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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.

Case No. 07-CV-01658 PJH (EDL)

DEFENDANTS' TRIAL BRIEF

PUBLIC REDACTED VERSION

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I. INTRODUCTION

This new trial is about one issue—damages measured in the form of lost and infringer's profits attributable to TomorrowNow's stipulated copyright infringement. Oracle's efforts to resurrect damages claims already struck by the Court should be rejected. So too should Oracle's improper efforts, two years after the close of the discovery period, to change its lost and infringer's profits claims from the maximum $408.7 million in damages to which it committed itself repeatedly and on which Defendants and the Court have relied for years.[1]

Oracle bears the burden to prove the profits it lost and the revenue SAP obtained because of TomorrowNow's infringement. Considered in light of the evidence about what customers actually did, and why, Oracle's lost and infringer's profits claims are overreaching. This Trial Brief summarizes the insufficiencies in Oracle's case (the case that should be tried), highlights the key evidentiary issues on which the Court likely will be asked to rule at trial, and briefly describes three proposed procedures to streamline presentation of evidence at trial.

II. FACTUAL BACKGROUND

As competitors in the market for enterprise resource planning ("ERP") software, SAP and Oracle each develop and license business software applications and offer related software maintenance and support services. Typically, Oracle licenses its software under perpetual licenses and bundled with one year of customer support that customers may renew on an annual basis. The support agreements entitle customers to software maintenance services, such as bug fixes and regulatory updates, as well as future software releases.

Customers on stable or highly customized software packages with no plans to upgrade to future software releases often elect not to renew support services. These customers find little use for support services and believe they get little, if any, value from the payment of support fees that Oracle uses in large part to fund future software releases that those customers do not want or need. But the decision to leave one ERP vendor for another is one of huge cost and business risk and is not undertaken lightly. The core question in the new trial, then, is whether customers left Oracle

[1] *See* Defs.' Opps. to Pl.'s Mots. for Clarification and Reconsideration (to be filed on May 1, 2012) and Defs.' Mot. *in Limine* No. 1 (filed concurrently with this Trial Brief).

maintenance or picked SAP software because of TomorrowNow. The answer is that some did, but that Oracle is greatly exaggerating the extent of TomorrowNow' impact.

In fact, both support services and software customers were driven to leave before Oracle bought the software at issue. Shortly after PeopleSoft, Inc. ("PeopleSoft") announced its merger with J.D. Edwards ("JDE"), combining to make PeopleSoft the world's second largest ERP-software company, Oracle launched a hostile takeover bid for PeopleSoft. During the battle that followed, which included a lawsuit by the Department of Justice, Oracle threatened to lay off thousands of PeopleSoft employees, discontinue PeopleSoft's product lines, and force customers to replace PeopleSoft information technology systems with an undefined future software package known as "Fusion." PeopleSoft complained that these threats were damaging its customer relationships, deterring customers from purchasing PeopleSoft products, and generally driving customers away. As a result, customers, especially those that were at a stage in the life-cycle of their software where they needed to decide their future product direction, had good reasons to consider alternatives, including SAP. Oracle recognized this at the time, noting that its acquisition model "always assumed there would be some attrition." A-4089.

SAP competed with PeopleSoft before the acquisition, including through its "Safe Harbor" marketing program, which offered discounts to customers that chose to replace their PeopleSoft products with SAP products. Anticipating the consummation of Oracle's takeover of PeopleSoft, SAP introduced a modified program known as "Safe Passage," designed to welcome customers interested in leaving Oracle and converting to the SAP software platform. The Safe Passage program was essentially a price discount. First and foremost, Safe Passage gave PeopleSoft customers a credit of up to 75% of the price the customer had paid for its PeopleSoft software. SAP also offered an optional component, support services for customers' PeopleSoft applications delivered by its newly acquired subsidiary, TomorrowNow.

TomorrowNow was a small company based in Bryan, Texas that had been in business since 2002. TomorrowNow provided customer support services for users of PeopleSoft software that were weary of paying high support fees to PeopleSoft. The market for so-called "third party support" steadily grew and now has established players and a multitude of emerging companies.

This is because some customers do not see enough value in paying for support from their software vendor. Oracle's customers typically pay annual support fees of approximately 20% the original software purchase price. Customers recognize that Oracle uses a large portion of the support and maintenance fees received from customers to fund future software development, as opposed to providing support. Thus, customers content with their IT systems and not interested in future software upgrades have difficulty justifying paying for services that they are not using. As Pepsi Americas' representative explained, even had TomorrowNow never existed, customers "would have found a different way" rather than staying on Oracle support. Kreul Tr. at 149:22-150:5. This "different way" could be through self-service options or third party support providers.

Oracle bristles at the notion that customers may wish to lower their support payments. A senior Oracle executive wrote:

> Let the bastards dream of reducing their maintenance fees. I just finished telling Toyota that we're not going to reduce their bill. Not only that, but they need to buy more software from us!

A-0373. That attitude contributes to customers leaving Oracle's support.

Although the evidence will show that SAP's marketing team positioned TomorrowNow as a part of the Safe Passage offer, it was an untested market concept, and no one knew really whether or to what extent the TomorrowNow component would be effective in persuading customers to leave Oracle for SAP. Despite the high hopes of some members of SAP's marketing team, TomorrowNow suffered losses of over $90 million and generated only 358 customers, the vast majority of which were "maintenance-only" customers, *i.e.*, TomorrowNow provided support, and those customers did not replace their Oracle software with SAP products.

These "maintenance-only" customers had no interest in purchasing new software, whether from Oracle, SAP, or others. They were simply looking to lower their support fees on their existing systems. In contrast to Oracle's current litigation posturing, its senior executives bid good riddance to such customers, which they dismissed as "unprofitable laggards":

> If TomorrowNow (SAP) is going to win a bunch of maintenance-only customers with no plans to upgrade for 5 years . . . then I don't think TomorrowNow will be too long for this world as SAP won't make profitable money on these customers if they can't get them to implement SAP.

A-0367.

Actual experience proves that the TomorrowNow offer had virtually no impact on driving sales of SAP products and services that SAP would not otherwise have made. Of the 14,000 PeopleSoft, JDE, and Siebel customers that Oracle acquired, only 358 went to TomorrowNow and only 86 ever purchased any SAP products or services after they became TomorrowNow customers.[2] Importantly, however, the TomorrowNow support did not cause the SAP purchases. Upon analysis of the 86 customers, it is clear that their SAP software purchases were driven by considerations much more important than, and unrelated to, savings on support.

Many customers decided to switch to SAP software for some or all of their ERP software needs before deciding to use TomorrowNow's services. In such cases, TomorrowNow could not have been the cause of the SAP purchase decision that had already been made, and thus none of these customers should be included in an infringer's profits calculation. For example, Amgen, a leading biopharmaceutical company, signed a contract with SAP in June 2005, yet Oracle documents and internal Amgen emails demonstrate that, as late as November 2005, Amgen was still deciding whether TomorrowNow was an appropriate support option for its legacy Oracle system during the transition to SAP.[3] Similarly, Computer Associates, one of the world's largest software companies, signed its SAP software contract in late 2004—three months *before* SAP

[2] During discovery, the parties identified 86 customers that purchased software or support from SAP at or after the time they began receiving support from TomorrowNow. This "List of 86" explicitly did not raise any inference about whether the customer's SAP purchases were related to the support services provided by TomorrowNow. Rather, it was a purely mechanical list intended to define the subset of customers for which Plaintiffs could obtain discovery, thereby preventing burdensome and unnecessary discovery into all of the approximately 800 Safe Passage customers, the vast majority of which did not purchase TomorrowNow services. The parties developed the "List of 86" as part of an extensive, Court-monitored cooperative process to identify "those customers who purchased TomorrowNow service and SAP products/support simultaneously or were existing TomorrowNow customers at the time they purchased new SAP software or service." Lanier Decl. in Support of Defs.' Mots. *In Limine*, ¶ 8, Ex. 8 (6/25/09 Email from J. McDonell to H. House); *see also id.* ¶ 9, Ex. 9 (6/26/09 Email from A. Donnelly to J. McDonell) (agreeing to processes for identifying customers for list and confirming that Oracle would not seek SAP customer discovery beyond such listed customers).

[3] Oracle's expert Meyer has now dropped Amgen from his calculation. Defendants discuss Amgen, and other customers that Meyer has just now confirmed he plans to drop, because Meyer's "drops" prove that Defendants' expert Clarke's basic approach—considering the evidence customer-by-customer—is correct. Oracle has challenged whether Clarke, or any damages expert, can engage in a customer-by-customer analysis, considering customer-specific evidence. Yet, when pressed beyond where evasion can take him (*see* ECF No. 1081 (9/1/11 Order re: JMOL) at 19), Meyer does exactly what Clarke does—drop customers from the calculation where evidence shows Oracle cannot meet its burden of proof.

acquired TomorrowNow—and only later signed up for TomorrowNow support services in May 2005. Oracle documents from that time confirm that SAP beat out Oracle for Computer Associates' business based on SAP's superior functionality, not as a result of the relatively minor cost savings available from TomorrowNow.

Like Computer Associates, numerous other customers chose SAP software after a rigorous competitive analysis, usually through a detailed request for proposal process. These customers did not switch to SAP because of TomorrowNow; rather, the evidence shows that these customers considered whether SAP's software met their larger business needs. They selected SAP because its software contained better functionality, SAP performed well in a particular industry, or the customer had positive experiences with previous SAP products. For example, Lexmark, another customer Meyer has now dropped from his infringer's profits calculation, developed a list of 300 relevant data points in selecting SAP; TomorrowNow support was not one of the data points. Similarly, when customer Haworth purchased a new ERP package, Oracle internal communications and communications with Haworth employees demonstrate that Haworth chose SAP for reasons unrelated to TomorrowNow, including because (1) it was standardizing on one platform, (2) its SAP project in Europe was more successful than previous Oracle implementations, (3) its decision-makers had past good experiences with SAP, and (4) its employees had a bad relationship with Oracle (described as a "personal vendetta" against Oracle).

Other TomorrowNow customers migrated their software systems to SAP not because of TomorrowNow but because their parent companies mandated that they switch software. These parent-mandated software sales cannot be attributed to TomorrowNow and should be excluded from the infringer's profits calculation. For instance, BASF, another customer Meyer has now dropped, acquired Engelhard in May 2006. BASF was a long-time SAP user and had a policy that all of its subsidiaries run on the company standard—SAP. BASF mandated that Engelhard switch from PeopleSoft to SAP, and Engelhard chose to use TomorrowNow support only after being required to migrate. Similarly, NewPage, an SAP user, acquired the entity Stora Enso and instructed it to switch to SAP, the company standard. Stora Enso also used TomorrowNow support while it migrated to SAP. In both cases, the parent company's policies drove the SAP

sales, not TomorrowNow.

These customer stories are not surprising, nor are they the only examples. Business customers are unwilling or unable to rip out the IT systems on which their businesses depend and replace them with new systems unless they have a compelling business or strategy reason. The notion that customers would make such a change because of discounts on support for their old software is unfounded. Here again, Oracle's senior executives recognized this fact in contemporaneous internal communications. Referring to third party support providers as "gnats," Oracle's Senior Vice President of Support Services derided the suggestion that customers would switch to SAP products because of TomorrowNow as "the silliest argument I have ever heard!" A-0374. This senior executive continued:

> "Migrating an application involves some expense; you don't just decide it overnight and the next day you spend the millions." That's right. It takes MILLIONS. The customer has to "spend the MILLIONS." And it's fraught with business disruption and RISK! How much were you going to "save" on that support bill Mr. Customer?

Id.

In stark contrast to those admissions, Oracle now portrays TomorrowNow as the ultimate Pied Piper, single-handedly capable of forcing hordes of ERP customers, who would not otherwise have done so, to replace Oracle's software with SAP. Oracle's damages claims are as overreaching as that exaggerated presentation of TomorrowNow.

III. ORACLE'S COPYRIGHT DAMAGES CLAIM IS FLAWED

A. Legal Standard

The Copyright Act allows recovery of actual damages and, to the extent not duplicative, disgorgement of infringer's profits. 17 U.S.C. § 504 (b)-(c). Actual damages are typically determined by "the profits lost due to the infringement." *Polar Bear Prods., Inc. v. Timex Corp*., 384 F.3d 700, 708 (9th Cir. 2004); *see also Mackie v. Rieser*, 296 F.3d 909, 917 (9th Cir. 2002); *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc*., 772 F.2d 505, 512 (9th Cir. 1985). General "tort principles of causation and damages" apply when analyzing compensatory damages awards for copyright infringement. *Polar Bear*, 384 F.3d at 708; *see also Harper & Row Publishers, Inc. v. Nation Enters*., 471 U.S. 539, 567 (1985); *Jarvis v. K2 Inc*., 486 F.3d 526, 533-34 (9th Cir.

2007); *Mackie*, 296 F.3d at 915. Under Section 504(b), "actual damages must be suffered 'as a result of the infringement,' and recoverable profits must be 'attributable to the infringement.'" *Polar Bear*, 384 F.3d at 708 (quoting 17 U.S.C. § 504 (b)). The plain statutory language makes clear that "a causal link between the infringement and the monetary remedy sought is a predicate to recovery of both actual damages and profits." *Id*.

The copyright holder bears the burden of proving this causal connection between the infringement and any damages sustained. *See id*. ("We take this opportunity to reaffirm the principle that a plaintiff in a § 504 (b) action must establish this causal connection."); *Jarvis*, 486 F.3d at 533-34; *Mackie*, 296 F.3d at 914-15 (citing *Data Gen. Corp. v. Grumman Sys. Support Corp*., 36 F.3d 1147, 1170 (1st Cir. 1994)). The plaintiff must show that "the infringement was the cause-in-fact of its loss by showing with reasonable probability that, but for the defendant's infringement, the plaintiff would not have suffered the loss." *Data Gen*., 36 F.3d at 1171.

For infringer's profits, a defendant's "indirect profits" are difficult to prove and are awardable only "under certain conditions" because of their "more attenuated nexus to the infringement." *Mackie*, 296 F.3d at 914. Here, the alleged indirect profits are SAP's profits from selling its own software and services, as contrasted with direct profits of TomorrowNow from the sale of support services. Courts closely scrutinize claims for indirect profits and require that "a copyright holder must establish the existence of a causal link before indirect profits damages can be recovered." *Polar Bear*, 384 F.3d at 710-11 (citing *Mackie*, 296 F.3d at 914). When infringer's profits "are only remotely or speculatively attributable to infringement," courts will "deny recovery." *Frank Music*, 772 F.2d at 517.

If and only if the plaintiff carries its initial burden to prove revenues attributable to the infringement, the burden shifts and defendant may show that the damage complained of would have occurred even had there been no copying of the copyrighted expression. *See Harper & Row*, 417 U.S. at 567. Thus, if Oracle carries its initial burden, Defendants may show that customers would have purchased SAP software and services even if the infringement had not occurred. In determining causation, the jury is entitled to consider all of the diverse factors that might bear upon customers' purchasing decisions. *See Data Gen*., 36 F.3d at 1172 n.44.

B. Oracle Cannot Meet Its Burden of Proof with Respect to Infringer's Profits

Oracle seeks (or at least, it sought) disgorgement of $236 million of SAP "profits" allegedly caused by TomorrowNow. *See* JTX6; *see also* Defs.' Mot. *in Limine* No. 1. Significantly, the claim is only for "indirect" profits made by SAP from selling its own software and services. There can be no claim for the "direct" profits of TomorrowNow from selling the infringing services because TomorrowNow made no profits.

Meyer's approach to calculating the infringer's profits claim impermissibly lumps together hundreds of millions of dollars of SAP's sales without consideration of whether those revenues were generated as a result of the copyright infringement. Although Meyer purports to have performed his own causation of damages analysis and, indeed, has adopted certain of the causation conclusions reached by Clarke, Meyer's causation analysis is woefully incomplete. Meyer has applied a blanket—and legally and factually unsupportable—assumption that causation is established if a customer was identified anywhere in SAP's documents as a participant in the Safe Passage marketing campaign. Meyer makes that assumption despite abundant evidence that customers did not choose to purchase SAP software because of TomorrowNow support services and that the important decision to select a business software platform was not driven by the chance of modest savings on interim support. Much of the evidence that contradicts Meyer's assumptions comes from Oracle's own files. As a result, Meyer's conclusion that $236 million in SAP's profits are attributable to the infringement is wrong and does not pass legal or factual muster. *See Mackie*, 296 F.3d at 913-16; *On Davis v. The Gap, Inc*., 246 F.3d 152, 161 (2d Cir. 2001); *Bouchat v. Baltimore Ravens Football Club, Inc*., 346 F.3d 514, 524 (4th Cir. 2003). As explained by Clarke, the appropriate amount of infringer's profits is $8.7 million.

C. Oracle's Lost Support Profits Claim Is Inflated and Fails to Address the Causation of Damages Requirement

Oracle seeks lost profits from support revenue it claims it would have made from TomorrowNow customers "but for" the infringement. On this issue, the parties disagree over only 47 of the 358 customers that were served by TomorrowNow before it ceased operations.

Oracle's expert includes 253 customers in the lost profits calculation, while SAP's expert includes 206. For his 253 customers, Meyer calculated lost profits as either $120.7 million or $36 million, depending on whether he cuts off the calculation upon TomorrowNow's cessation of operations in October 2008 ($36 million) or assumes that these customers would have remained with Oracle, paying its high maintenance fees, for another seven years through May 2015 ($120 million). *See* JTX6. The blanket assumption that all of these customers (even those Oracle itself labeled "unprofitable laggards") would have stayed with Oracle through 2015 is faulty for numerous reasons, as the Court has already found. ECF No. 1081 (9/1/11 Order) at 19. Among other evidence showing the fallacy of the assumption is that these customers did not return to Oracle when TomorrowNow closed its doors, showing both that the customers had no interest in Oracle and that they had suitable options other than TomorrowNow.

Oracle has the burden of proving a causal relationship between the infringement and lost profits that resulted from the infringement, *i.e.*, "but for" the infringement, Oracle would not have lost the profits. If and only if Oracle carries its initial burden does the burden shift to Defendants to show that all or some portion of the claimed lost profits were not caused by the infringement. Among other things, Defendants may show that customers would have ceased purchasing support services from Oracle even had the misconduct not occurred.

Defendants will make that showing. For example, the corporate representative for Pepsi Americas, a maintenance-only customer, testified that even if TomorrowNow had not been an option, the company "would have found a different way" to support its Oracle applications rather than renewing Oracle support. Specifically, Pepsi would have hired a small team to service its software "because it would have been significantly less." *See* Kreul Tr. at 149:22-150:11.

Meyer failed to adequately consider available customer-specific information and instead relied on baseless assumptions. In contrast, Clarke performed a comprehensive analysis of the causation issue and rendered an opinion on a customer-by-customer basis as to the reasons for and extent to which the TomorrowNow support offering was the cause of any damage to Oracle. After applying this rigorous customer-by-customer analysis, Clarke calculated these lost profits damages at less than $19.3 million.

IV. EVIDENTIARY ISSUES

Determining damages in this case requires a customer-by-customer analysis. Meyer concedes as much by reducing Oracle's damages claim in several instances when the evidence does not support including revenues or profits from that customer in Oracle's claim. This analysis is supported by a wide range of evidence, such as customer contracts, SAP and Oracle financial records, customer deposition testimony, sworn customer declarations identifying the business and economic factors at work and their resulting motives for leaving Oracle support and/or purchasing SAP software, contemporaneous customer communications, contemporaneous Oracle emails and management presentations regarding why ERP deals and support renewals were won or lost, Oracle deal-approval documents discussing customer circumstances and internal Oracle databases tracking the reasons that customers left Oracle. These contemporaneous communications and business records provide the best source to determine what was actually going on at the time a customer cancelled Oracle support or bought SAP software—the key question for the jury in determining the appropriate amount of lost and infringer's profits.

Defendants will offer a variety of evidence on which Clarke relied in forming his opinions. Oracle generally refuses to stipulate to the admission of this evidence, so the Court will be asked to decide its admissibility pursuant to Rule 104 of the Federal Rules of Evidence. This section addresses key evidentiary issues related to this evidence. Defendants present in Section V some proposals to reduce the number and streamline resolution of these issues, and explain how Oracle's conduct poses these extra burdens on the Court.

A. Party Admissions under Federal Rule of Evidence 801(d)(2)(D)

Both experts have considered Oracle's own statements about specific customers, including Oracle's admissions about the business and economic factors it perceived were motivating customer purchase decisions. Such statements are admissible under Rule 801(d)(2)(D) of the Federal Rules of Evidence.

Under Rule 801(d)(2)(D), a statement is non-hearsay when it was "made by the party's agent or employee on a matter within the scope of that relationship and while it existed." This exemption from the hearsay rule requires only that: (1) the declarant was an employee of the

party at the time the statement was made, and (2) the statement "concern[s] a matter within the scope of the agency or employment." *See Sea-Land Serv., Inc. v. Lozen Int'l, LLC*, 285 F.3d 808, 821 (9th Cir. 2002); 5-801 Weinstein's Federal Evidence § 801.33[1]. Courts in the Ninth Circuit broadly construe what "concern[s]" a matter within the scope of employment. *Harris v. Itzhaki*, 183 F.3d 1043, 1054 (9th Cir. 1999) (holding that statement "'[t]he owners don't want to rent to Blacks'" by agent who showed vacant units was admissible against owners because it "relates to a matter within the scope of the agency, *i.e.*, showing empty apartments."); *United States v. Kirk*, 844 F.2d 660, 663 (9th Cir. 1988) (holding statements by salespeople regarding their goods and nature of relevant contract terms "clearly [fell] within the scope of agency or employment" under Rule 801(d)(2)(D)). In other words, it is sufficient that the statements are made by an opponent's employee concerning that employee's job—"[s]imply put, to qualify as nonhearsay under Rule 801(d)(2)(D), the statement need only be related to the declarant's duties." 5-801 Weinstein's Federal Evidence § 801.33[2][c]. Admissions are generally defined out of the hearsay rule as a matter of estoppel and do not require or implicate any independent reliance. *Id*. § 801.33[1].

Rule 801(d)(2)(D) does not require evidence that an employee was "authorized" to make the statement—that is the province of Rule 801(d)(2)(C). *In re Coordinated Pretrial Proceedings in Petroleum Prods. Antitrust Litig*., 906 F.2d 432, 458 (9th Cir. 1990) at 458 (admitting marketing director's statements even though he "did not have authority, on his own, to raise [the company's] prices," because statements related the scope of his employment); *Mendoza v. Marriott Hotel Servs*., Case No. CV 10-6384 (FFMx), 2011 U.S. Dist. LEXIS 102946, at *7-8 (C.D. Cal. Sept. 9, 2011) (holding Rule 801(d)(2)(D) does not contain an "authorized agent" requirement). Nor does Rule 801(d)(2)(D) require a certain level of seniority for employee statements to qualify as a party admission. *See, e.g.*, *MGM Studios, Inc. v. Grokster, Ltd*., 454 F. Supp. 2d 966, 972-74 (C.D. Cal. 2006) (finding emails from individuals including the CEO, a network operations manager, a software engineer, and an independent contractor all constituted party admissions under Rule 801(d)(2)(D)); *EEOC v. Timeless Invs., Inc*., 734 F. Supp. 2d 1035, 1043 & n.4 (E.D. Cal. 2010) (finding statements of store clerk were admissions against employer).

To summarize, where Defendants establish that a statement was made by an Oracle

employee about a matter "concerning" the scope of that employee's employment, that statement qualifies as a party admission. The Ninth Circuit has held that this foundational threshold can be met by as little as (1) an email signature indicating the declarant's job title, (2) a list of employees including the declarant's name, and (3) the content of an email indicating it appeared to be a matter with the scope of the declarant's employment. *Sea-Land*, 285 F.3d at 821.

Oracle is in the business of selling software and support and has sales representatives for both. The emails at issue concern the sale of such software and support by Oracle employees, and are party admissions on that basis alone. Further, as demonstrated in the examples presented below, Oracle cannot deny that each exhibit—and those similar exhibits Defendants would present through the proposed pretrial process—qualify as party admissions.

Defendant's Trial Exhibit A-6329: This email chain contains a November 2, 2004 email from Jeff Henley to Keith Block titled "Re: ca/jeff clarke," in which Henley states that, in Computer Associates' ("CA") evaluation of Oracle versus SAP software, "SAP is leading in functionality pretty much across the board in [CA's] mind . . . [n]et, net I think we'll lose because of the functionality . . . ." *See* A-6329. This email is evidence that the jury is entitled to consider in deciding that SAP won CA's business—in 2004—based on its superior software, not because of TomorrowNow (which had not yet been acquired by SAP). Henley is Oracle's Chairman of the Board and has held this position since 2004. *See* 11/4/10 Trial Tr. at 549:15-16. Oracle CEO Larry Ellison has testified that, to the extent he has a boss, it is Henley. *See* 11/8/10 Trial Tr. at 781:10-14. Block and the other email recipients are all Oracle employees, and the email reported on Oracle's chances of getting a deal with CA. *See* A-6329 (all recipients have Oracle email addresses). Where Oracle's Chairman of the Board—Larry Ellison's boss—reports to other Oracle employees, including Ellison, about the status of a potential deal for Oracle software, he is speaking within the scope of his employment and his statements are admissible against Oracle.

Defendant's Trial Exhibit A-5042: This email chain contains a June 19, 2006 email from Barbara Allario to Robert Lachs in which Allario reports that Oracle customer Stora Enso likely will cancel support because its "parent is an SAP shop in Finland and has been pushing SAP" and "[t]hey have been told that they will be going to SAP over the next 2 years." A-5042. This

exhibit is evidence that Stora Enso's purchase of SAP software was related to its parent company's directive to switch to SAP, and not to TomorrowNow. Allario was an Oracle senior support sales manager in 2006. *See* 4/21/09 Cummins Tr. at 244:25-245:1; ORCL00275172; ORCL00754534. Her responsibilities related to support sales and included managing Oracle support sales representatives, participating in customers' renewal of software support, reviewing the representatives' performance, creating support sales forecasts, and overseeing communications with customers, support sales tracking, and the negotiation of support sales. *See* 9/16/08 Cummins Tr. at 34:5-25, 66:3-68:7, 74:2-75:14; Van Boening Tr. at 163:22-164:4; Duggan Tr. at 21:23-22:25, 23:16-24, 75:2-9. Providing a report on why a customer was planning to discontinue support was entirely within Allario's duties.

Defendant's Trial Exhibit A-5997: This email chain contains a May 4, 2006 email from Oracle's Craig Tate to Jeff Henley regarding the situation at Haworth. *See* A-5997. Tate stated:

> [Haworth has] implemented SAP in Europe (originally acquired thru acquisition) and senior leadership views it as more succcessful [sic] than the Orcl project in North America - broader footprint, less time, less money. They are facing major directional decision on standardizing on one platform or the other going forward.

Such statements are evidence that Haworth was standardizing its ERP systems and chose SAP because of previous good experiences with SAP, not TomorrowNow. Tate was the Oracle Group Vice President, North Central Applications in 2006. *See* ORCL00160564; ORCL00034214; 7/23/08 Blotner Tr. at 118:4-5. Tate's sales team specifically was responsible for the Haworth account. *See* A-5995 (Oracle employee reporting to Juan Jones that "Haworth has been a very challenging account to retain . . .[t]his has been a combined effort between Craig Tate's sales team and ours."). Reporting to his superiors on the status of an Oracle customer for which he was responsible was manifestly related to the scope of Tate's employment, and this document is admissible as a party admission.[4]

[4] Although this portion of this brief focuses on party admissions, this document, like much of the evidence at issue, is also admissible under various theories. Here, Jeff Henley, Oracle's Chairman of the Board expressly manifested a belief in the truth of the statements when he incorporated the statements and responded "[g]ot it. I agree we should try to salvage this account and not lose it to SAP." A-5997.

B. Adoptive Admissions under Federal Rule of Evidence 801(d)(2)(B)

Other Oracle documents are admissible as "adoptive admissions." A statement is a non-hearsay admission when offered against a party who "manifested that it adopted or believed [it] to be true." Fed. R. Evid. 801(d)(2)(B). A party adopts a statement for purposes of Rule 801(d)(2)(B) where the party "uses the statement or takes action in compliance with the statement." *Sea-Land*, 285 F.3d at 821 (citing Weinstein's Federal Evidence § 801.31[3][b] at 801.56 (2d ed. 2002)). The Ninth Circuit has held that where a statement is sent via email to a party's employee, and that employee "incorporates" and forwards the contents with remarks, that statement is an adoptive admission. *Id*. (finding abuse of discretion by excluding email); *see also MGM Studios*, 454 F. Supp. 2d at 973 (citing Sea-Land for proposition that "[i]f content created by individuals other than the creator of an email is incorporated into the email, the incorporated content is also admissible non-hearsay under Rule 801(d)(2)(B)"); *Wagstaff v. Protective Apparel Corp. of Am., Inc*., 760 F.2d 1074, 1078 (10th Cir. 1985) (finding reversible error for failing to admit newspaper articles that party had reprinted and distributed "to persons with whom defendants were doing business").

For example, the Ninth Circuit has held that a statement, forwarded in its entirety via email by an employee with the prefacing statement "Yikes, Pls note the rail screwed us up . . ." constituted an adoptive admission, because the employee "manifested an adoption or belief" in the truth of the information that she forwarded. *See Sea-Land*, 285 F.3d at 821. The same applies to email attachments. *Boyer v. Gildea*, Case No. 1:05-CV-129-TLS, 2012 U.S. Dist. LEXIS 21310, at *22-23 (N.D. Ind. Feb. 21, 2012) (holding attachment to be an adoptive admission where cover email stated that attachment consists of "the documents [defendant] revised").

Defendant's Trial Exhibit A-5995: This email chain contains a May 10, 2006 email from Ann Harten, an employee of Oracle customer Haworth, to Craig Tate and others at Oracle, titled "Haworth response to Oracle proposal." A-5995. In the email, Harten expressed disappointment with Oracle and concerns about whether Oracle will be a "good long term partner for Haworth." This is evidence of the reason Haworth chose SAP software over Oracle software. *Id*. That email was forwarded up the Oracle chain to Juan Jones, who stated on May 12, 2006, "[a]s per our

conversation, please work with Ian/Saleem to assign temporary coverage for Haworth. We need to turn this account around and we need to do it fast." *Id*. Jones was a Senior Vice President of Customer Services, North America Support at Oracle from at least 2005 to 2009; his responsibilities related to support sales and included leading (1) the support sales team for North America, (2) the customer services management team for North America, and (3) a small group that monitors acquisition and customer success. *See* Jones Tr. as played at 11/15/10 Trial Tr. at 20:3-6, 24:10-18; 25:3-20; 43:7-10; Jones Tr. at 29:12-17. By forwarding the entire contents of Harten's statements, Jones "incorporated" them; by acting to assign temporary coverage to the account, he manifested an adoption of them. His statement, "[w]e need to turn this account around and we need to do it fast," indicates his acceptance of Harten's statements as a true reflection of the state of the relationship between Haworth and Oracle. This document is admissible. *Sea-Land*, 285 F.3d at 821.

Defendant's Trial Exhibit A-6042: This Oracle document, titled "PeopleSoft Executive Summary," describes the timeline on which CA cancelled support; it was prepared by Betsy Steelman. A-6042. It was attached to a May 20, 2005 email from "OSSINFO – Allison [ossinfo-us-appr@oracle.com]" to Steelman titled "Computer Associates," approving cancelling support for CA based on the terms laid out in A-6042. *Compare* ORCL00316126 *with* A-6042. The email is evidence that, even after purchasing SAP software in late 2004, CA renewed Oracle support in February 2005, only later cancelling; thus TomorrowNow could not have contributed to SAP software sales. Steelman was an Oracle services support manager in 2005. *See* ORCL00039277. OSSINFO is an organization of Oracle employees that keeps and enforces support pricing policies. OSSINFO is part of Oracle's approval process; OSSINFO must approve special terms or any other deviation from the standard support offering and gets involved if a customer requests a deviation from its support contract. *See* Rottler Tr. at 25:6-14, 25:16-17, 32:7-15; 9/16/08 Cummins Tr. at 174:5, 174:9-14; Jones Tr. at 40:17-41:6. Here, OSSINFO "incorporated" A-6042 by attaching it to its email; OSSINFO manifested an adoption or belief in the truth of the statements within by "taking action" based in the document when it approved the cancellation of support services based on the contents of A-6042. The document is admissible.

C. Evidence of Customers' State of Mind under Federal Rule of Evidence 803(3) and as Non-Hearsay

Another category of documents on which both experts relied is customer statements about that customer's state of mind at the time it chose to leave Oracle support or purchase SAP software. Such statements are admissible to prove customers' motivations for ceasing to do business with a party. *Lahoti v. Vericheck*, 636 F.3d 501, 509 (9th Cir. 2011) (affirming admissibility of testimony regarding substance of customer telephone calls "for the truth of the matter" under state of mind exception); *CytoSport, Inc. v. Vital Pharms., Inc.*, 617 F. Supp. 2d 1051, 1074 (E.D. Cal. 2009) (finding consumers' and dealers' statements admissible evidence of their "then-existing state of mind" and were not hearsay); *Inventory Locator Serv., LLC v. Partsbase, Inc.*, Case No. 02-2695 Ma/V, 2005 U.S. Dist. LEXIS 32680, at *21 (W.D. Tenn. Sept. 6, 2005) (holding that written records of customer statements indicating intent to switch from plaintiff to defendant "qualify as statements of their 'existing state of mind'").

Customer statements are admissible either as non-hearsay evidence of state of mind or under the "state of mind" hearsay exception. Customers' statements supporting an inference about their states of mind may be admitted for this non-hearsay purpose. *CytoSport*, 617 F. Supp. 2d at 1074. Further, under Rule 803(3) of the Federal Rules of Evidence, a direct "statement of the declarant's then-existing state of mind . . . such as motive, intent, or plan" is admissible hearsay. Fed. R. Evid. 803(3). This hearsay exception has three requirements: (1) that the statement be contemporaneous with the state of mind described, (2) that the declarant had no time or motive to misrepresent his or her thoughts, and (3) that the declarant's state of mind is relevant. *United States v. Ponticelli*, 622 F.2d 985, 991 (9th Cir. 1980); *Rite-Hite Corp. v. Kelley Co., Inc.*, 774 F. Supp. 1514, 1526 (E.D. Wis. 1991) (admitting statements by salespeople describing customer motives for purchase decisions under state of mind exception and noting that "evidence of customer motives is highly relevant to the issue of whether to award lost profit damages . . . ."), *vacated in part and remanded in part on other grounds*, 56 F.3d 1538, 1555-56 (Fed. Cir. 1995). Further, Defendants need only establish that the declarants were Oracle customers when the statements were made; no other evidence identifying the speakers is required. *Callahan v. A.E.V.*,

Inc., 182 F.3d 237, 252 (3d Cir. 1999) ("The relevance of their statements depends only on the fact that they were the plaintiffs' customers, not their particular identities . . . [and] we do not think that the admissibility of their statements under [ ] Rule 803(3) . . . depends on [the individual declarants] being identified.").

Defendant's Trial Exhibit A-5058: This email chain contains a January 29, 2007 email from Oracle customer Vanguard Managed Solutions to Oracle employee Lori Sanabria titled "Re: VanguardMS – Oracle JDE Renewal." A-5058. The customer states that Vanguard is cancelling Oracle support because "we did not need support last year, except one time that was minor. Our company is shrinking and splitting into 2, and we are not likely to continue forward with JDE upgrades in the future"; this is evidence that Vanguard had a motive to leave Oracle support other than TomorrowNow. *Id*. Such statements are admissible under Rule 803(3) to demonstrate the customer's motive to leave Oracle: The customer's state of mind is relevant to causation of damages in this case, the statements were made contemporaneously with the communication to cancel support, and there is no evidence of an intent to misrepresent given the casual and spontaneous style of the email. *Id*.

D. <u>At-Risk Report</u>

Early in discovery, Oracle produced several versions of a report called the "At-Risk Report," which it represented was "Oracle's compilation of all of the different reasons that customers [gave] for leaving Oracle when they [went] to TomorrowNow or other third-party support providers . . . ." ECF No. 929-11 (3/4/08 Hrg. Tr.) at 105:13-24. The At-Risk Report contains several categories of information, such as the number of customers at risk of leaving Oracle, contract revenue amounts, win/loss statistics, and a "notes" field that includes Oracle employee statements and transcribed customer statements, both relating to customers' reasons for leaving Oracle. Oracle agreed that the Report as a whole is a business record, and previously did not object to most portions of the Report. *See* 9/30/10 Hrg. Tr. at 10:15-12:14 (Oracle's counsel stating "[w]e're not contending that the reports themselves are not . . . business records").

Defendants will offer those unchallenged portions of the At-Risk Report—*i.e.*, all fields except the "notes"—which, by Oracle's admission, qualify as a "business record." Fed. R. Evid.

803(6) (outlining hearsay exception for records of "regularly conducted activity" when four conditions are met).[5] Defendants also will seek to admit portions on which Meyer relied to form his opinions, which the Court previously found admissible. ECF No. 914 (9/30/10 Order) at 1-2.

Defendants will also offer select excerpts of the "notes" field under various evidentiary bases. Before the first trial, Oracle moved *in limine* to categorically exclude all transcribed customer comments. ECF No. 737 (Pls.' Mots. *in Limine*) at 13-17; 9/30/10 Hrg. Tr. at 10:15-12:14 ("We're focused on just this one part of the report which are transcribed comments from customers."). Oracle did not seek to exclude specific transcribed customer statements or Oracle employee statements recorded in the Report. Likewise, in granting Oracle's motion to categorically exclude "transcribed customer statements" on the basis that Defendants had not "articulated any applicable exception to the hearsay rule" (*see* ECF No. 914 (9/30/10 Order) at 1-2), the Court did not rule on the admissibility of specific transcribed customers statements or any Oracle employee comments contained in the Report. *Id.*; 11/16/10 Trial Tr. at 1528:10-1529:1. At the new trial, Defendants will offer such specific statements and will establish the applicable hearsay exceptions or exemptions, as exemplified below.

[5] Oracle conceded that the At-Risk Report is a business record, as evidenced by testimony from employees Richard Cummins, Senior Director of Support Renewals, and Elizabeth Shippy, Special Programs Manager. Shippy created report entries "at or near the time . . . from information transmitted by [] someone with knowledge," and did so as part of "a regularly conducted activity of a business." Fed. R. Evid. 803(6)(A)-(B); *see* 9/25/08 Shippy Tr. at 88:12-23; 89:4-11. The Report was kept in the course of "a regularly conducted activity of a business" because it was "a regular practice" of the sales division to track cancellations. Fed. R. Evid. 803(6)(B); *see* 9/25/08 Shippy Tr. at 106:4-14. And "[n]either the source of information nor the method or circumstances of preparation indicate a lack of trustworthiness." Fed. R. Evid. 803(6)(E); *see* 9/16/08 Cummins Tr. at 210:2-13, 19-20 (At-Risk Report "evolving," but "comments a customer made, the [] values in there, all those types of things, that was never deleted or changed . . . customer information was never overwritten or changed"); 9/23/08 Cummins Tr. at 305:7-18 (sales representatives knew customer's information "because it was . . . their account"), 308:1-3 ("Status summary and notes are both columns that are free form text where a rep just told them the current status and what was going on."). Indeed, Oracle management required the data to be collected and regularly reported. *See* 9/25/08 Shippy Tr. at 82:2-3, 5-12 ("The management team has requested that if a contract is at risk that the renewal rep needs to document what's been going on with the account, what steps have been taken, and that once again goes in as notes . . ."), 21:3-22:17 (Shippy emailed report to management); 4/21/09 Cummins Tr. at 202:6-203:20 (Cummins relied on customers' reasons for cancellation communicated via reps and Cummins expected Juan Jones to rely on his presentation).

Party Admission—Entry Regarding Merck: This entry from the At-Risk Report states, [redacted] A-0059. It does not record any "transcribed customer statements," but rather contains an Oracle employee's recitation of the facts related to the Merck support renewal. Because all entries in the At-Risk Report were provided by an Oracle support sales representative for the particular account for which he or she was responsible, this entry is a statement made by an Oracle employee related to the scope of his or her employment. *See* 9/25/08 Shippy Tr. at 82:2-3, 82:5-12, 88:12-23, 89:4-11; 3/5/09 Shippy Tr. at 40:3-41:10; 9/23/08 Cummins Tr. at 303:15-304:3, 305:7-18, 309:21-23. Because the Report itself is admissible as a business record, this entry is admissible under Rule 801(d)(2)(D).

Adoptive Admission—Entry Regarding Stora Enso: This entry states:

[redacted]

A-0059 (emphasis added). In addition to the statements that are party admissions and not "transcribed customer statements" (*e.g.*, [redacted]), the statements in this entry also qualify as adoptive admissions. The Oracle employee compiling the entry [redacted], and incorporated those comments into the Report.

Importantly, the comments appear to have originated from a June 19, 2006 Oracle email from Barbara Allario to Robert Lachs, in which Allario adopts the comments by taking action—

i.e., deciding not to send the customer certain materials "in light of this conversation with [redacted]." A-5042. Incorporating these comments into the At-Risk Report further demonstrates that they were "adopted" by Oracle. This illustrates a key point: The At-Risk Report entries were taken directly from typical communications by support sales employees about customer activities. That these communications were imported into a separate document does not change the nature and admissibility of these statements. If anything, it reinforces the reliability and admissibility of the information contained in them.

State of Mind—Entry Regarding Laird Plastics: This At-Risk Report entry states, [redacted] *See* A-0059. The statements are admissible for the non-hearsay purpose of demonstrating Laird Plastic's state of mind, as evidence that the customer was unhappy and left Oracle for reasons that would have prompted them to leave even if TomorrowNow had never existed. Further, even if hearsay, these statements qualify for the state of mind exception under Rule 803(3). The customer's attitude towards Oracle is relevant to whether it would have left Oracle regardless of TomorrowNow. The entry records a phone communication, which would have been contemporaneous with the statements regarding the customer's state of mind. And the customer appears to have been candid with Oracle about its concerns, with no reason to fabricate.

V. PROPOSED PRETRIAL PROCEDURES TO STREAMLINE RESOLUTION OF EVIDENCE, DISPUTES

Defendants propose the following procedures to ensure a more efficient and focused trial and to avoid wasting time and resources managing thousands of exhibits and related objections:

Limit the Number of Exhibits: Defendants propose limiting each side to 400 exhibits for use in each side's case in chief. Only 191 exhibits were admitted at the last trial, and this new trial is narrower in scope. 400 per side is a reasonable limit (and of course it could be adjusted for

good cause). In fact, Defendants' Exhibit List is approximately 350 exhibits, a reduction of over 90% from Defendants' Exhibit List for the first trial.

Preadmission of Exhibits: Defendants propose a procedure, much like that proposed for deposition designations, to resolve prior to trial any admissibility issues regarding key documents.[6] The parties would engage in a meet and confer process (outlined in more detail in the Joint Pretrial Statement) and then present the Court with a "user-friendly" compilation of disputed exhibits together with adequate foundation to establish the hearsay exemptions or exceptions. The exemplar exhibits offered above preview the types of materials that the parties would present in such a filing. Alternatively, the parties might present a subset of documents that represent categories of admissibility issues to obtain the Court's guidance and help prepare for trial. For example, Defendants could present documents in the evidentiary categories listed above, or even just the exemplars in this Trial Brief.

Revised Exhibit Lists, Witness Lists, Deposition Designations: After the Court rules on these issues, the parties should submit revised and narrowed exhibit lists, witness lists, and deposition designations.

It is important to put Defendants' proposals in their proper overall context. The Court has invested years of effort in determining the scope of this case and, most recently, the scope of the new trial. ECF No. 1081 (9/1/11 Order) at 20; *see also* ECF No. 1103 (1/6/12 Order) at 4. Yet, on the eve of a second trial, Oracle has filed numerous motions to reconsider or "clarify" and has

[6] Because the Court's decision on the admissibility of exhibits is a preliminary question governed by Rule 104, the foundational evidence used to establish the admissibility need not be itself admissible. *See* Fed. R. Evid. 104(a) ("The court must decide any preliminary question about whether . . . evidence is admissible. In so deciding, the court is not bound by evidence rules, except those on privilege."); *Bourjaily v. United States*, 483 U.S. 171, 178 (1987) (holding that Rule 104 "on its face allows the trial judge to consider any evidence whatsoever, bound only by the rules of privilege"). In making preliminary factual determinations necessary to establish a hearsay exception, the Court may—and should—consider hearsay to make those determinations. *Id.* at 181 (stating that "the judge *should* receive the [hearsay] evidence and give it such weight as his judgment and experience counsel" in determining admissibility under Rule 104) (emphasis added) (internal citation omitted); *see also In re Coordinated Pretrial Proceedings in Petroleum Prods. Antitrust Litig*., 906 F.2d at 458. Defendants have proposed that the Court make these preliminary admissibility decisions under Rule 104 in a pretrial process, which type of pretrial decisions are permitted. *See United States v. Kahre*, 610 F. Supp. 2d 1261, 1262-66 (D. Nev. 2009) (permitting pretrial hearing under Rule 104(a) to determine foundational issues related to the business record exception).

attempted to change its damages claims in many other respects (just so far). This case has been pending for five years, there was extensive motion practice, discovery has been closed for over two years, and the parties already proceeded once to trial. Defendants' modest procedural proposals are intended to appropriately rein in the remaining pretrial processes that Oracle is needlessly complicating.

VI. CONCLUSION

This new trial is not Oracle's opportunity to rehash issues that have already been resolved or resurrect damages theories that have been struck. Defendants remain committed to resolving this case in an efficient and fair manner, adhering to the Court's guidance on issues already resolved and focusing their evidence and arguments on the only issue at stake—the appropriate amount of lost profits and infringer's profits damages based on admissible evidence and claims that were timely disclosed.

Dated: April 26, 2012

Respectfully submitted,

JONES DAY

By: /s/ Tharan Gregory Lanier
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