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16 UNITED STATES DISTRICT COURT
 17 NORTHERN DISTRICT OF CALIFORNIA
 18 SAN FRANCISCO DIVISION

19 ORACLE USA, INC. *et al.*,
 20 Plaintiffs,
 21 v.
 22 SAP AG, *et al.*,
 23 Defendants.

No. 07-CV-01658 PJH (EDL)

**ORACLE’S MOTION TO COMPEL
 PRODUCTION OF DAMAGES-
 RELATED DOCUMENTS AND
 INFORMATION**

[REDACTED]

Date: November 24, 2009
 Time: 9:00 a.m.
 Place: E, 15th Floor
 Judge: Hon. Elizabeth D. Laporte

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1 **NOTICE OF MOTION AND MOTION**

2 PLEASE TAKE NOTICE THAT on November 24, 2009 at 9:00 a.m., or as soon
3 thereafter as the matter may be heard, in the United States District Court, Northern District of
4 California, San Francisco Division, located at 450 Golden Gate Ave., San Francisco, CA,
5 Courtroom E, 15th Floor, before the Hon. Elizabeth D. Laporte, Plaintiffs Oracle USA, Inc.,
6 Oracle International Corp., Oracle EMEA Ltd., and Siebel Systems, Inc. will move to compel
7 Defendants to produce documents as specified in the ensuing Memorandum of Points and
8 Authorities. This motion is based upon this Notice of Motion and Motion, the accompanying
9 Memorandum of Points and Authorities, the accompanying Declaration of Amy Donnelly, and
10 upon such other matters presented to the Court at the time of the hearing.

11 **RELIEF SOUGHT**

12 Pursuant to Fed. R. Civ. P. 37,¹ Plaintiffs Oracle USA, Inc., Oracle International
13 Corp., Oracle EMEA Ltd., Siebel Systems, Inc. (collectively, “Oracle” or “Plaintiffs”) seek to
14 compel Defendants SAP AG, SAP America, Inc. (together, “SAP”), and TomorrowNow, Inc.
15 (“SAP TN,” and together with SAP, “Defendants”) to produce documents needed to prove
16 Oracle’s damages claims at trial. Specially, Oracle seeks to compel production of (1) a
17 supplemental response to Interrogatory 69 from Oracle’s Fourth Set of Interrogatories to
18 TomorrowNow/Third Set of Interrogatories to SAP, related to customer valuations; (2) certain
19 information related to Defendants’ Research and Development expenses; (3) certain information
20 responsive to RFP 147 from Oracle’s Fourth Set of Requests for Production, related to SAP’s
21 licensing practices; and (4) certain information responsive to Oracle’s First Targeted Search
22 Request relating to Oracle’s infringer’s profits measure of damages.

23
24
25 _____
26 ¹ Pursuant to Fed. R. Civ. P. 37(a)(1) and Civil L.R. 37-1, Oracle’s counsel affirms that they
27 have conferred with opposing counsel in a good faith effort to reach agreement about these
28 matters. *See* Declaration of Amy Donnelly in Support of Motion to Compel (“Donnelly Decl.”)
¶¶ 6-11, 13-15.

1 MEMORANDUM OF POINTS AND AUTHORITIES

2 I. INTRODUCTION

3 Oracle has sought certain damages-related discovery to support its copyright
4 damages claims and to rebut Defendants' expected counterarguments. Defendants have resisted
5 complying with Oracle's requests for certain categories of this discovery, whether through
6 Requests for Production, Interrogatories, or Targeted Searches. Accordingly, Oracle now moves
7 to compel the following discovery.

8 Information Related to Oracle's Fair Market Value License Measure of Damages:

- 9 • **Value-Per-Customer Data:** Oracle requests an order compelling a supplemental
10 response to Interrogatory 69. This interrogatory seeks information related to value-per-
11 customer data. This data will help explain why SAP considered SAP TN's customers far
12 more valuable to SAP than is reflected by support fees paid by those customers to SAP
13 TN. In turn, this information supports a higher value for the license to recruit, support
14 and leverage these customers.
- 15 • **Highest Dollar Value Licenses:** Oracle seeks complete copies of six of
16 Defendants' highest-value intellectual property ("IP") licenses. Defendants' licensing
17 arm's length IP licensing practices with independent third parties are relevant to show the
18 reasonableness of Plaintiffs' fair market value license amount. This information also
19 may rebut the claim made by Defendants in their pending summary adjudication motion
20 that they would never have paid Oracle a significant amount for the IP at issue here.
- 21 • **Research and Development ("R&D") Information:** Oracle also requests that
22 the Court order Defendants to produce documents sufficient to show R&D expenses as
23 well as R&D employee headcount for SAP applications and support and SAP TN support
24 broken out by product line and function. The costs, risks and time delay that Defendants
25 avoided by infringing rather than independently creating what Defendants took from
26 Oracle are relevant metrics under the law and industry IP valuation methodologies to
27 arrive at the fair market value license amounts for what Defendants infringed.

1 Information Related to Oracle's Infringer's Profits Measure of Damages:

- 2 • **Infringer's Profits Cost Information:** Finally, under the alternative infringer's
3 profits measure of damages available to Oracle, Defendants have the burden to prove
4 their reasonable and allowed expenses. Oracle has sought discovery on Defendants' costs
5 and expenses so that it may adequately evaluate and potentially rebut any showing
6 Defendants make. This information that Oracle seeks is same type and detailed financial
7 information Defendants have sought -- and obtained -- from Oracle. This information
8 includes detailed income statement, balance sheet, and trial balance information for any
9 SAP entity that controls the selling of software licenses and any SAP entity that bears any
10 costs that Defendants plan to apply to Oracle's showing of infringer's revenues.

11 Defendants' recent Motion for Partial Summary Judgment brought these issues
12 into even tighter focus. That motion claims that Oracle cannot recover a fair market value
13 license measure of damages on the facts of this case because neither Oracle nor SAP would ever
14 have actually agreed to the terms of such a license, including because both companies'
15 executives would have refused to do so. Oracle believes it will prevail on the motion, but
16 regardless, Defendants' own arguments confirm that evidence showing Defendants' state of
17 mind, expectations, and comparable experiences relating to such license negotiations, (while not
18 dispositive as Defendants claim) is relevant to the arguments Defendants will make at trial if
19 Judge Hamilton denies that motion. Further, Defendants acknowledged in their motion the
20 availability to Oracle of infringer's profits, another measure of copyright damages. This
21 concession confirms the relevance of the discovery related to Defendants' revenues, profits, and
22 costs that Oracle has long sought.

23 Defendants' refusal to provide this information prevents Oracle from
24 completing its damages analysis and assessing Defendants' response to it. The Court should
25 order Defendants to provide the requested information.

26 **II. LEGAL STANDARD**

27 Each party has the right to discover non-privileged information "relevant to any
28 party's claim or defense." Fed. R. Civ. P. 26(b)(1). "Relevancy is broadly construed, and a

1 request for discovery should be considered relevant if there is any possibility that the information
2 sought may be relevant to the claim or defense of any party.” *Equal Employment Opportunity*
3 *Comm’n v. Lexus of Serramonte*, No. 05-0962, 2006 WL 2567878 at *5 (N.D. Cal. Sept. 5,
4 2006) (internal citation omitted). “When the discovery sought appears relevant on its face, the
5 party resisting the discovery has the burden to establish that it does not come within the scope of
6 relevance as defined under Rule 26(b)(1).” *Id.*; see also *First United Methodist Church of San*
7 *Jose v. Atlantic Mutual Ins. Co.*, No. 95-2243, 1995 WL 566026 at *2 (N.D. Cal. Sept. 19, 1995)
8 (“Under the liberal Federal Rules the party attempting to avoid discovery needs to carry a heavy
9 burden demonstrating why discovery should be denied.”).

10 Copyright law provides for a variety of remedies available to the wronged party,
11 and Oracle now moves to compel from Defendants production of information relevant to two
12 such measures of copyright damages: the fair market value or hypothetical license measure of
13 actual damages, and the infringer’s profits measure of damages.

14 **Fair Market Value License:** Oracle will pursue as damages the value of
15 objective fair market value licenses for the Oracle intellectual property taken by Defendants. See
16 Oracle’s September 23, 2009 Opposition to Defendants’ Motion for Partial Summary Judgment
17 Regarding Plaintiffs’ Hypothetical [Fair Market Value] License Damages, Dkt No. 483
18 (“Oracle’s MSJ Opp.”). As Oracle’s recent briefing to Judge Hamilton confirms, this measure of
19 damages is recognized in the Ninth and other Circuits as an available measure of actual damages
20 for copyright infringement. *Id.*, citing, e.g., *Polar Bear Prods., Inc. v. Timex Corp.*, 384 F.3d
21 700, 707-09 (9th Cir. 2004) (discussing hypothetical license as among the available damages
22 models for copyright infringement); accord *Jarvis v. K2 Inc.*, 486 F.3d 526, 533 (9th Cir. 2007)
23 (damages for copyright infringement may be measured by hypothesizing “what a willing buyer
24 would have been reasonably required to pay to a willing seller for plaintiff’s work”) (internal
25 citation omitted). In such a hypothetical negotiation, while not dispositive, the parties’ mindset
26 and the negotiation’s factual context are relevant to assessing the objective fair market value of a
27 hypothetical license: “Common sense dictates that an expert may confer with the copyright
28 holder and that the background data may be factored into calculations of actual damages.” *Polar*

1 *Bear*, 384 F.3d at 709; *see also, e.g., Getaped.com, Inc. v. Cangemi*, 188 F. Supp. 2d 398, 406
2 (S.D.N.Y. 2002) (indicating importance of contextual evidence about appropriate licensing fee
3 between competitors).

4 **Infringer’s Profits:** In the alternative, and insofar as there is no danger of double
5 recovery, Oracle will also pursue as damages Defendants’ wrongfully-obtained infringer’s direct
6 and indirect profits. *See* 17 U.S.C. § 504(b). Indeed, Defendants acknowledge Oracle’s ability
7 to recover this measure of damages in their pending Motion for Partial Judgment Regarding
8 Plaintiffs’ Hypothetical License Damages Claims, Dkt No. 431 (“MSJ”). *See* MSJ at 7:25-8:2,
9 8:6-8:8 (“Infringer’s profits are analyzed from the infringer’s point of view. If the infringer has
10 earned a profit, it must disgorge the profit so that it does not benefit from its wrongdoing.”).²
11 Specifically, Oracle will seek not only the profits TomorrowNow made from supporting Oracle’s
12 applications, but also the profits SAP earned from the now 86 TomorrowNow customers that
13 took SAP’s “Safe Passage” program to move to SAP applications. Donnelly Decl. ¶¶ 9, 10, 14
14 and Ex. G. This is particularly appropriate because Defendants admittedly used TomorrowNow
15 as a loss leader to drive SAP’s far more lucrative Safe Passage applications sales. *See* Oracle’s
16 MSJ Opp., Dkt No. 483, at 10 n.8 and referenced Declaration of Paul Meyer in Support, Dkt No.
17 487, at ¶ 44 and Exs. 55, 57, 63 and 64.

18 To establish the infringer’s profits, the copyright owner need “present proof only
19

20 ² Defendants also made clear that Oracle’s infringer’s profits damages were not part of
21 Defendants’ Rule 37 Motion on which Your Honor ruled on September 17, 2009. *See*
22 Defendants’ July 14, 2009 Motion for Sanctions Pursuant to Fed. R. Civ. P. 37(c) and 16(f), Dkt
23 No. 342 at 13 n.9 (This “motion is limited to what Oracle characterizes as its lost profits claims,
24 and does not extend to its ‘infringers’ profits/unjust enrichment claims, its hypothetical license
25 theory, or alleged damage to computer systems or data. Defendants do not concede that any of
26 these other damages categories or theories are proper or timely, but will address those by
27 separate motion if necessary. For example, Oracle’s hypothetical license theory will be the
28 subject of Defendants’ Rule 56 motion to be filed on August 26th.”). Moreover, the 83
overlapping SAP and TomorrowNow customers have been in play for such damages from this
Court’s first involvement as discovery magistrate. *See* Oracle’s October 1, 2009 Objections to
Order of Discovery Magistrate Granting Defendants’ Motion for Preclusion of Certain Damages
Evidence Pursuant to Federal Rules of Civil Procedure 37(c) and 16(f), Dkt No.499. Indeed, just
this week, Defendants’ counsel added three more such customers to that list. Donnelly Decl.
¶ 14.

1 of the infringer’s gross revenue, and the infringer is required to prove his or her deductible
2 expenses and the elements of profit attributable to factors other than the copyrighted work.” 17
3 U.S.C. § 504(b); *see also Polar Bear*, 384 F.3d at 711, 714 n.10 (explaining the statute “creates a
4 two-step framework for recovery of indirect profits: 1) the copyright claimant must first show a
5 causal nexus between the infringement and the [infringer’s] gross revenue; and 2) once the
6 causal nexus is shown, the infringer bears the burden of apportioning the profits that were not the
7 result of infringement”); *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 772 F.2d 505, 517
8 (9th Cir. 1985) (discussing calculation and proof of profits attributable to infringement and
9 holding that indirect profits are recoverable if ascertainable; *e.g.*, plaintiff could claim profits
10 resulting from hotel and gambling operations resulting from infringing stage show).

11 **III. DEFENDANTS SHOULD PROVIDE THE REQUESTED**
12 **DISCOVERY RELATING TO ORACLE’S FAIR MARKET VALUE**
13 **LICENSE MEASURE OF DAMAGES**

14 **A. Value-per-Customer Data**

15 As part of its evidence to support the valuation of its fair market value license
16 measure of damages, Oracle needs certain information relating to Defendants’ projections about
17 existing, acquired, or new customer value. The value SAP placed on customers is relevant to
18 show that SAP values a customer more highly than what the customer’s initial purchases of
19 applications or support would suggest. That higher valuation results from the potential for
20 expanded application and support purchases from SAP over time. This, in turn, is relevant to
21 explain why SAP TN’s customers were far more valuable to SAP beyond just the support fees
22 they paid to SAP TN.

23 To get this information, Oracle served Interrogatory 69, which requests that
24 Defendants “[d]escribe, in as much detail as possible, how each Defendant analyzes, projects,
25 models, or otherwise calculates the value (economic, marketing, competitive, or otherwise) of a
26 customer to any Defendant, for any length of time, including, but not limited to, analysis,
27 projections, models, or other calculations of the value of licensing later versions of a product to a
28 Customer or of licensing different products to a Customer.” Donnelly Decl. ¶ 3, Ex. B.



1 [REDACTED] *Id.* This response is too narrow, and omits
2 other or later valuations that implicate these customers, as a category or in specifics (*e.g.*, as part
3 of valuations done for budgeting; forecasting for cash flow, marketing and other planning
4 exercises; or in connection with acquisitions). The Court should require Defendants to
5 supplement this response to include any valuations that would relate to these customers.

6 **B. Highest Dollar-Value Licenses**

7 Oracle also seeks discovery of a narrow category of documents related to
8 Defendants' highest dollar-value licenses. Specifically, in its pending Request for Production
9 147 (as narrowed from 10 to 6 requested licenses by meet and confer) from Oracle's Fourth Set
10 of Requests for Production, Oracle seeks "complete copies, including all terms, conditions,
11 exhibits, appendices, attachments, and/or incorporated documents, of the three licenses, executed
12 or in effect in the last five years, pursuant to which SAP AG and/or SAP America has been paid
13 the largest overall sum of money for grants by SAP AG and/or SAP America to any Person for
14 the use of SAP's Intellectual Property and of the three licenses, executed or in effect in the last
15 five years, pursuant to which SAP AG and/or SAP America has paid the largest overall sum of
16 money for grants of other Persons' Intellectual Property." *See id.* ¶ 4, 13, Exs. C, I.

17 The parties have met and conferred repeatedly in discovery about the relevance of
18 Defendants' intellectual property ("IP") licensing practices with independent third parties and
19 related documents, but Defendants have consistently taken the position that this category of
20 information is not relevant to the litigation. *See id.* ¶ 14. Defendants' licensing practices are
21 relevant - and in particular the contents of Defendants' highest value licenses with independent
22 third parties - because they show the reasonableness of Plaintiffs' fair market value license
23 amount (which contemplates a willing buyer and willing seller) and undermine any claim by
24 Defendants that they would never have paid (or charged) a significant amount for intellectual
25 property. Further, Defendants have previously acknowledged that such licensing agreements
26
27
28

1 exist.³

2 Defendants also attempted to analogize Oracle’s request to Defendants’ rejected
3 efforts to obtain comprehensive Oracle partner discovery. *See id.* ¶ 14, Ex. I. However, unlike
4 Defendants’ request for extensive Oracle partner discovery, Oracle’s request for SAP’s high
5 value IP licenses is quite limited (6 total licenses) and is not biased by virtue of seeking
6 information about affiliated partners but instead concerns arms’ length transactions with
7 independent third parties. Moreover, the Court did order Oracle to produce more extensive
8 partner-related information than what Oracle seeks here. *See* February 11, 2009 Order Granting
9 in Part and Denying in Part Plaintiffs Motion to Compel and Granting Part and Denying in Part
10 Defendants’ Motion to Compel, Dkt. 252 (ordering Oracle to provide a list of the partners with
11 which Oracle contracts to provide support services for PeopleSoft, J.D. Edwards or Siebel
12 applications, partnership agreement(s) with CedarCrestone for the relevant time frame from 2002
13 through 2008, and two master agreements regarding support, including fee schedules).

14 Defendants are due to respond to Oracle’s Request for Production 147 by
15 November 2nd, 2009. Request for Production 147 seeks an expanded category of licensing
16 information, however, than at issue here. *See* Donnelly Decl. ¶¶ 4, 13, Exs. C, I. Plaintiffs
17 offered the more tailored request sought through this motion as a compromise to Defendants,
18 with the goal of reaching resolution of this issue without court intervention. *See id.* ¶ 13, Ex. I.
19 Defendants refused and have informed Oracle that they would not be producing this information
20 on November 2nd. *Id.* Accordingly, Oracle now moves to compel this information.

21 **C. Research and Development Information**

22 Oracle also needs certain research and development (“R&D”) information from
23 Defendants as part of its evidence to support the valuation of its fair market value license
24 measure of damages. Specifically, Oracle has asked Defendants for, and now moves to compel,
25

26 ³ For example, SAP’s Chief Financial Officer, Werner Brandt, testified that SAP has entered into
27 large value licensing agreements with several major corporations. *See* Donnelly Decl. ¶ 19,
28 Ex. K.

1 production of these categories of information for the period from January 1, 2004 through
2 October 31, 2008:

3 (1) Documents sufficient to show R&D expenses for SAP applications and
4 support and SAP TN support broken out (a) by product line to the extent available and (b) by
5 function with the greatest detail available (*e.g.*, sustaining/maintenance R&D versus new
6 development R&D or any more specific delineation where available), plus accompanying
7 explanatory presentations and analyses; and

8 (2) Documents sufficient to show R&D employee headcount for SAP
9 applications and support and SAP TN support broken out (a) by product line to the extent
10 available and (b) by function with the greatest detail available (*e.g.* sustaining/maintenance R&D
11 versus new development R&D or any more specific delineation where available), plus
12 accompanying explanatory presentations and analyses.⁴

13 While Defendants' most recent meet and confer correspondence indicates they
14 will produce some R&D information by November 3rd, 2009, the level of detail that will be
15 provided is unclear. *See* Donnelly Decl. ¶ 11, Ex. H. As such, Plaintiffs are including a request
16 for production of detailed R&D information with this Motion to Compel. Upon receipt of an
17 adequate production of Defendants' R&D information, Oracle will withdraw its request for a
18 ruling compelling further production. Oracle has promised Defendants production of
19 commensurate information from Plaintiffs by November 3rd, as well. *Id.* ¶¶ 11, 12, Ex. H.

20 R&D information for SAP's applications, as well as for its support activities, is
21 relevant because Defendants infringed both Oracle's support materials and its underlying
22 applications. *See* Fourth Amended Complaint, Dkt. No. 418, at ¶¶ 10, 19. How much
23 Defendants avoided spending and the risks and time delay they avoided by infringing rather than
24 independently creating what they took from Oracle are relevant to the fair market value of the

25
26 ⁴ *See* Donnelly Decl. ¶ 11, Ex. H. R&D information was first sought through Oracle's First
27 Targeted Search Request, sub-part (j), but more recently Oracle has agreed to tailor its request to
28 this more narrow set of information, as documented in meet and confer correspondence. *Id.* at
Exs. A & H.

1 hypothetical licenses. *See* Oracle’s MSJ Opp., Dkt No. 483, at Section II.E, citing, *e.g.*, *Deltak*,
2 *Inc. v. Advanced Systems, Inc.*, 767 F.2d 357, 361 (7th Cir. 1985) (“the value of use . . . is not, of
3 course, identical to the profits it generates”; instead each of the copies infringed “had a value of
4 use to [defendant] equal to the acquisition cost saved by the infringement instead of purchase,
5 which [defendant] was then free to put to other uses.”). While Oracle’s acquisition costs and
6 R&D expenses for the infringed material are relevant to quantifying that avoided cost (which is
7 why Oracle has agreed to produce them, *see* Donnelly Decl. ¶ 12), Defendants’ R&D expenses
8 are also benchmarks for how much Defendants could reasonably have anticipated they would
9 have avoided spending. The high euro amounts of Defendants’ R&D spend on their own
10 applications, patches, fixes, and updates (the breakout of which can be shown by the requested
11 headcount by function information) also undermine Defendants’ claims that Oracle’s fair market
12 value license amounts are unreasonably high and is credible evidence of what would have been
13 in Defendants’ minds if they had engaged in the negotiations to arrive at the fair market value of
14 the hypothetical licenses. *See, e.g.*, *Getaped.com*, 188 F. Supp. 2d at 406 (discussing importance
15 of contextual evidence in a hypothetical licensing situation).

16 **D. Defendants Have Elsewhere Argued Their Mental State**
17 **Regarding The Fair Market Value License Is Relevant**

18 As explained above, the materials relating to R&D, value-per-customer data, and
19 licensing practices are relevant to Oracle’s proof of its fair market value measure of damages,
20 because they relate to Defendants’ state of mind and possible conduct in negotiating a fair
21 market value license for Oracle’s intellectual property and otherwise provide information
22 relevant to establishing fair market value. Indeed, despite refusing to provide this information
23 (including often on relevance grounds), Defendants’ arguments in their recent Motion for Partial
24 Summary Judgment concede the evidence’s relevance by affirmatively injecting Defendants’
25 state of mind, expectations, and experiences related to possible retroactive license valuations into
26 the damages analysis. Defendants’ pending Motion for Partial Summary Judgment relies on
27 what SAP purportedly would have been willing to do or not do in regards to a hypothetical
28 license. *See, e.g.* MSJ, Dkt No. 431, at 13:5-9 (“Even assuming that Oracle and SAP would have

1 been willing to negotiate a license, such negotiations would not have resulted in a license. Based
2 on both Oracle and SAP executive testimony, it is clear that neither side would have agreed on a
3 license because they would have had vastly different views as to the basis of the negotiation.
4 This disconnect demonstrates that there never would have been the requisite ‘meeting of the
5 minds.’”), 13:21-23 (“Mr. Plattner’s testimony evidences that SAP would have viewed the
6 negotiation as simply one for the right to service Oracle’s customers; indeed, SAP would have
7 expected to get a bargain because TN would have been ‘doing [Oracle’s] job’ for it.”). By these
8 arguments, Defendants themselves put into play the parties’ opinions and past behavior in
9 connection with establishing the fair market value of the hypothetical licenses between them.
10 Since Defendants relied on this argument in their own motion, they can no longer refuse to grant
11 Oracle discovery on issues that would inform the valuation of any retroactive license.

12 **IV. DEFENDANTS SHOULD PRODUCE THE REQUESTED**
13 **DOCUMENTS RELATED TO ORACLE’S INFRINGER’S**
14 **PROFITS MEASURE OF DAMAGES**

15 Another acknowledged measure of copyright damages available to Oracle is
16 infringer’s profits. To support its claim to Defendants’ profits, Oracle has sought discovery on
17 Defendants’ revenues and the associated expenses. However, Defendants have failed to produce
18 detailed cost information for SAP AG and SAP America, even while seeking and moving to
19 compel Oracle’s production of voluminous cost information to evaluate Oracle’s profit margins.

20 **A. Defendants Have Failed to Produce the Same Detailed Cost**
21 **Information Oracle Has Produced**

22 Under the infringer’s profits measure of damages, Defendants have the burden to
23 prove their expenses. 17 U.S.C. § 504(b). Defendants’ expenses are only deductible if they
24 “actually contributed to the production, distribution or sales of the infringing goods.”⁵ *Kamar*
25 *Int’l, Inc. v. Russ Berrie and Co., Inc.*, 752 F.2d 1326, 1333 (9th Cir. 1984). This extends to
26 overhead expenses as well. *Id.*

27 ⁵ However, where infringement is willful, conscious or deliberate, certain expenses, such as
28 Defendants’ overhead, are not deductible from Defendants’ gross revenues. *Frank Music Corp.*,
772 F.2d at 515.

1 Oracle has sought discovery on Defendants' costs and expenses so that it may
2 adequately evaluate and potentially rebut any showing Defendants make. To this end, on August
3 29, 2008, Oracle served its First Targeted Search Request, which requested financial documents
4 detailing "SAP's profit margins for service and applications sales and Documents explaining
5 how they are calculated." Donnelly Decl. ¶ 2, Ex. A.

6 [REDACTED]
7 [REDACTED]
8 [REDACTED]
9 [REDACTED]
10 [REDACTED]
11 [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED]
15 [REDACTED]
16 [REDACTED]

17 However, SAP's produced report does not allow Oracle to make that determination. Instead, it
18 lumps irrelevant and relevant expenses together, and would allow SAP to deduct expenses that
19 did not "contribute[] to the production, distribution or sales" of its software. *Kamar Int'l, Inc.*,
20 752 F.2d at 1333. By contrast, Oracle's financial reports divide and detail 14 different Facilities
21 expense line items alone, including a "Facilities Rental," "Facilities Depreciation," and
22 "Facilities Property Taxes" expenses. See Donnelly Decl., ¶ 18. In addition, Oracle's reports
23 divide and detail Oracle's "Employee Related Expenses" into over 20 different categories,

24 _____

25 ⁶ The other listed costs are "Purchased License," "Cost of Support," "CDP Mgmt. Charges,"
26 "Oth. SW Related Services," "Cost of software and software rel.serv.," "Consulting,"
27 "Training," "AMS & non mandatory Hosting," "Allocations," "Cost of professional serv. & oth.
28 Serv.," "Research and Development," "General and administration," "Goodwill," and "Other
non-operating Inc./Exp., net." See Donnelly Decl., ¶ 17.

1 including “Salary,” “Commissions,” and “Medical and Dental Insurance.” *Id.* Such cost detail
2 allows the sort of assessment necessary to properly rebut Defendants’ infringers’ profits claims,
3 which is why Oracle is requesting the same level of detail from Defendants.

4 As a matter of fairness and burden, what Oracle asks for is no different than what
5 Defendants have demanded from Oracle. Among other things, Defendants have requested and
6 Oracle has provided detailed trial balance reports from Oracle’s general ledger, income statement
7 reports, balance sheet reports, analyses that show the profitability of Oracle’s various product
8 lines, and Rule 30(b)(6) depositions on any produced reports.⁷ Moreover, Defendants have made
9 it clear that they consider general and aggregate financial information to be insufficient, and
10 instead sought information by Oracle legal entity. *See* Defendants’ Motion to Compel
11 Production of Financial Information From Plaintiffs, Dkt No. 346, at 3.

12 Given the dearth of Defendants’ production and the relevance of this data to
13 Oracle’s infringer’s profits claim, as well as the breadth of its own production, Oracle requested
14 a reciprocal production of SAP AG and SAP America’s financial information so that Oracle
15 would be able to conduct the same detailed profits analysis Defendants have indicated is
16 necessary. Specifically, Oracle requested that Defendants produce “detailed income statement,
17 balance sheet, and trial balance information for any SAP entity that controls the selling of
18 software licenses and any SAP entity that bears any costs that Defendants plan to apply to
19 Oracle’s showing of infringer’s revenues” Donnelly Decl. ¶ 7, Ex. E. This production
20 should include any forms of product profitability analyses Defendants have available or can
21

22 ⁷ Pursuant to the parties’ agreement and the Court’s September 8, 2009 Order, on September 15,
23 2009 and September 25, 2009, Oracle produced hundreds of financial reports so that Defendants
24 could evaluate Oracle’s costs and profit margins. This included a production of over 225
25 quarterly trial balance, income statement, and balance sheet reports; reports from legacy
26 PeopleSoft and JD Edwards financial systems of data from as far back as 2002; and, over a
27 hundred documents related to certain financial analyses collected from numerous Oracle
28 personnel and from the review of 11 custodians’ documents. In contrast to the 35 or so rows of
data in Defendants’ single produced financial report, Oracle’s income statement reports
contained over 200 rows of data and were the most detailed income statements Oracle’s
reporting systems were able to produce. *See* Donnelly Decl. ¶ 18.

