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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-1658 PJH (EDL)

DEFENDANTS' OPPOSITIONS TO ORACLE'S MOTIONS *IN LIMINE*

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

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I. INTRODUCTION

Four of Oracle's five motions *in limine* repeat, at times verbatim, arguments that Oracle previously raised and the Court twice rejected. Oracle presents no new facts or argument in support of these motions and no reasons why the Court should not deny them a third time. The fifth motion, concerning deductible expenses, should be denied because it is contrary to the law and untimely advances new damages computations and expert opinion.

II. OPPOSITION TO MOTION NO. 1 – CLARKE'S EXPERTISE

Motion No. 1 seeks to exclude "customer behavior" testimony by Defendants' damages expert, Stephen K. Clarke, purportedly because he is not qualified to offer such testimony. The motion offers the same arguments that the Court rejected in denying Oracle's *Daubert* motion and again at trial. ECF No. 914 (9/30/10 Order); *see also* Declaration of Tharan Gregory Lanier ("Lanier Decl.") ¶ 11, Ex. 11 (9/30/10 Hrg. Tr.) at 60:9-15 (finding "all of the experts . . . qualified," no "real basis for excluding" them, and that "[m]ost of the arguments go to either the weight of their opinions and conclusions or to the actual merits of the opinions or conclusions"). Oracle presents no new facts or argument, and its motion should be rejected for the same reasons.

A. Clarke Is Qualified to Opine on Causation.

Clarke's education and training in accounting and economics and his 22 years of experience as a damages expert amply qualify him to testify on the causation issues in this case. *See* ECF No. 854 (9/9/10 Clarke Decl.) ¶ 2 & Ex. 1. Oracle contends that Clarke's opinions are based on some sort of psychological analysis that he is not qualified to perform and that the causation issues in this case require prior expertise in the ERP industry that Clarke does not have. However, Oracle intends to offer a causation analysis of its own through its damages expert, Paul K. Meyer, who has the same kind of education, training, and experience as Clarke and no prior expertise in the ERP industry.[1]

Causation in the context of lost profits and infringer's profits claims is not a psychological analysis but a business and economic one, focused on institutional decision-making. Like Clarke,

[1] Meyer, like Clarke, is a CPA. *See* Lanier Decl. ¶ 7, Ex. 7 (2/23/10 Supp. Expert Report of Paul K. Meyer) ¶ 2.

Meyer considered evidence about customers' decisions and excluded customers from his damages calculation based on that evidence. Lanier Decl. ¶ 12, Ex. 12 (11/12/10 Trial Tr.) at 1296:19-25 (Meyer excluded customers for "causation"); *id.* at 1301:2-20 (Meyer excluded customers based on their unique support service history). In fact, several of Clarke's exclusion pools, including "Decided to Join SAP Prior to Joining TomorrowNow," "Parent Company Mandate," and "Standardization," are based on causation factors that initially were identified by Meyer based on his own review of customer evidence. *Compare* Lanier Decl. ¶ 8, Ex. 8 (Meyer Schedule 30.1.SU) *with* ¶ 9, Ex. 9 (5/7/10 Clarke Report) at 213-15.

As Meyer himself testified, the question of why a company acted as it did is the kind of analysis that accountants and economists perform all the time:

> Q: Do you believe you're qualified to draw conclusions about what SAP thought from looking at the documents of SAP's internal deliberations?
>
> A: Those documents in combination with the testimony from people like Mr. Agassi that says he could have in his mind gotten more customers, I think that's what people like myself consider and come to these determinations. And I'll put that forward, and I'll let others in the record speak to the projections, but that's my perspective on it.

Lanier Decl. ¶ 1, Ex. 1 (5/12/10 Meyer Tr.) at 225:4-14.

As a CPA accredited in business valuation and a damages expert with training in economics, Clarke routinely analyzes markets, competition, economic decision-making, and customer behavior. ECF No. 854 (9/9/10 Clarke Decl.) ¶ 2 & Ex. 1. For two decades, Clarke has valued businesses under the professional standards of the American Institute of Certified Public Accountants, which require him to consider the environment in which a business operates, including the specific industry, geographic market, economic environment, and competition. *Id.* ¶¶ 10-11. During his 22 years as an expert, he has performed hundreds of damages calculations for numerous kinds of businesses. *Id.* He thus has ample experience in causation analysis, which is the threshold issue in any damages analysis. *Id.* ¶ 6, Ex. 2 (Weil, Roman L., et al., *Litigation Services Handbook: The Role of The Financial Expert* (3d ed. 2001)) § 5.3(a) ("The first step in a damages study translates the legal theory of the harmful event into an analysis of the economic impact of that event . . . this step is often called the 'but-for' analysis."). Clarke's training as an

economist further qualifies him to evaluate causation because a key aspect of economics is the study of why consumers (individual and organizational) make certain economic choices. *See, e.g.*, Mark Hirschey, *Managerial Economics* 3 (10th ed. 2003) ("Managerial economics applies economic theory and methods to business and administrative decision making.").

Damages experts like Clarke are capable of evaluating consumer behavior in any industry, including the ERP industry, with the appropriate research and study. As Meyer—who had no experience with the ERP industry before this case—testified at deposition:

> Q: As someone who by your background and experience is not an enterprise software industry expert or an expert on industry enterprise software customer purchasing practices, do you believe you're qualified to respond to Mr. Clarke's report in that regard?
>
> A: If I understand your question, from the issue which I am expert in, which is the high technology area and determining damages and valuation and doing analysis and have looked at hundreds of technology companies, absolutely I'm qualified to do the analysis I've done. And I don't believe it takes someone with that background to do these types of analyses, because they are driven by the facts of this case.

Lanier Decl. ¶ 3, Ex. 3 (5/14/10 Meyer Tr.) at 712:24-713:15 (objection omitted).

By reviewing extensive and customer-specific documentation, Clarke familiarized himself with the pricing structure of ERP software and support services, related costs, and other factors affecting ERP customers. Taking these factors together, and applying his education, training and professional judgment developed over years of practice, he concluded, for example, that for many customers, it simply would be commercially unreasonable to switch software and incur the large related expenses in exchange for the relatively small savings in support costs that TomorrowNow could offer. Lanier Decl. ¶ 9, Ex. 9 (5/7/10 Clarke Report) at 211-12. This kind of analysis of rational market behavior is classic economic analysis.

Case law confirms that Clarke is qualified to opine on causation and that experience in the ERP industry is not necessary to support his opinions. In *Industry Automation Supply, LLC v. United Rentals Highway Techs.*, the court rejected the same argument that Oracle makes here, finding that a business valuation expert with no experience in the field of road construction was qualified to testify on pricing in that market. No. 3:04-CV-99, 2006 WL 5219390, at *1-2 (D.N.D. Feb. 8, 2006) ("[C]ourts routinely allow experts to testify as to subject areas related to,

although not conterminous with, their expertise."). In another closely analogous case, a court admitted testimony from a damages expert with an accounting background who had reviewed contemporaneous records to determine whether the defendant's conduct had caused customers (insurance agents) to terminate their relationships with the plaintiff (a sales-lead-generation firm). *NetQuote, Inc. v. Byrd*, No. 07-cv-00630-DME-MEH, 2008 WL 2442048, at *1 (D. Colo. June 13, 2008) (adopting Magistrate Judge's Report and Recommendation, 2008 WL 2442048, at *6-7 (D. Colo. Apr. 29, 2008)). The court rejected the argument that the expert should be excluded, despite his expertise in business valuations and economic analysis, because he lacked expertise in "insurance lead generation." *Id.* at *7; *see also Conlon Grp. Ariz., LLC v. CNL Resort Biltmore Real Estate, Inc.*, No. CV-08-0965-PHX-FJM, 2009 WL 2259734, at *3 (D. Ariz. July 27, 2009) (denying motion to exclude opinion of damages expert due to alleged lack of industry knowledge about hotel and pool management).

The cases on which Oracle relies, *United States v. Chang*, 207 F.3d 1169, 1172-73 (9th Cir. 2000) and *Rambus Inc. v. Hynix Semiconductor Inc.*, 254 F.R.D. 597, 603-05 (N.D. Cal. 2008), are readily distinguishable because the subject matters at issue were clearly outside the witnesses' expertise. *Chang* addressed the qualifications of a professor in international finance to identify counterfeit foreign securities, 207 F.3d at 1172-73, and *Rambus* addressed an electrical engineering expert's qualifications to opine on the commercial success of the patented product, 254 F.R.D. 603-05. Neither case supports the proposition that a damages expert like Clarke is not qualified to opine on the threshold issue of causation.

B. Clarke's Causation Methodology Is Reliable.

What Oracle characterizes as a "novel," "invented" and "made-up" methodology is nothing of the sort. To prepare his opinions, Clarke and his staff reviewed approximately 12.5 million pages of material, including documents produced during discovery, deposition transcripts, customer declarations, and documents obtained through independent research. Lanier Decl. ¶ 12, Ex. 12 (11/16/10 Trial Tr.) at 1535:25-1537:7. After reviewing this information, Clarke grouped customers exhibiting similar characteristics relevant to purchasing decisions. *Id.* at 1596:18-1597:25 (explaining how customers were grouped after reviewing collected information), 1598:5-

1600:7 (explaining why customers were excluded from damages calculation). Clarke then applied his financial, business, and economic training to the materials to analyze the customers' decision to switch software providers. *See Robert Billet Promotions, Inc. v. IMI Cornelius, Inc.*, Civ. A. No. 95-1376, 1998 WL 151806, at *5 (E.D. Pa. Apr. 1, 1998) (damages opinion based on client interviews, documents produced in course of discovery, industry documents, damages treatise, and accounting rules for measuring damages was admissible; criticism of source of expert's damages assumptions and information went to weight).

Although Oracle disagrees with the results of Clarke's causation analysis, it cannot seriously contend that customer-by-customer causation analysis is not an accepted or reliable methodology. Indeed, courts routinely accept this approach. *See, e.g.*, *Engineered Prods. Co. v. Donaldson Co., Inc.*, 313 F. Supp. 2d 951, 1011 (N.D. Iowa 2004) (approving accountant's customer-by-customer lost profits analysis); *NetQuote*, 2008 WL 2442048, at *7 (admitting causation testimony of damages expert who performed customer-by-customer review).

Clarke's exclusion pools (which just as easily could be called groups, categories, or some similar term) are simply a logical method of organizing the vast amount of causation data that he reviewed. ECF No. 854 (9/9/10 Clarke Decl.) ¶¶ 7-8. Indeed, it may be the only practical way to analyze 358 customers and present the results to the jury in a comprehensible form. *Id.* This is an appropriate role for an expert and, far from usurping the role of the jury, "help[s] the trier of fact to understand the evidence or to determine a fact in issue." Fed. R. Evid. 702.

Oracle purports to dispute Clarke's methodology but does not contend that the underlying causation data is unreliable, that Clarke's analysis of it was not thorough, or that his exclusion pools are not supported by sound business and economic theory and the data. Oracle's real dispute is with not Clarke's methods but with his conclusions. As the Court correctly ruled twice before, that is not grounds for exclusion, but a matter for cross-examination.

III. OPPOSITION TO MOTION NO. 2 – THIRD PARTY MARKET

Motion No. 2 seeks to exclude testimony by Clarke as to the third party support market, purportedly because he is not qualified to offer such testimony. This motion also is based on the same arguments that the Court rejected in denying Oracle's *Daubert* motion and again at trial.

ECF No. 914 (9/30/10 Order); *see also* Lanier Decl. ¶ 11, Ex. 11 (9/30/10 Hrg. Tr.) at 60:9-15. Oracle offers no new facts or argument, and its motion should be rejected for the same reasons.

A. Clarke Is Qualified to Opine on the Third Party Support Market.

As in its Motion No. 1, Oracle relies on the same flawed argument regarding Clarke's prior knowledge of the ERP software and support market. As discussed above, damages experts with Clarke's education, training, and years of experience in accounting, business valuation, and economics are competent to analyze and opine on any industry; courts routinely admit such testimony where the expert had no prior knowledge of an industry. *Supra* at 3-5. Indeed, Oracle's own expert, who has no specific expertise in ERP software, considered himself qualified to analyze the third party support market and opine that "these companies are not acceptable non-infringing alternatives on any kind of scale." Lanier Decl. ¶ 2, Ex. 2 (5/13/10 Meyer Tr.) at 574:14-575:5. The Court should reject Oracle's argument as it did at the first trial. ECF No. 1146 (Jindal Decl.) ¶ 2, Ex. A (11/16/10 Trial Tr.) at 1570:3-24 (overruling objection based on purported lack of expertise).

B. Clarke's Analysis of the Third Party Support Market Is Reliable.

Oracle's argument that Clarke's analysis is "nothing more" than a "cherry picked collection" of information "found on the internet" is belied by Clarke's report, which provides a detailed, 50-page analysis of the third party support market. Lanier Decl. ¶ 9, Ex. 9 (5/7/10 Clarke Report) at 139-92. In over 300 footnotes, Clarke cites numerous sources, including: (a) Oracle's documents; (b) Defendants' documents; (c) customer documents; (d) industry publications such as *Infoworld.com*, *Computerworld.com*, *CIO Decisions*, *Computer Business Review*, *Information Week*, *Network World*, and *ITJungle*; (e) business publications such as *Business Week*, *CFO Europe*, *Investors Business Daily*, and the *Wall Street Journal*; (f) analyst publications from AMR Research, Credit Suisse Equity Research, Forrester Research, and Gartner Research; (g) vendor websites; and (h) user publications such as *JDETips Journal*. *Id.*

Oracle fails to support the argument that the information in this 50-page, 300-footnote analysis was "cherry picked." Even a cursory review proves the falsity of the claim that Clarke's methodology consists of regurgitating statements on vendors' websites. Clarke identifies relevant

third party vendors over time, provides detailed descriptions of their services and pricing structure compared with TomorrowNow's, and analyzes the extent to which Oracle, TomorrowNow, customers, analysts, and others considered each vendor to compete with TomorrowNow.[2]

Oracle criticizes Clarke for not "testing" whether third party support providers really provide the services described on their websites, but, in so doing, misrepresents his testimony. For example, Oracle claims that Clarke testified that he did not verify "what specific products vendors supported," but the actual question to Clarke was broader—*i.e.*, whether he verified that vendors "serviced all versions of all products" within the relevant product families. Lanier Decl. ¶ 6, Ex. 6 (6/9/10 Clarke Tr.) at 550:4-21. Clarke responded that that was not necessary, since even TomorrowNow did not support all versions of all products. *Id.* Similarly, while he did not speak with customers, Clarke reviewed customer depositions, declarations, and documents. *Id.*; *see also* Lanier Decl. ¶ 11, Ex. 11 (11/16/10 Trial Tr.) at 1535:23-1537:7.

Clarke also reasonably distinguished between true marketing claims, which may be subject to puffery, and statements regarding which specific services a vendor provides, which are less likely to be the subject of puffery. Oracle's unwarranted assumption that companies typically lie about the services they offer is not a basis for excluding Clarke. *See Semerdjian v. McDougal Littell*, 641 F. Supp. 2d 233, 243 (S.D.N.Y. 2009) (information from vendor websites sufficient under Rule 703; overruling objections to economist's testimony regarding market for copyrighted images because he had reviewed "various sources" to familiarize himself with industry practice, including industry documents and relevant industry websites). At best, Oracle's issues go to weight, not admissibility, and its motion should be denied.

IV. OPPOSITION TO MOTION NO. 3 – HEARSAY THROUGH EXPERTS

Motion No. 3 seeks to exclude otherwise inadmissible evidence that Defendants may offer through experts. This motion also rehashes arguments that Oracle made at trial that the Court properly rejected. Clarke's testimony is not a "conduit" for hearsay. As it did at trial, Oracle fails to recognize the distinction between Clarke's conclusions (which the Court correctly ruled are

[2] Oracle's cites are inapposite because they address an expert's "regurgitation" or "mere recitation" of information, without accompanying analysis. That is not what Clarke has done.

admissible) and the evidence on which they are based (much of which is admissible and some of which is not). Similarly, with regard to the use of otherwise inadmissible evidence to cross-examine Meyer, Oracle ignores the distinction that the Court properly drew at trial between evidence that Meyer merely saw but did not consider and evidence that he actually considered.

A. The Court Properly Permitted Clarke to Testify to His Opinions.

The rules governing expert reliance on hearsay are well established. Under Rule 703, an expert may provide an opinion based on inadmissible evidence (including hearsay) as long as it is of a type reasonably relied on by experts in the field. Fed. R. Evid. 703. The evidence does not become admissible simply by virtue of the expert's reliance on it; it becomes admissible only if the court finds that its probative value substantially outweighs its prejudicial effect. *Id.* But the *opinion itself* is admissible regardless of the admissibility of the underlying evidence. *Id.* ("An expert may base an opinion on facts or data in the case that the expert has been made aware of or personally observed. If experts in the particular field would reasonably rely on those kinds of facts or data in forming an opinion on the subject, they need not be admissible *for the opinion to be admitted*.") (emphasis added). For example, in *Weiss v. Allstate Ins. Co.*, the plaintiffs' expert relied on an Accuweather report in forming his opinion on the cause of the property damage at issue in the case. 512 F. Supp. 2d 463, 477 (E.D. La. 2007). While ruling that the weather report was inadmissible hearsay, because property damage experts regularly rely on such reports, the court held that the opinion itself was admissible and that the expert could inform the jury that he relied on the report. *Id.* Similarly, in *Bartlett v. Mut. Pharm. Co.*, the court permitted expert testimony as to the number of users of a particular drug even though the expert obtained the number from a hearsay FDA document. 742 F. Supp. 2d 182, 191 (D.N.H. 2010). The court noted that because medical experts routinely rely on FDA materials in forming their opinions, the "opinion may be admitted even though it is based on hearsay." *Id.*; *see also Valley Forge Ins. Co. v. Zurich Am. Ins. Co.*, No. C 09-2007 SBA, 2012 U.S. Dist. LEXIS 8378, at *7 (N.D. Cal. Jan. 25, 2012) ("[Rule 703] permits experts to render opinions even if based on hearsay."); *Martinez-Hernandez v. Butterball, L.L.C.*, No. 5:07-CV-174-H, 2011 U.S. Dist. LEXIS 111000, at *28-29 (E.D.N.C. Sept. 26, 2011) (permitting expert testimony based in part on hearsay declarations).

Oracle fails to distinguish between admissible expert opinion and inadmissible evidence on which it may be based. At the first trial, Oracle sought to prevent Clarke from testifying to any conclusions from purportedly inadmissible evidence, as well as to the contents of inadmissible evidence itself. The Court properly rejected that argument and, consistent with Rule 703, held that while Clarke could not disclose the details of inadmissible documents, he could "testify to the conclusions he drew from those." ECF No. 1146 (Jindal Decl.) ¶ 2, Ex. A (11/16/10 Trial Tr.) at 1594:14-1596:10. Oracle repeats this error in its motion, arguing not only that Clarke may not disclose inadmissible evidence, but also that he may not testify to, for example, the meaning of a particular exclusion pool, even if he does so without disclosing the details of any out-of-court statement or otherwise inadmissible evidence. For example, Oracle argues that Clarke's testimony regarding the meaning of the Service Evaluation pool should have been excluded, even though the testimony does not disclose the details of any document, including any inadmissible document. Pl.'s MIL No. 3 at 12. The testimony was: '"Service Evaluation' means that the company was out looking at other vendors, other ways to get its support for its Oracle systems. There were 41 of those." ECF No. 1146 (Jindal Decl.) ¶ 2, Ex. A (11/16/10 Trial Tr.) at 1599:18-21.

Oracle's argument is wrong. If accepted, it would eviscerate the rule that an expert's opinion is admissible even if the underlying evidence is not. The Court also should reject Oracle's misleading argument that, to be admissible, expert opinion must be based on evidence for which a witness first has laid a foundation at trial. This is contrary to Rule 703 and, again, ignores the distinction between the opinion itself, which is admissible, and the underlying evidence on which it is based, which may or may not be.

Therasense, Inc. v. Becton, Dickinson and Co. is readily distinguishable. No. C 04-02123 WHA, 2008 WL 2323856, at *1-3 (N.D. Cal. May 22, 2008). There, the court addressed "the attempted spoon-feeding of client-prepared and lawyer-orchestrated 'facts' to a hired expert who then 'relies' on the information to express an opinion." *Id.* at *1. The case involved an expert's reliance on experiments conducted by the party that hired him, in secret, solely for the purpose of the litigation, out of the presence of the expert, concealed from the opposing party under a claim of privilege, and only disclosed after the close of discovery. *Id.* at *3. In that context, the court

held the expert's opinion inadmissible because the plaintiff "clearly intended to thwart discovery into the foundation" for the experiments, no professional could reasonably rely on such a "rigged and biased source of information," and the probative value of the testimony would be far outweighed by its prejudicial effect. *Id.* at *2-3.

Here, by contrast, Clarke's causation opinion is based on his review of millions of pages of contemporaneous documents (most of them Oracle's own) disclosed during discovery and of the type reasonably relied on by accountants, economists, and other damages experts. Lanier Decl. ¶ 11, Ex. 11 (11/16/10 Trial Tr.) at 1535:23-1537:7. There was no "spoon-feeding" of client or lawyer-prepared facts that would undermine the reliability of Clarke's opinion.

As discussed in Defendants' Trial Brief, much of the evidence on which Clarke relied is admissible. ECF No. 1139 (4/26/12 Defs.' Trial Brief) at 10-17. But, as the Court correctly ruled at the last trial, even if some is not, the opinions themselves are still admissible.

B. Oracle Misstates the Court's Ruling on Cross-Examination with Hearsay.

Oracle does not dispute that a party may cross-examine an opposing expert with hearsay evidence if the expert relied on the evidence as a basis for his opinion. Thus, Oracle's argument is limited to excluding cross-examination with hearsay evidence that an expert "considered" but on which he did not ultimately rely. Oracle misstates the Court's ruling on this issue.

In each of the three instances about which Oracle complains, the Court admitted evidence based on Meyer's testimony that he had "considered" it in formulating his opinions. ECF No. 1146 (Jindal Decl.) ¶ 2, Ex. A (11/9/10 Trial Tr.) at 1143:24-1145:24, 1151:20-1152:16, 1156:20-1157:14. Oracle argues that the Court later "corrected itself" by ruling that Meyer simply having seen a document did not render it admissible. Now, Oracle treats "merely having seen" a document as synonymous with having considered it in formulating an opinion, and ignores the distinction that the Court properly drew between those two concepts. *Id.* at 1163:21-22 ("It's not the same thing. He has seen it before is not quite the same thing as he has considered it.").

In *United States v. A & S Council Oil Co.*, the Fourth Circuit held that, under Rule 705, the defendant should have been permitted to cross-examine an expert regarding inadmissible evidence that the expert had chosen not to use as a basis for his opinion. 947 F.2d 1128, 1135

(4th Cir. 1991). The court reasoned that because the expert knew of the evidence but did not rely on it, he had "necessarily discounted" it. *Id.* at 1135. Accordingly, the defendant "should have been permitted to fully explore the bases of Rollins' opinion, including inquiry about [the inadmissible evidence]." *Id.* ("Rule 703 creates a shield by which a party may enjoy the benefit of inadmissible evidence by wrapping it in an expert's opinion; Rule 705 is the cross-examiner's sword, and, within very broad limits, he may wield it as he likes.").

The Fourth Circuit's reasoning applies with equal force here. That Meyer considered certain evidence but chose not to rely on it goes to his credibility and the reliability of his opinions. Rules 703 and 705 permit cross-examination with inadmissible evidence for those purposes. *See id.* ("Full examination of the underpinnings of an expert's opinion is permitted because the expert, like all witnesses, puts his credibility in issue by taking the stand."); *see also Ratliff v. Schiber Truck Co.*, 150 F.3d 949, 955 (8th Cir. 1998) (upholding district court's admission of otherwise inadmissible report to cross-examine testifying expert, where expert reviewed report and implicitly rejected its contents by coming to opposite conclusion; "counsel was free to cross-examine the expert as to all documents he reviewed in establishing his opinion"); *Vodusek v. Bayliner Marine Corp.*, 71 F.3d 148, 157 (4th Cir. 1995) (upholding admission of otherwise inadmissible transcripts to cross-examine testifying expert, where expert had reviewed and disagreed with statements in transcripts).

Defendants are not aware of any case, and Oracle has not cited any, that holds otherwise. Oracle's cases are not on point. In *In re Hanford Nuclear Reservation Litig.*, the expert was cross-examined with deposition testimony that he never saw, let alone considered or relied on. 534 F.3d 986, 1011-12 (9th Cir. 2008). In *Bobb v. Modern Prods., Inc.*, the expert testified that he had seen the report at issue, but there was no testimony either way as to whether he considered or relied on it. 648 F.2d 1051, 1055-56 (5th Cir. 1981), *overruled on other grounds by Gautreaux v. Scurlock Marine, Inc.*, 107 F.3d 331 (5th Cir. 1997). Oracle's cases thus support the Court's ruling that merely having seen an inadmissible document is not sufficient to permit cross-examination on it. But they do not support the position that Defendant may not cross-examine Meyer on evidence that he considered but ultimately chose to ignore.

V. OPPOSITION TO MOTION NO. 4 – CUSTOMER DECLARATIONS

Motion No. 4 seeks to exclude five customer declarations on which Clarke relied. Like the first three motions, Motion No. 4 raises an issue that the Court considered and rejected—the admissibility of five customer declarations provided to Oracle before the August 5, 2010 pretrial disclosures deadline and limited revisions to Clarke's opinions based thereon. Oracle's motion should be denied because the disclosures all were timely supplements under Rule 26(e) of the Federal Rules of Civil Procedure. The Court properly ruled that Clarke may testify based on the declarations and should uphold its previous ruling.

A. The Court Previously Admitted Clarke's Opinions Related to the Customer Declarations.

Oracle raised this objection at the last trial, and the Court properly ruled that Clarke could testify to his opinions. Lanier Decl. ¶ 11, Ex. 11 (11/16/10 Trial Tr.) at 1518:18-1524:1. Oracle had a full and fair opportunity to argue for exclusion and presented all of the arguments it now repeats. *Id.* After considering Oracle's objections, the Court ruled that: "[Clarke] can refer to [the declarations]. They will not come in as evidence." *Id.* at 1523:23-24. Oracle presents no reason or authority for why the Court should change its decision. Indeed, the only case Oracle cites held the opposite of what Oracle urges the Court to find here. *See Maionchi v. Union Pac. Corp*., No. C 03-0647 JF PVT, 2007 WL 2022027, at *1 (N.D. Cal. July 9, 2007) (denying motion to exclude allegedly late-disclosed expert opinion).

B. Clarke's Supplements Were Timely Disclosed under Rule 26(e).

The Court's prior ruling was correct because Clarke's supplemental opinions were timely disclosed under Rule 26(e). As long as supplemental reports do not advance new theories or opinions, experts can revise or correct their reports until the deadline for pretrial disclosures. Fed. R. Civ. P. 26(e); *see also Abila v. United States*, No. 2:09-cv-01345-KJD-LRL, 2011 U.S. Dist. LEXIS 42944, at *5 (D. Nev. Apr. 4, 2011) (denying motion to exclude supplemental report timely served before deadline); *United States v. 14.3 Acres of Land*, No. 07cv886-W(NLS), 2008 U.S. Dist. LEXIS 66667, at *17, 23-24 (S.D. Cal. Aug. 29, 2008) (same).

Because all of the disputed declarations and accompanying supplemental reports were

provided before the August 5, 2010 pretrial disclosure deadline, they were timely and, as the Court previously ruled, should not be excluded. ECF No. 325 (6/11/09 Order) at 2 (setting August 5, 2010 as pretrial disclosures deadline); Pl.'s MIL No. 4 at 14 (showing supplements were served on or before August 4, 2010).

Moreover, unlike Meyer's new April 20, 2012 Report (discussed in detail in ECF No. 1142 (4/26/12 Defs.' MIL No. 1)), the disputed revisions to Clarke's report contain no new theories or opinions. Clarke's methodology always focused on whether customers should be excluded from or included in his damages calculations based on the available evidence (*see, e.g.*, ECF 932 (Defs.' Opp. to *Daubert*) at 12-14), and these minor supplements merely updated the exclusion of a small number of customers based on newly-acquired information.[3] Lanier Decl. ¶ 11, Ex. 11 (11/18/10 Trial Tr.) at 1784:3-1790:18. This was a permissible supplement. *See, e.g.*, *Capitol Justice LLC v. Wachovia Bank, N.A.*, 706 F. Supp. 2d 34, 39-40 (D.D.C. 2009) (holding revised report that applied same methodology, but changed only inputs and calculations, was timely supplement); *see also Abila*, 2011 U.S. Dist. LEXIS 42944, at *5 (finding report updating damages numbers was timely supplement); *14.3 Acres of Land*, 2008 U.S. Dist. LEXIS 66667, at *16, 23-24 (finding reports updating underlying information were timely supplements).

C. Oracle Suffered No Prejudice.

Oracle's only articulated prejudice—that it could not "test the declarations" without further discovery—fails for the same reasons it did previously. First, because Oracle received four of the declarations by Meyer's May 12-14, 2010 deposition, Meyer had time to consider the declarations and revise his opinions if necessary before pretrial disclosures. Pl.'s MIL No. 4 at 14 (noting that Oracle received Standard Register, Amsted Rail, NewPage, and Rotkappchen declarations on or before May 10, 2010); *see also* Lanier Decl. ¶ 11, Ex. 11 (11/16/10 Trial Tr.) at 1519:11-16; 1520:6-9. Indeed, Meyer revised his damages calculation before his deposition to remove customer Cowlitz County based on another declaration, not raised in Oracle's motion, where that declaration "related to whether or not they would have stayed with Oracle and been an

[3] Indeed, one supplement simply disclosed that the declaration "further" supported his *already issued opinion*; Clarke's numbers did not change. Lanier Decl. ¶ 10; Ex. 10 (8/4/10 Clarke Supp. Report).

Oracle customer but for TomorrowNow."[4] Lanier Decl. ¶¶ 1, 4, Ex. 1 (5/12/10 Meyer Tr.) at 95:17-19; 97:22-98:12; Ex. 4 (Defs.' Depo. Ex. 2019) at Line 1. Meyer could have revised his opinions based on the declarations at issue, but did not.

Second, as noted during oral argument, these four declarations also were available before Clarke's June 8-10, 2010 deposition, and Oracle had ample opportunity to question him about them. Lanier Decl. ¶ 11, Ex. 11 (11/16/10 Trial Tr.) at 1520:16-23; *see also Maionchi*, 2007 WL 2022027, at *1 (denying motion to exclude late opinion because, *inter alia*, party could depose expert on opinions). Instead, Oracle limited its questions to how and when the declarations were obtained. Lanier Decl. ¶ 5, Ex. 5 (6/8/10 Clarke Tr.) at 24:23-28:18. This is unsurprising. Oracle had no interest in discovery regarding the content of the declarations—which discussed reasons customers left Oracle or purchased SAP software other than TomorrowNow—because it would have led Meyer to reduce his inflated damages number. Oracle wishes only to prevent Clarke from relying on them and the jury from learning about them.

Third, Oracle could have obtained informal discovery from the customers at any time. Indeed, two of the disputed declarations supplemented declarations Oracle already obtained. ECF No. 865 (9/9/10 Wallace Decl.) ¶ 18, Ex. 18 (11/11/09 Standard Register Decl.); Ex. 17 (7/21/09 Amsted Rail Decl.); Lanier Decl. ¶ 11, Ex. 11 (11/16/10 Trial Tr.) at 1523:15-19.

Moreover, Oracle's claim of harm falls flat given its failure to submit a timely motion to compel this allegedly vital discovery. As noted above, Oracle received four of the disputed declarations and Clarke's supplements by May 10, 2010. *See* Pl.'s Mot. No. 4 at 14. According to the Civil Local Rules, Oracle had until at least June 25, 2010, if not July 2, 2010, to bring a

[4] The history of this declaration demonstrates one reason why Defendants obtained the declarations at issue. Oracle's counsel provided a draft declaration to Cowlitz County. The draft stated that Cowlitz County would have remained on Oracle support if TomorrowNow had not been available. Cowlitz County deleted that statement and replaced it with a statement to the effect that had TomorrowNow not been available, it would have "elected not to renew" support with Oracle and "relied on its own in-house technicians . . . ." Oracle's counsel told Cowlitz County that this statement was not "necessary" and provided a new draft omitting any discussion of what the customer would have done had TomorrowNow not been available. ECF No. 865 (9/9/10 Wallace Decl.) ¶ 19, Ex. 19 (3/4/10 Cowlitz County Decl.). Cowlitz County signed the new declaration. Oracle's counsel provided it to Meyer, and he then included the customer in his lost profits calculation. Had Defendants not contacted Cowlitz County themselves, the misleading nature of this declaration never would have come to light. *Id.*

motion to compel the discovery it now insists was necessary to "test the declarations." Civil L.R. 37-3 (motions to compel must be filed within 7 days of expert discovery cut-off); ECF No. 586 (12/21/09 Order) at 2 (setting June 18, 2010 as expert discovery cut-off); ECF No. 720 (6/17/10 Order) at 2 (extending deadline to June 25, 2010 for limited purpose). It did not. Failure to prosecute the discovery undermines Oracle's current claim to have suffered harm. *Freeman v. Allstate Life Ins. Co.*, 253 F.3d 533, 537 (9th Cir. 2001) (upholding denial of motion to exclude untimely disclosed evidence, where plaintiff failed to prosecute issue pursuant to local rules).

Finally, the Haworth declaration, signed on July 27, 2010 and served on August 4, 2010, was merely confirmatory evidence supporting positions Clarke already had taken—that Haworth should be excluded from infringer's profits—resulting in no adjustment to his damages opinions or calculations. Lanier Decl. ¶ 10, Ex. 10 (8/4/10 Clarke Supp. Report) (stating that Haworth "declaration is *further support for* my exclusion of the customer from my disgorgement damages calculation") (emphasis added). All of the facts related in the declaration regarding Haworth's reasons for leaving Oracle support and choosing SAP software also can be found in Oracle's own admissions. *See, e.g.*, ECF No. 865 (9/9/10 Wallace Decl.) ¶ 16, Ex. 16 (7/27/10 Haworth Decl.) ¶¶ 5-6; *see also* ECF No. 1139 (4/26/12 Defs.' Trial Brief) at 13-15. Such a supplement, in which Clarke's damages numbers are not even updated, could not have caused Oracle any harm.

VI. OPPOSITION TO MOTION NO. 5 – DEDUCTIBLE EXPENSES

Motion No. 5 seeks to exclude infringer's profits calculations by Clarke that include any cost deductions from Defendants' gross revenues.[5] The Court should deny the motion because it is based on an erroneous statement of the law and because it advances new, inconsistent attorney argument and expert opinion barred by the Federal Rules, the Court's orders, and equity.

A. Willful Infringers Are Not Barred from Deducting Expenses.

The Court should not preclude Clarke from opining on Defendants' deductible expenses because there is no statutory basis for denying an accused willful infringer the opportunity to deduct expenses from revenues attributable to infringement. Indeed, the Copyright Act allows a

[5] Defendants' Motion *in Limine* No. 1 anticipates and responds in detail to the arguments Oracle advances, and Defendants incorporate their motion by reference herein. ECF No. 1142 (4/26/12 Defs.' MIL No. 1) at 12-14.

copyright owner to recover only an infringer's "profits," not its gross revenues. 17 U.S.C. § 504(b). Nothing in the Act defines "profits of the infringer that are attributable to the infringement" differently if the infringement is willful. *Id.*

Oracle relies on *dicta* in Ninth Circuit cases and the Comment to Instruction 17.27 of the Ninth Circuit Model Civil Jury Instructions ("Willful Infringement") for the proposition that "where a defendant willfully infringes, it loses the right to deduct [] expenses from its infringers' revenues." Pl.'s MIL No. 5 at 15; Ninth Circuit Manual of Model Jury Instructions, Instruction 17.27, Comment (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). Notably, the Model Instruction on "Defendant's Profits" expressly permits deducting expenses, without reference to the nature of the infringement, and no Model Instruction provides otherwise. *See* Ninth Circuit Manual of Model Jury Instructions, Instruction 17.24. The passing reference in Instruction 17.27's Comment to the deductibility of expenses is not an authoritative statement of the law. *Cf.* Ninth Circuit Manual of Model Jury Instructions, Introduction ("The instructions in this Manual are models. . . . The Ninth Circuit Court of Appeals does not adopt these instructions as definitive."); *Dang v. Cross*, 422 F.3d 800, 805 (9th Cir. 2005) ("[T]he 'use of a model jury instruction does not preclude a finding of error.'") (citation omitted). And the Ninth Circuit case law on which the Comment and Oracle rely does not hold that deductions are disallowed for alleged willful infringers. In fact, the only published decision in this Circuit to have squarely addressed the issue held that a willful infringer is not prohibited from deducting expenses to calculate profits. *See ZZ Top v. Chrysler Corp*., 70 F. Supp. 2d 1167, 1168 (W.D. Wash. 1999).

In *Kamar*, the Ninth Circuit considered the plaintiff's argument that the defendant, an alleged willful infringer, should not be allowed to deduct "overhead" expenses in calculating infringer's profits. 752 F.2d at 1331. The plaintiff relied on language from a Second Circuit case, *Sheldon v. Metro-Goldwyn Pictures Corp*., 106 F.2d 45, 51 (2d Cir. 1939), *aff'd*, 309 U.S. 390 (1940), to the effect that a "plagiarist may not charge for his labor." *Id.* at 51. Having determined that the defendant was not a willful infringer, however, it was unnecessary for the Ninth Circuit to decide whether willful infringers are precluded from deducting overhead

expenses from gross revenues attributable to infringement. *Kamar*, 752 F.2d at 1331. Still, the Ninth Circuit expressed disagreement with the plaintiff's interpretation of *Sheldon*, finding that the Second Circuit's decision "does . . . not disallow all overhead" expenses.[6] *Id.* at 1331. Since the Ninth Circuit's decisions in *Kamar* and *Frank Music* (*see infra*), the Second Circuit now has confirmed that even willful infringers may deduct expenses in calculating profits. *Hamil Am., Inc. v. GFI*, 193 F.3d 92, 107 (2d Cir. 1999), *cert. denied*, 528 U.S. 1160 (2000) (holding, post-*Sheldon*, that accused infringers, whether willful or not, may deduct expenses).

As in *Kamar*, the Ninth Circuit in *Frank Music* also did not hold that willful infringers may not deduct expenses in an infringer's profits calculation. 772 F.2d at 515. In affirming the district court's finding that the infringement was not willful, the Ninth Circuit never reached the issue of whether a willful infringer should be denied certain deductions. *Id.* Although the *Frank Music* court noted in *dicta* that overhead expenses "may be deducted from gross revenues to arrive at profits, at least where the infringement was not willful, conscious, or deliberate," this passing reference was not a holding of the case. *Id.* (citing *Kamar*, 752 F.2d at 1331). Further, the court's reliance on *Kamar* in support of this comment was misplaced in any event because *Kamar* did not hold that a willful infringer cannot deduct expenses.

Ultimately, the only court in the Ninth Circuit ever to squarely address whether a willful infringer is precluded from deducting expenses held that a willful infringer can deduct overhead in calculating profits. *ZZ Top*, 70 F. Supp. 2d at 1168. There, the court correctly observed that there is no statutory basis for denying a deduction of overhead costs as punishment to a willful infringer, since: (1) Section 504(b) of the Copyright Act allows plaintiffs to recover only profits, not gross revenues; (2) not permitting the defendant to deduct overhead expenses effectively serves as an "affirmative punishment" of defendants; and (3) Congress specifically addressed punishment of willful infringers under Section 504(c) of the Act, which deals with statutory damages. *Id.* (citing 17 U.S.C. §§ 504(b)-(c)). The court also noted that *Frank Music* and *Kamar*

[6] An independent reading of *Sheldon* confirms that it did not hold that willful infringers are automatically precluded from deducting expenses in an infringer's profits analysis. *See* 106 F.2d at 51, 54 (commenting in apportionment analysis, not deductible expenses analysis, that "plagiarist may not charge for his labor," and finding that willful infringer could deduct overhead expenses as long as they "assisted in the production of the infring[ing] [product]").

merely left open the possibility that deducting overhead expenses may be precluded if the infringement is intentional, but did not hold and did "not mandate or even endorse such a preclusion." *Id.* at 1169. Based on this reasoning, the court concluded that willful infringers may deduct overhead expenses from infringer's profits under Section 504(b). *See id.*

No Ninth Circuit case holds that willfulness precludes deducting expenses.[7] As a result, Oracle's claim that Defendants admitted to willful copyright infringement is irrelevant. To prevent Clarke from opining on deductible expenses and permit Oracle and its expert to advance a new infringer's profits claim that no longer deducts expenses would double both experts' infringer's profits calculation, effectively imposing double damages as punishment for the alleged willful infringement—an effect that contravenes Section 504(b)'s plain language.

Allowing Defendants to offer evidence to prove their deductible expenses not only is required by law, but also is fair. As Oracle recognizes, Clarke carefully calculated Defendants' expenses to establish to a statistical certainty that he deducts only expenses that are "related to" the accused infringing revenues. Pl.'s MIL No. 5 at 16. In measuring only "variable" expenses incurred in producing the accused revenues, Clarke eliminates concerns that permitting deduction of overhead expenses could produce a windfall to a defendant, effectively permitting ill-gotten revenues to offset overhead expenses that a defendant would have incurred even without the infringing revenues. *See, e.g.*, *Frank Music*, 772 F.2d at 515-16 (holding that defendant may deduct expenses that "actually contributed to the production" of infringing work).

B. Oracle May Not Reverse Its Approach on Deducting Expenses.

Although Oracle argued throughout the case that Defendants engaged in willful infringement, *see, e.g.*, ECF No. 182 (Third Am. Compl.) ¶ 121, it never posited that Defendants cannot, as alleged willful infringers, deduct expenses in calculating infringer's profits. ECF No. 747 (Joint Prop. Jury Instr.) at 80 (for infringer's profits instruction, not offering language regarding ability of willful infringers to deduct expenses). Instead, as described in detail in

[7] Although one court outside this Circuit, without independent analysis, erroneously interpreted *Frank Music* as holding that willful infringers may not deduct overhead expenses, *see Saxon v. Blann*, 968 F.2d 676, 681 (8th Cir. 1992), Oracle cites no authority (and Defendants have not located any) to support its claim that willful infringers are prohibited from deducting expenses altogether.

Defendants' Motion *in Limine* No. 1, Oracle and its expert repeatedly offered an infringer's profits calculation that deducts expenses from gross revenues according to the 50 percent profit margin originally computed by Clarke. ECF No. 1142 (4/26/12 Defs.' MIL No. 1) at 2-4, 10-12; *see also* Pl.'s MIL No. 5 at 16 ("Meyer also measured a profit margin . . . .").

Having consistently advocated an infringer's profits claim that deducts expenses from gross revenues, Oracle is judicially estopped from now reversing course entirely by arguing that Defendants, as alleged willful infringers, may not seek to deduct their expenses at all. ECF No. 1142 (4/26/12 Defs.' MIL No. 1) at 9-12; *Hamilton v. State Farm Fire & Cas. Co.*, 270 F.3d 778, 782 (9th Cir. 2001) (citations omitted). Further, where both Oracle and Meyer failed to disclose, without justification and to Defendants' detriment, an infringer's profits claim comprising "only the gross revenue" attributable to infringement, Pl.'s MIL No. 5 at 16, such claim now is untimely and subject to automatic exclusion under Rule 37 of the Federal Rules of Civil Procedure. ECF No. 1142 (4/26/12 Defs.' MIL No. 1) at 5-9, 11-12; Fed. R. Civ. P. 37(c)(1).

VII. CONCLUSION

For the reasons above, Oracle's motions should be denied.

Dated: May 10, 2012

JONES DAY

By: /s/ Tharan Gregory Lanier
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