

The Honorable Ricardo S. Martinez

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UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON

MICROSOFT CORPORATION, a Washington corporation,)	No. CV07 936RSM
)	IMMERSION CORPORATION'S
Plaintiff,)	MOTION TO COMPEL PRODUCTION
)	OF DOCUMENTS RESPONSIVE TO
v.)	REQUEST NOS. 53, 54 AND 71 AND
)	REFERENCED IN RESPONSE TO
IMMERSION CORPORATION, a Delaware corporation,)	INTERROGATORY NO. 7
)	NOTE FOR MOTION CALENDAR:
Defendant.)	March 28, 2008

IMMERSION CORPORATION'S MOTION TO COMPEL PRODUCTION
OF DOCUMENTS (CV07 936RSM)

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1 **I. INTRODUCTION**

2 After a long battle in Immersion’s previous patent infringement lawsuit against Sony in
3 the United States District Court for the Northern District of California, Immersion prevailed.
4 Immersion obtained a verdict and a final judgment against Sony for \$97.3 million in damages,
5 interest and costs. Sony satisfied this judgment in full and also complied with previous Court
6 orders requiring the payment of compulsory license fees of approximately \$30.6 million.
7 Microsoft now seeks to grab a share of Immersion’s recovery from Sony, claiming in this case
8 that Immersion had obligations to Microsoft under a 2003 Sublicense Agreement (the “SLA”),
9 which provided for certain payments in the event that Immersion “elect[ed] in its discretion to
10 settle the Sony Lawsuit prior to Microsoft’s granting Sony the Game Platform Sublicense.” SLA
11 § 2(e). But Immersion prevailed in the Sony Lawsuit, and Sony satisfied the District Court’s
12 final judgment and complied with Court orders. Because of this, Immersion did not elect to
13 settle the Sony Lawsuit within the meaning of the SLA, and Microsoft’s allegations are
14 misguided.

15 By this motion, Immersion moves to compel Microsoft to provide important information
16 Microsoft has refused to produce in discovery. Given Microsoft’s contention that Sony’s
17 satisfaction of the final judgment meant that Immersion elected to “settle the Sony Lawsuit”
18 under the terms and definitions of the SLA, Immersion asked Microsoft to produce its own
19 purported settlement agreements entered in patent lawsuits after a judgment was entered for or
20 against Microsoft. The requested documents would reveal Microsoft’s own conduct in such
21 cases and its practice and understanding of what constitutes a “settlement” of a district court
22 proceeding. Immersion also asked Microsoft in Interrogatory No. 7 to identify all lawsuits that
23 Microsoft “ha[s] settled in which Microsoft or the opposing party satisfied a final judgment.”
24 Microsoft identified several lawsuits in its partial response, and in meet-and-confer discussions
25 conceded it located some documentation of those settlements in an initial investigation.
26

1 Microsoft, however, refuses to produce this discrete documentation – documentation that
2 Microsoft itself relied upon – on which it based its own Interrogatory response.

3 Microsoft’s refusal to produce the requested documents and information, including
4 documents upon which Microsoft itself relied to support its Interrogatory response, does not
5 withstand scrutiny. Microsoft alleges that Sony’s satisfaction of the final judgment constitutes
6 an Immersion election to settle the Sony Lawsuit, as defined in the SLA. However, as
7 Immersion will demonstrate at the appropriate time, the plain language of the Microsoft-
8 Immersion SLA demonstrates, and the negotiating history of the SLA confirms, that the
9 satisfaction of a final judgment and payment of other court-ordered amounts does not constitute a
10 “settlement of the Sony Lawsuit” as contemplated under the SLA. As pertinent here, Immersion
11 is entitled to explore in discovery whether Microsoft’s own practice in similar cases further
12 confirms that the satisfaction of a final judgment entered in a district court proceeding does not,
13 even in Microsoft’s own understanding, constitute a “settlement” of such proceeding. Microsoft
14 may not withhold this information. The discovery requests in question are narrowly tailored,
15 seek potentially highly-relevant information, and do not present any meaningful burden.
16 Microsoft can readily identify the legal proceedings in which it has been involved, the cases that
17 resulted in a judgment, and the agreements and related documentation executed after judgment
18 was entered. Indeed, Microsoft has already begun to do so, albeit partially and selectively. An
19 Order compelling compliance with the discovery requests should be entered forthwith.

20 **II. FACTUAL BACKGROUND**

21 **A. Nature of the Case.**

22 This case has its roots in a patent infringement lawsuit that Immersion filed against
23 Microsoft and Sony in February 2002 in the Northern District of California. Immersion alleged
24 that certain Sony PlayStation and Microsoft Xbox video game consoles, controllers, and games
25 infringed two of Immersion’s patents. Immersion and Microsoft settled in July 2003. Immersion
26 and Sony did not settle. Immersion’s patent lawsuit against Sony was long and hard fought at

1 substantial cost to Immersion. In September 2004, Immersion prevailed after a five-week jury
2 trial when the jury found all of Immersion's asserted claims valid and infringed and awarded
3 Immersion \$82 million in damages. The district court subsequently entered an \$82 million
4 judgment on the jury's verdict in favor of Immersion, and awarded pre-judgment interest and
5 costs, which Sony satisfied in full. (Dkt. Nos. 42-2 (Jury Verdict); 42-3 (Judgment); 42-4
6 (Notice of Satisfaction of Judgment).)

7 This is a breach of contract case that Microsoft brought in June 2007. The main
8 agreement in question here is a "Sublicense Agreement" between Immersion and Microsoft
9 entered into as part of their settlement in July 2003. (Dkt. No. 31, Ex. 1 (filed under seal).)
10 Under the SLA, Microsoft was granted, for 24 months, the right to sublicense Immersion's
11 patents to Sony under certain conditions. *Id.*, ¶ 2 (a), (c), (j). If Microsoft granted Sony such a
12 sublicense, Microsoft would owe Immersion at least \$100 million. *Id.*, ¶ 2 (c). Microsoft did not
13 grant Sony a sublicense and hence did not owe Immersion the payments contemplated. The SLA
14 also provided that if Immersion elected in its discretion to settle its district court action against
15 Sony prior to Microsoft's granting Sony a sublicense, and hence deprived Microsoft of the
16 ability to sublicense Sony, Immersion would owe Microsoft certain specified amounts. *Id.*, ¶ 2
17 (e). The amount to be owed in that event would depend on how much Immersion received for
18 the rights Immersion granted to Sony in the settlement. *Id.*

19 Specifically, Section 2(c) of the SLA provided that "[i]n the event Microsoft grants Sony
20 [] a Game Platform Sublicense," Microsoft would owe Immersion certain sums, depending on
21 the timing of the sublicense grant. Section 2(e), in turn, provided:

22 **Payments to Microsoft in the Event Immersion Settles the Sony Lawsuit**
23 **Prior to Microsoft Granting Sony a Game Platform Sublicense.** In the event
24 Immersion elects in its discretion to settle the Sony Lawsuit prior to Microsoft's
25 granting Sony the Game Platform Sublicense (and regardless of whether such
26 Immersion settlement occurs during or after the twenty-four (24) month period
following the Effective Date), then Immersion shall pay Microsoft an amount
determined as follows . . .

1 *Id.* The SLA defines the “Sony Lawsuit” as “the action in the United States District Court for
2 the Northern District of California entitled Immersion Corporation v. Sony Computer
3 Entertainment of America, Inc., Sony Computer Entertainment, Inc., and Microsoft Corporation,
4 Northern District of California Case No. C02-00710 CW (WDB), as such action pertains to
5 Sony.” *Id.*, ¶ 1(k). The SLA does not define what it means for Immersion to elect in its
6 discretion to settle the Sony Lawsuit. However, the negotiating history shows that the term
7 “settle” does *not* encompass the payment a final judgment and the satisfaction of court orders.
8 (Dkt. No. 30, at p. 7; 31, Ex. 8, at p.12 (filed under seal).)

9 Microsoft now distorts and misreads the SLA in an opportunistic attempt to seize a share
10 of the judgment and other Court-ordered sums that Immersion was awarded and that Sony paid.
11 But Immersion owes Microsoft nothing. Immersion did not do anything that deprived Microsoft
12 of its right to grant Sony a sublicense. Similarly, Immersion did not settle its district court action
13 against Sony. Immersion defeated Sony, obtaining a jury verdict and ultimately a final judgment
14 against Sony.

15 Microsoft’s claims in this case rely upon a 2007 agreement between Immersion and
16 Sony, which by its express terms became effective after Sony satisfied the final judgment. (Dkt.
17 No. 30, Ex. 1, at ¶ 1.9.) The Sony-Immersion Agreement (the “Sony Agreement”) is the
18 antithesis of a settlement agreement. It expressly *excluded* any releases for Sony’s past acts of
19 infringement regarding the “Litigated PlayStation Products” – *i.e.*, the PlayStation products
20 found by the jury to infringe Immersion’s Litigated Patents. *Id.*, ¶ 2.1(a). Instead, the Sony
21 Agreement granted releases for Sony’s past conduct with respect to certain products that were
22 *not* at issue in the Sony Lawsuit. *Id.* The Sony Agreement also granted Sony a license for
23 certain going-forward use of Immersion’s patents. *Id.*, ¶ 2.1(c), (d). Finally, the Sony
24 Agreement contained an option to license Immersion’s patented technology for certain defined
25 future gaming products that were not licensed. *Id.*, ¶ 4.2. Sony has not exercised that option nor
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1 given any indication that it will do so. Significantly, no provision of the Sony Agreement
2 obligated Sony to satisfy the judgment or to take any action that would require its satisfaction.

3 **B. The Relevant Discovery That Microsoft Is Wrongfully Withholding.**

4 Immersion served its First Set of Requests for Production of Documents to Microsoft
5 Corporation (“Requests”) on September 11, 2007. Declaration of Alan J. Heinrich, dated March
6 13, 2008 (“Heinrich Decl.”), Ex. 1. In its response, Microsoft refused to produce documents
7 responsive to, among others, Request Nos. 53, 54 and 71. *Id.*, Ex. 2. The parties conferred
8 regarding Microsoft’s improper objections in letters dated November 5, 2007, December 21,
9 2007, January 2, 2008, and January 18, 2008, and in a telephonic discovery conference on
10 January 22, 2007. *Id.*, ¶ 10, Exs. 3, 4, 5, and 6. Microsoft continues to refuse to produce
11 documents responsive to Request Nos. 53, 54 and 71.

12 The text of Request Nos. 53, 54 and 71 is as follows:

13 **REQUEST FOR PRODUCTION NO. 53:**

14 All purported “settlement agreements,” and agreements entered into in connection
15 therewith, between Microsoft and any other entity that were entered into after a judgment was
16 entered against Microsoft and in favor of such other entity in any legal proceeding involving a
claim of patent infringement.

17 **REQUEST FOR PRODUCTION NO. 54:**

18 All purported “settlement agreements,” and agreements entered into in connection
19 therewith, between Microsoft and any other entity that were entered into after a judgment was
entered against such other entity and in favor of Microsoft in any legal proceeding involving a
claim of patent infringement.

20 **REQUEST FOR PRODUCTION NO. 71:**

21 All documents identified in your responses to Immersion’s First Set of
Interrogatories.

22 Immersion served its First Set of Interrogatories on January 14, 2008. *Id.*, Ex. 7.
23 Interrogatory No. 7 asked Microsoft to “[i]dentify all lawsuits you have settled in which
24 Microsoft or the opposing party satisfied a final judgment.” *Id.* In its answer, Microsoft
25 identified six “[e]xamples” of cases “in which Microsoft has paid or an opposing party has paid
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1 to Microsoft, part or all of a judgment amount.” *Id.*, Ex. 8. Microsoft has refused to produce
2 documentation of such purported settlements.

3 **III. ARGUMENT**

4 The rules governing the scope of discovery are well established. Rule 26(b)(1) of the
5 Federal Rules of Civil Procedure provides that parties may obtain discovery of “any matter, not
6 privileged, that is relevant to the claim or defense of any party” Further, “[f]or good cause,
7 the court may order discovery of any matter relevant to the subject matter involved in the
8 action.” *Id.* Discoverable information need not be admissible at trial, but merely be “reasonably
9 calculated to lead to the discovery of admissible evidence.” *Survivor Media, Inc. v. Survivor*
10 *Prods.*, 406 F.3d 625, 635 (9th Cir. 2005).

11 **A. Microsoft’s Purported Settlement Agreements in Other Patent Cases After a** 12 **Judgment Has Been Entered Bear Directly on Microsoft’s Contentions** 13 **Regarding the Sony Lawsuit.**

14 Microsoft’s core allegation in this case is that the 2007 Sony Agreement is “well within
15 the kind of settlement contemplated by the SLA” and that Immersion owes Microsoft at least \$15
16 million. (*See* Dkt. No. 2 (First Am. Compl., ¶¶ 28, 32, 35.) Immersion repeats that it fought for
17 years at great expense to prevail and obtain a verdict and a final judgment in the Sony Lawsuit,
18 that it did prevail, and that Sony paid every penny the Court ordered it to pay in order to satisfy
19 the final judgment of a United States District Court and comply with other orders. Immersion
20 hotly disputes that Microsoft is entitled to share in this hard-fought recovery, and that it has any
21 obligation to Microsoft under the SLA.

22 To refute Microsoft’s contention that the Sony Agreement and Sony’s satisfaction of the
23 district court’s final judgment have an “inherent settlement nature” and “are a kind of settlement
24 contemplated by the SLA” (*see id.*, ¶¶ 24, 28), Immersion asked straightforward discovery. The
25 document requests, including Request Nos. 53 and 54, seek Microsoft’s purported “settlement
26 agreements,” and agreements entered into in connection therewith, in other patent infringement
lawsuits that Microsoft contends were settled after judgment was entered for or against

1 Microsoft. These agreements will allow Immersion to determine Microsoft's practice with
2 regard to settlements of litigation and whether Microsoft understands or uses the term
3 "settlement" to refer to the satisfaction of a final judgment. The agreements also will reflect
4 those terms that Microsoft includes in its own settlement agreements. *See, e.g., Diamond B*
5 *Constructors, Inc. v. Granite Falls Sch. Dist.*, 117 Wn. App. 157, 161-62, 70 P.3d 966 (2003)
6 (mutual intent may be established directly or by inference, and may be discerned from the
7 parties' "later acts and conduct"). Because many of the terms that are commonly understood to
8 reflect a settlement (*e.g.*, requiring the dismissal of litigation and release of claims against the
9 litigated products) are not in the agreement between Immersion and Sony on which Microsoft
10 relies here, Microsoft is actively working to withhold its own settlement agreements. The Court
11 should not allow Microsoft to block this discovery.

12 **B. Microsoft's Response to Interrogatory No. 7 Identifies Specific Lawsuits**
13 **That Microsoft Contends It Settled in Which Microsoft or the Opposing**
14 **Party Allegedly Satisfied a Final Judgment, but Microsoft Refuses to**
Produce the Underlying Documentation.

15 Microsoft's refusal to produce the requested documents becomes even more unjustifiable
16 when the Court considers that Microsoft specifically identified in an Interrogatory response the
17 names of lawsuits that it contends were settled and in which a final judgment was satisfied.
18 Microsoft's response to Interrogatory No. 7 states that "Microsoft has settled cases in which
19 Microsoft has paid or an opposing party has paid to Microsoft, part or all of a judgment amount.
20 Examples include" six cases Microsoft identified by name and case number. Heinrich Decl., Ex.
21 8 at 11-12. However, Microsoft sidesteps the actual question Immersion posed in its
22 Interrogatory, which is directed to cases in which "Microsoft or the opposing party satisfied a
23 final judgment" by artfully qualifying its answer to refer to cases in which it contends that "part
24 or all of a judgment amount" was paid – which actually *broadens* the scope of Immersion's
25 Interrogatory. But putting aside the evasion in Microsoft's answer, to prepare its Interrogatory
26 response Microsoft undoubtedly had to and did review the agreements in the cases it mentioned,
as well as the court documents reflecting a satisfaction of judgment (if any). Nevertheless,

1 Microsoft refuses to turn over those very documents, which Immersion has requested pursuant to
2 Request Nos. 53, 54 and 71. Microsoft's attempt to hide documents on which Microsoft itself
3 based its Interrogatory response is without any possible justification.

4 Microsoft may not selectively disclose information to create the impression that its past
5 practice supports its allegations in this case as to what constitutes a settlement of a district court
6 proceeding, while at the same time depriving Immersion the opportunity to test whether the
7 impression Microsoft is attempting to create in its Interrogatory response is true. Without the
8 documents on which Microsoft's Interrogatory response is based, Immersion has no way to
9 explore, let alone test, the veracity or accuracy of Microsoft's response. What happened to the
10 judgment in those cases? What happened to the litigation? What are the terms of the settlement?
11 Did Microsoft or the opposing party pay every penny the Court ordered and file a Notice of
12 Satisfaction of Judgment, as Sony did? Was the judgment in those cases preserved, or was it
13 instead vacated (in contrast to the Sony Lawsuit)? Immersion suspects that the situations in the
14 cases Microsoft identified in its response to Interrogatory No. 7 are not even comparable to what
15 happened in the Sony Lawsuit. Regrettably, Immersion requires the Court to order Microsoft to
16 produce the documentation (such as the settlement agreements and other documents relating to
17 any satisfaction of judgment) in order to answer the questions raised by Microsoft's
18 Interrogatory response. In short, Microsoft's selective disclosure in its response to Interrogatory
19 No. 7 amounts to an improper attempt to use discovery as both a sword and a shield. Microsoft
20 cannot identify facts in an interrogatory response and then refuse to produce the backup.

21 **C. Microsoft's Burden and Confidentiality Objections Are Without Merit.**

22 Immersion expects that in response to this motion, Microsoft will not focus on the
23 relevance of the requested material, given that this can hardly be disputed. Rather, Microsoft
24 likely will reiterate comments made during discovery conferences that Immersion's discovery
25 requests are objectionable because they are allegedly burdensome and seek confidential
26 information. Neither objection has merit.

1 First, the requests are not unduly burdensome. In fact, the requests seek the narrow
2 subset of settlement agreements in patent infringement cases in which a judgment has been
3 entered. Microsoft is in a far better position than Immersion to determine which cases Microsoft
4 has been a party to in which a judgment has been entered and then retrieve any settlement
5 agreement that it contends was entered into with regard to such a proceeding. Microsoft already
6 may have done so. Heinrich Decl., Exs. 7 (Interrogatory Answer No. 7), 5 (Microsoft's January
7 2, 2008, letter stating that it "has performed an initial investigation" in response to Request Nos.
8 53 and 54 "and has located several settlement agreements executed post-verdict"). Moreover,
9 Microsoft already identified in its interrogatory responses six cases in which Microsoft alleges
10 "part or all of a judgment amount" was paid. It cannot possibly be a burden for Microsoft to
11 produce agreements that it has already identified and located. Microsoft's next objection, that
12 the agreements contain terms relating to confidentiality, further confirms that Microsoft has
13 already identified responsive documents – and thus further belies Microsoft's position that it is
14 too burdensome to look for them. Finally, Microsoft's unsupported complaints of burden also
15 have a decidedly hollow ring in a case in which it is seeking to recover tens of millions of
16 dollars.

17 Second, Microsoft's confidentiality objection is not a ground to resist providing this
18 important discovery. If Microsoft were correct, "all individuals and corporations could use
19 confidentiality agreements to avoid discovery." *See, e.g., In re Subpoena Duces Tecum Served*
20 *on Bell Comm'ns Research, Inc.*, No. MA-85, 1997 WL 10919, at *3 (S.D.N.Y. Jan. 13, 1997)
21 (collecting published and unpublished federal cases collectively holding that such third-party
22 confidentiality agreements provide no protection against discovery requests); *Covia P'ship v.*
23 *River Parish Travel Ctr., Inc.*, Civ. A. No. 90-3023, 1991 WL 264549, at *1 (E.D.La. Dec. 4,
24 1991) (same) ("Parties may not foreclose discovery by contracting privately for the
25 confidentiality of documents."). But confidential agreements are produced all the time in
26 discovery. Moreover, what is at issue are agreements that followed what presumably were very

1 public judicial proceedings that resulted in public judgments. In any event, Microsoft's
2 purported confidentiality concerns are removed as a result of the Stipulated Protective Order
3 Regarding Treatment by the Parties of Confidential Documents lodged with the Court (Dkt. No.
4 43). This form of Order allows Microsoft to restrict access to these materials to Immersion's
5 outside attorneys.

6 **IV. CONCLUSION**

7 It is surprising that Microsoft has forced this issue to motion practice. Immersion posed a
8 focused question, asking Microsoft to identify cases it contends it settled in which a final
9 judgment was satisfied. Immersion also asked Microsoft to produce the settlement agreements in
10 cases in which a judgment was entered. But Microsoft refuses to turn over the documents.
11 Microsoft may not withhold documents that bear directly on Microsoft's allegations that
12 Immersion owes Microsoft on account of Sony's satisfaction of a final judgment and compliance
13 with orders of a United States District Court. Immersion respectfully requests that the Court
14 compel Microsoft to produce documents responsive to Request Nos. 53, 54 and 71. Immersion
15 also requests that the Court direct Microsoft to produce the agreements and other documents on
16 which Microsoft's response to Interrogatory No. 7 is based. Microsoft may not use discovery as
17 a sword and a shield by withholding from Immersion the very documents on which Microsoft
18 relied in its Interrogatory response, thereby depriving Immersion the ability to test the accuracy
19 and veracity of that response.

20 DATED this 13th day of March, 2008.

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1 **CERTIFICATE OF SERVICE**

2 The undersigned attorney certifies that on the 13th day of March, 2008, I electronically
3 filed the foregoing with the Clerk of the Court using the CM/ECF system which will send
4 notification of such filing to the following:

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