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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
OAKLAND DIVISION

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

Plaintiffs,

v.

SAP AG, *et al.*,

Defendants.

No. 07-CV-01658 PJH (EDL)

PLAINTIFF'S MOTIONS *IN LIMINE*

Date: May 24, 2012
Time: 2:30 p.m.
Place: 3rd Floor, Courtroom 3
Hon. Phyllis J. Hamilton

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NOTICE OF MOTION AND MOTION

PLEASE TAKE NOTICE THAT on May 24, 2012, at 2:30 p.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 move *in limine* to exclude from trial the items listed below and described more fully in the attached memorandum of points and authorities. This motion is based on this notice of motion and motion, the accompanying memorandum of points and authorities, the accompanying declaration of Nitin Jindal, and such other matters as may be presented to the Court at the time of the hearing.

RELIEF SOUGHT

1. The Court should exclude "customer behavior" testimony by SAP's damages expert, Stephen Clarke, because he lacks any qualifications to give those opinions.

2. The Court should exclude testimony by Clarke regarding his purported "market study" of the third-party support market because he lacks any qualification to give that opinion.

3. The Court should exclude otherwise inadmissible evidence that SAP may attempt to admit through experts.

4. The Court should exclude Clarke's reliance on five customer declarations that SAP produced after the discovery and expert report cut offs.

5. The Court should exclude Clarke's infringer's profit margin measurements that support a deduction of costs from defendants' infringers' revenues.

MEMORANDUM OF POINTS AND AUTHORITIES

Oracle's motions *in limine* Nos. 1-4 below seek to exclude four categories of evidence that Oracle believes the Court erroneously admitted at the November 2010 trial, over Oracle's objections. The Court made its in-trial rulings without the benefit of additional briefing, which Oracle provides here. Oracle's motion *in limine* No. 5 seeks to exclude evidence of cost deductions from SAP's infringing revenues, to which SAP, as a willful infringer, is not entitled.

I. MOTION NO. 1: CLARKE'S LACK OF EXPERTISE IN CUSTOMER BEHAVIOR

Oracle moves to exclude the "behavioral" opinions of SAP's damages expert, Stephen Clarke (which are based on, and used to transmit, the hearsay evidence referenced below). Clarke is unqualified to provide any testimony about "how customers made the [purchasing] decisions they made." Jindal Decl., Ex. A (Trial Tr.) at 400:1-10. This is an important issue – what SAP claims this case is "all about." *Id.* SAP, however, has never proffered or qualified Clarke as a "causation" expert, much less as an expert on ERP customer decision-making, a "behavioral" issue he admittedly has no qualifications to address. Jindal Decl., Ex. A (Trial Tr.) at 1538:1-2. At the first trial, the Court appeared to recognize the problem with Clarke's causation testimony, but nevertheless allowed it. Admitting this opinion at the first trial was an abuse of discretion; it should be excluded on retrial.[1]

A. An Expert Must Be Qualified In the Subject Area of His Opinion

The proponent of expert testimony must show that it meets Rule 702's admissibility standards, including "preliminary question about whether a witness is qualified," by a "preponderance of proof." Fed. R. Evid. 104(a); Fed. R. Evid. 702 advisory committee's note (2000 amendment); *Daubert v. Merrell Dow Pharm. Inc.*, 509 U.S. 579, 592 n.10 (1993);

[1] This motion only seeks to exclude Clarke's causation testimony, and does not extend to other aspects of his opinions. For example, this motion does not seek to exclude Clarke's measurement of relevant revenues or other subjects within his accounting expertise.

see also Salinas v. Amteck of Ky, Inc., 682 F. Supp. 2d 1022, 1029 (N.D. Cal. 2010) (Hamilton, J.). The Court must employ a two-step inquiry: first, determine whether the expert is qualified by "knowledge, skill, experience, training, or education," and second, if so, determine whether the proffered opinion is "reliable" under *Daubert*. *See* Fed. R. Evid. 702; *Ralston v. Smith & Nephew Richards, Inc.*, 275 F.3d 965, 969 (10th Cir. 2001).

Expertise in one subject does not somehow override a lack of qualifications for an unrelated subject. *See, e.g., United States v. Chang*, 207 F.3d 1169, 1172-73 (9th Cir. 2000) (affirming the preclusion of an "extremely qualified" international finance expert from testifying as to the identification of counterfeit securities because "he did not testify as to any training or experience, practical or otherwise" on that specific issue); *Rambus, Inc. v. Hynix Semiconductor, Inc.*, 254 F.R.D. 597, 603-05 (N.D. Cal. 2008) (finding testimony of electrical engineer on "commercial success" inadmissible because he had no marketing or business training in commercial aspects of claimed invention).

Even if the Court finds the expert qualified, where he does not rely on pre-litigation research or peer review, he must "point to some objective source – a learned treatise, the policy statement of a professional association, a published article in a reputable scientific journal or the like – to show that [he has] followed the scientific method as practiced by (at least) a recognized minority of the scientists in their field." *Daubert v. Merrell Dow Pharm., Inc.*, 43 F.3d 1311, 1317-19 (9th Cir. 1995).

B. Clarke's Expertise and Opinion

Clarke is a CPA with some economics training. Jindal Decl., Ex. A (Trial Tr.) at 1531:3-1533:13, 1534:2-1535:4. He "do[es]n't hold [him]self out as an expert in ERP software" or its buyers' decision-making, and has no prior experience or knowledge of the aftermarket support industry for such software. Dkt. 783, ¶ 7, Ex. B (Clarke Depo.) at 83:8-13, 84:11-17. Despite his admitted lack of expertise, Clarke will seek to testify about "a behavioral issue, why [customers] do what they did," as an essential input to his damages analysis. Jindal

Decl., Ex. A (Trial Tr.) at 1538:1-2.

To form those opinions, Clarke devised so-called "exclusion categories" and assigned customers to them. He based both steps solely on his own "judgment call[s]." Dkt. 783, ¶ 7, Ex. B (Clarke Depo.) at 666:3-20. To make those calls, Clarke interpreted (mostly inadmissible) customer emails and other evidence to draw conclusions about *why* customers left Oracle and purchased SAP products. Jindal Decl., Ex. A (Trial Tr.) at 1589:17-1590:11. Clarke then followed a process that he invented, as a novel approach, just for this case. It is not found in any publication or subject to any peer review and does not track any known scientific or other methodology. He excluded customers from his damages calculations if he assigned to them certain invented "customer-specific exclusion criteria" (which result in the automatic exclusion of the customer from damages) and/or "joint exclusion criteria" (whereby he excludes customers from damages if they have a combination of (a) either of two specific attributes, and (b) at least one of another group of exclusion criteria). Dkt. 919, ¶ 6, Ex. A (Clarke Report) at 213-217, 221-235; Dkt. 783, ¶ 7, Ex. B (Clarke Depo.) at 661:3-662:2 (confirming automatic exclusion criteria), 739:20-740:16 (confirming "joint exclusion criteria" formula is "A or B plus at least one of Cs").

Clarke's made-up "methodology," his assignment of customers to causation categories, and his choice of which categories (or combination of categories) warrant automatic exclusion do not reflect the judgment of any party (who know the customers best), his own expertise (he has none), or anyone else's.

C. Oracle's Objection to Clarke's Testimony At the November 2010 Trial

Oracle objected to Clarke's proffered opinions at the November 2010 trial because Clarke lacked the expertise to opine on customer behavior and because Clarke's transmission of hearsay to the jury was an inadmissible and improper attempt to usurp its role. Jindal Decl., Ex. A (Trial. Tr.) at 1589:17-20; 1591:12-17. SAP argued that Clarke and his staff

reviewed statements from customers (mostly inadmissible hearsay) and, from them, "reached an opinion on which customers would have left, which ones are within the causation pool, and reached an opinion on that." *Id*., at 1590:1-11. Oracle pointed out that Clarke's invented and untested methodology did not solve, or even address, the problem because the subject matter of his judgment calls was still "way beyond his expertise." *Id.* at 1592:20-1593:12.

The Court focused on whether Clarke *actually did* complete his causation analysis, not whether *he was qualified to do so*. *Id.* at 1592:25 ("But he came to that conclusion."); *see also id.* at 1591:18-19 ("Except that he has made the determination that a sizable number of customers would have left [Oracle] for other reasons."). The Court did not expressly determine that Clarke and his method met the standards to provide expert testimony regarding customer behavior. But the Court nevertheless allowed Clarke to "testify as to his conclusions that [customers] would have gone," and to "go one step further than that and say that he concluded that they would have left from [Oracle for] other reasons." *Id*. at 1593:13-1594:10.

On Oracle's hearsay and qualifications objection, the Court ruled that Clarke could discuss the limited customer evidence that was in the record. *Id.* at 1593:13-18.[2] For evidence not in the record, the Court did not permit Clarke to "testify as to the reasons" why he concluded customers left Oracle. *Id*. at 1593:18-19. Having ruled that "the actual reasons can't come through his mouth," *id.* at 1591:25-1592:2, the Court nevertheless allowed Clarke to describe them in detail. Clarke testified to his exclusion "pools" of customer behavior and listed the customers that fell into each. *Id*. at 1598:1-1608:6; 1612:22-1613:1; 1621:19-1630:21. Clarke compounded the problem by vouching for his own novel methodology and criticizing the lack of a behavioral analysis by Meyer. *Id*. at 1551:12-16.

[2] As discussed below, *see* Motion in Limine No. 3, the Court later recognized that customer evidence that an expert considered but did not rely on is inadmissible hearsay.

D. The Court Should Exclude Clarke's Causation Testimony From The New Trial

The Court should exclude Clarke's causation testimony for two reasons. First, he lacks any expertise to discuss customer "behavior" issues. This failure is fatal, and infects every aspect of his causation opinions. Second, Clarke's methodology, which he invented, is nothing more than a novel, unproven and unreliable series of "judgment calls" without any scientific basis.

1. Clarke Lacks Expertise To Opine on Customer Behavior

Clarke's causation opinion fails Rule 702's baseline admissibility requirement. SAP has never proffered or qualified Clarke as a "causation" expert, much less as an expert on ERP customer decision-making, a "behavioral" issue he has no qualifications to address. Jindal Decl., Ex. A (Trial Tr.) at 1538:1-2. Clarke's expertise in one subject – accounting – does not somehow override a lack of qualifications in these ERP customer "behavioral" issues. *See, e.g.*, *Chang*, 207 F.3d at 1172-73; *Rambus*, at 603-05.

Clarke's process for arriving at his conclusions does not cure this failure; nor does limiting Clarke's testimony to his conclusions. The processes and conclusions that resulted from Clare's lack of expertise in consumer behavior *are the problem*. The Court should not permit Clarke to discuss his invented exclusion categories, his judgments about the relevance of each category, his assignment of customers to these categories, or any determinations of why customers made certain decisions.

Clarke has no more expertise than the jury to evaluate the evidence regarding customer behavior. As a result, it would be an abuse of discretion to allow Clarke to testify on these topics. *Wheeling Pittsburgh Steel Corp. v. Beelman River Terminals, Inc.*, 254 F.3d 706, 714-15 (8th Cir. 2001) (abuse of discretion to allow expert "eminently qualified" in flood risk management to testify about safe warehousing practices).

2. Clarke Employs An Invented And Unreliable "Methodology"

Even if Clarke were qualified (he is not), his invented causation "methodology" does not meet Rule 702's "reliability" requirement for admissible expert analysis. Clarke can cite no treatise (or anything else) that supports his "exclusion criteria" methodology, nor has Clarke ever before employed his "joint exclusion criteria" formula. He literally made up the whole process for this case. Dkt. 783, ¶ 7, Ex. B (Clarke Depo.) at 663:11-19 (Clarke's exclusion criteria are not identified in any publication, but are groupings based on Clarke's judgment calls), 636:19-637:3, 641:4-22 (Clarke cannot identify any treatise that specifies the use of his exclusion methodology), 647:3-10.

The unreliability of Clarke's causation analysis is further confirmed by the fact that it did not work. For example, he recognized that many customers who stayed with Oracle support would have been presumed to have left under his exclusion criteria formula. *Id.* at 679:17-25 (customers that never left Oracle exhibited the same characteristics that would have put them in one or more of Clarke's exclusions pools), 681:14-24 ("Q: Right. Would you agree that Oracle had some customers who would fit one or more of your automatic exclusion pools, but nonetheless, in the real world, never left? A: As I say, I don't remember if that fact pattern arose. But it wouldn't surprise me if it did."). Clarke did not test his assumptions of the characteristics that indicate a customer would have left Oracle regardless of infringement against customers who actually stayed with Oracle support. *Id.* at 680:11-681:1 ("If they didn't leave Oracle, I really didn't spend any time studying them.").

The Court should not allow Clarke's testimony based on this untested, unrecognized, unscientific, and unreliable "methodology." *See, e.g.*, *Daubert*, 43 F.3d at 1318-19.

For these reasons, the Court should not allow Clarke to offer his unqualified and unreliable customer causation testimony.

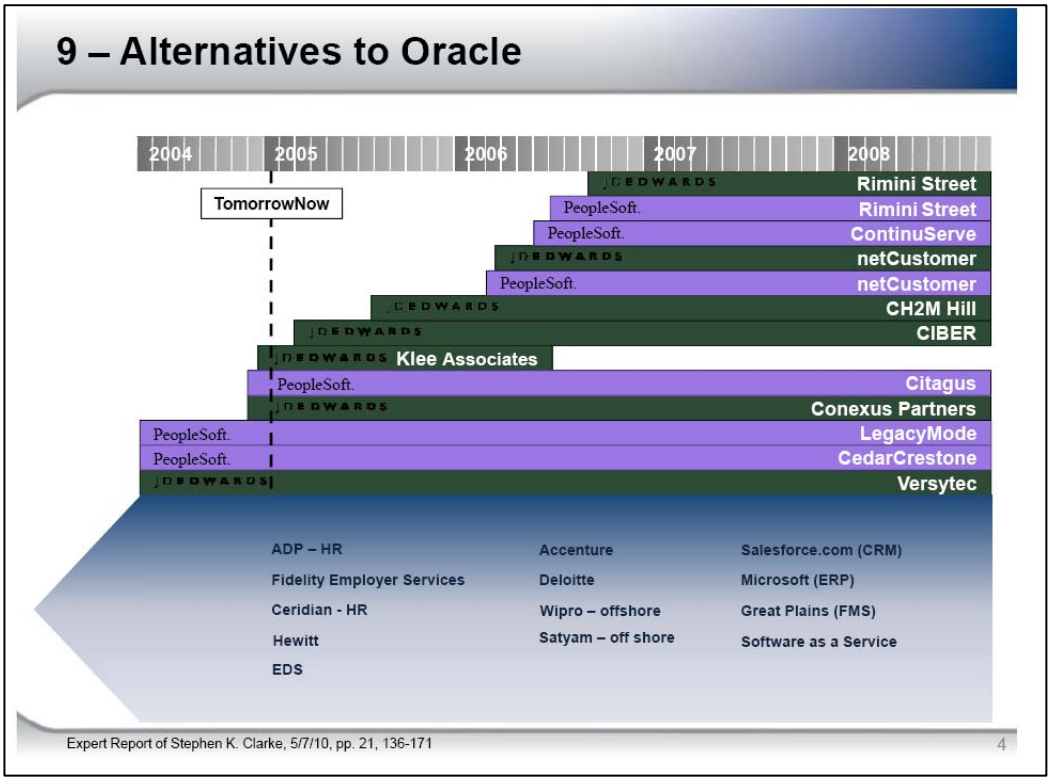
II. MOTION NO. 2: CLARKE'S THIRD PARTY MARKET "STUDY" IS MERELY A SUMMARY OF INADMISSIBLE EVIDENCE AND IS BEYOND CLARKE'S EXPERTISE

For similar reasons relating to Clarke's lack of expertise in the third party software support market and his failure to apply any reliable methodology, Oracle moves to exclude any testimony by Clarke regarding his third party market "study."

A. Clarke's Internet-Based Market Opinion

Based on some Internet browsing, Clarke purports to provide expert analysis of the existence and technical viability of "reasonably similar product offerings" to SAP TN support. Dkt. 919, ¶ 6, Ex. A (Clarke Report) at 141. He uses his study to conclude that a "vibrant market" existed for third party support of the products at issue. *Id.* at 142; Dkt. 783, ¶ 7, Ex. B (Clarke Depo.) at 526:20-527:21; 528:5-16. From that, he concludes that SAP TN customers would have left Oracle even without TN. Jindal Decl., Ex. A (Trial Tr.) at 1571:1-1573:9; Dkt. 919, ¶ 6, Ex. A (Clarke Report) at 192 ("In a world absent TomorrowNow, the majority of its customers would likely have sought out support services from one of the other vendors that existed in the marketplace.").

To present this opinion at the first trial, SAP published the following demonstrative to the jury.



Over Oracle's objections, the Court permitted Clarke to use this demonstrative to discuss the listed companies and the supposed role of each in the third party support market. Jindal Decl., Ex. A (Trial Tr.) at 1570:3-1573:9. For example, he testified:

> The green bits, the greeny [sic], khaki-colored stuff is JD Edwards; the purple is PeopleSoft. And what this is trying to show is a time line of the companies that were offering third-party support in any particular year. So if you look on the left-hand side of any of those rows, that is when . . . that vendor came into the marketplace . . . . And they offered service for JD Edwards – that's what these green ones are here. And the reason [K]lee stops right there is they went out of business at that point. The others are all still in business.

Id. at 1571:7-1571:23.

B. The Court Should Exclude Clarke's Market "Study"

The Court should not permit Clarke to repeat that testimony in the second trial.

First, Clarke lacks expertise to conduct or report on a "market study" because Clarke admits he knows nothing about ERP software or competition among third party ERP vendors. *See* pp. 2-3 above. On this basis alone, the Court should exclude his commentary about what these companies do, how they compete, or which of them occupy which position and in what market.

Second, in devising his supposed market analysis, Clarke did not apply any acceptable market study methodology. His purported third party vendors "market study" is nothing more than a cherry-picked collection of untested information he found on the Internet when he wrote his report, none of which was admitted prior to his trial testimony.[3] Dkt. 783 (Clarke Depo.) at 581:13-23. Clarke's "methodology" was no methodology at all -- scientific or otherwise. It consisted of comparing the words on other vendors' website materials to those used to describe SAP TN's service offering, and then opining that the service offerings from third party vendors and/or self service are viable substitutes for SAP TN. His only claimed "expertise" to reach his conclusions is his ability to read words on the computer screen:

> Q: What expertise do you have of ERP vendor product offerings that would allow you to provide expert opinion on the reasonable similarity of product offerings?
>
> A: I don't -- I don't believe I need that expertise to do what's being referenced here. These are statements made by these vendors themselves, and for the most part, the terminology and vocabulary they use to describe their services is similar if not identical one to the other. So I'm able to read what they say about themselves, and I've incorporated that into my analysis.
>
> Q: What analysis did you perform to determine that the firms had reasonably similar product offerings?
>
> A: I read what they said they were offering . . . .

Dkt. 783, ¶ 7, Ex. B (Clarke Depo.) at 548:19-549:14.

Even if Clarke had the technical or market knowledge to undertake a meaningful

[3] Unless the underlying evidence is admitted at a new trial, and it should not be, any testimony about Clarke's analysis should be excluded as inadmissible hearsay. *Matrix Motor Co. v. Toyota Jidosha Kabushiki Kaisha*, 290 F. Supp. 2d 1083, 1086 (C.D. Cal. 2003) (expert reports "irrelevant" where they "merely recite hearsay statements, often verbatim, culled from a variety of Internet websites").

comparison (which he does not), proper analysis of the support market for the Oracle applications at issue would require investigation into what the marketing materials really meant, whether vendors actually provided relevant services, where and when they were offered, for which products, and at what level of competitiveness. Clarke did no such testing. Instead, he accepted other vendors' website marketing claims at face value. *Id.* (Clarke Depo.) at 550:4-21 (did not verify what specific products vendors supported); 581:24-582:4 (did not confirm any vendors' assertions with actual customers); 602:9-605:3 (assumed website representation of vendor's offering in March 2010 was indicative of what offered during relevant period).

Regurgitation of untested website statements is not allowable expert testimony and does not assist the jury, particularly where Clarke has no experience in the industry on which he purports to opine. *See Perry v. Schwarzenegger*, No. 09-2292, 2010 WL 3025614, at *22 (N.D. Cal. Aug. 4, 2010) ("[M]ere recitation of text in evidence does not assist the court in understanding the evidence because reading, as much as hearing, 'is within the ability and experience of the trier of fact.'") (quoting *Beech Aircraft Corp v United States*, 51 F3d 834, 842 (9th Cir .1995)); *Kilgore v. Carson Pirie Holdings, Inc.*, No. 05-6035, 2006 WL 3253490, at *4 (6th Cir. 2006) (Internet article is unreliable basis for methodology where expert did not know on what research or methodology the article was based and conducted no independent research).

The Court should also exclude Clarke's "market study" opinions.

III. MOTION NO. 3: THE COURT SHOULD NOT ALLOW SAP TO PRESENT HEARSAY THROUGH EXPERTS (EITHER CLARKE OR MEYER)

SAP improperly introduced two forms of inadmissible hearsay in the last trial. First, it used Clarke as a "conduit" to transmit hearsay evidence supposedly underlying his "exclusion criteria" opinions. Second, through its cross-examination of Meyer, SAP introduced hearsay evidence on which Meyer did not rely, in violation of Rule 703. The Court should exclude both forms of evidence from the second trial.

A. SAP May Not Put In Inadmissible Evidence Through Clarke

An "expert may not [] simply transmit [] hearsay to the jury." *U.S. v. Mejia*, 545 F.3d 179, 197 (2d Cir. 2008); *Dominguez v. Four Winds Int'l Corp*., CIV. 08CV388 L LSP, 2009 WL 1444347, at *1 (S.D. Cal. May 22, 2009) (granting a motion *in limine* to preclude an expert from "testifying as to the details of any hearsay upon which he bases his opinion"). Instead, the "correct way to proceed is for a foundational witness to testify firsthand at trial to the foundational fact or test and to be cross-examined. Then the expert can offer his or her opinion on the assumption that the foundational fact is accepted by the jury." *Therasense, Inc. v. Becton, Dickinson and Co*. ., C 04-02123 WHA, 2008 WL 2323856, at *2 (N.D. Cal. May 22, 2008).[4]

In the first trial, SAP and Clarke failed to follow these rules. For example, Clarke testified that he assigned customers to his "Service Evaluation" exclusion pool if "the company was out looking at other vendors." Jindal Decl., Ex. A (Trial Tr.) at 1599:18-19. SAP then showed the jury the customers Clarke assigned to this exclusion pool on the basis that they were "out looking." *Id*. at 1603:6-9. That was improper. As the Court originally noted, the "reasons" customers were allegedly "out looking at other vendors" – a central causation issue – should not come in as hearsay through Clarke. *Id.* at 1591:25-1592:2. SAP offered no proper foundational witness to establish those supposed facts, and the probative value of Clarke's uninformed hearsay does not substantially outweigh the prejudice to Oracle from admitting it. Therefore, the admission of Clarke's "reasons" violates Rule 703. *Therasense, Inc.*, 2008 WL 2323856 at *2.

At the next trial, the Court should not allow SAP to fill evidentiary gaps with

[4] When an expert does "base[] an opinion" on inadmissible facts or data, Rule 703 establishes a balancing test for whether the Court may allow that evidence. The Court may allow disclosure of such relied-upon facts or data if "the court determines that their probative value in assisting the jury to evaluate the expert's opinion substantially outweighs their prejudicial effect." *Id.* "If the otherwise inadmissible information is admitted under this balancing test, the trial judge must give a limiting instruction upon request, informing the jury that the underlying information must not be used for substantive purposes." Fed. R. Evid. 703, advisory committee note (2000 Amendment).

hearsay evidence in the guise of expert testimony, particularly in support of an opinion which Clarke has no expertise to provide (See Motion in Limine No. 1, above).

B. SAP Cannot Introduce Hearsay Evidence Through Meyer on Cross-Examination Upon Which Meyer Did Not Rely

SAP also offered hearsay into evidence in the first trial during its cross-examination of Meyer. SAP argued that it could do so because Meyer had merely *considered* the hearsay statements, even if he had not *relied* on them and they formed no basis for his opinions. On three occasions, the Court admitted the evidence over Oracle's objection. Jindal Decl., Ex. A (Trial Tr.) at 1143:24-1145:24, 1151:20-1152:16, 1156:20-1157:14. Subsequently, the Court corrected itself and held that Meyer's simply having seen a document did not render it admissible. *Id*. at 1163:13-22. After further oral argument, the Court stated – correctly – that an expert "***has to rely upon it*** in order for it to be used to evaluate his" expert opinion. *Id*. at 1169:16-17 (emphasis supplied); *see In re Hanford Nuclear Reservation Litig.*, 534 F.3d 986, 1012 (9th Cir. 2008) (inadmissible hearsay cannot be admitted even as impeachment evidence "unless the testifying expert based his opinion on the hearsay"), *see also Bobb v. Modern Products, Inc.*, 648 F.2d 1051, 1055-56 (5th Cir. 1981) (counsel could not use otherwise inadmissible hearsay "to attempt to impeach the plaintiff's witness" where the expert "did not state that he had relied on the report, even though he had admitted that he had seen it. Until defendant established that plaintiff had relied on the report of the other doctor, it was improper for the defendant to read from that report in cross-examining plaintiff's witness."), *overruled on other grounds by Gautreaux v. Scurlock Marine, Inc.*, 107 F.3d 331 (5th Cir. 1997).[5]

Oracle asks the Court to enforce this correct articulation of the rule regarding the

[5] The balancing test under Rule 703 comes into play only when the expert "*based his opinion* on the hearsay" sought to be admitted. *In re Hanford*, 534 F.3d at 1012 (emphasis supplied); *see also* Fed. R. Evid. 703 advisory committee's note (2000 Amend.) ("Rule 703 has been amended to emphasize that when an expert reasonably *relies on* inadmissible information to form an opinion or inference, the underlying information is not admissible simply because the opinion or inference is admitted.").

admissibility of evidence relied on by an expert during the upcoming trial. *See In re Hanford*, 534 F.3d at 1012.

IV. MOTION NO. 4: TO EXCLUDE RELIANCE ON LATE-PRODUCED CUSTOMER DECLARATIONS

Oracle moves under Fed. R. Civ. P. 37 to exclude reliance on five customer declarations that SAP produced after discovery and after the deadline for serving SAP's damages report. At the November 2010 trial, the Court allowed Clarke to reduce his damages estimate by several millions of dollars in reliance on these inadmissible customer declarations. Jindal Decl., Ex. A (Trial Tr.) at 1523:-23-24. Oracle respectfully contends he should not be allowed to do so.

A. SAP's Late Production of Customer Declarations

SAP first identified SAP TN's customers in a discovery response on July 26, 2007. Dkt. 783, ¶ 22. During the two and a half years of discovery, the parties used that list to identify customers to contact, obtain declarations from, and depose. On April 6, 2010 – five months after the close of discovery, and after the March 26, 2010 due date for SAP's expert rebuttal reports – SAP served a customer declaration by email (Standard Register Co.). *Id.*, ¶ 23. On April 9, 2010 Oracle objected to this declaration as untimely, citing SAP's own December 7, 2009 assertion that customer statements obtained after an expert due date "do not provide a basis for supplementation since there was nothing to prevent [a party] from obtaining them before." Dkt. 783, ¶ 23, Exs. Q, R.

Thereafter, SAP produced four more customer declarations, two on May 7, 2010 (Amstel Rail and NewPage Corp.), one on May 10, 2010 (Rotkappchen) and one on August 4, 2010 (Haworth, Inc,). Dkt. 783, ¶¶ 24-26. At his June 8, 2010 deposition, Clarke testified that he supplemented his expert report to reduce his measure of Oracle's damages in reliance on the late produced customer declarations received to that point. Dkt. 783, ¶ 7, Ex. B (Clarke Depo.) at 28:23-30:6. He provided a third supplement to his expert report on August 4, 2010 relying on the last declaration. Dkt. 783, ¶ 26. At his deposition, Clarke confirmed that "the customers at

issue have been known for quite some time." Dkt. 783, ¶ 7, Ex. B (Clarke Depo.) at 27:24-25.

B. The Court Should Not Permit Clarke To Rely On The Late Produced Documents

Rule 26(a)(2)(B) requires that an expert report "contain a complete statement of all the opinions to be expressed and the basis and reasons therefore," as well as "the data and other information considered by the witness in forming the opinions." Failure to satisfy this rule precludes use of this information under Rule 37 unless the failure is substantially justified or harmless. SAP's failure is neither.

SAP cannot justify Clarke's reliance on these declarations that were served after Clarke's report. Dkt. 783, ¶ 23, Exhibit R. To the contrary, SAP admitted that untimely declarations "do not provide a basis for supplementation." Clarke's reliance on the late production to contest damages prejudices Oracle, which could not test the declarations with discovery. Under the "wide latitude [for] imposing sanctions under Rule 37(c)(1)" for expert disclosure failures, *Maionchi v. Union Pacific Corp.*, No. 03-cv-647, 2007 WL 2022027, at *1 (N.D. Cal. July 9, 2007), Oracle asks that the Court exclude Clarke's opinions offered in reliance on these untimely customer declarations.

V. MOTION NO. 5: TO EXCLUDE TESTIMONY ABOUT INFRINGERS' PROFITS THAT INCLUDES IMPROPER EXPENSE DEDUCTIONS

Oracle is entitled to recover infringers' profits in addition to its actual damages. *See* 17 U.S.C. § 504(b). Infringers' profits are typically measured by identifying all gross revenue associated with infringement, and deducting expenses. *See id.*; Ninth Circuit Manual of Model Jury Instructions, Instruction 17.24. It is the plaintiff's burden to identify relevant revenues, and defendant's burden to prove deductible expenses. 17 U.S.C. § 504(b). But where a defendant willfully infringes, it loses the right to deduct those expenses from its infringers' revenues. *See* Ninth Circuit Manual of Model Jury Instructions, Comment to Instruction 17.27 ("Generally, deductions of defendant's expenses are denied where the defendant's infringement is willful or deliberate.") (citing *Kamar Int'l, Inc. v. Russ Berrie & Co.*, 752 F.2d 1326, 1331-32

(9th Cir.1984); *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 772 F.2d 505, 515 (9th Cir. 1985)).

In pleading guilty to criminal copyright infringement, TN conceded that it "willfully infringed the copyrights of Oracle's copyrighted works . . . for the purpose of commercial advantage and private financial gain." *USA v. TomorrowNow, Inc.*, No. 4:11-cr-642, Plea Agreement, Dkt. No. 13 at 5:13-15. In stipulating to liability, SAP AG and SAP America admitted they "intentionally and materially contributed" to the criminal violations TomorrowNow committed. Jindal Decl., Ex. A (Trial Tr.) at 1448:12-21. In light of these admissions, it is now clear that Clarke may not continue to reduce his damages figure by deducting expenses that defendants' willful infringement disallows. *See* Jindal Decl., Ex. B (Clarke Report) at 241; *see generally id.* at 239-50. Yet, he does. Specifically, he calculated SAP's profits by starting with a revenue figure and applying a profit margin based on his estimate of expenses, including overhead and direct and indirect costs, related to that revenue. *See id.* at241, 246-47. He performed a similar calculation of TomorrowNow's profits. *See id.* at 250. (Meyer also measured a profit margin, for the sake of consistency, but Oracle will seek only the gross revenue number calculated by Meyer at trial.)

Clarke's calculations regarding infringers' profits expressly include deductions for expenses that defendants' willful infringement precludes him from making. As a result, the Court should exclude Clarke's testimony as to those deductions, or any infringer's profits opinions derived from them, from evidence.

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