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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
OAKLAND DIVISION

ORACLE USA, INC., *et al.*,

Plaintiffs,

v.

SAP AG, *et al.*,

Defendants.

No. 07-CV-01658 PJH (EDL)

ORACLE'S MOTION FOR LEAVE TO FILE MOTION FOR RECONSIDERATION REGARDING SAVED DEVELOPMENT COSTS

Date: May 23, 2012
Time: 9:00 a.m.
Place: 3rd Floor, Courtroom 3
Judge: Hon. Phyllis J. Hamilton

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NOTICE OF MOTION AND MOTION

PLEASE TAKE NOTICE THAT on May 23, 2012, at 9:00 a.m., in the United States District Court, Northern District of California, Oakland Division, located at 1301 Clay Street, Oakland, California, Courtroom 3, 3rd Floor, before the Hon. Phyllis J. Hamilton, Plaintiff Oracle International Corp. ("Oracle") will bring a motion for leave to file a motion for reconsideration of the Court's ruling excluding evidence of saved development costs, pursuant to Civil L.R. 7-9. This motion is based upon this Notice of Motion and Motion, the accompanying Memorandum of Points and Authorities, and all attached evidence.

REQUESTED RELIEF

Oracle hereby requests leave to file a motion for reconsideration of the Court's September 30, 2010 ruling that excluded evidence of SAP's saved development costs for all purposes.

MEMORANDUM OF POINTS AND AUTHORITIES

I. INTRODUCTION

The Court should grant Oracle leave to file a motion seeking reconsideration of the Court's September 30, 2010 ruling precluding Oracle from introducing evidence of SAP's saved development costs in support of the hypothetical license value. The Court's ruling excluding evidence of SAP's saved development costs for all purposes rested on, and compounded the prejudice from, a material misunderstanding of the nature of that evidence reflected in the Court's prior summary judgment order. The exclusion of that evidence from trial in support of the fair market value of the hypothetical license was incorrect and manifestly unfair.

II. BACKGROUND

On November 16, 2009, Oracle served the expert report of Paul Pinto. Pinto computed what SAP would have spent to develop certain of the infringed PeopleSoft, JD Edwards, and Siebel software programs independently. *See generally* Dkt. 775, Ex. 2 ("Pinto Report"). Pinto opined, using two industry-standard methodologies, "that [SAP] would have incurred costs in the range of $1,134M to $3,477M (depending on the selected staffing model) to

independently develop each of the most current version of JD Edwards EnterpriseOne, JD Edwards World, PeopleSoft, and Siebel applications." *Id.* at 2.

Oracle also served the expert report of Paul Meyer. Meyer relied on Pinto in two ways. First, he used Pinto's analysis to calculate a separate disgorgement, or unjust enrichment, damages figure. Second, Meyer relied on Pinto's numbers as part of his "cost approach" - one of three methods Meyer used to determine SAP's value of use of the infringed materials. Dkt. 925 (10/04/10 Refiled Jindal Decl. ISO Mot. to Exclude Meyer), ¶ 3, Ex. A (Meyer Report) at ¶ 142-3. As Meyer explained in his report, this "cost approach" provided a valuable reasonableness check of the other two methods he used to perform the fair market value calculation of actual damages. *Id.*

Pinto's analysis, and Meyer's methods of reliance on it, is not in dispute. In its March 3, 2010 Motion for Summary Judgment, SAP agreed that Meyer relied "on Pinto's analysis to 'calculate' disgorgement under an unjust enrichment theory . . . as well as to calculate actual damages for copyright infringement under a fair market value license theory." Dkt. 813 at 17. SAP also conceded that Pinto had estimated "what it would have cost [SAP] to independently develop" the software SAP admittedly infringed. *Id*. SAP argued, however, that "'saved development costs' are, as a matter of law, an impermissible measure of damages in this case." *Id*.

The Court granted SAP's motion, but it did so based on a fundamental misunderstanding of Pinto's opinion. The Court based its summary judgment ruling, in part, on its finding that "plaintiffs' calculations [are] highly speculative, as they are based on the amounts that *Oracle* allegedly spent to develop and/or acquire the intellectual property at issue, *not on what it would have cost SAP* for research and development." Dkt. 762 at 23, n.5 (emphasis supplied). That was simply incorrect; even SAP conceded Pinto had calculated *SAP's* saved development costs.

Based on this misunderstanding of Pinto's opinion, the Court held that "Plaintiffs cannot recover 'saved development costs' for alleged unjust enrichment," and that "in the absence of Ninth Circuit authority for awarding research and development costs to plaintiffs as

actual damages for infringement, this court declines to permit plaintiffs to seek such damages." *Id.* at 18-23. Accordingly, the Court's ruling excluded saved development costs as recoverable damages. Oracle does not seek reconsideration of whether evidence of SAP's saved development costs can support a separate measure of damages. The Court did not, however, hold that Pinto's saved development cost evidence was irrelevant or impermissible evidence as a reasonableness check on Meyer's measure of the hypothetical license valuation.

Pre-trial, SAP moved to exclude Pinto entirely. In its opposition to SAP's motion, Oracle pointed out that "[t]he MSJ Order does not preclude Pinto's opinions . . . [and they] are still relevant considerations in determining the fair market value of the hypothetical license."). Dkt. 843 at 14. At the close of the September 30, 2010 pre-trial conference, the Court gave each party "one minute . . . to say something" about the parties' *Daubert* motions. Declaration of Kyle Zipes in Support of Motion for Leave to File Motion for Reconsideration ("Zipes Decl."), ¶ 2, Ex. A (9/30/10 Hrg.) at 121:11-12. SAP argued that the Court's "ruling on summary judgment eliminating saved acquisition costs should render Mr. Pinto . . . moot because [his opinion] only address[es] that saved acquisition costs remedy." *Id.* at 121:16-19.

The Court "totally agree[d]" with SAP. *Id.* at 122:8-10. The Court thus granted SAP's motion and extended its prior ruling, holding "there will be no testimony from an expert on saved acquisition costs. That's out of the case." *Id.*; *see also* Dkt. 914 (09/30/10 Final Pretrial Order) at 3:28-29 ("[N]o witness may testify regarding saved acquisition costs."). Accordingly, Oracle did not present any such testimony at trial.

III. THE COURT SHOULD GRANT LEAVE FOR ORACLE TO FILE A MOTION FOR RECONSIDERATION

A. Legal Standard for Leave to File a Motion for Reconsideration

Pursuant to Civil Local Rule 7-9, "[b]efore the entry of a judgment adjudicating all of the claims and the rights and liabilities of all the parties in a case, any party may make a motion before a Judge requesting that the Judge grant the party leave to file a motion for reconsideration of any interlocutory order made by that Judge." Before noticing a motion for reconsideration, the party must "obtain[] leave of Court to file the motion" pursuant to Civ. L.R. 7-9 and 7-9(b). Reconsideration is proper where the moving party shows a "manifest failure by

the Court to consider material facts or dispositive legal arguments which were presented to the Court before such interlocutory order." Civil L.R. 7-9(b).

B. The Court Should Reconsider Its Ruling Excluding Evidence of SAP's Saved Development Costs for All Purposes

Oracle respectfully submits that, for the new trial, the Court should grant leave for Oracle to file a motion for the Court to reconsider its prior decision to preclude Oracle's expert witnesses from testifying "regarding saved acquisition costs." Oracle submits that evidence of *SAP's* saved development costs – the opinion Pinto gave and Meyer relied on – is relevant and admissible for the limited purpose of providing the jury with a reasonableness check on Meyer's measure of the hypothetical license valuation. In its prior ruling, the Court manifestly failed to consider a material fact before the Court prior to its ruling, namely the fundamental nature of Pinto's opinion that the Court excluded.

1. The Court Failed to Consider Pinto's Actual Opinion

The Court's summary judgment order was based on the misapprehension that Pinto measured Oracle's development costs. Dkt. 762 at 23, n.5. Even SAP agreed that Pinto "purports to estimate '*what it would have cost [SAP]* to independently develop the underlying software applications.'" Dkt. 813 (03/03/10 Defs' MSJ) at 17:12-14 (emphasis supplied). Therefore, the Court's conclusion that "plaintiffs have provided no evidence of what SAP would have spent" was factually incorrect, as it relied on the mistaken premise that Pinto assessed Oracle's development costs, not SAP's. Dkt. 762 at 23, n.5.

2. The Court Repeated this Error When It Extended Its Summary Judgment Ruling to Exclude Pinto for All Purposes

Pre-trial, the Court "totally agree[d]" with SAP's argument that the summary judgment ruling had rendered Pinto's testimony "moot," and ruled it "out of the case" entirely. Part II, above. The Court's September 30, 2010 ruling thus extended and compounded the error underlying the summary judgment ruling by failing again to consider Pinto's actual opinion. *See, e.g., Jones v. Union Pac. R.R. Co.*, 968 F.2d 937, 941-42 (9th Cir. 1992).

After the summary judgment ruling, Oracle still intended to submit evidence of

SAP's saved development costs as objective evidence relevant to the hypothetical license remedy. Specifically, Meyer intended to rely on Pinto's opinion of SAP's saved development costs as a "reasonableness check on the valuations derived from [Meyer's] other approaches" but not as a separate damages measure. Dkt. 925 (10/04/10 Refiled Jindal Decl. ISO Opp. to Mot. to Exclude Meyer), ¶ 3, Ex. A (Meyer Report) at ¶ 143. The law supports this approach: in deciding how much it would be willing to pay for a license, the buying party in a hypothetical license negotiation would consider the cost of alternatives to buy or develop the licensed product. *See, e.g.*, *Mars, Inc. v. Coin Acceptors, Inc.*, 527 F.3d 1359, 1372-73 (Fed. Cir. 2008), *modified on other grounds by* 557 F.3d 1377 (Fed. Cir. 2009); *Deltak, Inc. v. Advanced Sys., Inc.*, 767 F.2d 357, 360-62 & n.3 (7th Cir. 1985); *see also* Dkt. 679 (03/31/10 House Decl. ISO MSJ Opp.), ¶ 32, Ex. 6 (Gordon V. Smith & Russell L. Parr, *Intellectual Property, Valuation, Exploitation, and Infringement Damages* (2005 ed.)) at 526 (among the questions "at the heart of technology transfers" is: "How long would it take to invent around this technology?"). Accordingly, Pinto's opinion of what SAP would have had to pay to develop the infringed software was relevant, and Meyer was entitled to rely on it.

The Court's order excluding that testimony severely prejudiced Oracle. The order not only deprived Oracle of one source of objective evidence supporting hypothetical license damages, it also prejudiced Oracle by preventing it from countering SAP's repeated attacks on Meyer's opinion for lacking exactly such a "reality check." *See* Zipes Decl., ¶ 3, Ex. B (Trial Tr.) at 2167:11-15 ("Don't trust somebody who doesn't believe in reality checks."); *id.* at 2135:10-11 (Meyer failed to "use reality to provide insight into what [Oracle and SAP] really would have been thinking at the time" of a hypothetical negotiation.); *id.* at 2138:7-8 ("[Meyer] is way, way too high. If only he had done a reality check.").

IV. CONCLUSION

Because the Court precluded Meyer's reliance on Pinto based on a fundamental misunderstanding of Pinto's testimony, the Court should allow Oracle to file a motion to reconsider whether SAP's saved development costs are "out of the case" for the limited purpose of supporting Meyer's cost approach.

DATED: April 17, 2011

Bingham McCutchen LLP

By: /s/ Geoffrey M. Howard
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