

The Hon. Ricardo S. Martinez
Noted on Motion Calendar: 1/25/2008

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UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

MICROSOFT CORPORATION, a
Washington corporation,

Plaintiff,

v.

IMMERSION CORPORATION, a
Delaware corporation,

Defendant.

No. CV7-936RSM

**REPLY IN SUPPORT OF
MICROSOFT'S MOTION TO
DISQUALIFY IRELL &
MANELLA LLP FOR VIOLATION OF
WASHINGTON'S RULE OF
PROFESSIONAL CONDUCT 3.7**

REPLY IN SUPPORT OF MICROSOFT'S MOTION TO DISQUALIFY
IRELL FIRM FOR VIOLATION OF WA'S RPC 3.7 - (No. CV7-936RSM)
4835-7056-6658.02
012508/1415

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1 Immersion offers no evidence to rebut the key role played by Richard Birnholz in
2 negotiating and drafting the Immersion/Sony Agreement—the event giving rise to
3 Microsoft's claims in this case. Irell & Manella's role in negotiating and drafting the
4 Immersion/Sony Agreement is in tension with Immersion's position in this case. Under
5 this circumstance, Washington rules require disqualification of the entire firm. At the bare
6 minimum, ethical rules require the disqualification of any Irell & Manella attorney, such as
7 Mr. Birnholz, who represented Immersion in its settlement with Sony.

8 **I. BIRNHOLZ IS A MATERIAL WITNESS**

9 Compelling circumstances requiring disqualification exist where (1) an attorney
10 will give evidence material to the determination of the issues being litigated, (2) the
11 evidence is unobtainable elsewhere, and (3) the testimony is or may be prejudicial to the
12 testifying attorney's client. See *P.U.D. No. 1 v. Int'l Ins. Co.*, 124 Wn.2d 789, 812, 881
13 P.2d 1020 (1994). Birnholz's testimony meets this criteria. First, his testimony is material
14 to determining whether or not Immersion settled with Sony, the primary issue in this case.

15 Second, Birnholz's testimony, and the details behind his strategy to attempt to
16 structure the Immersion/Sony Agreement to avoid Immersion's obligations to Microsoft, is
17 "unobtainable elsewhere." Immersion's characterization of Birnholz as simply one of
18 many attendees completely ignores the Liu testimony and the documents which establish
19 that Birnholz was one of the primary drafters and negotiators of the Immersion/Sony
20 Agreement. See also *Deposition of Jennifer Liu ("Liu II Dep.") (attached as Exhibit 1 to*
21 *Marks-Dias Reply Decl.)*, 77:19-25, 78:1-14. No other witnesses made the statements
22 and actions attributable to Birnholz.

23 Third, Birnholz's undisputed role includes warnings about the need to avoid using
24 the word "settlement" in documents related to the Immersion/Sony Agreement,
25 statements to Sony about Immersion's obligations to Microsoft, and statements about the
26 reasons for the deliberately odd structuring of the Immersion/Sony Agreement. Sony's

1 lead negotiator, Jennifer Liu, recently provided deposition testimony which further
2 expands upon Birnholz's significant role in the negotiations and the import of his
3 testimony on the issue of whether or not Sony and Immersion settled.¹ For example, Ms.
4 Liu further explained that when Mr. Birnholz was describing why he created the unusual
5 structure for the Immersion/Sony Agreement, he stated that structuring the agreement in
6 this manner was worth "something like \$14 to \$15 million to Immersion." *Id.*, 121:9-25,
7 122:1-5; 124:20-24. \$15 million is the amount of Immersion's minimum obligation to
8 Microsoft if Immersion settles with Sony. Birnholz's role, and any testimony surrounding
9 it, "is or may be prejudicial to [Immersion]," because it demonstrates that the
10 Immersion/Sony Agreement was a settlement and Immersion tried to hide that fact to
11 avoid its obligation to Microsoft.

12 Birnholz's role meets the three criteria for disqualification. *P.U.D. No. 1, supra.*

13 **II. DISQUALIFICATION OF THE ENTIRE IRELL & MANELLA FIRM IS** 14 **WARRANTED**

15 Relying on the permissive language contained in RPC 3.7(b), Immersion argues
16 that non-witness attorneys at Irell & Manella should be allowed to continue representing
17 Immersion. However, where one or more attorneys in a law firm are witnesses, others in
18 the firm may only be allowed to continue to represent the client if the attorney-witness's
19 testimony does not create a conflict of interest. "A lawyer may act as advocate in a trial
20 in which another lawyer in the lawyer's firm is likely to be called as a witness unless
21 precluded from doing so by Rule 1.7 or Rule 1.9." RPC 3.7(b) (emphasis added).

22 Birnholz's role in the underlying Sony transaction creates a conflict under Rule
23 1.7, which prohibits representation of a client when a conflict of interest is present. See

24 ¹ Immersion complains that Ms. Liu's deposition was not set to continue until January 23, a day
25 after the deadline for Immersion's response brief. This is a red herring. Ms. Liu's deposition
26 testimony could hardly have been worse for Immersion, indeed she reiterated that the
Immersion/Sony Agreement was a settlement. *Liu II Dep. 147:9-15* If Immersion believes Ms. Liu
provided any helpful testimony at her continued deposition, Microsoft invites Immersion to provide
that testimony for the Court's consideration.

1 also RPC 3.7 Official Comment 6 (attorney's testimony which may be prejudicial to
2 client's interests creates a conflict); *United States v. Bin Laden*, 91 F.Supp.2d 600
3 (S.D.N.Y. 2000) ("As the ethical rules . . . have long recognized, the roles of an advocate
4 and of a witness are inconsistent"). Birnholz's testimony conflicts with Immersion's
5 interests. Birnholz's role in the underlying Sony settlement included the following
6 undisputed acts: drafting, negotiating and revising key provisions of the Immersion/Sony
7 Agreement; constructing the Immersion/Sony Agreement in a manner to attempt to hide
8 key elements of consideration for the parties' settlement; developing an oral
9 understanding regarding the nexus between the Immersion/Sony Agreement on the one
10 hand, and the dismissal of Sony's appeals, payment to Immersion, and dissolving the
11 permanent injunction against Sony on the other hand; ensuring that the word "settlement"
12 did not appear in the text of the Immersion/Sony Agreement; requesting that Sony not
13 use the word "settlement" in its internal and external communications related to the
14 Immersion/Sony Agreement; advising Sony that Immersion's efforts to hide the nature of
15 the agreement were related to Immersion's obligations to Microsoft; and, warning Sony
16 witnesses that they may be deposed in future litigation between Microsoft and Immersion.
17 See Microsoft's Motion, pp. 5-8.

18 Birnholz's testimony, if even remotely consistent with Ms. Liu's account and the
19 documents produced so far, will be inconsistent with Immersion's argument that the
20 Immersion/Sony Agreement is something other than a settlement. A law firm cannot
21 represent a client while one of its attorneys will offer testimony contrary to the interests of
22 that client. RPC 3.7(b)

23 If, on the other hand, Birnholz's testimony differs substantially from Ms. Liu's
24 account, then he would be ethically required to provide that testimony in response to
25 motions and at trial. This would put him and his colleagues at Irell & Manella in the
26 unseemly and indelicate position of vouching for Birnholz's credibility. *Keoseian v. Von*

1 *Kaulbach*, 707 F. Supp. 150, 154 (S.D.N.Y. 1989) (advocate-witness rule is concerned
2 with "protecting the legal profession as a whole from the unseemly public image it
3 engenders").

4 **III. BIRNHOLZ AND IRELL & MANELLA SHOULD BE DISQUALIFIED**
5 **IMMEDIATELY**

6 The conflict inherent in Irell & Manella's continued representation, discussed
7 above, provides grounds for immediate disqualification. Immediate disqualification is
8 further warranted for at least two additional reasons.

9 First, "[t]he lawyer's own interests should not be permitted to have an adverse
10 effect on representation of a client. For example, if the probity of a lawyer's own conduct
11 in a transaction is in serious question, it may be difficult or impossible for the lawyer to
12 give a client detached advice." RPC 1.7, Official Comment 10. Irell & Manella's ability to
13 offer objective advice in this action is tainted by the fact that Irell & Manella attorneys
14 created and therefore have an interest in Immersion's strategy to avoid its obligations to
15 Microsoft. This poses a disadvantage to Immersion, who has a justified expectation that
16 its counsel will provide objective advice. This also poses a disadvantage to Microsoft,
17 who should be able to litigate against, and engage in alternative dispute resolution with,
18 an adversary receiving realistic and untainted advice about the merits of its case.

19 Second, immediate disqualification is warranted by the prejudice inherent in
20 allowing a key witness in the case to cross-examine other fact witnesses during the
21 course of depositions. Even when counsel will not take the witness stand, his cross-
22 examination may contain unsworn testimony about his version of a conversation or
23 events that the opposing party may not be able to effectively impeach. *See United States*
24 *v. Assoc'd Convalescent Enters.*, 766 F.2d 1342, 1345 (9th Cir. 1985). An attorney who
25 becomes an unsworn witness by virtue of cross-examining other witnesses must be
26 disqualified. *U.S. v. Congi*, 420 F. Supp. 2d 124, 128-29 (W.D.N.Y. 2005).

1 Birnholz's conduct during the deposition of Ms. Liu highlights the problems
2 associated with legal counsel serving both as witness and advocate. During Microsoft's
3 questioning of Ms. Liu, Birnholz represented Immersion and made numerous "coaching"
4 objections, answered questions himself, and even encouraged Sony's counsel to insert
5 improper objections to prevent Microsoft's counsel from discovering Birnholz's role in the
6 relevant negotiations and drafting. For example, when Ms. Liu identified an oral
7 agreement between Birnholz and counsel for Sony during the settlement negotiations, the
8 following exchange occurred:

9 Q. Is that the same agreement between counsel that we
10 were talking about before or is it a related one?

11 A. It's either the same or related.

12 Mr. Birnholz: That's wrong. It's talking about the escrow
instructions.

13 *Liu I Dep.*, 133:21-25, 134:1; *see also, e.g., Liu II Dep.*, 134:22-25; 135:1-2.

14 Such comments during the course of a deposition are inappropriate in general.
15 They are particularly egregious when the lawyer making the statements is a fact witness,
16 about whom the deposition witness is testifying.

17 During several occasions, Birnholz encouraged Sony to assert meritless work-
18 product objections to prevent Ms. Liu from testifying. *Id.*, 31:13-14; *Tubar v. Clift*, 2007
19 WL 30872 (W.D.Wash. 2007). Birnholz even threatened to retaliate against Sony and its
20 witness if the Sony witness answered questions which Mr. Birnholz contended were
21 privileged communications. *Id.*, 132:2-132:11. Birnholz repeated these comments so
22 many times that Sony's counsel had to inform Birnholz that Sony and its counsel were
23 capable of making their own objections. *Id.*, 157:9-12.

1 **IV. IMMERSION'S ARGUMENTS REGARDING LIABILITY ARE: IRRELEVANT**
2 **TO THIS MOTION, UNFOUNDED, AND HIGHLIGHT THE NEED FOR**
3 **BIRNHOLZ'S TESTIMONY**

4 Immersion suggests that Microsoft's rights under the Sublicense Agreement
5 ("SLA") expired after 24 months. This is expressly contradicted by Section 2(e) of the
6 SLA, which provides in the operative sentence "and regardless of whether such
7 Immersion settlement occurs during or after the twenty-four (24) month period following
8 the Effective Date." *Marks-Dias Decl.*, Ex. B.

9 Immersion itself recognized its obligation to Microsoft after the expiration of the 24
10 months. In all of its financial statements and SEC filings from the time of the Microsoft
11 settlement until the Sony Settlement, including almost two years after the expiration of the
12 24-month period, Immersion explicitly disclosed its \$15 million plus obligation to Microsoft.
13 *See, e.g., Marks-Dias Reply Decl.*, Ex. 2. If Immersion thought that Microsoft's rights
14 expired, it would not have made these statements under oath to the SEC and to
15 Immersion's investors.

16 Immersion also argues that the Immersion/Sony Agreement did not expressly
17 require either the satisfaction of the amended judgment or the dismissal of Sony's
18 appeals. This merely feeds Microsoft's argument concerning the odd structure of the
19 agreement (designed by Birnholz) and Immersion's attempts to hide key elements of
20 consideration.² It also underscores the need to depose witnesses involved in the
21 negotiation and drafting of the Immersion/Sony Agreement in order to get at its true
22 purpose and effect. Immersion would have Microsoft and the Court believe that Sony
23 simply paid Immersion \$82 million plus and dismissed its appeals without any
24 consideration. But, as common sense, the documents, and the Liu deposition testimony

25 ² Recall that these events were described in the Recitals as having already occurred, when they
26 had not yet occurred. On one of the several draft settlement agreements between Immersion and
Sony, Ms. Liu noted this oddity and provided the following comment: "[L]et's discuss. I'm not clear
on the timing of how this will work." *See Marks-Dias Decl.*, Ex. K, IMRMS00000212.

1 all make clear, the dismissal of Sony's appeals and payment of the amended judgment
2 were directly linked to the parties' agreement to settle the dispute. Birnholz structured
3 this agreement and is a key part of this story. See *Liu testimony, supra*.

4 Immersion fails to mention the dissolution of the permanent injunction against
5 Sony, which, if left in place, would have precluded Sony from manufacturing or selling
6 "the infringing Playstation system." *Marks-Dias Decl., Ex. E*. Dissolving the permanent
7 injunction was a necessary prerequisite to Sony paying any money to Immersion in a
8 settlement. See Microsoft's Motion at 6 (citing Liu testimony and emails to and from
9 Birnholz). Birnholz was a central figure in this settlement-related agreement. *Id.*

10 The covenant of good faith and fair dealing obligates parties to cooperate with
11 each other so that each side may obtain the full benefit of performance. *Cavell v.*
12 *Hughes*, 29 Wn. App. 536, 629 P.2d 927 (1981). Microsoft claims that Immersion's
13 attempt to disguise the Immersion/Sony Agreement as something other than a settlement
14 violates the covenant of good faith and fair dealing. Birnholz's testimony is directly
15 relevant to that claim as well.

16 For all of these reasons, Microsoft's motion should be granted.

17 DATED this 25th day of January, 2008.

18 RIDDELL WILLIAMS P.S.

19
20
21 By *P. Marks-Dias*
22 Paul J. Kundtz, WSBA #13548
23 Blake Marks-Dias, WSBA #28169
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26

CERTIFICATE OF SERVICE

The undersigned certifies that on the 25th day of January, 2008, I electronically filed the foregoing with the Clerk of the Court using the CM/ECF system which will send notification of such filing to the following:

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A copy of this document has also been served via U.S. Mail and email on the following counsel who have filed applications to appear Pro Hac Vice in this matter:

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Executed at Seattle, Washington this 25th day of January, 2008.



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