves the subject of litigation.

Although the necessity exception has never been invoked in a settlement privilege case, it has long played an important role in limiting other forms of privilege—most notably, marital communicative privilege, spousal testimonial privilege, and attorney-client privilege.[176] In the case of marital communications, the exception is as old as the privilege itself; for centuries, courts have invoked the necessity doctrine to allow victim-spouses to testify

[175] See James Calhoun Johnson, Note, *Evidence—Husband and Wife—Admission in Evidence—Victim-Wife's Testimony May Be Compelled in Prosecution of Husband for Mann Act Violation*, 39 Tex L Rev 508, 510 & n 11 (1961) (tracing the origin of the necessity exception to the 1631 trial of Lord Audley, in which the English Privy Council recognized the right of an injured wife to testify against her husband, despite the usual rule deeming spouses incompetent to testify for or against one another). See also *Lord Audley's Case*, 123 Eng Rep 1140, 1141 (CP 1631).

[176] In the context of attorney-client privilege, courts and commentators usually do not use the "necessity exception" terminology. Instead, they tend to use ad hoc language, such as "joint-client exception" or "wrongful discharge exception." See note 185. But the rationale for these exceptions in attorney-client privilege cases is identical to the core rationale underlying the necessity exception in spousal privilege cases. See text accompanying notes 185–87.

against defendant-spouses in domestic violence cases, thereby breaching the defendant-spouse's communication privilege.[177] Courts have also invoked the necessity exception to compel unwilling victim-spouses to testify in domestic violence and sex-crime prosecutions, thereby breaching the *victim-spouse*'s testimonial privilege.[178]

Courts justify these necessity exceptions in many ways, sometimes without formal reference to the necessity exception at all.[179] Some judges analogize the necessity exception (often referring to it as "[t]he public policy exception") to the crime-fraud limitation and describe the defendant-spouse as "waiving" his privilege when he commits a crime against his wife or against the couple's children.[180] But this justification is unsatisfying both because it is circular (it assumes, without requiring any kind of prima facie showing, that the defendant actually did commit a crime against his wife) and because it does not explain those cases in which the victim-spouse, who is not alleged to have done anything wrong, is compelled to forfeit her own spousal privilege by being made to testify against her husband.

Other judges justify this breach of privilege by reasoning that the act of committing a crime against one's spouse vitiates marital privilege entirely because it destroys "the deep bond of trust and love between marital partners and disrupts family harmony," the very features of marriage that the privilege was designed to protect.[181] This explanation solves the victim-spouse problem—marital privilege is destroyed altogether, because the defendant-spouse has irreparably harmed the couple's marital interests—but not the circularity problem.

The most cogent justification offered by judges—an explanation that solves both the victim-spouse problem and the circularity problem—is a pragmatic one: marital privilege *must* be forfeited when one spouse is prosecuted or sued for harming the other, because if it were not then many intramarital crimes or

177 See note 175.

178 See Johnson, Note, 39 Tex L Rev at 510–12 (cited in note 175) (collecting cases).

179 See Imwinkelried, *The New Wigmore* § 6.13.5(a) at 1230 (cited in note 130) (noting that the "necessity exception" label is not the only moniker for the exception, and that courts have not always explicitly acknowledged it as a formal exception).

180 *United States v Bahe*, 128 F3d 1440, 1445, 1446 (10th Cir 1997).

181 *United States v Breton*, 740 F3d 1, 11 (1st Cir 2014). See also *Bahe*, 128 F3d at 1446 ("It would be unconscionable to permit a privilege grounded on promoting communications of trust and love between marriage partners to prevent a properly outraged spouse with knowledge from testifying against the perpetrator of such a crime.").

torts could not be litigated at all.[182] It is this rationale that gives the necessity doctrine its name.[183] It could be objected that if privilege can be overcome whenever the plaintiff's case cannot succeed without accessing the privileged materials, then privilege does not exist in any meaningful sense. This argument misses the point: courts breach privilege in necessity cases not because any single, individual case depends on it, but because an entire class of cases—for example, spousal domestic violence cases—depends on it. These cases, as a class, would systematically suffer from (often fatal) evidentiary deficiencies if courts left spousal privilege intact. It is this feature—the unprosecutability of an entire set of cases, defined at a high level of generality—that gives meaningful content to the necessity doctrine.

The necessity doctrine is not limited to spousal privilege. A similar doctrine and justification have also emerged in the context of attorney-client privilege. Even though attorney-client privilege is the oldest and most carefully guarded evidentiary privilege,[184] it can be pierced for pragmatic reasons in limited circumstances. For example, courts allow the privilege to be breached in cases in which the services of a lawyer were obtained jointly on behalf of several clients and litigation later arises between those same clients (as often happens when one defendant realizes, in the course of jointly consulting an attorney, that his codefendants' actions injured him as well as the plaintiff).[185] Although judges and academics have not described the joint-client exception to attorney-client

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[182] See, for example, *Breton*, 740 F3d at 11 (recognizing an exception to marital privilege in cases in which one spouse harms the couple's children because "child abuse occurs most often in the home at the hands of a parent" and absent such an exception it would be too difficult to prosecute child abuse cases as a class); *Johnson v United States*, 616 A2d 1216, 1222 (DC 1992) (explaining that, absent the necessity exception, the defendant-spouse would have "complete immunity" from prosecution so long as he or she engaged in the abuse "in secret") (quotation marks omitted).

[183] See Imwinkelried, *The New Wigmore* § 6.13.5 at 1230 (cited in note 130).

[184] *Upjohn*, 449 US at 389.

[185] See Imwinkelried, *The New Wigmore* § 6.13.2(b) at 1157–60 (cited in note 130) (explaining the scope of the joint-client exception and collecting cases). Attorney-client privilege also does not apply in cases in which a client sues her attorney for malpractice, id § 6.13.2(a) at 1142, but malpractice suits are an example of *waiving* a privilege (because the privilege belongs to the client who is electing to bring suit), not a genuine *exception* to privilege. Suits between coclients involve a genuine exception to privilege, rather than a waiver, because a defendant-client's privilege is breached in these suits even when the defendant-client does not want the lawsuit to continue, and even when there is no prima facie evidence that the defendant-client engaged in any wrongdoing. See id § 6.13.2(b) at 1157–60. Another example of a genuine exception to attorney-client privilege occurs in wrongful-discharge suits brought by an in-house attorney against her former employer-client. Several courts have recognized something like a "necessity exception" in this class

privilege as an example of the "necessity" doctrine,[186] it serves the same role and has similar justifications.[187] Namely, the joint-client exception allows discovery of otherwise-privileged communications in a certain class of cases (suits between coclients, in their capacity as coclients) that would, in the absence of such an exception, often be impossible to litigate.

2. Applying the necessity doctrine in the reverse-payment context.

The same reasoning that justifies necessity exceptions to attorney-client privilege and to marital privilege applies with equal force to settlement privilege. As *Skelaxin* illustrates—and as the judge in that case observed[188]—upholding settlement privilege in reverse-payment suits creates systematic evidentiary deficiencies in this class of cases. Consequently, just as the necessity doctrine allows courts to breach spousal privilege when one spouse commits a crime against the other, and to breach attorney-client privilege when one coclient sues another, the necessity doctrine likely also allows courts to breach settlement privilege when the settlement itself is the subject of civil litigation or a criminal prosecution.

One possible formulation of the necessity limitation, as applied to settlement privilege, runs as follows: in order to invoke necessity in the settlement-privilege context, the plaintiff's claim must necessarily challenge the legality or validity of settlement terms to which the defendant was a party. This formulation covers a small but important handful of cases, such as reverse-payment suits, in which the plaintiff is required to prove the illegality of a settlement in order to prevail. It would also include traditional

of cases, reasoning that without an exception, wrongful-discharge suits would be difficult or impossible to litigate. See id § 6.13.2(a) at 1143 n 40 (collecting cases).

186 See Wright and Graham, 24 *Federal Practice and Procedure* § 5505 at 549 (cited in note 145) (explaining that this exception is often "justified by the intent of the joint parties who are supposed to have intended confidentiality as against others but not between themselves," but that others criticize this justification as "fictional and beside the point" because it is not accurate in many cases and because admitting the communications into the record of a court case makes the privileged communications available to the world, not just to the coclients).

187 See id.

188 See Skelaxin Order at *3, 5 (cited in note 79) (noting that settlement documents are likely to be "highly probative of [defendants'] liability" in reverse-payment cases and that successful invocation of settlement privilege in reverse-payment cases would necessarily "deprive plaintiffs of valuable evidence").

breach-of-settlement contract disputes.[189] But under this formulation, settlement privilege could *not* be breached in lawsuits that do not necessarily challenge the legality or meaning of settlement terms—such as tort suits, prejudice hearings, or third-party litigation[190]—which are precisely the kinds of situations the settlement privilege was designed to cover.[191]

Although evaluating the general policy merits of federal settlement privilege is beyond the scope of this Comment,[192] a settlement privilege with a necessity exception is far more conducive to sound public policy—as defined by the Supreme Court's four-factor *Jaffee* test—than a settlement privilege without such an exception. First, the necessity exception allows discovery only in a small handful of cases, and these are *not* the cases in which parties' "need for confidence and trust"[193] is greatest.[194] Parties need confidence and trust when negotiating a settlement because of the risk that their adversary or "some future third party" could

189 For an example of such a case, consider the following hypothetical. Dave and Paul, divorcing spouses, enter into a settlement agreement according to which "Paul retains possession of the couple's physical assets, except that Dave must transfer title of all jointly owned motor vehicles to Paul." Following the divorce, Dave retains possession of the couple's jointly owned motorboat. Paul sues Dave for breach of contract, arguing that the settlement's reference to "motor vehicles" includes the couple's motorboat. Suppose that parol evidence located in Dave and Paul's settlement communications vindicates Paul's interpretation. Under the crime-fraud doctrine, Paul could not enter these presettlement documents into the court record, because the documents were not drafted in furtherance of a crime or fraud. However, if the court construed the settlement privilege as inapplicable in situations in which the settlement itself is at issue, the court would allow Paul access to the settlement communications because the underlying suit concerns the terms of the settlement contract.

190 Used in this context, "third-party litigation" describes lawsuits to which none of the settlement signers is a party. For example, many patent infringement suits require courts to estimate reasonable licensing fees for the patent. Settlement licensing agreements entered into by other parties (but for similar patents) can indicate whether a specific licensing fee is reasonable or not. For an example, see *In re MSTG*, 675 F3d at 1339–41.

191 See *Goodyear*, 332 F3d at 980 (justifying the Sixth Circuit's recognition of settlement privilege by explaining that "[p]arties are unlikely to propose the types of compromises that most effectively lead to settlement unless they are confident that their proposed solutions cannot be used on cross examination, under the ruse of 'impeachment evidence,' *by some future third party*") (emphasis added). See also text accompanying notes 105–10.

192 For a broad evaluation of the jurisprudential and policy goals served by settlement privilege, see generally Andrew Sher, *FRCP 26 vs. FRE 408: Why Settlement Negotiations Should Be Privileged against Third-Party Discovery*, 16 Cardozo J Conflict Resol 295 (2014) (arguing that courts should recognize a settlement negotiation privilege to reduce administrative costs and that the *Jaffee* factors weigh in favor of recognizing such a privilege); Lauderdale, 35 U Memphis L Rev 255 (cited in note 91) (concluding that the Sixth Circuit's creation of a federal settlement privilege represents smart public policy in addition to being proper under FRE 501).

193 *Jaffee*, 518 US at 10.

194 See text accompanying notes 105–10. See also notes 190–91 and accompanying text.

admit settlement communications "on cross examination, under the ruse of 'impeachment evidence,'" when the actual purpose and effect of such an admission would be to prejudice the fact finder against the settling party.[195] The risk that settlement documents will unduly prejudice a judge or jury is high in suits that center on factual allegations similar to the allegations that inspired the settlement negotiations.[196] But there is little risk of undue prejudice—which, by definition, implicates concerns that are *ancillary* to the facts or issues of a case[197]—when the *direct* object of the suit is the settlement itself.

Second, the inclusion of the necessity exception significantly expands the public policy interests served by the settlement privilege. Without a necessity exception, courts would be unable to make appropriately informed judgments in an entire class of cases—reverse-payment cases—that the Supreme Court has judged to have great social and economic significance.[198] Nor would courts be able to adjudicate ordinary breach-of-contract cases that arise from disputes regarding ambiguous contractual language within a settlement.[199] On the other hand, recognition of a necessity exception allows courts to avoid these problematic results without compromising the public policy aims that settlement privilege was designed to protect.

Third, and relatedly, the existence of a necessity exception for settlement privilege minimizes the evidentiary detriment caused by the privilege.[200] Fourth, adopting the necessity doctrine for settlement privilege brings federal law into more, rather than less,

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195 *Goodyear*, 332 F3d at 980.

196 Product liability actions are a classic example of suits in which this risk is especially high. See text accompanying notes 109–10.

197 *Black's Law Dictionary* 1370 (West 10th ed 2014) (describing undue prejudice as the "harm resulting from a fact-trier's being exposed to evidence that . . . so arouses the emotions that calm and logical reasoning is abandoned").

198 See *Actavis*, 133 S Ct at 2227–30 (describing the millions of dollars in profits and consumer welfare at stake in these cases). It could be argued that recognizing a necessity exception contravenes sound public policy because doing so gives parties an incentive to misrepresent their intentions in settlement discussions, thereby "planting" evidence that distracts or misleads courts. To the extent that such an incentive exists, however, it operates with just as much force in a world without a necessity exception. Because parties can waive settlement privilege, parties could manufacture innocent reasons for settling, incorporate those reasons into their settlement communications, and then admit those manufactured communications by waiving their privilege.

199 See note 189 and accompanying text.

200 For a discussion of the kinds of evidence allowed by the necessity doctrine that would otherwise be privileged, see Part III.B.1.

conformity with state law. Most states protect settlement communications in some form, but no states shield settlement discussions from discovery or admissibility in cases in which the settlement itself is challenged.[201]

For these reasons, a necessity exception to settlement privilege strengthens the evidentiary and antitrust jurisprudence of those courts that currently recognize such a privilege. It also makes implementation of settlement privilege more feasible for those courts that have not yet decided whether to recognize settlement privilege.

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Despite the superficial similarities between the necessity exception and the crime-fraud limitation, the necessity doctrine has a different rationale and produces different results than the crime-fraud limitation. Specifically, the crime-fraud limitation allows discovery only when the moving party makes out a prima facie case that both parties undertook the settlement communications in furtherance of a criminal or fraudulent act. It does not allow discovery in ordinary breach-of-contract or other civil disputes centered on a settlement agreement. Nor does it allow discovery in reverse-payment cases in which the plaintiff cannot gather enough nonprivileged evidence to make out a prima facie showing of crime or fraud, or in which the plaintiff can do this only with respect to one party, rather than both. The necessity exception, in contrast, applies across the board; it does not require courts or litigants to make the costly, difficult, and time-consuming determinations necessary to invoke the crime-fraud limitation.

CONCLUSION

The Eastern District of Tennessee suggested in *Skelaxin* that federal settlement privilege appears to be fundamentally incompatible with the Supreme Court's reverse-payment jurisprudence. At first blush, this conclusion seems unavoidable. *Actavis* instructs courts to examine the motivations behind reverse-payment settlements, and settlement privilege shields from discovery the most valuable evidence of parties' motivations. But such a result is not inevitable. Specifically, litigants in reverse-payment cases may invoke the crime-fraud doctrine or, more promisingly, the

[201] See *In re MSTG*, 675 F3d at 1343 (observing that no state legislature has enacted settlement privilege).

necessity exception, to uncover otherwise-privileged settlement communications in reverse-payment cases. This result allows those courts that have recognized a federal settlement privilege to fully retain that privilege without undermining their antitrust jurisprudence.