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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)

REPLY TO PLAINTIFFS' OPPOSITION TO DEFENDANTS' MOTION FOR PARTIAL SUMMARY JUDGMENT REGARDING PLAINTIFFS' HYPOTHETICAL LICENSE DAMAGES CLAIM [UNREDACTED VERSION OF D.I. 504]

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I. INTRODUCTION AND SUMMARY OF REPLY ARGUMENT

Plaintiffs' Opposition confirms that the material facts are not in dispute and that Defendants' Motion should be granted. Plaintiffs emphasize that Oracle and SAP are direct, fierce competitors. They acknowledge that Oracle has never given any entity, let alone SAP, a license covering the allegedly infringing activities at issue in this case. The sworn deposition testimony of Oracle's three top executives makes it clear that Oracle never would have offered such a license to arch-rival SAP; this testimony is not undermined by the inadmissible, self-serving declarations submitted with the Opposition. Under the governing law, the undisputed facts establish that Plaintiffs cannot meet their burden to prove that the parties would have agreed to a license, which is the showing necessary to recover actual damages in the form of a hypothetical license.

In Opposition, Plaintiffs incorrectly argue that awarding a hypothetical license is a one-step process, *i.e.*, simply determining its amount by applying the "willing buyer/willing seller" test (or alternatively, by awarding legally impermissible "saved acquisition costs"). The Copyright Act and Ninth Circuit precedent, however, establish that causation is the threshold inquiry for all actual damages claims, including a hypothetical license. The "willing buyer/willing seller" test is the second step in a two-step process, reached only if causation is first established by a showing that the parties would have agreed to a license (in contrast to the reasonable royalty of patent law, on which Plaintiffs incorrectly rely).

Defendants' Motion addresses only the first step of this two-step process—the legal question of causation. The Motion does not seek a ruling regarding the amount of a hypothetical license. Plaintiffs all but ignore Defendants' causation argument, summarily dismissing it in one footnote. They devote most of their Opposition and the entire Meyer Declaration and extensive exhibits to describing how they would, at trial, attempt to set a price for a hypothetical license. Plaintiffs miss the point of the Motion, attacking an argument that Defendants do not make. As a result, the majority of their Opposition, and all of the Meyer Declaration and exhibits, are simply irrelevant. Defendants' Motion should be granted.

II. PLAINTIFFS HAVE NOT MET THEIR BURDEN OF PROOF TO OBTAIN ACTUAL DAMAGES IN THE FORM OF A "HYPOTHETICAL LICENSE"

A. Proof of Causation is a Prerequisite to Recovering under an Alleged "Hypothetical License."

Plaintiffs' contention that there is no "additional burden of showing causation" (Opposition at 3 n.1) for a hypothetical license is contrary to the plain language of the Copyright Act and Ninth Circuit precedent. A hypothetical license is but a species of actual damages, and copyright law applies general tort principles of causation to determine actual damages and infringer's profits, however they may ultimately be measured. The Ninth Circuit recognizes that the Copyright Act, 17 U.S.C. § 504(b), imposes this causation requirement and applies it in cases involving both actual damages and infringer's profits. *See Polar Bear Prods., Inc. v. Timex Corp.*, 384 F.3d 700, 708 (9th Cir. 2004); *Jarvis v. K2, Inc.*, 486 F.3d 526, 533-34 (9th Cir. 2007); *Mackie v. Rieser*, 296 F.3d 909, 915 (9th Cir. 2002); *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 772 F.2d 505, 514 n.8 (9th Cir. 1985) (citing *Shapiro, Bernstein & Co. v. 4636 S. Vermont Ave., Inc.*, 367 F.2d 236, 241 (9th Cir. 1966)). As the Ninth Circuit explains:

> From the statutory language, it is apparent that a causal link between the infringement and the monetary remedy sought is a predicate to recovery of both actual damages and profits. We take this opportunity to reaffirm the principle that a plaintiff in a § 504(b) action must establish this causal connection, and that this requirement is akin to tort principles of causation and damages.

Polar Bear, 384 F.3d at 708; *see also* Motion at 8-10.

The Ninth Circuit Model Civil Jury Instructions cited by Plaintiffs affirm this causation requirement. Both Model Instructions 5.1 and 17.23 (presented together in a copyright case) indicate that the jury may only award damages "caused" by the defendant's infringement. *See* Ninth Circuit Model Civil Jury Instruction 5.1 (Damages-Proof) and 17.23 (Copyright Damages-Actual Damages) (2007). Plaintiffs' claim that the Ninth Circuit does not require causation to obtain actual damages in the form of a hypothetical license (Opposition at 3-4 n.1) is unfounded.

Accordingly, under Ninth Circuit law, to obtain actual damages in the form of a hypothetical license, a plaintiff may not simply claim the value of a work has been diminished by an alleged infringer's use and automatically claim a license. Rather, a plaintiff must prove that, but for infringement, the parties would have agreed to a license. *See Polar Bear*, 384 F.3d at 708; *Jarvis*, 486 F.3d at 533; *Frank Music*, 772 F.2d at 514; *Business Trends Analysts, Inc. v. Freedonia Group, Inc.*, 887 F.2d 399, 405-06 (2nd Cir. 1989).

Courts in the Ninth Circuit and the Second Circuit (which applies this same causation analysis) consider several factors when determining whether the parties would have agreed to a license, including whether: (1) the parties are direct competitors, (2) the parties sell goods in the same market, (3) the parties have ever entered into a similar license and (4) the plaintiff has ever granted a similar license. *See Polar Bear*, 384 F.3d at 711; *Jarvis*, 486 F.3d at 535 n.8; *Business Trends*, 887 F.2d at 405-06 (rejecting hypothetical license in case where parties were direct competitors); *On Davis v. The Gap, Inc.*, 246 F.3d 152, 161-62 (2d Cir. 2001) (allowing hypothetical license where parties were non-competitors who could have agreed on a license); *Encyclopedia Brown Prods., Ltd. v. Home Box Office, Inc.*, 25 F. Supp. 2d 395, 401-02 (S.D.N.Y. 1998) (same); *Baker v. Urban Outfitters, Inc.*, 254 F. Supp. 2d 346, 357-58 (S.D.N.Y. 2003) (same). As explained in the Motion, applying these factors to the undisputed facts of this case establishes that the parties never would have agreed to a license. *See* Motion at 11-14.

In response, Plaintiffs mischaracterize Defendants' argument. Defendants do not claim, as Plaintiffs argue, that direct competitors may never receive actual damages in the form of a hypothetical license. Rather, it is where the parties directly compete in the same market and there is no evidence that they would or could have agreed to a license for the allegedly infringed work that a court will not permit actual damages to be measured by a hypothetical license. *See Jarvis*, 486 F.3d at 533 (hypothetical license award available only where "the infringer could have bargained with the copyright owner"); *McRoberts Software, Inc. v. Media 100, Inc.*, 329 F.3d 557, 567 (7th Cir. 202) (contrary to Plaintiffs' assertion, *McRoberts* allowed a hypothetical license where parties *were not* direct competitors and did have a past copyright license for the work at issue); *Business Trends*, 887 F.2d at 405, 407; *Encyclopedia Brown*, 25 F. Supp. 2d 395 at 401-02. This makes logical sense, as actual damages in the form of *lost profits* are by their very nature designed to compensate a plaintiff who lost sales to a competitor resulting from infringement, whereas actual damages in the form of a hypothetical license become relevant in situations where a plaintiff has no claim for lost profits (unlike the case herein).

Plaintiffs challenge Defendants' reliance on the Second Circuit case *Business Trends*, claiming that it is inconsistent with the later-decided *On Davis*. Even if true, the earlier *Business Trends* decision controls. *See Sousa v. Roque*, 578 F.3d 164, 173 n.7 (2d Cir. 2009) (stating that a later Court of Appeals panel cannot overrule an earlier panel decision). In any event, *Business Trends* and *On Davis* together instruct that a hypothetical license may be appropriate in cases like *On Davis*, where "the defendant [is] a potential licensee of the plaintiff" and not a competitor, but is inappropriate in cases like *Business Trends*, where parties directly compete and there is no evidence that they would have agreed to a license for the allegedly infringed work. *Id*. at 162. *On Davis* repeatedly emphasizes this pivotal distinction, which Plaintiffs ignore. *See, e.g.*, *id.* at 162 ("In *Business Trends*, the plaintiff and defendant were competitors . . . —not a relationship where the defendant was a potential licensee of the plaintiff."); *id.* (distinguishing *Business Trends* as being "heavily influenced by the particular facts of that case"); *id* at 163 (similar). Moreover, this distinction is firmly entrenched in Second Circuit law. *See Baker*, 254 F. Supp. 2d at 357-58 (hypothetical licenses allowed in cases "factually similar to the situation in *On Davis*," *i.e.*, cases where, "unlike in *Business Trends*, the parties are not direct competitors"); *see Encyclopedia Brown*, 25 F. Supp. 2d at 401-02 (requiring that "a sale or licensing would have occurred," as where parties "are not direct competitors").

Similarly, in arguing that causation principles do not apply to hypothetical license damages, Plaintiffs misunderstand the role of the willing buyer/willing seller test. As Defendants explain in their Motion, courts consider "what a willing buyer would have been reasonably required to pay to a willing seller for plaintiff's work" to determine the price of a hypothetical license—not to decide the threshold issue of causation. *See Jarvis*, 486 F.3d at 533 (*quoting Sid & Marty Krofft Television Prods., Inc. v. McDonald's Corp.*, 562 F.2d 1157, 1174 (9th Cir. 1977)). Courts employ an "objective, not a subjective analysis" to ensure that the amount of the hypothetical license is based on objective evidence, such as the parties' past course of dealing, rather than on undue speculation. *Mackie*, 296 F.3d at 917. That the amount of a hypothetical license must be proven with objective evidence does not mean, as Plaintiffs suggest, that a plaintiff seeking hypothetical license damages is exempt from the burden of proving causation; the objective evidence is considered only if Plaintiffs can get over the threshold issue of proving that there could have been a license. *Cf. On Davis*, 246 F.3d at 171-72. As shown in the Motion, Plaintiffs cannot meet this burden.

B. <u>This Is Not a Patent Case – Plaintiffs Are Not Automatically Entitled to a Royalty or a Hypothetical License.</u>

Plaintiffs attempt to evade their burden to prove that the parties would have agreed to a license by analogizing the determination of a reasonable royalty under patent law with the determination of a hypothetical license under copyright law. Although courts occasionally analogize patent law to copyright law on some issues, these are two different statutory regimes that conflict in important respects. *See, e.g.*, *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1984). Copyright and patent law "are not identical twins," so courts should exercise caution when importing concepts from one body of law into the other. *Id.*; *see also Eldred v. Ashcroft*, 537 U.S. 186, 216-17 (2003).

Damages causation in copyright cases is one topic where analogy between copyright and patent law is inappropriate. The Patent Act specifically requires a reasonable royalty as a floor for damages, devoid of a causation requirement. *See* 35 U.S.C. § 284 (damages must be "adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use of the invention by the infringer . . . "). In other words, a reasonable royalty is guaranteed in patent cases, whereas the Copyright Act requires proof of causation to obtain a hypothetical license. *See* Motion at 10-11. The passage of *Nimmer* cited by Plaintiffs is not to the contrary. *Nimmer* does not advocate the importation of patent law concepts into the copyright damages regime wholesale. *See* 4 *Nimmer on Copyright* (Matthew Bender, rev. ed.) ("*Nimmer*") at §14.02[B][1] at 14-22. Rather, as part of a larger discussion about the propriety of *Deltak*'s holding, *Nimmer* merely notes that there are "similarities" between a reasonable royalty calculation and a value of use calculation. *Id*. That issue is irrelevant to Defendants' Motion, partly because *Deltak* is irrelevant, as shown below, but mostly because Plaintiffs do not get to quibble about valuation when they cannot get over the threshold requirement of causation.

III. PLAINTIFFS IDENTIFY NO GENUINE ISSUES OF MATERIAL FACT

Partial summary judgment is an appropriate vehicle for resolving the threshold question of causation regarding copyright damages. *See, e.g.*, *Mackie*, 296 F.3d at 916 (granting defendant's motion for partial summary judgment on indirect profits for lack of causation). When the party requesting summary judgment satisfies its initial burden to show that there are no genuine issues of material fact, the nonmoving party must "produce specific evidence . . . to show that the dispute exists." *Kennedy v. Allied Mut. Ins. Co.*, 952 F.2d 262, 265 (9th Cir. 1991) (citing Fed. R. Civ. P. 56(e)). Plaintiffs' Opposition confirms that the facts material to Defendants' Motion are not in dispute and that the Motion should be granted.

A. <u>The Parties Agree on the Facts Material to Defendants' Motion.</u>

Plaintiffs agree that Oracle and SAP are "fierce competitors" in the applications market. Opposition at 15, 17. Plaintiffs agree that this competition intensified as a result of Oracle's PeopleSoft and Siebel acquisitions, both of which were directed at competing with SAP. *See id.* at 17, 19. And, the parties agree, SAP purchased TomorrowNow as one response to Oracle's acquisition of PeopleSoft. *See id.* at 18-19.

Plaintiffs also state that Oracle has "never licensed any of the material [allegedly] infringed to a competitor, or to anyone for use in the manner in which Defendants [allegedly] infringed it." *Id.* at 19. Plaintiffs explain "that Oracle doesn't license the [allegedly] infringed material to others to use in competition against it, but keeps it exclusive for its own proprietary use." *Id.* at 15. The parties' direct competition and Oracle's admitted refusal to license to competitors are alone enough to establish that Plaintiffs cannot prove that Oracle would have granted a license for the conduct Oracle's executives characterize as "stealing our stuff." *See* Motion at 11-13; Declaration of Tharan Gregory Lanier in Support of Defendants' Motion for Partial Summary Judgment Regarding Plaintiffs' Hypothetical License Damages Claim ("Lanier Decl.") ¶ 1, Ex. A (March 27, 2009 Safra Catz Deposition ("Catz Depo.")) at 10:20-23, 20:10-14.

B. <u>Plaintiffs' Effort to Discredit or Disclaim the Sworn Testimony of Their Executives Does Not Create a Dispute of Material Fact.</u>

Plaintiffs offer the declarations of Larry Ellison and Safra Catz, claiming that their testimony was somehow the product of too clever questioning or objectionable on some other basis. That claim is baseless. The sworn deposition testimony of Oracle's leaders should be heard, undiluted by the inadmissible declarations submitted with the Opposition.

1. The testimony is clear.

Plaintiffs incorrectly contend that Oracle's top executives were confused by artful questioning and did not understand that they were being asked about a license to cover the conduct at issue in this case. Contrary to Plaintiffs' suggestion, all three Oracle executives were directly asked about a hypothetical license that would cover TomorrowNow's allegedly infringing conduct. It is inconceivable that Mr. Ellison, Ms. Catz or Mr. Phillips—reputedly three of the smartest business people in the world—would have been confused by these simple questions. For example, Mr. Ellison was asked:

> Q. Had SAP come to you in January of 2005 and said, all right, we—*here's what TomorrowNow does, we'd like a license*, would you have given them a license?

Lanier Decl. ¶ 3, Ex. C (May 5, 2009 Larry Ellison Deposition ("Ellison Depo.")) at 74:12-15 (emphasis added). Mr. Ellison did not request clarification, and Oracle's counsel did not object. *Id*. ¶ 3, Ex. C (Ellison Depo.) at 74:12-24. Rather, Mr. Ellison responded that such a license would have allowed SAP to "basically have all of our IP." *Id.* ¶ 3, Ex. C (Ellison Depo.) at 74:12-24. It was Mr. Ellison who suggested during this line of questioning that granting this license would have meant "saying good-bye to the applications business forever" at a time when "Oracle wanted to be in the applications business." *Id.* ¶ 3, Ex. C (Ellison Depo.) at 80:3-81:9. And Mr. Ellison testified in no uncertain terms that Oracle would not have "entertained" an offer from "TomorrowNow doing its TomorrowNow thing." *Id.* ¶ 3, Ex. C (Ellison Depo.) at 81:10-82:2.

Similarly, Ms. Catz was directly asked about the hypothetical license at issue here—not, as Plaintiffs' claim, a license in the abstract for Oracle's PeopleSoft customer base:

> Q. . . . If SAP had called up in January, February of '05, right after its acquisition, and said, *we want a license to do the things that are alleged in the complaint*, who would have negotiated that license for Oracle?

Id. ¶ 1, Ex. A (Catz Depo.) at 46:7-11 (emphasis added); *see also id.* ¶ 1, Ex. A (Catz Depo.) at 46:12-20 (responding that Catz, Ellison and Oracle's lawyers would have negotiated the license).

Ms. Catz continued to answer questions about this hypothetical license throughout her deposition, and it is this hypothetical license that Ms. Catz would have valued by considering the cost to acquire PeopleSoft and for which there were "[m]any circumstances" in which "Oracle would have refused to give that license." *Id.* ¶ 1, Ex. A (Catz Depo.) at 47:3-13, 159:18-23.

Mr. Phillips also was asked about the hypothetical license at issue here:

> Q. Back in January of 2005, when SAP bought TomorrowNow, had SAP come to Oracle and said, *we'd like a license for TomorrowNow to do what it does*, who would have made the decision for Oracle, whether or not to grant that license?

Id. ¶ 2, Ex. B (April 17, 2009 Charles Phillips Deposition ("Phillips Depo.")) at 117:16-20 (emphasis added); *see also id.* ¶ 2, Ex. B (Phillips Depo.) at 117:16-22 (responding that "Board approval" would have been required for Oracle to agree to a hypothetical license "for TomorrowNow to do what it does"). Mr. Phillips too continued to answer questions about this very hypothetical license throughout his deposition. Mr. Phillips would have considered "the impact on our business by granting a competitor intellectual property, by not having those customers directly ourselves, lost license sales, and kind of reflect the point of view of what does it mean for ongoing future sales for the field if we do this." *Id.* ¶ 2, Ex. B (Phillips Depo.) at 118:16-23. It was Mr. Phillips who described the hypothetical license as potentially having an impact on Oracle's customer base "in perpetuity." *Id.* ¶ 2, Ex. B (Phillips Depo.) at 119:2-9.

Oracle's executives plainly understood that Defendants' counsel was asking about a hypothetical license covering TomorrowNow's allegedly infringing activities. Their testimony, described above and in the Motion (at 3-4), is consistent with Plaintiffs' formal disclosures about their hypothetical license damages claim. *See id.* ¶ 8, Ex. H (May 22, 2009 Plaintiffs' Supplemental and Amended Initial Disclosures ("Supplemental Disclosures")) at 47. Plaintiffs' attempt to create ambiguity in their executives' testimony where none exists does not create a genuine issue of fact. (Should the Court have any concerns about the fairness or clarity of the questioning, Defendants are prepared to submit the video excerpts of the executives' testimony.)

2. <u>The sworn, prior deposition testimony is admissible.</u>

The Court should overrule Plaintiffs' evidentiary objections (*see* D.I. 488) because they are mostly waived and all without merit. Plaintiffs object to the admissibility of the Ellison

Deposition at 73:25-87:17 and 114:16-25, claiming that Defendants' questions are vague and ambiguous, call for speculation, pose an incomplete hypothetical, lack foundation and call for an improper lay opinion. *See* D.I. 488 at 4-5. However, because Plaintiffs' counsel did not make any objections during the cited portions of Mr. Ellison's deposition, Plaintiffs waived these form objections. *U.S. v. Kearney*, 560 F.2d 1358, 1364 n.6 (9th Cir. 1977); *see also* Fed. R. Civ. P. 32(d)(3)(B). Likewise, Plaintiffs failed to object during the Catz Deposition that the cited questions lacked foundation or called for an improper lay opinion and have therefore waived the form objections now asserted. *See* Lanier Decl. ¶ 1, Ex. A (Catz Depo.) at 23:4-25:18, 160:3-161:5; D.I. 488 at 1-2. Similarly, although Plaintiffs now object to the admissibility of the Phillips Depo. at 117:9-120:18 (*see* D.I. 488 at 3), Plaintiffs failed to lodge any objections except for "calls for speculation," and thus have waived their untimely form objections. *See* Lanier Decl. ¶ 2, Ex. B (Phillips Depo.) at 117:9-120:18.

In addition to being mostly waived, Plaintiffs' objections all lack merit and should be overruled. As shown above (Section III.B.1), the questions were not vague, ambiguous, incomplete or too tricky or challenging for Oracle's executives. Defendants simply asked the chief decision-makers at Oracle about the factors each would have considered in deciding whether to grant a license to Defendants, the very essence of the damages claim at issue here. The testimony of Oracle's top executives about whether they would have granted or recommended granting a license to Defendants for the allegedly infringing activities is unquestionably relevant to Plaintiffs' hypothetical license claim. Plaintiffs also undermine their own objections by offering, in the Ellison and Catz declarations, the very types of evidence they challenge when offered as executive testimony. Even were the Court to sustain Plaintiffs' objections, Defendants have produced (and Plaintiffs' own Opposition confirms) evidence sufficient to show an absence of a genuine issue regarding whether the parties would have agreed to a license. *See* Section III.A, *supra*. The undisputed evidence shows they would not have agreed.

3. <u>Plaintiffs' "sham" declarations do not create an issue of material fact.</u>

The declarations of Mr. Ellison and Ms. Catz in support of Plaintiffs' Opposition should be disregarded for two reasons. First, they do not present issues of fact material to the Motion. In their declarations, Mr. Ellison and Ms. Catz do not dispute that Oracle would not have granted a license to Defendants for the allegedly infringing activities. Instead, they debate how much Oracle might have charged—a separate issue that is not relevant to this Motion. Both declarations essentially complain that the questions the executives were asked about the hypothetical license were based on an incomplete hypothetical and state that the executives' valuations of the license now "would still be considerable . . . [but] significantly lower than my estimation during my deposition." *See* Declaration of Larry Ellison in Support of Oracle's Opposition ("Ellison Decl.") ¶ 4; Declaration of Safra Catz in Support of Oracle's Opposition ("Catz Decl.") ¶ 4. Mr. Ellison's and Ms. Catz's attempts to disown their testimony regarding the *price* of a hypothetical license do not create a dispute of fact about whether Oracle would have granted such a license at all.

Likewise, Mr. Ellison's statement that SAP licenses Oracle's database software is immaterial to Defendants' Motion. *See* Ellison Decl. ¶ 5. The cooperative arrangement under which SAP resells Oracle's databases fundamentally differs from the hypothetical license at issue here, which would sanction competition with Oracle (and for that reason, Oracle would not grant). *See* Opposition at 15. Plaintiffs have consistently resisted discovery regarding Oracle's partners on the basis of this distinction. In opposing Defendants' Motion to Compel Discovery Concerning Third Party Support Provided by Oracle's Partners, Oracle asserted that its partner relationships, including its database reseller relationship with SAP, are irrelevant to the issue of hypothetical license damages because Oracle contracts with partners "for the benefit of Oracle," whereas TomorrowNow acts "in competition with Oracle." D.I. 253 at 2, 9-10; *see also* D.I. 176 (8/28/08 Transcript of Proceeding Before Hon. Elizabeth D. Laporte) at 51; D.I. 240-5 (2/7/08 Letter Brief to Hon. Charles A. Legge in Opposition to Defendants' Motion to Compel) at 4-5. The parties' database reseller partnership does not call into question the undisputed fact that Oracle would not have granted a license to Defendants to cover the allegedly infringing conduct.

Second, to the extent that the declarations directly contradict the executives' deposition testimony, they should be disregarded as "sham" declarations. A "party cannot submit a declaration flatly contradicting its prior deposition . . . in an attempt to 'create' an issue of fact and avoid summary judgment." *Persistence Software, Inc. v. Object People, Inc.*, 128 F. Supp. 2d 623, 628 (N.D. Cal. 2000) (Hamilton J.) (citing *Kennedy*, 952 F.2d at 266), *vacated on other grounds*, 200 F.R.D. 626 (N.D. Cal. 2001) (Hamilton, J.). Courts will disregard a declaration submitted to oppose summary judgment if it directly contradicts the declarant's previous deposition testimony and the declarant fails to "present[] a sufficient explanation for the contradiction." *Id*. at 629; *see also Pacific Ins. Co. v. Kent*, 120 F. Supp. 2d 1205, 1213 (C.D. Cal. 2000) (finding contradictory declaration a sham because "[t]here was no ambiguity in either the question or the answers during . . . examination" and witness did "not establish that he was confused or did not understand the questions presented at the earlier examination under oath").

Mr. Ellison and Ms. Catz do not sufficiently explain why their declarations contradict their deposition testimony (albeit on an irrelevant issue, price). For example, they both testified that had Oracle considered granting a license to Defendants, it would have demanded billions. *See* Lanier Decl. ¶¶ 1, 3, Ex. A (Catz Depo.) at 159:16-23, Ex. C (Ellison Depo.) at 78:8-11, 80:3-24; Opposition at 20. However, they now claim that the license value would be "significantly lower" than they stated during deposition. Ellison Decl. ¶ 4; Catz Decl. ¶ 4. Mr. Ellison even disclaims his testimony that Oracle would have demanded a "prohibitively" expensive price from SAP. Ellison Decl. ¶ 6; Lanier Decl. ¶ 3, Ex. C (Ellison Depo.) at 74:12-75:9. The executives attempt to justify their about-face by claiming they did not understand the questions asked. *See* Ellison Decl. ¶ 3; Catz Decl. ¶ 3. But, as discussed above, it is implausible that they did not understand the questions; nor did they hesitate to wax poetic when answering them. Neither Mr. Ellison nor Ms. Catz make a remotely credible case that they were "confused or did not understand the questions presented." *See Pacific Ins. Co.*, 120 F. Supp. 2d at 1213.

Plaintiffs' efforts to peel back their own witnesses' deposition testimony demonstrates why copyright law forbids a competitor who never would have bargained with the infringer from claiming a hypothetical license. Plaintiffs want to parlay direct and vigorous competition into an enormous license from SAP, yet their own witnesses' testimony demonstrates that Oracle would not have licensed its arch-rival. The Court should disregard the executives' self-serving declarations as improper (and unsuccessful) attempts to create an issue of fact.

C. <u>Mr. Plattner's Testimony Shows that There Would Have Been No License.</u>

Plaintiffs argue that Mr. Plattner's testimony undermines the clear proof that the parties would not have agreed to a hypothetical license. Plaintiffs do not create a dispute regarding whether the parties would have agreed to a license by citing portions of Mr. Plattner's deposition in which he was asked to *presume* the existence of a license. *See* Declaration of Holly House in Support of Plaintiffs' Opposition ("House Decl.") ¶ 3, Ex. A (June 2, 2009 Hasso Plattner Deposition ("Plattner Depo.")) at 68:23-69:6. In contrast to Oracle's executives' testimony that they would expect the hypothetical license to recoup the PeopleSoft acquisition cost, Mr. Plattner testified that he would not have expected Oracle to seek a return on investment. *See* Lanier Decl. ¶ 4, Ex. D (Plattner Depo.) at 65:19-66:21. Indeed, Mr. Plattner testified that he believed such a license might violate antitrust laws. *See* House Decl. ¶ 3, Ex. A (Plattner Depo.) at 63:10-64:4. The evidence is unequivocal that none of the sophisticated executives involved in this case, from both Oracle and SAP, believed a license was practical or possible here.

D. <u>The Evidence on which Plaintiffs' Expert Will Rely to Calculate the Price of a Hypothetical License Is Not Material to Defendants' Motion.</u>

Plaintiffs claim that at trial they "will present evidence to establish the fair market value of the copyrights SAP infringed and the value of them to SAP." Opposition at 14. Plaintiffs devote much of their brief and the entire Meyer Declaration (with dozens of accompanying exhibits) to explaining how Mr. Meyer would calculate the price of a hypothetical license. *See, e.g.*, Opposition at 14-16. However, as explained in detail above, the amount of a hypothetical license is irrelevant to the Motion. Because Plaintiffs offer the Meyer Declaration and its attached exhibits only to show how Plaintiffs would price a hypothetical license, this evidence cannot raise a genuine issue of fact material to the causation issues addressed in the Motion and should be disregarded in its entirety. *See* Defendants' Objections to Evidence in Support of Plaintiffs' Opposition to Defendants' Motion for Partial Summary Judgment, submitted concurrently.

IV. "SAVED ACQUISITION COSTS" ARE NOT PERMITTED UNDER THE COPYRIGHT ACT AND NINTH CIRCUIT PRECEDENT

As another basis for their hypothetical license claim, Plaintiffs also rely on the "saved acquisition costs" theory adopted by the Seventh Circuit in *Deltak, Inc. v. Advanced Sys., Inc.*, 767 F.2d 357 (7th Cir. 1985). *See* Opposition at 6-7, 9-14. Plaintiffs' suggestion that "saved acquisition costs" should not be decided on this Motion is misplaced because they seek a "fair market value" license based on "the amount of money the infringer saved." Opposition at 10; *see also id.* at 6 (relying on *Deltak*) and at 20 n.12 (arguing that "avoided costs" are "relevant evidence to the hypothetical license").) Indeed, in their Supplemental Disclosures, Plaintiffs state that they expect to recover damages in the form of a hypothetical license based in part on saved acquisition costs ("the fact that Oracle had just paid significant amounts for the companies [PeopleSoft and J.D. Edwards]") and saved development costs ("the amount that would not have to be expended by Defendants to legitimately create what they would instead license"). *See* Lanier Decl. ¶ 8, Ex. H. (Supplemental Disclosures) at 47.

Plaintiffs' reliance on the "saved acquisition costs" theory confirms that summary judgment is necessary to eliminate this flawed damages theory and streamline this case for trial. The Ninth Circuit allows a hypothetical license only as a measure of actual damages, not as a measure of ill-gotten gain to the defendant, *see, e.g.*, *Polar Bear*, 384 F.3d at 708; *Krofft*, 562 F.2d at 1174, and "but for" causation is required, *see Polar Bear*, 384 F.3d at 709. Furthermore, the Copyright Act, which sets forth exclusive remedies, does not leave room for a "saved acquisition costs" theory. *See* 17 U.S.C. § 504(b); *see also Nimmer* at § 14.02[B][1] at 14-22 (*Deltak*'s "value of use" theory "fits neither category" of damages permitted by the Copyright Act). Allowing Plaintiffs to create a "floor" for copyright damages based on this theory would also contravene the intent of Congress, which deliberately excluded any such floor in the 1976 Act. *See* Motion at 18. There is no legal basis for Plaintiffs to take this theory to trial.

And Plaintiffs' Opposition proves that *Deltak* is an outlier case. Plaintiffs cannot cite *one case* outside of the Seventh Circuit—much less a Ninth Circuit case—that endorses saved acquisition costs as a measure of actual damages. To begin, *Nucor Corp. v. Tennessee Forging Steel Serv., Inc.* does not support Plaintiffs' position; it predates *Deltak* and is based on common law copyright, not on the Copyright Act of 1976. 513 F.2d 151, 152 (8th Cir. 1975). *Nucor* never decided the propriety of a defendant's saved costs as a form of copyright damages, but only decided the procedural remand issue before it. *Id.* at 152-53. Nor did *Northwest Airlines, Inc. v. American Airlines, Inc.* adopt the "saved acquisition costs" method; it cited *Deltak* only for the traditional "value of use" concept. 870 F. Supp. 1504, 1513 (D. Minn. 1994); *see also* Motion at 19. Moreover, *Northwest Airlines* proves the point of Defendants' Motion; it denies value of use damages because the plaintiff "stated unequivocally that it had no intention of selling [the work] to Northwest." *Id.* The only case outside the Seventh Circuit to adopt *Deltak*'s "saved acquisition costs" language did so not as a measure of actual damages, but of infringer's profits, *see Roeslin v. District of Columbia*, 921 F. Supp. 793, 799 (D.D.C. 1995), which Plaintiffs concede are "unrelated to the fair market valuation at issue in this motion." Opposition at 11; *see also* Motion at 19-20.

Most courts citing *Deltak* (including *On Davis*) do so for the traditional "value of use" concept without mention of "saved acquisition costs." The numerous cases rejecting or questioning *Deltak*'s holding (*see* Motion at 19) are far from "outdated" (Opposition at 12)—their reasoning applies with just as much force now as when the cases were decided. And *On Davis* had no impact on cases criticizing *Deltak*'s "saved acquisition costs" theory. *See Quinn v. City of Detroit*, 23 F. Supp. 2d 741 (E.D. Mich. 1998); *Multitherm Corp. v. Fuhr*, Civ. A. No. 89-6151, 1991 WL 146233, at *14 (E.D. Pa. July 24, 1991); *see also On Davis*, 246 F.3d at 169 (citing with approval *Encyclopedia Brown*). This is because *On Davis* did not involve "saved acquisition costs" or party-competitors at all, but rather involved a "value of use" license between non-competitors. *See On Davis*, 246 F.3d at 163.

On Davis is thus consistent with *Business Trends*' rejection of "saved acquisition costs," whether as a measure of infringer's profits or of actual damages. *On Davis* held that *Business Trends* "[did] not foreclose" a traditional hypothetical license form of actual damages because (1) the court in *Business Trends* was reviewing the district court's award of infringer's profits, and thus the question of actual damages was not before it; and (2) the facts of *Business Trends* were different because, there, the parties were competitors. 246 F.3d at 163-64. *On Davis* never discussed whether a license fee based on "saved acquisition costs" could be an appropriate measure of actual damages, nor did it approve of any form of licensing fee between competitors.

See 6 *Patry on Copyright* (Thomson West 2009) ("*Patry*") at § 22:129 (*On Davis* "did not depart from *Business Trends'* rejection of *Deltak*"). Plaintiffs also mischaracterize the post-*On Davis* decision in *Thoroughbred Software Int'l, Inc. v. Dice Corp.*, which refused to award as infringer's profits the amount saved by not purchasing the infringing software. 439 F. Supp. 2d 758, 771 (E.D. Mich. 2006) (citing *Business Trends*). The Sixth Circuit affirmed this holding and reversed on the separate question of actual damages, concluding that a license fee between parties who have already entered into a license should be based on the terms of that agreement. *See* 488 F.3d 352, 359-60 (6th Cir. 2007).

"Saved acquisition costs" have no place in this case. Indeed, in the words of one commentator, *Deltak* "is an aberration and should remain one." *See Patry* at § 22:130.

V. CONCLUSION

The sworn, prior testimony of Oracle's top executives is clear: Oracle would not have given SAP or TomorrowNow a license of any type for any software to compete for the same customers that Oracle had spent many months and billions of dollars to "keep . . . away from SAP." Lanier Decl. ¶¶ 1, 3, Ex. A (Catz Depo.) at 159:18-23, Ex. C (Ellison Depo.) at 80:3-82:2, 83:18-84:6. Plaintiffs' Opposition also confirms "that Oracle doesn't license the [allegedly] infringed material to others to use in competition against it" and that, in fact, Oracle has never granted a license comparable to the contemplated hypothetical license. Opposition at 15, 19. It is indisputable that Oracle would not have granted a license to its software to help TomorrowNow compete against it. Plaintiffs have not carried and cannot carry their burden to prove that the parties would have agreed to a license, and the Court should grant partial summary judgment that Plaintiffs are not entitled to damages in the form of a hypothetical license.

Dated: October 7, 2009

JONES DAY

By: /s/ Tharan Gregory Lanier
Tharan Gregory Lanier

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