THE NATIONAL LAW JOURNAL
DAILY UPDATES ON WWW.NLJ.COM | THE WEEKLY NEWSPAPER FOR THE LEGAL PROFESSION | MONDAY, FEBRUARY 18, 2008 | ALM

IN FOCUS

VERDICTS

This verdict made jaws drop

A patent dispute netted an unprecedented $1.5 billion, but this story is far from over.

Kirkland Partners Paul A. Bondor and Robert A. Appleby

By June D. Bell
SPECIAL TO THE NATIONAL LAW JOURNAL

ALCATEL-LUCENT forced Microsoft Corp. to face the music during a high-stakes intellectual property trial last year.

A team of Kirkland & Ellis litigators persuaded a San Diego jury to award $1.538 billion to telecommunications equipment maker Alcatel-Lucent (which acquired Lucent Technologies Inc. in late 2006) for infringement of two file-compression patents for technology used to play tunes in Windows Media Player and other MP3 devices.

The 10-figure award on Feb. 22, 2007, grabbed headlines as the largest patent infringement verdict ever. It easily topped the list of major verdicts recorded by NLJ affiliate VerdictSearch for 2007, and was nearly triple the award in the No. 2 case, a $521.7 million verdict handed down to an accounting firm in a fraud case. Award amounts reflect the jury's award and do not include increases or decreases resulting from contributory negligence, settlements or other post-trial activity.

Alcatel-Lucent's bragging rights lasted just six months—in August, the trial judge set aside the verdict. U.S. District Judge Rudi Brewster of San Diego ruled that notwithstanding the verdict, Microsoft did not infringe on one of the patents. Brewster questioned ownership of the second disputed patent. *Lucent Technologies Inc. v. Microsoft Corp.*, No. 02-CV-2060 (S.D. Calif. 2007).

"I think it's fair to say that the judge is wrong," said John M. Desmarais, head of Chicago-based Kirkland & Ellis' New York intellectual property group. The lead litigator for Alcatel-Lucent in this case, he represents the company in several other infringement claims that soon will come to trial.

Desmarais has filed appellate briefs to protect the verdict and award. He's optimistic, noting that Brewster denied Microsoft's pretrial motion for summary judgment and that Alcatel-Lucent's case was only strengthened during the trial.

Microsoft's attorney, John E. Gartman, a principal based in Fish & Richardson's San Diego office, wasn't surprised that the judge set aside the verdict.

"It was absolutely the right result," he said. Microsoft owed nothing to Alcatel-Lucent because it had already paid $16 million to a nonprofit German research consortium, the Fraunhofer Institute, to license the MP3 technology, he argued.

Alcatel-Lucent has insisted it owns the rights to technology developed by Bell Laboratories, Lucent's predecessor, before Bell teamed up with the institute and others to develop MP3s. It sought damages from Microsoft based on a royalty of 0.5% of the total value of Windows computers sold.

'Johnny-come-lately'

Desmarais, Lucent's outside counsel for a decade, presented Bell Labs as a world-renowned research leader in the audio coding and sound innovations that led to international standards for MP3 coding. Bell was part of "the American spirit of innovation," he said, "and we pitched Microsoft as the Johnny-come-lately who came in and took it."

Working with Desmarais was a top-notch litigation team from Kirkland & Ellis' New York office, including partners Robert A. Appleby, who handled liability issues; Paul A. Bondor, who tackled damages; and Alan S. Kellman and Michael P. Stadnick.

Alcatel-Lucent's attorneys anticipated testimony from a key Microsoft expert, Karlheinz Brandenburg. Known as "the father of MP3," he testified that he had invented the technology at issue, and that Alcatel-Lucent's patent was invalid.

On cross-examination, though, Brandenburg acknowledged that he had interned at Bell Labs during the development of the MP3 technology. "He was taking credit for something he learned at Bell Labs," Desmarais said. "I think it came around to bite Microsoft."

Brandenburg acknowledged under cross-examination that two important features of MP3 technology weren't included in his documentation. "He sort of bolstered the fact that our scientists were inventive and he hadn't thought of that," Desmarais said.

Kirkland Partner John M. Desmarais

Once comfortable that he'd proven patent infringement, Desmarais had to persuade the jury to soundly punish the opposition. "One of my biggest concerns was asking for $1.5 billion without offending anyone," he said.

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For the first time in his 19-year legal career, Desmarais sought the counsel of a trial consultant. He and Toni Blake of 2nd Chair Services in San Diego explored various strategies for rationalizing a massive award.

Alcatel-Lucent wanted Microsoft to fork over $5.65 in licensing fees for each Windows computer sold between mid-2003 and the end of 2005 that contained the patented technology—a feature that Microsoft had marketed for $10, according to Microsoft documents that Desmarais presented at trial.

"We sort of snuck up on it, not to be gross about it," said Desmarais, who didn't mention money in his opening statement. His witnesses had sketched Microsoft as a scofflaw that refused to ante up for technology that fattened its bottom line.

Desmarais used two witnesses to explain why a 10-figure award was just. One discussed royalty rates per computer, while the other, an accountant, crunched the numbers for the grand total.

Desmarais relied on consultant Blake, who'd had no prior exposure to the litigation, as a sounding board. After observing each day of trial, she'd meet for about 20 minutes with the attorneys to give feedback and "be sort of a sanity check," he said.

During one of their discussions, they picked apart Microsoft's argument that it need not pay royalties to Alcatel-Lucent for a backup coder because consumers didn't need it. Blake noted that regardless of whether the coder ever was used, buyers expected it—as they would their car's spare tire—to be there and to work.

"It was a pretty clever analogy," Desmarais said, and he incorporated the comparison into his closing argument.

Still battling

After four days of deliberations, the jury awarded the 0.5% royalty payment the plaintiffs sought on the value of computers loaded with Windows.

The panel deadlocked, 8-2, on whether Microsoft willfully infringed on the patents, preventing Alcatel-Lucent from collecting treble damages and attorney fees.

The patent-infringement battle between Microsoft and Alcatel-Lucent, now in its sixth year, is far from over. Desmarais expects to be back in court on Feb. 20 defending five Lucent patents against Microsoft, Gateway Inc. and Dell Inc. Lucent and Microsoft will square off again in April over a Lucent patent and 10 Microsoft counterclaims. Another case is scheduled for trial early next year in Texas.

Despite Alcatel-Lucent's jaw-dropping award last year, Microsoft's team is nowhere close to conceding defeat.

"The reality," said Gartman, Microsoft's lawyer, "is my client is quite happy because we're into this six years, and we don't have a scratch on us." NLJ