SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: PART 54

----------X

NOVEN PHARMACEUTICALS, INC., Index No.: 654740/2016

Plaintiff, **DECISION & ORDER**

-against-

NOVARTIS PHARMACEUTICALS CORPORATION,

Defendant.

----------X

JENNIFER G. SCHECTER, J.:

Plaintiff Noven Pharmaceuticals, Inc. (Noven) moves to compel defendant Novartis Pharmaceuticals Corporation (Novartis) to produce a valuation report. Novartis opposes the motion, contending that the report is privileged. Because Novartis did not establish that the valuation was prepared exclusively for litigation, Noven's motion is granted.

Background

This case concerns the break-up of the parties' joint venture, which did business as Novogyne Pharmaceuticals (Novogyne) and sold different types of estrogen-patch products. The parties entered into a Termination Agreement on December 1, 2012, that, as relevant here, provided for disposition of the joint venture's cash and non-cash assets including the products (*see* Dkt. 30).[1] Years after the joint venture ended, the parties disagreed on how the members' capital contributions would be distributed.

[1] References to "Dkt." followed by a number refer to documents filed in this action on the New York State Courts Electronic Filing system.

On September 7, 2016, Noven commenced this action, claiming that Novartis refused to disburse more than $16 million of the joint venture's assets as required by the Termination Agreement (*see* Dkt. 2). On March 30, 2017, in a bench ruling, the court dismissed Noven's quasi contract claims (*see* Dkt. 62).[2] At oral argument, the parties discussed Novartis' procurement of a valuation of the joint venture's assets, which Noven claimed was discoverable because, among other things, it evidences how much Novartis may owe Noven (*see* Dkt. 64 at 20). Novartis responded that its valuation is privileged (*see id.* at 21). The court ordered that "if there is a valuation … it is to be turned over on the [preliminary conference] date," because it was unlikely that a privilege applied to the report, which was prepared "prior to litigation" (*see id.*; *see also id.* at 22 ["Novartis' valuation is part of the discovery. And I am directing that if there is such a valuation, and I don't know if there is, that it be turned over. It would be proof that there had been some kind of agreement between the parties to do a valuation, if nothing else"]).[3]

A preliminary conference was held on April 27, 2017 (*see* Dkt. 66). Novartis did not produce the valuation because the parties agreed that the bona fides of the privilege claim would be fleshed out in discovery and that motion practice would ultimately be required if Novartis refused to produce it. The parties reached an impasse on whether the valuation is privileged and Noven now moves to compel Novartis to produce it.

---

[2] Novartis did not dispute that Noven properly pleaded a claim for breach of contract.

[3] One of the parties' disputes is whether the Termination Agreement obligated the parties to procure valuations of Novogyne's non-cash assets.

The Valuation

Noven always believed that, upon termination of the joint venture, a third-party expert valuation would be required to determine the fair market value of the estrogen-patch products that were being allocated to the parties (Dkt. 108 ¶ 3). In March 2015, Novartis made clear that though it had initially believed that a valuation was not required, it was changing its course and it requested that Noven arrange for a valuation "so we could use that as a starting point" (*id.*; Dkt. 98 at 3). Noven responded that its "management would probably not want to do this seeing as Novartis has been the accounting member" of Novogyne, but it relented (Dkt. 98 at 2-3). Novartis' business people agreed "to wait to see what Noven's valuation looks like and go from there" (*id.* at 2).

Noven retained Houlihan Lokey (HL) to perform the valuation. On June 19, 2015, Noven sent HL's draft valuation to Novartis and asked for feedback (Dkt. 102 at 3). On June 22, 2015, Novartis thanked Noven and agreed to discuss the valuation after it had the opportunity to review the HL report (Dkt. 105 at 6). On June 29, 2015, Novartis internally determined that it disagreed with the valuation that Noven had commissioned. Novartis decided to procure its own valuation. Two weeks later, on July 14, 2015, Novartis informed Noven that its team "thought it would be most prudent for Novartis to obtain its own 3rd party valuation" and committed to keeping Noven "updated on the status of completion of this valuation" with an eye toward getting it done and meeting "sooner rather than later" (*id.* at 5). Novartis does not maintain that its initial decision to

pursue a valuation was motivated in any way by anticipated litigation. Indeed, it is clear from the parties' correspondence that they anticipated discussing their competing valuations, hopeful that they could resolve their dispute (*see id.* at 2 [Novartis' "valuation will ***lead to a negotiation*** with Noven so we need to ensure all internally are aligned on. The Noven valuation would cause Novartis to pay Noven over $10M so a lot of money is on this"] [emphasis added]).

On August 11, 2015, Noven asked Novartis for an update (*id.* at 5). Novartis responded the following day that it was still in the process of engaging a valuator and that it would provide an update in mid-September (Dkt. 100 at 2-4). By the end of August 2015, without the involvement of counsel, Novartis identified five potential valuation firms and ultimately selected Deloitte Transactions and Business Analytics (Deloitte) to perform a fair market value assessment of the Novogyne assets (Dkt. 110 at 16 n 7; *see* Dkt. 136 at 1 [business development employee writing "we have selected Deloitte" to perform the valuation]; Dkt. 139 at 1; Dkt. 140 at 1). Novartis intended to use and discuss Deloitte's findings with Noven in the course of their business negotiations (Dkt. 136 at 1 ["I will periodically be reaching out to everyone with questions I receive from Noven and will set-up a Q&A for them. . .. We will have several chances to review/challenge prior to (Deloitte's) final report"]).

On September 3, 2015, Novartis' in-house counsel became involved in the matter for the first time. Based on his earlier participation in the winding down of the joint venture, he "recognized that Noven's position [that a valuation was necessary] was

antithetical to the Termination Agreement" and he "anticipated that the dispute could lead to litigation" (Dkt. 111 ¶ 19). That day, Novartis engaged a law firm, White & Case, to represent it "in the dispute over the distribution of the Member's Capital Contributions balance" (¶ 21). Novartis took steps to preserve documents for litigation and began contemplating basic litigation issues (¶¶ 22-24).

On September 24, 2015, the parties had a conference call and both had in-house counsel on the phone. Novartis' attorney informed Noven "that the joint venture did not need to account for the value of the distributed products . . . and that those products should not impact the joint venture's distribution [of the capital accounts balances] and that it was not necessary for either party to estimate the value of the distributed products" (¶ 25). There is no indication, one way or another, that on this call (or that at any time thereafter) Novartis said anything about the valuation report that it had committed to (for example, whether it was still underway or whether Novartis had decided against pursuing and sharing the valuation it had already discussed).

In October 2015, White & Case formally hired Deloitte to estimate the value of the products even "though Novartis did not believe that the Termination Agreement required the parties" to do so (¶ 26). White & Case and Novartis purportedly took this step because they believed that "to assess the case, they should obtain their own estimates of [the] products" (*id.*). The engagement letter states that Deloitte would be a "nontestifying consultant" and that because it was White & Case's intention and position that the work for it would be covered by "the attorney work-product and other applicable

privileges," all working papers received or prepared by Deloitte would be maintained as confidential (*id.*, Ex B).

On November 17, 2015, Deloitte provided White & Case with a first draft of its valuation (*id.* ¶ 30). On February 25, 2016, Deloitte provided White & Case and Novartis with an updated draft, which was Deloitte's last report. The valuation itself states that it is "privileged and confidential" and that Deloitte "was pleased to assist White & Case . . . in connection with its representation of Novartis . . . with the provision of services for ***corporate planning purposes***" (*id.*, Ex C at 1-2 [emphasis added]).[4] It sets forth that Deloitte was assisting "in connection with . . . litigation due diligence activities" and that its services were solely for internal "use to assist with . . . litigation due diligence activities" (*id.* at 3). The report includes a fair market valuation and basic facts related to Novogyne and its termination. The valuation does not reflect any legal assumptions or opinions (other than the fact that a valuation was performed at Novartis' request, which has not been a secret in this case). Nor does it actually reveal "Novartis' reaction to Noven's position" (Dkt. 111 ¶ 34; Ex C). Ten days later, on March 5, 2016, White & Case sent Novartis' counsel a legal memorandum that discussed the valuation (*id* ¶ 36; Ex D).[5]

[4] Deloitte's valuation report was disclosed to the court *in camera*.

[5] The memorandum is exempt from disclosure based on the attorney-client privilege because it is a confidential communication in which an attorney is giving legal advice to its client.

On March 14, 2016, Noven and Novartis met to discuss settlement of their dispute (*id.* ¶ 37). Novartis relied on Deloitte's valuation "in preparing for that meeting" (*id.*).

Almost six months later, Noven commenced this action (Dkts. 1, 2).

Analysis

Novartis has the burden of establishing that the valuation report is privileged and, therefore, exempt from the disclosure (*see 148 Magnolia, LLC v Merrimack Mut. Fire Ins. Co.*, 62 AD3d 486, 487 [1st Dept 2009] [the "protection claimed must be narrowly construed; and its application must be consistent with the purposes of the underlying immunity"]). It failed to meet its burden here.

The exemption for attorney work product (CPLR 3101[c]) does not apply because the valuation "was not prepared by counsel acting as such and does not otherwise uniquely reflect a lawyer's learning and professional skills" (*Plimpton v Massachusetts Mut. Life Ins. Co.*, 50 AD3d 532, 533 [1st Dept 2008]; *see also Fewer v GFI Group, Inc.*, 78 AD3d 412, 413 [1st Dept 2010]; Siegel, NY Prac § 347 at 634-35 [6th ed 2018] [absolute immunity conferred by work-product doctrine in New York is "very narrow"]).

Nor has Novartis sufficiently shown that the valuation is exempt from disclosure as material prepared in anticipation of litigation (CPLR 3101[d][2]) because it did not demonstrate that the report was created solely and exclusively in anticipation of litigation (*see 148 Magnolia, LLC*, 62 AD3d at 487). Under the circumstances, a mixed purpose cannot be ruled out.

It is undisputed that a valuation by Deloitte was contemplated for business purposes before Novartis claims that it appreciated that litigation potentially lay ahead. The record establishes that Novartis first contacted Deloitte about performing a valuation in response to the HL valuation with which Novartis disagreed. Novartis explained to Noven that it would be procuring the valuation, which would then inform their discussions.

Though Novartis has shown that shortly thereafter it contemplated possible litigation, it has not established that the nature, character or scope of the valuation that had already been discussed with Deloitte changed in any way whatsoever or that Novartis was ***exclusively*** in litigation mode and not still desirous of arriving at a mutually agreeable business solution with Noven (*see Plimpton*, 50 AD3d at 533 [exemption does not apply to report prepared for the purpose of assisting a party in making the ultimate decision to litigate or not, such materials have a "mixed purpose and therefore must be disclosed"]). Indeed, there is no evidence between September 2015--when Novartis maintains that it first contemplated potential litigation--and the commencement of this action, that Novartis ever explicitly committed to Noven that, contrary to its earlier position, it was not going forward with nor would it exchange or discuss the valuation that it had earlier committed to (Dkt. 111 at ¶ 31). Novartis has not shown any proof (*in camera* or otherwise) that after its business people chose Deloitte to prepare the valuation for business purposes, the actual scope or nature of the retention changed in any material

way. In fact, even after the valuation was prepared, the parties were still on course for and engaged in business discussions to resolve the disputes between them.

It is clear, moreover, that both parties fully appreciated that litigation was a possibility before they officially commissioned their respective valuations (*see* Dkt. 110 at 12 n 4 [noting that ***Noven*** took precautions to ensure the confidentiality of the HL valuation, ***including characterizing it as "work product" and "privileged"***] [emphasis added]). That does not alter the analysis nor does the involvement of attorneys or the parties' own privilege designations (which were likely designed to afford the parties with maximum flexibility depending on the outcome of the valuation).

In the end, while Novartis' lawyers formally retained the valuator selected by its business people, and one of the purposes of procuring the valuation may have been to prepare for litigation, Novartis has not convinced the court that litigation was the sole reason and that it had entirely abandoned its earlier commitment. On this record, where the parties continued in the same course of negotiations for which the Deloitte valuation had been contemplated, it is hard to believe that Novartis decided, in September 2015, that potential litigation justified an uncommunicated change in course with respect to the valuation and that, despite verily believing that a valuation was irrelevant, it continued to pursue the very same valuation that it had anticipated earlier, yet it was for a completely different purpose (and that Novartis did so, at this stage and with urgency, ***solely*** for litigation that had not even been commenced and not for use in its ongoing business negotiations). Because Novartis has not negated that the valuation, at the very least, had

a dual purpose--that it still served the function originally contemplated--it is subject to disclosure and must be produced.[6]

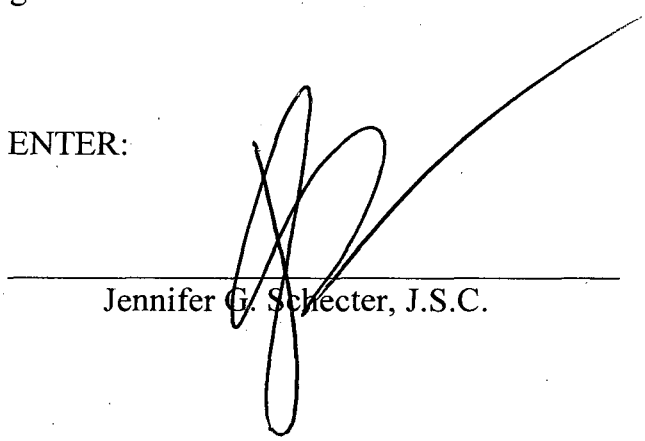
Accordingly, it is

ORDERED that Noven's motion to compel Novartis to produce the Deloitte valuation is granted and Novartis must produce it to Noven with three days of entry of this order; and it is further

ORDERED that a telephone conference will be held on November 15, 2018 at 5:00 pm, to address any disputes over the ESI protocol that shall govern Novartis' production of its communication regarding its valuation.

Dated: November 8, 2018

ENTER:



Jennifer G. Schecter, J.S.C.

[6] The parties dispute whether Noven also is entitled to receive Novartis' communications regarding the valuation. This is not an all-or-nothing proposition. While certain communications will surely be relevant and not privileged, given the involvement of counsel, some may well be privileged. The parties must meet and confer on an ESI protocol to govern such production, and any disputes over it will be addressed during the next conference. Novartis' argument that it is too late for Noven to seek these documents is rejected as it was always understood that such production turned on the court's ruling on this motion. Thus, even if discovery was closed (and it is not), Noven has good cause to seek those documents now.