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The Honorable Ricardo S. Martinez

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON

MICROSOFT CORPORATION, a
Washington corporation,

Plaintiff,

v.

IMMERSION CORPORATION, a Delaware
corporation,

Defendant.

) Case No. CV07 936RSM
)
) **IMMERSION'S REPLY IN SUPPORT OF**
) **ITS MOTION TO COMPEL**
) **PRODUCTION OF DOCUMENTS**
) **RESPONSIVE TO REQUEST NOS. 53, 54**
) **AND 71 AND REFERENCED IN**
) **RESPONSE TO INTERROGATORY**
) **NO. 7**
)
) **NOTED FOR MOTION CALENDAR:**
) **March 28, 2008**

1 **I. INTRODUCTION**

2 In resisting Immersion's request for important documents reflecting Microsoft's own
3 conduct and practice with regard to settlement in cases in which a judgment has been entered,
4 Microsoft is trying to set up a situation in discovery where it only "receives" but does not "give."
5 Microsoft has pressed for a wide range of discovery on the topic of "settlement," including
6 deposing witnesses about their general practices and experiences relating to settlement agreements
7 and moving to compel Immersion to produce a broad range of "settlement" related documents.
8 But Microsoft now seeks to block Immersion's limited document requests to investigate how
9 Microsoft itself uses the term "settle" and whether its own "settlement agreements" have any
10 resemblance to the 2007 Sony/Immersion agreement. Immersion suspects that Microsoft is
11 resisting this discovery because Microsoft has never "settled" a case in which a judgment
12 remained in place and was satisfied.

13 None of Microsoft's arguments in its opposition brief with regard to relevance, burden, and
14 confidentiality has merit. Evidence of Microsoft's own conduct in cases where a judgment was
15 entered bears directly on Microsoft's allegations in this case that Immersion "elected in its
16 discretion to settle the Sony Lawsuit" (defined as the district court action). Indeed, Microsoft's
17 agreements, which likely contain provisions vacating judgments and setting out releases of the
18 litigated claims (terms not present in the 2007 Sony/Immersion agreement), could be some of the
19 most powerful evidence against Microsoft. Microsoft also conceded the relevance of this
20 information when it questioned witnesses at deposition about their experiences with settlement
21 agreements in other cases and terms typically included. Microsoft also has identified in response
22 to Immersion's Interrogatory No. 7 at least six lawsuits in which it contends that some or all of a
23 judgment amount was paid. Microsoft cannot now withhold the documents on which its own
24 Interrogatory response is based, which would deprive Immersion of the ability to test whether
25 Microsoft's Interrogatory answers are inaccurate or misleading.

26 Microsoft's objections on grounds of burden and confidentiality also miss the mark. In
27 terms of burden, the requests at issue are narrow and focused on agreements in patent lawsuits in
28 which a judgment has been entered. Microsoft surely has access to information regarding the

1 lawsuits in which it has been involved. Microsoft can, and should, survey its legal department for
2 responsive material. Any claim of undue burden is also belied by the fact that Microsoft already
3 has done an initial investigation in providing an answer to Interrogatory No. 7. Nor may
4 Microsoft rely on allegations of confidentiality to bar the requested discovery. Putting aside that
5 Microsoft had no problem asking the Court to direct the production of Immersion's confidential
6 mediation communications subject to an express JAMS agreement of confidentiality (among other
7 protections), confidential materials in this case will be subject to a protective order. If there is any
8 particularly sensitive information that needs to be addressed, the parties can do so via redactions.
9 Microsoft may not, however, erect a wholesale roadblock to this important area of discovery.

10 **II. MICROSOFT'S UNDERSTANDING OF A "SETTLEMENT" OF A DISTRICT**
11 **COURT ACTION IS MANIFESTED IN ITS OWN AGREEMENTS**

12 At the heart of this case is the 2003 "Sublicense Agreement" language providing for certain
13 payments to Microsoft in the event that Immersion "elects in its discretion to settle the Sony
14 Lawsuit." SLA §§ 1(k), 2(e). While there is no express definition of what it means for Immersion
15 to elect in its discretion to "settle" the district court action, the negotiating history reveals that
16 Immersion *rejected* a proposal that would have required it to share with Microsoft a portion of any
17 proceeds Immersion received as a result of Sony's payment on a "verdict," separate and apart from
18 a "settlement." *See* Dkt. #30, at p. 7; #31, Ex. 8, at p.12 (filed under seal). The parties also
19 discussed how any payment obligation to Microsoft related only to Immersion's dropping its case
20 against Sony, not if Immersion took its case against Sony all the way to judgment. Heinrich Reply
21 Decl., Ex. 1 (Reutens Depo., 3/24/08 (unofficial transcript) at 158-164). Microsoft now advocates
22 a much broader meaning of the word "settle" to argue the SLA is an unconditional "payback"
23 obligation triggered even by Sony's satisfaction of a final district court judgment on a jury verdict.

24 To help refute Microsoft's sweeping expansion of the Sublicense Agreement, Immersion
25 seeks Microsoft's settlement agreements in other patent cases that were entered into after
26 judgment, including six agreements that Microsoft itself identified in one of its Interrogatory
27 responses. The requested discovery is likely to lead to the discovery of extremely important
28 evidence, including that Microsoft's present interpretation of the term "settlement" in this case is

1 fundamentally inconsistent with its actual use of that term. Microsoft's actual practice will likely
2 show that Microsoft itself understands that a "settlement" does not encompass the satisfaction of a
3 final judgment. Immersion believes that Microsoft's consistent practice has been to have the
4 district court case dismissed with prejudice and to obtain a release of the claims that were litigated.
5 Immersion also expects that the judgments are not satisfied, but rather are vacated. Such evidence
6 would be directly at odds with Microsoft's position that a judgment that remains in place, with full
7 res judicata effects, somehow constitutes a "settlement" of the Sony Lawsuit under the SLA.

8 Microsoft incorrectly challenges relevance by arguing that the requested agreements
9 allegedly concern its "unilateral" and "subjective understanding of what constitutes a settlement."
10 Opposition (Dkt. #61) at 5-6. These agreements, however, individually and taken together, are
11 objective manifestations of Microsoft's understanding of a "settlement" of a district court action,
12 terms actually used in the Sublicense Agreement and discussed by the parties during the
13 negotiations leading up to and surrounding its execution. *See, e.g., Stephens v. Gillispie*, 126
14 Wash. App. 375, 108 P.3d 1230 (2005) (remanding to admit extrinsic evidence regarding disputed
15 meaning of words "actually used" in a settlement agreement). This evidence will likely contradict
16 Microsoft's position and further bolster the evidence from the parties' negotiations that Immersion
17 and Microsoft *shared* the understanding that a "settlement" of the district court action between
18 Immersion and Sony would not encompass Sony's satisfaction of a final judgment.

19 Microsoft's efforts to apply rules of contract interpretation to shield from discovery
20 evidence that its own consistent practice contradicts its position in this lawsuit finds no support in
21 any of the cases on which Microsoft relies and flies in the face of common sense. While these
22 rules are not a bar to *discovery* in the first instance, under Washington's "context" rule of contract
23 interpretation, the fact-finder may and should consider this evidence. *See, e.g., Diamond B*
24 *Constructors, Inc. v. Granite Falls School Dist.*, 117 Wn. App. 157, 161, 70 P.3d 966 (2003) (in
25 determining the parties' intent the court may examine the entire agreement and the setting in which
26 the contract was formed, including the subject matter, the objective of the contract, the facts
27 surrounding its creation, subsequent acts of the parties, trade usage, and the reasonableness of the
28 parties respective interpretation); *Harting v. Barton*, 101 Wash. App. 954, 6 P.3d 91 (2000) (trial

1 court properly examined extrinsic evidence of local custom to ascertain meaning of undefined
2 contract term). Microsoft cannot claim that Immersion's interpretation of the SLA is unreasonable
3 or not what the parties intended, but at the same time actively block discovery showing that
4 Microsoft *shared* Immersion's interpretation.

5 Microsoft also opened the door to the requested discovery. First, Microsoft identified in
6 its response to Interrogatory No. 7 six specific cases in which it contends some or all of a
7 judgment amount was paid. Immersion should not be required to accept Microsoft's Interrogatory
8 response at face value. Second, Microsoft own discovery confirms that it agrees the requested
9 information is relevant. Microsoft questioned witnesses in deposition, including Sony's in-house
10 counsel Jennifer Liu, about their general practices and experiences with respect to settlement
11 agreements. Heinrich Reply Decl., Ex. 2 (Liu Depo., 12/20/07, at 17, 21, 149-50). Having taken
12 such discovery, Microsoft cannot plausibly claim its own practices and experiences with respect to
13 settlement agreements are immune from discovery.

14 Microsoft thus is trying to have things both ways. It wants to get discovery that it believes
15 may support its theories, but block Immersion from exploring fertile territory for evidence that
16 may undermine Microsoft's own case. Microsoft may not do so. Whether the discovery that is
17 requested here "is subsequently admissible is a separate question that the Court will determine
18 when the time arises." Order Granting Microsoft's Motion To Compel ("Order") (Dkt. #59) at 4.
19 *Id.* at 4 (citing *In re Potash Anitrust Litig.*, 161 F.R.D. 405, 409 (D. Minn. 1995) (“[O]ur analysis
20 at [the discovery stage] is not driven by issues of admissibility, but by fairly minimalistic precepts
21 of relevancy.”). Just as the Court ruled in granting Microsoft's motion to compel, the Court here
22 should "not preclude [Immersion] from having access to information that is potentially germane to
23 its case on relevancy grounds." *Id.* at 4.

24 **III. THE REQUESTED DISCOVERY IS FOCUSED, NOT UNDULY BURDENSOME**

25 By this motion, Immersion does not seek every settlement agreement Microsoft has ever
26 entered. Rather, Immersion seeks a narrow subset of Microsoft's purported "settlement
27 agreements" in patent cases, including documents related to specific cases identified by Microsoft
28 in its response to Interrogatory No. 7. Microsoft's "burden" arguments are devoid of substance.

1 Microsoft first argues that it has no organized way of knowing which of its prior cases
2 were patent cases. But it cannot be a burden for Microsoft to produce documentation that it has
3 already located and on which it has based its response to Interrogatory 7. Microsoft's claim is not
4 credible in any event. How does Microsoft manage its intellectual property without tracking IP
5 litigation? Surely Microsoft has some way of tracking its settlement agreements in patent cases,
6 which is the only type of case Requests Nos. 53 and 54 target. Microsoft should be readily able to
7 identify its cases involving judgments entered in patent cases, and then determine if any of those
8 cases "settled." If Microsoft truly does not keep files of its patent litigation, at least it can survey
9 its in-house IP lawyers to see what cases they know of that settled after a judgment, identify the
10 cases revealed from that simple exercise, and produce responsive agreements from those cases.

11 In short, the declaration Microsoft submits in support of its burden argument falls
12 woefully short of demonstrating "with specificity and factual detail the exact nature and extent of
13 the burden." *See, e.g., Grider v. Keystone Health Plan Central, Inc.*, 2007 WL 2874423, *6
14 (E.D.Pa. September 27, 2007); *Waddell & Reed Financial, Inc. v. Torchmark Corp.*, 222 F.R.D.
15 450 (D.Kan. 2004) ("A party asserting undue burden typically must present an affidavit or other
16 evidentiary proof of the time or expense involved in responding to the discovery request.").
17 Rather, it only confirms that Microsoft does not want to look for the requested material. Microsoft
18 brought this case, and may not now complain that it has to provide discovery.

19 **IV. MICROSOFT'S CONFIDENTIALITY OBJECTION FLIES IN THE FACE OF**
20 **MICROSOFT'S OWN PREVIOUS ARGUMENTS TO THIS COURT**

21 Microsoft has had a change of heart about whether settlement-related documents are
22 discoverable. In its motion to compel *Immersion's* settlement and mediation-related documents,
23 Microsoft argued that FRE 408 "does nothing to restrict discovery" of settlement documents from
24 a prior case where they are sought for a purpose other than to prove the "'validity, invalidity, or
25 amount' of the disputed claim." *See* Microsoft's Motion To Compel (Dkt. # 38) at 7-8 (quoting
26 FRE 408). The Court agreed with Microsoft, ordering the production of various confidential
27 settlement and mediation documents, including *Immersion's* confidential communications with the
28 mediator in the Sony Lawsuit that were never even shared with Sony. Order at 4. The Court

1 reasoned that such materials were relevant under the "liberal rules regarding discovery," and that
2 settlement-related documents are not entitled to any special protection on policy grounds if
3 "potentially germane to the case." *See id.* at 4. Here, Immersion is not even seeking documents
4 relating to a settlement dialogue, but the settlement agreements themselves.¹

5 Furthermore, Microsoft has not met any burden of establishing confidentiality, offering
6 only a speculative and insufficient declaration from an in-house attorney at Microsoft. If
7 Microsoft does not even know what agreements are at issue, how does it know what the
8 confidentiality terms are?² In any event, Microsoft also may not invoke confidentiality to preclude
9 the discovery outright. *See, e.g., Tribune Co. v. Purcigliotti*, 1996 WL 337277, at *3 (S.D.N.Y.
10 June 19, 1996) ("The mere fact that ... parties agreed to maintain the confidentiality of their
11 agreement cannot serve to shield it from discovery."). There are numerous ways such concerns
12 can be removed. Immersion will agree to keep responsive agreements "Confidential" and/or
13 "Attorneys and Consultants Eyes Only" if so designated by Microsoft pursuant to current form of
14 the [Proposed] Stipulated Protective Order, just as the parties have done with their respective
15 production of other confidential documents in this case. Moreover, if there are particularly
16 sensitive business terms that are not necessary to understand the documents produced, or to
17 determine the fate of the judgment or the amount paid, Microsoft could propose redacting them.

18 **V. CONCLUSION**

19 This motion seeks important discovery. Immersion thus requests that the Court compel
20 Microsoft to produce documents responsive to Immersion's Request Nos. 53, 54 and 71 and the
21 agreements and other documents on which Microsoft's response to Interrogatory 7 is based.

24 ¹ The policies underlying Rule 408 are diminished with respect to finalized settlement
25 agreements (as opposed to communications made in furtherance of settlement), because settlement
26 agreements terminate the parties' litigation. *See Bank Brussels Lambert v. Chase Manhattan
Bank, N.A.*, 1996 WL 71507, at *6 (S.D.N.Y. Feb. 20, 1996) (compelling discovery of terms of
settlement agreement only).

27 ² In his declaration (Dkt. #63), Mr. Aeschbacher does not identify a single confidentiality
28 provision, but instead merely assumes that responsive agreements "are subject to confidentiality
provisions which preclude Microsoft from disclosing them or their terms to others" because "more
often than not" Microsoft's settlement agreements contain such terms.

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Dated: March 28, 2008

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CERTIFICATE OF SERVICE

The undersigned attorney certifies that on the 28th day of March, 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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