BINGHAM MCCUTCHEN LLP
DONN P. PICKETT (SBN 72257)
GEOFFREY M. HOWARD (SBN 157468)
BREE HANN (SBN 215695)
Three Embarcadero Center
San Francisco, CA 94111-4067
Telephone: 415.393.2000
Facsimile: 415.393.2286
donn.pickett@bingham.com
geoff.howard@bingham.com
bree.hann@bingham.com

BOIES, SCHILLER & FLEXNER LLP
DAVID BOIES (Admitted Pro Hac Vice)
333 Main Street
Armonk, NY 10504
Telephone: (914) 749-8200
Facsimile: (914) 749-8300
dboies@bsfllp.com
STEVEN C. HOLTZMAN (SBN 144177)
FRED NORTON (SBN 224725)
1999 Harrison St., Suite 900
Oakland, CA 94612
Telephone: (510) 874-1000
Facsimile: (510) 874-1460
sholtzman@bsfllp.com
fnorton@bsfllp.com

DORIAN DALEY (SBN 129049)
JENNIFER GLOSS (SBN 154227)
500 Oracle Parkway, M/S 5op7
Redwood City, CA 94070
Telephone: 650.506.4846
Facsimile: 650.506.7144
dorian.daley@oracle.com
jennifer.gloss@oracle.com

Attorneys for Plaintiff Oracle International Corp.

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 UP-SELL AND CROSS-SELL PROJECTIONS

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

TABLE OF CONTENTS

Page

I. **INTRODUCTION** 2

II. **FACTS** 3

A. The Evidence at Issue 3

B. The Sanctions Orders. 6

1. Judge Laporte's Sanction Order. 6

2. The Court's Order Overruling Oracle's Objection to the Sanction Order. 8

3. SAP's Motion *In Limine* No. 2. 9

4. SAP's Motion to Enforce. 9

III. **THE COURT SHOULD GRANT LEAVE FOR ORACLE TO FILE A MOTION FOR RECONSIDERATION** 13

A. Legal Standard for Leave to File a Motion for Reconsideration 13

B. The Court Should Grant Leave and Reconsider its Ruling Excluding Evidence of Oracle's Contemporaneous Projections of Up-Sell and Cross-Sell Revenue. 14

1. The Court May Allow Evidence at the New Trial that was Not Introduced in the Original Trial. 14

2. The Conflation of Projections and Actual Losses was Legal Error 15

3. Failure to Make Discovery Affecting Lost Profits Cannot Justify a Sanction Precluding Hypothetical License Damages. 18

IV. **CONCLUSION** 20

TABLE OF AUTHORITIES

Page(s)

CASES

Brooks v. Hilton Casinos, Inc.,
959 F.2d 757 (9th Cir. 1992) 19

CGB Occupational Therapy, Inc. v. RHA Health Servs., Inc.,
499 F.3d 184 (3rd Cir. 2007) 14

Cleveland By and Through Cleveland v. Piper Aircraft Corp.,
985 F.2d 1438 (10th Cir. 1993) 14

F.B.T. Prods. v. Aftermath Records,
2011 WL 5174766 (C.D. Cal. Oct. 31, 2011) 14

Frank Music Corp. v. Metro-Goldwin-Mayer, Inc.,
772 F.2d 505 (9th Cir. 1985) 18

GenSci OrthoBiologics v. Osteotech, Inc.,
2001 WL 36239743 (C.D. Cal.) 18

Hamilton v. State Farm Fire & Cas. Co.,
270 F.3d 778 (9th Cir.2001) 16

Hanson v. Alpine Valley Ski Area, Inc.,
718 F.2d 1075 (9th Cir. 1983) 18

Insurance Corp. of Ireland, Ltd. v. Compagnie des Bauxites de Guinee,
456 U.S. 694 (1982) 18, 19, 20

Interactive Pictures Corp. v. Infinite Pictures, Inc.,
274 F. 3d 1371 (Fed. Cir. 2001) 2, 13, 17

Navallier v. Sletten,
262 F.3d 923 (9th Cir. 2001) 18, 19

New Hampshire v. Maine,
532 U.S. 742 (2001) 16

Polar Bear v. Prod., Inc. v. Timex Corp.,
384 F.3d 700 (9th Cir. 2004) 2, 18

Riles v. Shell Exploration & Prod.,
298 F.3d 1302 (Fed. Cir. 2002) 17

S. Union Co. v. Irvin,
563 F.3d 788 (9th Cir. 2008) 14

Snellman v. Ricoh Co., Ltd.,
862 F.2d 283 (Fed. Cir. 1988) ... 13, 18

U.S. v. Kahaluu Construction Co.,
857 F.2d 600 (9th Cir. 1988) ... 19, 20

U.S. v. Nat'l Med. Enterprises, Inc.,
792 F.2d 906 (9th Cir. 1986) ... 20

Unigard Sec. Ins. Co. v. Lakewood Engineering & Mfg. Corp.,
982 F.2d 363 (9th Cir. 1992) ... 20

United States v. Ibrahim,
522 F.3d 1003 (9th Cir.2008) ... 16

FEDERAL STATUTES

Fed. R. Civ. Proc. Rule 37 ... passim

STATE STATUTES

Civil L.R. 37-1(a) ... 12

Civil L.R. 37-3 ... 12

OTHER AUTHORITIES

11 Charles Alan Wright, Arthur R. Miller & Mary Kay Kane, *Federal Practice And Procedure* § 2803, at 50 (2d ed. 1995) ... 14

Local Rule 7-9 ... 13,14

Plaintiff Oracle International Corp. ... 21

Wright & Miller, *Federal Practice and Procedure* § 2283 at p. 434 ... 20

NOTICE OF MOTION AND MOTION

PLEASE TAKE NOTICE THAT pursuant to Civil L. R. 7-9, 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 Oracle's projections of its up-sell and cross-sell revenue from the PeopleSoft and Siebel acquisitions. 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 requests that the Court grant leave to file a motion for reconsideration of the Court's November 8, 2010 order excluding evidence of Oracle's projections of "up-sell" and "cross-sell" revenue from PeopleSoft and Siebel software. Oracle relied on these projections in deciding to acquire PeopleSoft and Siebel, and the projections are relevant to show the amount of the royalty that Oracle would have demanded from SAP in hypothetical negotiations for a license to use that software.

Oracle does *not* seek reconsideration of the Court's separate ruling, based on Judge Laporte's sanction order, excluding evidence of lost profits damages related to lost licensing revenue.

This motion supports Oracle's concurrently filed Motion for Reconsideration, as described therein.

MEMORANDUM OF POINTS AND AUTHORITIES

I. INTRODUCTION

As a discovery sanction at the first trial, the Court excluded one aspect of Oracle's hypothetical license damages evidence, namely, Oracle's December 2004 projections of revenue from additional license transactions from PeopleSoft software and its 2006 projections of such revenue from Siebel software. The exclusion was significant, as this evidence supports an additional $500 million in hypothetical license damages. The decision was made in the heat of trial, and was inconsistent with the Court's prior orders. Oracle respectfully submits that in making it the Court failed to consider undisputed facts and law. Oracle requests leave to file a reconsideration motion to allow that error to be corrected before the new trial.

As detailed below, copyright law distinguishes between two measures of damages: (1) the license fee the copyright owner and infringer would hypothetically have agreed on and (2) lost profits due to the infringement. *See Polar Bear v. Prod., Inc. v. Timex Corp.*, 384 F.3d 700, 708-10 (9th Cir. 2004) (affirming hypothetical license damages but reversing lost profit damages). The evidence used to prove these measures of damages is also distinct. "Sales expectations at the time when infringement begins" go to hypothetical license value, *Interactive Pictures Corp. v. Infinite Pictures, Inc.*, 274 F. 3d 1371, 1385 (Fed. Cir. 2001), while "after-the-fact counting of actual sales" do not go to hypothetical license, *id.*; they go to lost profits. *See Polar Bear*, 384 F.3d at 709-10.

The evidence at issue on this motion is of the first sort. By contrast, the sanctions order—as entered by Judge Laporte and adopted by this Court—precludes only evidence of the second sort: evidence that Oracle's "lost profits damages include" three categories of "alleged lost profits." Dkt. 482 at 26:16-20 (Magistrate Judge Laporte's sanction order). As detailed below, the preclusion only of lost profits damages was deliberate and at SAP's request: SAP said its sanction motion was "limited to . . . lost profits" and its motion "does not extend to . . . [Oracle's] hypothetical license theory" Dkt. 342 (Sanction Motion) at 13 n. 9), SAP's notice of motion sought only the preclusion of lost profits damages that was ultimately entered, and Judge Laporte found discovery misconduct only with respect to lost profits theories and evidence of lost profits. This Court's orders overruling Oracle's objection to the sanction order and granting SAP's motion *in limine* pursuant to the sanction order both maintained the limitation that "lost profits" evidence was precluded.

In the November 8 hearing, SAP incorrectly asserted that the sanction order precluded evidence of "opportunities" for cross-sell and up-sell evidence. Accepting SAP's representation, the Court ruled that Oracle's evidence of projections was "close enough" to "opportunities" and so precluded. Declaration of Kyle Zipes in Support of Oracle's Motion for Leave to File Motion for Reconsideration Regarding Up-Sell and Cross-Sell Projections ("Zipes Decl.") ¶ 4, Ex. A (Trial Tr. at 826:14-21).

That ruling misconstrued the preclusion order, which precluded only evidence of "lost profits damages" Dkt. 482 at 26:16-20. No other sanction was sought or imposed. Because the evidence at issue here is not evidence of lost profits damages, it falls squarely outside the sanction order.

This issue warrants a closer look than the Court was able to give during a busy trial. Indeed, given the Court's eventual ruling that Oracle offered insufficient objective evidence of fair market value, and given that this evidence would have further supported the jury's finding, the harm from exclusion actually far exceeds even the $500,000,000. The Court should grant leave to move for reconsideration.

II. FACTS

A. The Evidence At Issue.

Oracle detailed the evidence at issue in this motion in its Offer Of Proof Regarding Oracle's Up-Sell And Cross-Sell Expectations And Impact On Damages Analysis, filed during trial. The full Offer of Proof can be found as Docket 989 (filed 11/15/10). We only summarize it here.

1. *Documents*. If permitted, Oracle's President, Safra Catz, and its damages expert, Paul Meyer, would explain the information relating to expected customer license transaction projections contained in Plaintiffs' Trial Exhibit 615, admitted into evidence for Oracle's maintenance revenue projections in connection with the PeopleSoft acquisition, other

exhibits related to Oracle's contemporaneous going-forward expectations for its PeopleSoft and Siebel acquisitions admitted into evidence in the first trial (collectively, the "Valuation Exhibits"). *See, e.g.*, Dkt. 1058-37 (Chin Decl. Ex. JJ) (excerpt of Pls. Trial Ex. 615); Dkt. 989 Ex. A. Oracle would also introduce other documents produced in the case and referenced in the Expert Report of Mr. Paul K. Meyer (dated 2/23/10).

2. *Testimony Concerning Oracle's Projections of Up-Sell and Cross-Sell Revenue and Effect on Oracle's Demanded Price For Hypothetical License*. If permitted, Ms. Catz would explain Oracle's contemporaneous up-sell and cross-sell revenue projections for PeopleSoft found in the Valuation Exhibits and other contemporaneous Oracle and third party documents, including the bases for those projections; that those projections factored into Oracle's valuation of the PeopleSoft acquisition in December 2004; and that Oracle's projections, accounting valuations and related financial information would have been important factors in assessing the fair market value of a license for Oracle's acquired PeopleSoft intellectual property in January 2005, the time of the hypothetical license negotiation with SAP.[1] Ms. Catz would testify that in 2004 Oracle projected well over $1 billion in profit from up-sell and cross-sell of PeopleSoft software in its fiscal years 2005 through 2008, as demonstrated by Plaintiffs' Trial Exhibit 615. *See, e.g.*, Dkt. 1058-37 (Chin Decl. Ex. JJ) (excerpt of Pls. Trial Ex. 615). In addition, if permitted, Ms. Catz would testify that, because of the expected impact on Oracle's ability to sell additional licenses and products to the acquired PeopleSoft customer base, Oracle would have demanded at least an additional $1 billion in compensation from SAP for the right to use PeopleSoft intellectual property, for which Oracle had just paid for exclusive use in its $11.1 billion acquisition.

Ms. Catz would give generally similar testimony respecting Siebel intellectual property, which Oracle acquired in September 2006. Ms. Catz also would testify that Oracle's

---

[1] Ms. Catz would also testify that she and Mr. Ellison based the going-forward assumptions in these projections on their expectations at the time. They derived those expectations from their considerable experience in the industry—*not* on any actual PeopleSoft documentation other than what may have been publicly available—because the tender offer was unsolicited ("hostile") and PeopleSoft would not cooperate in sharing internal information relevant to the projections.

contemporaneous cross-sell and up-sell expectations would have required payment by SAP of far more than one hundred million dollars.

3. Expert Testimony On Hypothetical License Damages. At trial, with Oracle's up-sell and cross-sell projections excluded from his testimony, Mr. Meyer used the hypothetical license negotiation method to value Oracle's future maintenance revenue stream. In determining this value he disregarded expected additional license sales or maintenance revenue associated with additional licenses (up-sell and cross-sell revenue). On this basis he opined that the fair market values of licenses to the infringed PeopleSoft and Siebel software were at least $1.5 billion and $100 million, respectively.

If permitted, Mr. Meyer would testify that Oracle's contemporaneous projections of customer license transactions for PeopleSoft, from December 2004, represent ***at least $500 million in additional value*** that Oracle and SAP would have reasonably agreed to in fair market value PeopleSoft and Siebel license negotiations. He would state that these projections are key evidence of the state of mind and reasonable goals and expectations of Oracle at the time, and that Oracle would have required compensation from SAP for Oracle's up-sell and cross-sell expectations that would have gone unfulfilled if Oracle gave a license to SAP to use PeopleSoft (or Siebel) intellectual property to compete for this same projected revenue. As detailed in the Offer of Proof, Mr. Meyer would further testify to two other hypothetical license valuation methodologies that produced similar results.

4. *Timeliness of Production.* SAP has never disputed that Oracle timely disclosed its hypothetical license theory and this specific evidence supporting it. SAP's expert, Mr. Stephan K. Clarke, admitted that he had been working to respond to Oracle's fair market value license damages approach since his retention in December 2007. Dkt. 465 (Clarke Decl.) ¶¶ 3-5, 8, 28. Clarke swore that since being retained in December 2007, he had spent over 18 months "focused on the analysis of Plaintiffs' alleged lost profits, SAP's alleged unjust enrichment, and *reasonable royalty*"; and that he had already accrued some $4.4 million in fees and costs doing so. *See* Dkt. 465 (Clarke Decl.) at 1:15-18 (emphasis supplied); *id.* at 11:10-12. He acknowledged Oracle had disclosed its "reasonable royalties" damages theory as one of its

"original claims." *Id.* at 1:26, 2:5-6.

Oracle produced the Valuation Exhibits on February 6, 2009, before Defendants' depositions of Oracle's key executives knowledgeable about the projections reflected in them. Zipes Decl. ¶ 2. SAP deposed Ms. Catz on March 27, 2009; Oracle President Charles Phillips on April 17, 2009; and Oracle CEO Larry Ellison on May 5, 2009. Zipes Decl. ¶ 3.

B. The Sanctions Orders.

The Court excluded the evidence on November 8, 2010, pursuant to Magistrate Judge Laporte's Rule 37 sanction previously entered. As detailed below, however, that sanction was deliberately limited to evidence of "lost profits damages" and deliberately did *not preclude* evidence supporting Oracle's "hypothetical license theory." Because the evidence whose admission is sought here would not be used to show lost profits and rather supports Oracle's hypothetical license theory, it falls outside the sanction.

We discuss the original sanction order, this Court's subsequent orders concerning sanctions, then the November 8 ruling.

1. Judge Laporte's Sanction Order.

As the Court originally recognized at the November 8 hearing, "Judge Laporte's order doesn't address it [the projection evidence at issue here]." Zipes Decl. ¶ 4, Ex. A. (Trial Tr. at 817:15-818:3). SAP sought only to preclude lost profits damages. Its notice of motion sought to preclude "any *claim that Oracle's lost profits damages* include" those same three categories of "alleged *lost profits*." Dkt. 342 at 1:12-16 (emphasis supplied). SAP confirmed in the motion itself that its motion was "*limited to* what Oracle characterizes as its *lost profits* claims, and *does not extend to . . . its hypothetical license theory*." Dkt. 342 (Sanction Motion) at 13 n. 9. SAP confirmed again on reply, and still again at the hearing, that the sanctions motion "relates only to portions of *one measure of alleged damage*" and "*we're not asking* to preclude Oracle from *any other damage theory*." Dkt. 399 (Sanctions Reply) at 1:3-5, 6:3-5; Dkt. 426 (8/18/09 Disc. Hr'g Tr. at 61:9-10) (emphases supplied).

Further, limiting the sanction to lost profits followed directly from what SAP claimed that Oracle had done wrong. SAP's motion for sanctions asserted that Oracle had not disclosed two categories of *lost profits* damages: Oracle's reduced profits from relationships with customers who did not leave Oracle (*e.g.* having to provide price discounts because of the illegal competition from TN and abandonment of pre-existing PeopleSoft price escalations), and actual lost license revenue. Dkt. 342 at 10-13 (identifying supposedly late-produced evidence), 16-17 (arguing that Oracle knew of these categories long before it produced the evidence), 21-23 (arguing that SAP's experts would need too much time to analyze Oracle's claims that it was damaged by early adoption of customer-retention policies, abandonment of price escalation, pricing discounts for non-TN customers, and lost license revenue from sales it would have made absent the infringement). Neither of these supposed deficiencies concerned hypothetical license damages or Oracle's projections of up-sell or cross-sell revenue.

Just as SAP's requested sanction and proffered basis were limited to lost profits, Judge Laporte's findings of what Oracle supposedly did wrong expressly related only to lost profits. Judge Laporte repeatedly explained that Oracle's discovery misconduct was that Oracle had long claimed "lost profits damages" related only to customers Oracle lost to TomorrowNow, so it would not be fair to let Oracle recover other "lost profits damages" now:

- "As described in detail below, from the inception of this case . . . *Plaintiffs have limited their lost profits damages* to lost support revenue for Oracle software application products from Plaintiffs' 358 former customers that had received support from Plaintiffs, but switched to receiving support for Oracle products from TomorrowNow. It was not until Plaintiffs' recent supplemental disclosures, in May 2009 . . . that Plaintiffs first expressly stated that they were seeking *other, additional lost profits damages* based on lost up-sell and cross-sell licensing opportunities for new and different Oracle products to both existing and potential customers, and on pricing discounts given to existing customers due to competition from TomorrowNow." Dkt. 482 at 3:18-27 (emphasis supplied).

- "Plaintiffs did not timely indicate that their *lost profits* damages claim extended beyond support revenue for customers lost to TomorrowNow. That failure was not substantially justified or harmless, as further described below." Dkt. 482 at 14:17-19 (emphasis supplied).

- "In conclusion . . . the Court concludes that Plaintiffs' discovery responses failed without substantial justification for over two years to inform Defendants that Plaintiffs were seeking *lost profit damages* relating to non-TomorrowNow customers and to revenue from sources other than support in violation of Rule 37." Dkt. 482 at 25:28-26:4.

Judge Laporte did *not* find that Oracle had failed to disclose its hypothetical license theory, limited its hypothetical license theory, or failed to disclose the projections at issue here. Nor could she have. Oracle timely produced its projections of future sales to customers, including Plaintiffs' Exhibit 615, in February 2009, and timely disclosed its hypothetical license theory at the start of the case. Pp. 5-6 above.

Just as SAP requested only to preclude lost profits evidence and Judge Laporte found discovery misconduct only with respect to lost profits evidence, Judge Laporte's sanction order is limited to lost profits evidence. It precludes evidence of "lost profits damages," only:

> Plaintiffs are precluded from presenting evidence at a hearing or at trial that their *lost profits* damages include: (1) alleged *lost profits* relating to customers that did not become customers of TomorrowNow; (2) alleged *lost profits* relating to licensing revenue, as opposed to support revenue; and (3) alleged *lost profits* relating to products that were not supported by TomorrowNow.

Dkt. 482 at 26:16-20 (emphasis supplied).

2. The Court's Order Overruling Oracle's Objection to the Sanction Order.

Oracle asked this Court to reverse the sanction in part. Dkt. 499 at 16:5-10. Oracle did *not* ask for relief respecting hypothetical license damages, since the sanction did not cover them. Dkt. 499 at 1 n.1.

This Court's order left the limitation to "lost profits damages" intact. The Order "clarifie[d] that the *precluded evidence* will NOT be admitted through the back door in order that Oracle's witnesses can testify to all impacts they perceived from Defendants' unlawful activities." Dkt. 532 at 1:25-27 (emphasis supplied). The order did not change *what* evidence was precluded. The scope of preclusion remained defined by Judge Laporte's order, precluding only "evidence . . . that [Oracle's] lost profits damages include" three categories. Dkt. 482 at 26:16-20. The Court later confirmed, at the November 8 hearing, that this order did not expand the preclusion sanction to cover Oracle's projection evidence. "No order that I've issued addresses this . . . . It is not barred by the prior discovery order. It couldn't conceivably be barred when I didn't even know it was an issue at the time that I adopted the sanctions order."

Zipes Decl. ¶ 4, Ex. A (Trial Tr. at 817:15-20).

3. SAP's Motion *In Limine* No. 2.

Before the first trial, SAP moved *in limine* to exclude evidence based on the sanction. Dkt. 728 (Defs.' Mot. *in Limine* No. 2). The Court granted the motion, again limiting the exclusion to "lost profits":

> Defendants' Motion in Limine No. 2 to exclude evidence of *lost profits* (as part of or support for its fair market value license claim for damages) is GRANTED. The record in this case makes clear that, as with evidence of "good will," Oracle made no adequate disclosure and SAP had no opportunity to take discovery, regarding *lost profits* in the form of lost software license sales (lost "cross-sell" and "up-sell" opportunities) or lost license revenue.

Dkt. 914 at 2:21-26 (emphasis supplied). The Court reaffirmed at the November 8 hearing that this order did not preclude the projection evidence: "When I ruled that the lost revenue from upsell and cross-sell could not be used to support a hypothetical license, that was based upon post-January 2005 sales" and "the former ruling does not keep it out[.]" Zipes Decl. ¶ 4, Ex. A (Trial Tr. at 818:9-18).

4. SAP's Motion to Enforce.

In the middle of trial, SAP filed a purported Motion to Enforce the sanction order and ruling *in limine*. SAP's motion sought to preclude, among other things, a "calculation of damages that directly or indirectly is founded on the impact of Defendants' actions on Oracle's . . . upsell and cross-sell opportunities." Dkt. 975. The Court granted the motion. That is the ruling that Oracle seekS leave to ask the Court to reconsider.

As the Court recognized, the existing sanction indisputably did not preclude this evidence. "Judge Laporte's order doesn't address it. No order that I've issued addresses this . . . It is not barred by the prior discovery order." Zipes Decl. ¶ 4, Ex. A (Trial Tr. at 817:15-20). The Court was absolutely right. Judge Laporte's order clearly states what it precludes: evidence of "lost profits damages," only. Dkt. 482 at 26:16-20; pp. 6-7 above. This Court maintained that sanction when Oracle objected to it. In ruling on SAP's motion *in limine*, this Court again excluded only "lost profits" evidence. Dkt. 914 at 2:21-26.

The Court did not expand the sanction. Since the existing sanction order did not preclude the evidence, the Court pointed out, "the only question here is whether or not it [the projection evidence] was produced in discovery. And to the extent that it wasn't produced in discovery, the difficulty for SAP at this point is that you didn't raise the motion." Zipes Decl. ¶ 4, Ex. A (Trial Tr. at 817:22-818:1). The answer to that "only question" was that the evidence was timely produced. Pp. 5-6 above. SAP did not contend otherwise. It admitted that "we had some projection documents" (Zipes Decl. ¶ 4, Ex. A (Trial Tr. at 823:20-21)) and did not question the timeliness of Oracle's production of those documents or any of the evidence at issue here. There was just no basis to sanction Oracle for discovery misconduct with respect to the projection documents here at issue, and the Court did not do so. The Court gave no indication that it intended to expand the sanction.

But having established that the sanction did not cover this evidence, the Court was persuaded otherwise at the last minute by SAP's inaccurate description of the sanction order. SAP's moving papers claimed that the sanction "precluded sales include cross-sell and up-sell opportunities for new and different Oracle products to both existing and potential customers." Dkt. 975 at 2:18-20. SAP asserted that the Court's ruling on SAP's Motion *In Limine* No.2 "rejected Plaintiffs' attempt to use evidence of lost cross-sell or up-sell opportunities for any purpose, including for fair market value license damages." Dkt. 975 at 4:1-2, 4:23-25. At argument, SAP repeated its "opportunity" fallacy. Judge Laporte, it claimed, had precluded "lost upsell and cross-sell opportunities," projections counted as "opportunity" evidence, so the Court should exclude them:

> Mr. McDonnell [SAP counsel]: Your Honor, let's come back to what's been precluded. *Judge Laporte precluded them from pursuing claims for lost upsell and cross-sell opportunities. Opportunities.* A projection of what they think they're going to get in cross-sell and upsell is nothing more than a projection of that *opportunity*. It's an embodiment of that *opportunity* . . . .

That "opportunity" argument was the tipping point:

> The Court: Right, right. Well, I think you've both made good arguments. It clearly wasn't contemplated by the court at the time of the pretrial ruling. But I'm persuaded by the defense position. I

> think it's close enough – *opportunity is close enough*. I'm going to reaffirm the ruling. Upsell, cross-sell, which I have denied all along, continues to be denied.

Zipes Decl. ¶ 4, Ex. A (Trial Tr. at 826:2-21) (emphasis supplied).

With respect, that was error. Neither Judge Laporte nor this Court precluded "lost upsell and cross-sell opportunities."[2] Judge Laporte's and this Court's orders unambiguously precluded only "lost profits" damages. Pp. 6-8 above. The projections at issue here are not lost profits evidence, by definition. They represent future projections used to value the PeopleSoft deal, not reflections of actual profit opportunities lost. Oracle would use these projections as objective evidence of the parties' expectations in a *hypothetical license* negotiation. Pp. 3-6 above. SAP's motion for sanctions never sought a sanction that included this evidence of damages relating to Oracle's "hypothetical license theory," (Dkt. 342 at 13 n. 9), SAP provided no basis to preclude them, and Judge Laporte did not preclude them. Rather, SAP made, and Judge Laporte (and this Court) relied on, express representations to the contrary.

Further, while SAP argued that its defense of the hypothetical license damages was impaired by the discovery misconduct Judge Laporte found, its conclusory argument was wrong and the Court easily rejected it. SAP claimed that because it did not have complete "actual up-sell and cross-sell experience for the periods both before and after Oracle acquired PeopleSoft," SAP's expert could not "analyze[] and test[] the data and reach [] his own conclusions about the value of those opportunities and how that information should be treated in the hypothetical negotiation." Dkt. 975 at 4:4-12. The Court pointed out two indisputable problems with SAP's argument. First, if there was a "discovery issue" – there wasn't – it "should have been resolved before trial." Zipes Decl. ¶ 4, Ex. A (Trial Tr. at 825:1-7). SAP knew from the start of the case that Oracle sought hypothetical license damages. P. 5 above. It

---

[2] Judge Laporte's 26-page decision used the word "opportunity" only three times, using the term twice in the express context of "profits lost" and "lost profits," *id.* at 1:22-23 ("profits lost . . . from lost licensing opportunities"), *id.* at 3:24-25 ("lost profits damages based on lost up-sell and cross-sell licensing opportunities"), and the third time in quoting Oracle expert Mr. Meyer's description of his lost profits work that was underway. *Id.* at 20:22-25. This Court initially correctly held as much in stating that "Judge Laporte's order doesn't address" this issue and "[i]t is not barred by the prior discovery order." Zipes Decl. ¶ 4, Ex. A (Trial Tr. at 817:15-20).

received the projections at issue here in February 2009, over a year and a half before trial. P. 6 above. It deposed Oracle's senior executives responsible for these projections in March through May 2009. P. 6 above. In September 2009 it received Meyer's expert report specifically relying on these projections as a basis for hypothetical license damages. Dkt. 989, Ex. A, (Offer of Proof) at 20-21. If SAP thought it did not have the evidence needed to test these projections or Meyer's opinion, it had over a year before trial to seek the actual sales data or make a sanction motion addressing hypothetical license damages. It did not. Second, SAP's prejudice argument was unproved. As the Court recognized, the oral argument provided no way to determine what had been asked for or produced. Zipes Decl. ¶ 4, Ex. A (Trial Tr. at 820; 824-825). SAP did not identify or provide evidence of (1) actual sales figures that it did not receive, or (2) how any unproduced sales figures, whatever they were, related to Oracle's projections. To the contrary, Oracle offered to prove that the projected up-sell and cross-sell revenues were based on public information, such as Form 10Ks filed with the Securities and Exchange Commission. Zipes Decl. ¶ 4, Ex. A (Trial Tr. at 821:7-11) ("[I]t was a hostile take-over. there was no other information other than 10k's and publicly available information . . . [W]hen we present this, we will lay that foundation to show that it's publicly available information."). SAP had access to that same public information.

Further, despite having over a year to do so, SAP did not follow the procedure required by this Court's orders to seek a sanction affecting hypothetical license damages. *See* Dkt. 79 [referring discovery disputes to Judge Laporte), Dkt. 83 at 2:10-12 ("Motions for sanctions shall be filed by separate motion in accordance with the Federal Rule of Civil Procedure 37 and Civil L.R. 37-3. The parties shall comply with their meet and confer obligations pursuant to Civil L.R. 37-1(a).") SAP made no motion before Judge Laporte seeking sanctions affecting hypothetical license damages. It chose not to do so; in fact, it expressly disclaimed any intent or effort to do so months *after* receiving the projections and deposing the executives. Dkt. 342 at 13 n.9 (sanctions motion filed July 2009; SAP received projections in February 2009 and deposed executives in March through May 2009). Had it opted to pursue that separate sanction, it would have been required to prove its assertions with evidence. Judge

Laporte might have found that SAP was not prejudiced (given its expert's testimony), that any minimal prejudice did not warrant precluding the hypothetical license damages, that a lesser sanction should be imposed, and/or that SAP was judicially estopped from seeking to preclude hypo license damages after obtaining the first sanction by contending the opposite.

Further, SAP's prejudice theory was wrong on the merits. Because the evidence and the theory for which this evidence would be used is distinct from the lost profits evidence precluded as a sanction, SAP could not simply lump them together years later in a conflated "prejudice" argument: "[A]fter-the-fact counting of actual sales" has nothing to do with hypothetical license damages. *Interactive Pictures*, 274 F. 3d at 1385. Expected sales are a proper basis for hypothetical license damages *even if* they far surpass actual sales. *See Snellman v. Ricoh Co., Ltd.*, 862 F.2d 283, 289-90 (Fed. Cir. 1988). SAP also could not use actual sales figures to argue that Oracle did not really believe its projections. Oracle made the projections at the time based on its own experience and publicly available information about PeopleSoft's business, for its own business use (not for litigation), after extensive study. It then spent $11 billion in reliance on them. Pp. 4-5 above.

In sum, the existing sanction did not cover the projection evidence, the Court did not expand the sanction to cover it or make any findings that would justify such an expansion, SAP prejudiced Oracle by raising the argument late, and without dispute Oracle timely produced the evidence. We respectfully submit that excluding the evidence is error. The Court can avert that error in the new trial. Oracle submits that it should do so, particularly given the Court's post-trial ruling that Oracle had submitted insufficient evidence in support of the hypothetical license damages verdict.

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 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 . . . ." However, prior to noticing a motion for reconsideration, the party must first "obtain[] leave of Court to file the motion" pursuant to Civil L.R. 7-9 and 7-9(b).

In the motion for leave to file, the moving party must show (among other alternative grounds) 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). That standard is met here. SAP's mistaken characterization of the sanction order led the Court to fail to consider that (1) the order covers only lost profit evidence, (2) projection evidence is not lost profit evidence, and (3) there is no other basis to exclude the projection evidence as a sanction.

B. The Court Should Grant Leave and Reconsider Its Ruling Excluding Evidence of Oracle's Contemporaneous Projections of Up-Sell and Cross-Sell Revenue.

1. The Court May Allow Evidence at the New Trial that was Not Introduced in the Original Trial.

A court's authority to allow additional evidence in a new trial is well established. 11 Charles Alan Wright, Arthur R. Miller & Mary Kay Kane, *Federal Practice And Procedure* § 2803, at 50 (2d ed. 1995). The cases agree. "Courts have 'broad discretion' in their control and management of a new trial. Courts exercise that discretion in deciding whether to allow additional witnesses and relevant proof in the new trial." *CGB Occupational Therapy, Inc. v. RHA Health Servs., Inc.*, 499 F.3d 184, 188 n.2 (3rd Cir. 2007); *Cleveland By and Through Cleveland v. Piper Aircraft Corp.*, 985 F.2d 1438, 1450 (10th Cir. 1993) ("if the trial court perceives in limiting evidentiary proof in a new trial, a manifest injustice, to one side or the other, the court must retain broad latitude and may with proper notice allow additional witnesses and relevant proof"); *S. Union Co. v. Irvin*, 563 F.3d 788, 791 (9th Cir. 2008) (discussing "possibility that additional evidence might be submitted at a new trial"); *F.B.T. Prods. v. Aftermath Records*, 2011 WL 5174766, *6 (C.D. Cal. Oct. 31, 2011) ("A district court judge's discretion extends to whether to allow additional evidence.").

As detailed below, the Court erroneously excluded evidence of $500 millions in damages from the first trial. It should allow that evidence in the new trial.

2. The Conflation of Projections and Actual Losses was Legal Error.

The Court ultimately was "persuaded by the defense position" that Judge Laporte's exclusion of evidence of up-sell and cross-sell "opportunities" extended to up-sell and cross-sell *projections*, even if they were contemporaneous and even if Oracle had timely produced all evidence of them, ruling "I think it's close enough – I think opportunity is close enough. I'm going to reaffirm the ruling. Upsell, cross-sell, which I have denied all along, continues to be denied." Zipes Decl. ¶ 4, Ex. A (Trial Tr. at 826:14-21). That ruling, and the argument that induced it, were erroneous. Evidence of Oracle's up-sell and cross-sell projections was not "denied all along," and was not "close enough," or close at all, to the lost profits evidence that was precluded.

First, the sanction order is clear; Oracle's up-sell and cross-sell projections fall outside it. The Order specifies that "Plaintiffs are precluded from presenting evidence . . . that their *lost profits* damages include" three categories of "alleged *lost profits*." Dkt. 482 at 26:16-20 (emphasis supplied). These projections are not evidence that Oracle's lost profits damages include anything. They are evidence of Oracle's contemporaneous, objective, expectations that would have informed the hypothetical license value. Pp. 3-6 above.

Second, that limit was deliberate. Knowing of the projections at issue here and having deposed the executives who authored them, SAP expressly, repeatedly represented that its sanctions motion was "limited" to lost profits damages and did "*not extend to . . . [Oracle's] hypothetical license theory* . . . ." Dkt. 464 (Defs.' Sanctions Mot.) at 13 n.9 (emphasis supplied). SAP confirmed on reply, and at the hearing, that the sanctions motion "relates only to portions of one measure of alleged damage;" that "*we're not asking* to preclude Oracle from any other damage theory;" and that, if granted, the motion "*will still leave Oracle with . . . its other alleged damages claims*." Dkt. 399 (08/04/09 Defs.' Sanctions Reply) at 1:3-5; 6:3-5; Dkt. 426 (8/18/09 Disc. Hr'g Tr. at 61:9-10) (emphasis supplied); *see also* Dkt. 526 (10/29/09 Defs.' Resp. to Objs. to Sanctions Order) at 4:20-23 (describing all precluded evidence as "lost profits" evidence). Judge Laporte found inadequate discovery only with respect to Oracle's lost profits theory and evidence. SAP did not claim or prove any discovery failure concerning hypothetical license damages or these projections.

Third, having made those representations resulting in that sanction order, SAP was and is judicially estopped from trying to apply the sanction to hypothetical license evidence.

> Judicial estoppel is an equitable doctrine invoked by a court at its discretion. In determining whether to apply the doctrine, we typically consider (1) whether a party's later position is "clearly inconsistent" with its original position; (2) whether the party has successfully persuaded the court of the earlier position; and (3) whether allowing the inconsistent position would allow the party to "derive an unfair advantage or impose an unfair detriment on the opposing party."

United States v. Ibrahim, 522 F.3d 1003, 1009 (9th Cir.2008) (quoting *New Hampshire v. Maine,* 532 U.S. 742, 750–51 (2001)) (internal citations and quotation marks omitted); *Hamilton v. State Farm Fire & Cas. Co.*, 270 F.3d 778, 782-83 (9th Cir.2001).

All three elements are met here. SAP's argument that the sanction should apply to hypothetical license damages contradicted its representation to Judge Laporte that its motion was limited to lost profits and did not extend to hypothetical license damages. Further, SAP successfully persuaded Judge Laporte of that earlier position. In granting the sanction Judge Laporte repeatedly observed that SAP "only seek[s] to preclude a portion of Plaintiffs' lost profits damages," "seek[s] to preclude Plaintiffs from introducing evidence of damages due to [specified] lost profits," and the like. Dkt. 482 at 1:17-23, 7:21-22, 8:15-16. Finally, allowing the inconsistent position would unfairly reward SAP and severely prejudice Oracle. SAP's change of position caused the Court to bypass the Rule 37 motion procedure needed to assure that the need for discovery sanctions is proved and the sanction imposed is just. After receiving these projections and Meyer's hypothetical license opinion based on them, SAP had well over a year to ask Judge Laporte to preclude hypothetical license damages based on the projections. P. 12 above. In that motion it would have had to prove that it did not receive actual sales figures and the prejudice to its hypothetical license damages case, and would have had to prove that preclusion of hypothetical license damages (rather than some lesser sanction, such as an instruction that SAP had not been able to test the projections with actual sales) was the just result. *See* Fed. R. Civ. Proc. 37; pp. 18 below. It avoided all of that but still knocked out a huge component of Oracle's damages without proof that Oracle did anything wrong with respect to those damages or that preclusion was the just result.

Fourth, SAP's characterizations of "what was precluded" by Judge Laporte's sanctions Order was wrong and may have contributed to the Court excluding important evidence related to the hypothetical license measure of damages that should be admitted on retrial. Contrary to SAP's assertions, the sanctions Order did *not* preclude evidence of "opportunities" or "cross-sell or up-sell opportunities." It carefully and clearly was limited to the measure of lost profits: "Plaintiffs are precluded from presenting evidence . . . that their lost profits damages include . . . alleged lost profits relating to license revenues." *See* Dkt. 482 (09/17/09 Sanctions Order) at 3:24-25; Zipes Decl. ¶ 4, Ex. A (Trial Tr. at 826:2-7).

"Lost profits" cannot reasonably mean "hypothetical license." Moreover, as the Court had recognized minutes before, "lost profits damages based on lost up-sell and cross-sell licensing opportunities" – Judge Laporte's term – or "lost revenue from up-sell and cross-sell . . . based upon post-January 2005 sales" – the Court's term – are legally, temporally, and analytically distinct from "a projection of that opportunity" – SAP's term. *See* Zipes Decl. ¶ 4, Ex. A (Trial Tr. at 818:6-18). In any event, SAP's later reference to "opportunity" literally had no basis: Judge Laporte made no ruling on evidence of "opportunity" and to the extent she mentioned it at all, she did so expressly in the context of "lost profits" – resulting from a lost opportunity to make a sale – just as SAP had argued to her. *See* Dkt. 482 (09/17/09 Sanctions Order) at 1:22-23, 3:24-25, 20:22-25; Dkt. 426 (8/18/09 Disc. Hr'g Tr. at 61:1-10).

Indeed, the whole point of the hypothetical license measure of damages is that it focuses on "*sales expectations at the time* when infringement begins as a basis for a royalty base *as opposed to after-the-fact counting of actual sales.*" *Interactive Pictures Corp. v. Infinite Pictures, Inc.*, 274 F. 3d 1371, 1385 (Fed. Cir. 2001) (emphasis supplied); *Riles v. Shell Exploration & Prod.*, 298 F.3d 1302, 1313 (Fed. Cir. 2002) ("A reasonable royalty determination for purposes of making a damages evaluation must relate to the time infringement occurred, and not be an after-the-fact assessment"); *Snellman*, 862 F.2d at 289-90 (upholding damages based on infringer's expected sales that far surpassed actual sales); *accord Frank Music Corp. v. Metro-Goldwin-Mayer, Inc.*, 772 F.2d 505, 513 n.6 (9th Cir. 1985); *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1081 (9th Cir. 1983) (reasonable royalty "is to be determined not on the basis of a hindsight evaluation of what actually happened, but on the basis of what the parties to the hypothetical license negotiations would have considered at the time of the negotiation"); 2004 Model Patent Jury Instructions for the Northern District of California, Instruction 5.7 ("In considering the nature of this negotiation, the focus is on what the expectations of the patent holder and infringer would have been had they entered into an agreement at that time and acted reasonably in their negotiations."). SAP's expert Stephen Clarke agreed that "you need to look at the state of affairs that exists" at the valuation date, including what the parties "forecasted or projected was going to happen as a result of their use of the copyrighted materials" in the future. Zipes Decl. ¶ 4, Ex. A (Trial Tr. at 1679:6-1681:6). Lost profits, by contrast, look backward and count actual losses "during the period of . . . infringement." *See Polar Bear v. Prod., Inc. v. Timex Corp.*, 384 F.3d 700, 709 (9th Cir. 2004).

The sanction deliberately covers "lost profits damages," only. The projection evidence falls squarely outside it. SAP never made, let alone justified, any request to expand the sanction to preclude hypothetical license damages. The evidence cannot properly be precluded under the sanction order.

3. Failure to Make Discovery Affecting Lost Profits Cannot Justify a Sanction Precluding Hypothetical License Damages.

As a matter of constitutional due process, a sanction must be both "just" and "specifically related to the particular 'claim' which was at issue in the order to provide discovery." *Insurance Corp. of Ireland, Ltd. v. Compagnie des Bauxites de Guinee*, 456 U.S. 694, 705-07 (1982) (Rule 37 sanction establishing personal jurisdiction over defendant); *see Navallier v. Sletten*, 262 F.3d 923, 943 (9th Cir. 2001) (reversing monetary sanction for failure to provide proper notice); *GenSci OrthoBiologics v. Osteotech, Inc.*, 2001 WL 36239743, *11 (C.D. Cal.) (denying motion to exclude evidence because failure to establish prejudice raised due process concerns).

Here, neither test is satisfied. First, it is obviously not just for SAP to ask for one sanction, expressly and repeatedly disclaim another, then urge the Court to convert a ruling from the one sought to the one disclaimed. *See Compagnie des Bauxites de Guinee*, 456 U.S. at 705-07. And even if SAP had proved that it did not receive actual sales figures (which it did not prove), and that those figures would have been relevant to test Oracle's projections (also not proved), precluding a $500 million claim was not a just sanction. Oracle projected up-sell and cross-sell revenues based on public information such as Form 10Ks (p. 12 above); SAP could have obtained the sales information from those same public sources. Further, hypothetical damages depend on the parties' expectations, which would drive the parties' negotiating demands in any negotiation over a license. P. 13 above. SAP cannot seriously dispute that Oracle genuinely expected to receive the projected revenues. Oracle made the projections at the time of the acquisition before litigation was contemplated, they were the product of extensive study, and Oracle relied on them to make a multibillion-dollar business decision. Pp. 4-5 above. Especially when SAP failed to prove what sales data Oracle did not produce or how they supposedly prejudiced SAP's case, SAP's bare assertion that it needed sales data does not justify precluding a $500 million claim.

Second, a sanction precluding hypothetical license evidence is not "specifically related to the particular 'claim' which was at issue in the order to provide discovery." *Compagnie des Bauxites de Guinee*, 456 U.S. at 705-07; *accord U.S. v. Kahaluu Construction Co.*, 857 F.2d 600, 602 (9th Cir. 1988) ("the order compelling production involved only documents relating to the counterclaim; therefore any sanction for violation of the order must also relate to the counterclaim"); *Navallier v. Sletten*, 262 F.3d 923, 947 (9th Cir. 2001) (issue established as a sanction must "bear[] a reasonable relationship to the subject of the discovery that was frustrated by the sanctionable conduct"). If the sanction order were construed to reach hypothetical license damages, it would violate due process by barring decision on the merits of an issue not specifically related to the frustrated discovery. *See Brooks v. Hilton Casinos, Inc.*, 959 F.2d 757, 768 (9th Cir. 1992) (district court abused its discretion in shutting plaintiff out of all recovery as sanction for withholding information pertaining only to one aspect of damages; withholding of information did not prevent jury from assessing other aspects of damages); *Compagnie des Bauxites de Guinee*, 456 U.S. at 705-07; *Kahaluu*, 857 F.2d at 602; Wright & Miller, *Federal Practice and Procedure* § 2283 at p. 434 ("a sanction that goes beyond the issues to which the discovery was addressed . . . would seem to exceed constitutional limits.").

Similarly, it is undisputed that there was no violation of any discovery order related to Oracle's pre-acquisition projections ever alleged, proved, or found by Judge Laporte or this Court. Accordingly, exclusion of such evidence goes beyond the permissible bounds of any sanction. *See Unigard Sec. Ins. Co. v. Lakewood Engineering & Mfg. Corp.*, 982 F.2d 363, 367-68 (9th Cir. 1992) (legal error to award Rule 37 sanction where no court order had been disobeyed); *see also U.S. v. Nat'l Med. Enterprises, Inc.*, 792 F.2d 906, 912 (9th Cir. 1986) (reversible error to order Rule 37 sanction where ground for sanction was different from prior orders on which the trial court relied, so that sanctioned party had no "clear notice" of possible sanction).[3]

IV. CONCLUSION

Oracle respectfully submits that its expectations of up-sell and cross-sell revenue at the time of the hypothetical negotiations are admissible, and there is no basis to exclude them as a discovery sanction. The Court should grant leave to file a motion for reconsideration that, at the new trial, Oracle's evidence of projected up-sell and cross-sell revenue can be admitted.

---

[3] Even at trial, when specifically asked, SAP offered no "basis now for keeping [the evidence] out," and, as Oracle explained, there was none. Thus the answer to the "only question" the Court found presented – whether Oracle had timely produced the evidence in discovery – was, without dispute, yes. Accordingly, the exclusion order had no basis, as a matter of undisputed fact, so it was error as a matter of law. *See Unigard*, 982 F.2d at 367-68.

DATED: April 17, 2011

Bingham McCutchen LLP

By: /s/ Geoffrey M. Howard

Geoffrey M. Howard
Attorneys for Plaintiff Oracle International Corp.