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21 UNITED STATES DISTRICT COURT  
 22 NORTHERN DISTRICT OF CALIFORNIA  
 23 OAKLAND DIVISION

24 ORACLE USA, INC., *et al.*,  
 25 Plaintiffs,  
 26 v.  
 27 SAP AG, *et al.*,  
 28 Defendants.

No. 07-CV-01658 PJH (EDL)

**NOTICE OF MOTION AND MOTION NO. 1:  
 TO EXCLUDE TESTIMONY OF  
 DEFENDANTS' EXPERT STEPHEN CLARKE**

Date: September 30, 2010  
 Time: 9:00 a.m.  
 Place: Courtroom 3  
 Judge: Hon. Phyllis J. Hamilton

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

TABLE OF CONTENTS

Page

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

I.	INTRODUCTION AND SUMMARY OF RELIEF REQUESTED .....	1
II.	LEGAL STANDARDS.....	3
III.	CLARKE’S AFFIRMATIVE ROYALTY RATE CALCULATIONS SHOULD BE PRECLUDED .....	5
A.	Clarke’s Royalty Rate Approach Is Contrary to the Law, Ignores Undisputed Facts and Has No Scientific Basis .....	5
1.	Clark’s Royalty Rate Is Based On His Unsubstantiated Speculation and Factual Inventions .....	5
2.	Using SAP TN’s Revenues As A Royalty Cap Is Contrary to the Law and to Undisputed Facts.....	7
3.	Clarke’s Royalty Ignores SAP TN Use Beyond Generating Service Revenues .....	9
4.	Clarke’s Scope of Use Is Premised on His Own Inexpert Infringement Analysis.....	11
B.	Clarke’s “Georgia-Pacific” Analysis Is Not “Rebuttal” and Should Be Barred Under Fed. R. Civ. Proc. 37 .....	11
IV.	CLARKE IS NOT QUALIFIED TO TESTIFY TO LEGAL OPINIONS .....	13
V.	CLARKE’S DATABASE FMV LICENSE BASES ARE PREMISED ON IMPROPER LEGAL OPINIONS AND UNRELIABLE METHODOLOGY .....	15
VI.	CLARKE’S LOST PROFITS AND INFRINGERS’ PROFITS CAUSATION METHODOLOGY IS UNSCIENTIFIC AND UNRELIABLE .....	17
VII.	CLARKE’S THIRD PARTY MARKET SURVEY IS BEYOND CLARKE’S EXPERTISE, UNRELIABLE AND NOT REBUTTAL.....	20
VIII.	CLARKE’S UNRELIABLE REGRESSION ANALYSES SHOULD BE EXCLUDED .....	22
IX.	CLARKE’S RELIANCE ON LATE PRODUCED CUSTOMER DECLARATIONS ARE BARRED BY RULE 37 .....	24
X.	CONCLUSION .....	25

TABLE OF AUTHORITIES

Page

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

**CASES**

*Abuan v. Gen. Elec.*,  
3 F.3d 329 (9th Cir. 1993)..... 16

*Aguilar v. Int'l Longshoremen's Union Local No. 10*,  
966 F.2d 443 (9th Cir. 1992)..... 14

*Bowling v. Hasbro, Inc.*,  
2008 WL 717741 (D.R.I.)..... 7, 17

*Burnham v. U.S.*,  
2009 WL 2169191 (D. Ariz.)..... 12, 13

*Cabrera v. Cordis Corp.*,  
134 F.3d 1418 (9th Cir. 1998)..... 10

*Carnegie Mellon Univ. v. Hoffman-LaRoche, Inc.*,  
55 F. Supp. 2d 1024 (N.D. Cal. 1999) ..... 3, 19

*Claar v. Burlington Northern R.R.*,  
29 F.3d 499 (9th Cir. 1994)..... 4

*Daubert v. Merrell Dow Pharm. Inc.*,  
43 F.3d 1311 (9th Cir. 1995)..... 19

*Daubert v. Merrell Dow Pharm. Inc.*,  
509 U.S. 579 (1993)..... 4

*DePaepe v. General Motors Corp.*,  
141 F.3d 715 (7th Cir. 1998)..... 22

*Diviero v. Uniroyal Goodrich Tire Co.*,  
114 F.3d 851 (9th Cir. 1997)..... 6

*Energy Oils, Inc. v. Montana Power Co.*,  
626 F.2d 731 (9th Cir. 1980)..... 16

*Freeland v. AT&T Corp.*,  
238 F.R.D. 130 (S.D.N.Y. 2006) ..... 24

*General Electric Co. v. Joiner*,  
522 U.S. 136 (1997)..... 4, 5

*Guidroz-Brault v. Mo. Pac. R.R. Co.*,  
254 F.3d 825 (9th Cir. 2001)..... 10

TABLE OF AUTHORITIES  
(continued)

Page

1		
2		
3	<i>Hanson v. Alpine Valley Ski Area, Inc.</i> ,	
4	718 F.2d 1075 (Fed. Cir.1983).....	8
5	<i>Hebert v. Lisle Corp.</i> ,	
6	99 F.3d 1109 (Fed. Cir. 1996).....	8, 9, 16
7	<i>Heller v. Shaw Indus.</i> ,	
8	167 F.3d 146 (3d Cir. 1999).....	5
9	<i>IBM Corp. v. Fasco Industries, Inc.</i> ,	
10	1995 WL 115421 (N.D. Cal.).....	12
11	<i>In re Ready-Mix Concrete Antitrust Litig.</i> ,	
12	2009 U.S. Dist. LEXIS 82043 (S.D. Ind.) .....	12
13	<i>In re REMEC Inc. Secur. Litig.</i> ,	
14	2010 WL 1676741 (S.D. Cal.) .....	24
15	<i>In re W. Asbestos Co.</i> ,	
16	416 B.R. 670 (N.D. Cal. 2009) .....	16
17	<i>Interactive Pictures Corp. v. Infinite Pictures, Inc.</i> ,	
18	274 F.3d 1371 (Fed. Cir. 2001).....	8
19	<i>Kilgore v. Carson Pirie Holdings, Inc.</i> ,	
20	2006 WL 3253490 (6th Cir.).....	21
21	<i>Madani v. Equilon Enter. LLC</i> ,	
22	2009 WL 2148664 (C.D. Cal.).....	24
23	<i>Maionchi v. Union Pacific Corp.</i>	
24	2007 WL 2022027 (N.D. Cal.).....	13, 25
25	<i>Matrix Motor Co. v. Toyota Jidosha Kabushiki Kaisha</i> ,	
26	290 F. Supp. 2d 1083 (C.D. Cal. 2003) .....	21
27	<i>McNamara v. Kmart Corp.</i> ,	
28	2010 WL 1936268 (3d Cir.).....	11
	<i>Metabolife Int’l, Inc. v. Wornick</i> ,	
	264 F.3d 832 (9th Cir. 2001).....	6
	<i>Monsanto Co. v. McFarling</i> ,	
	488 F.3d 973 (Fed. Cir. 2007).....	16

TABLE OF AUTHORITIES  
(continued)

Page

1		
2		
3	<i>Mukhtar v. California State University,</i>	
4	299 F.3d 1053 (9th Cir. 2002),	
	<i>as amended</i> , 319 F.3rd (9th Cir. 2003) .....	4
5	<i>Nationwide Transport Finance v. Cass Information Systems, Inc.,</i>	
6	523 F.3d 1051 (9th Cir. 2008).....	8
7	<i>Nuveen Quality Income Mun. Fund Inc. v. Prudential Equity Group, LLC,</i>	
8	262 Fed. Appx. 822 (9th Cir. 2008).....	11
9	<i>On Davis v. The Gap,</i>	
	246 F.3d 152 (2d Cir. 2001).....	6
10	<i>Perry v. Schwarzenegger,</i>	
11	2010 WL 3025614 (N.D. Cal.).....	4, 17, 19, 21
12	<i>Polar Bear Prods., Inc. v. Timex Corp.,</i>	
13	384 F.3d 700 (9th Cir. 2004).....	14
14	<i>Powell v. Carey Intern., Inc.,</i>	
	2007 WL 1068487 (S.D. Fla.).....	9
15	<i>Radio Steel &amp; Mfg. Co. v. MTD Products, Inc.,</i>	
16	788 F.2d 1554 (Fed. Cir. 1986).....	8
17	<i>Rambus, Inc. v. Hynix Semiconductor, Inc.,</i>	
18	254 F.R.D. 597 (N.D. Cal. 2008).....	19, 20
19	<i>Redfoot v. B. F. Ascher &amp; Co.,</i>	
	2007 WL 1593239 (N.D. Cal. (PJH)) .....	11
20	<i>Regents of Univ. of Cal. v. Monsanto Co.,</i>	
21	2006 WL 5359055 (N.D.Cal. (PJH)) .....	15
22	<i>Robinson v. G.D. Searle &amp; Co.,</i>	
23	286 F. Supp. 2d 1216 (N.D. Cal. 2003) .....	9
24	<i>Salinas v. Amteck of Kentucky, Inc.,</i>	
	682 F. Supp. 2d 1022 (N.D. Cal. (PJH) 2010).....	4, 6, 11
25	<i>Snellman v. Ricoh Co., Ltd.,</i>	
26	862 F.2d 283 (Fed. Cir. 1989).....	8
27	<i>U.S. v. Eastern Mun. Water Dist.,</i>	
28	2008 WL 4755420 (C.D. Cal.).....	14

TABLE OF AUTHORITIES  
(continued)

Page

1

2

3 *United States v. Chang,*

4     207 F.3d 1169 (9th Cir. 2000)..... 11, 20

5 *United States v. Jawara,*

6     474 F.3d 565 (9th Cir. 2007)..... 4

7 *Wall Data, Inc. v. Los Angeles County Sheriff’s Dept.,*

8     447 F.3d 769 (9th Cir. 2006)..... 10

9 *Wong v. Regents of the Univ. of Cal.,*

10     410 F.3d 1052 (9th Cir. 2005)..... 13, 14

11 **RULES**

12 Fed. R. Civ. P. 26 ..... 12, 24

13 Fed. R. Civ. P. 37 ..... 22, 24

14 Fed. R. Civ. P. 104 ..... 4

15 Fed. R. Evid. 702 ..... 3, 4, 24

16

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1 PLEASE TAKE NOTICE that on September 30, 2010, at 9:00 a.m., in the courtroom of  
2 the Honorable Phyllis J. Hamilton, of the above-entitled Court, Plaintiffs Oracle USA, Inc.  
3 (predecessor to Oracle America, Inc.), Oracle International Corporation, Oracle EMEA Limited,  
4 and Siebel Systems, Inc. (collectively, “Oracle”) shall and hereby do move for an order excluding  
5 opinions and testimony of Stephen A. Clarke (“Clarke”) designated by Defendants SAP AG,  
6 SAP America, Inc., and TomorrowNow, Inc. (“SAP TN”) (collectively “Defendants”) as an  
7 expert witness in this matter, on the grounds that Clarke’s proposed expert opinion testimony is  
8 inadmissible on the basis of the authorities and evidence set forth herein and in the accompanying  
9 Declarations of Holly House and Dr. Daniel Levy.

10 **I. INTRODUCTION AND SUMMARY OF RELIEF REQUESTED**

11 On November 16, 2009, Oracle’s damages expert, Paul Meyer, provided his report  
12 showing his methodologies, calculations and support for Oracle’s alternate available copyright  
13 damages approaches and amounts as well as Oracle’s other damages claims under state law.  
14 Declaration of Holly A. House (“House Decl.”) ¶ 3.<sup>1</sup> On March 26, 2010, Defendants’ damages  
15 expert, Stephen Clarke, provided his first purported “rebuttal” report to Meyer’s report. *Id.* ¶ 4.  
16 Clarke had submitted no affirmative expert report by the deadline for doing so. Clarke later  
17 revised or supplemented his “rebuttal” report on May 7, June 4, and August 4, 2010. *Id.* Oracle  
18 examined Clarke regarding the May 7, 2010 version of his report on June 8-10, 2010. *Id.* ¶ 6 and  
19 Ex. A (Clarke Report). Clarke’s report and deposition reveal that Clarke intends to offer a  
20 number of opinions which are not permissible under the rules governing appropriate expert  
21 testimony.

22 ***Clarke’s Unreliable, Unfounded and Untimely Affirmative Royalty Rate Calculation.***

23 In addition to critiquing Meyer’s analyses, Clarke prepared an *affirmative* damages royalty rate  
24 calculation. Clarke should be barred from presenting testimony regarding this calculation for  
25 several independent reasons. First, Clarke’s affirmative royalty rate calculation must be rejected

26 \_\_\_\_\_  
27 <sup>1</sup> Because discovery was ongoing and to incorporate errata, Meyer provided supplemental  
28 reports on December 4, 2009 and February 23, 2010. *Id.* After receiving Stephen Clarke’s expert  
report, Meyer provided certain supplemented schedules to his report on May 9, 2010. *Id.*

1 as an unreliable, unscientific result-driven approach. Among other things, Clarke simply invents  
2 the royalty rate (50%) used in his affirmative calculations and restricts his hypothetical license's  
3 funding to SAP TN's revenues, thereby ignoring the undisputed fact that SAP actually acquired  
4 and then funded SAP TN as a loss leader, not to generate support revenues. Second, Clarke's  
5 approach is contrary to the law in numerous ways, including that it (1) does not consider the  
6 parties' actual contemporaneous projections and stated goals at the time of the hypothetical  
7 negotiation, but instead is based on – and incorrectly uses as a ceiling to damages – SAP TN's  
8 subsequent revenues, and (2) values only a subset of Defendants' infringement. Third, his  
9 reports were not filed by the required deadline for affirmative expert reports. Because Clarke's  
10 affirmative opinions are not based on sufficient facts or data, not the product of reliable principles  
11 and methods, not based on accurate legal assumptions, and not timely disclosed, they should be  
12 excluded.

13 ***Clarke's Impermissible Legal Opinions.*** Clarke improperly – and without any expert  
14 qualification – interprets copyright cases and court orders in this case, and argues that the expert  
15 opinion of Meyer does not comply with his version of the law. Clarke's inexpert (and inaccurate)  
16 legal musings should not be allowed to be presented to the jury.

17 ***Clarke's Unreliable Database FMV.*** Clarke's analysis of the fair market value (FMV) of  
18 Defendants' infringement of Oracle's database software relies on his improper legal  
19 interpretation of Oracle's standard database end user license (and of his own Microsoft Excel  
20 software license, which has no relevance to this case) to conclude that SAP TN's use of Oracle's  
21 database software to support its customers was no different than the use permitted for any  
22 ordinary end user. Because they are based on inexpert and impermissible legal opinion, Clarke's  
23 database FMV calculations are unreliable and should not be permitted to go to the jury.

24 ***Clarke's Unprecedented Lost and Infringers' Profits Customer Exclusion Formulae.***  
25 In calculating lost profits and infringers' profits, Clarke excludes customers from Oracle's  
26 damages for lack of causation based on criteria and a formula he invented for this case. SAP's  
27 purported industry expert, Brian Sommer, flatly disagrees with two of Clarke's exclusion criteria.  
28 Clarke's unreliable approach merits exclusion.



1           **Clarke’s Third Party Providers “Market Study.”** Though Clarke, an accountant, is  
2 admittedly not an enterprise software or support expert, he proffers what he calls a “market  
3 study” of purported alternative third party vendors that SAP TN’s customers could have gone to  
4 instead of SAP TN in the 2004-2008 time period. This study reflects nothing more than Clarke’s  
5 reading of marketing materials on the internet in 2010. Such uninformed regurgitation is not  
6 expert opinion. Clarke’s lack of industry experience and expertise undermines his ability to  
7 testify to the availability and competitiveness of different support offerings. The jury can and  
8 should make those determinations based on assessment of the facts, not inexpert interpretations  
9 of websites.

10           **Clarke’s Flawed Regression Analyses.** Perhaps because he has no expertise and little  
11 experience in regression analysis, Clarke offers deeply flawed regression analyses to derive profit  
12 margins that are significantly understated as a result of his errors. In contrast, Oracle’s expert,  
13 Dr. Daniel Levy, does have that expertise, and his accompanying declaration shows why Clarke’s  
14 unreliable regression analyses cannot be presented to the jury.

15           **Clarke’s Reliance on Late-Produced Customer Declarations.** Finally, Clarke relied on  
16 customer declarations that SAP’s counsel secured months after the discovery cut-off and even  
17 after Clarke’s March 26, 2010 rebuttal expert report due date. Oracle has been prejudiced by not  
18 being able to follow up, and accordingly requests that Clarke not be allowed to rely on them.

## 19   **II.   LEGAL STANDARDS**

20           Federal Rule of Evidence 702 requires exclusion of expert testimony unless (1) the  
21 testimony is based upon sufficient facts or data, (2) the testimony is the product of reliable  
22 principles and methods, and (3) the witness has applied the principles and method reliably to the  
23 facts of the case. Fed. R. Evid. 702. As the Court made clear in *Carnegie Mellon Univ. v.*  
24 *Hoffman-LaRoche, Inc.*, 55 F. Supp. 2d 1024, 1035 (N.D. Cal. 1999):

25           The Ninth Circuit has repeatedly stated that where evidence of pre-litigation research  
26 or peer review is not available, the experts must (1) “explain precisely how they went  
27 about reaching their conclusions” and (2) “point to some objective source – a learned  
28 treatise, the policy statement of a professional association, a published article in a  
reputable scientific journal or the like – to show that they have followed the scientific  
method as practiced by (at least) a recognized minority of the scientists in their field.  
[quoting *Daubert v. Merrell Dow Pharm. Inc.*, 43 F.3d 1311, 1319 (9th Cir. 1995)]

1 (“*Daubert II*”).

2 The party proffering an expert opinion must demonstrate it meets the Rule 702  
3 admissibility standards by a “preponderance of proof.” *Daubert v. Merrell Dow Pharm. Inc.*, 509  
4 U.S. 579, 593 (1993); *see also Salinas v. Amteck of Kentucky, Inc.*, 682 F. Supp. 2d 1022, 1029  
5 (N.D. Cal. (PJH) 2010); *Perry v. Schwarzenegger*, 2010 WL 3025614, at \*21 (N.D. Cal.) (“The  
6 party proffering the evidence ‘must explain the expert’s methodology and demonstrate in some  
7 objectively verifiable way that the expert has both chosen a reliable . . . method and followed it  
8 faithfully.’”) (quoting *Daubert II*, 43 F3d at 1319 n.11).

9 Absent an explicit finding by the court that a challenged opinion is admissible, the  
10 opinion may not properly be offered at trial. Fed. R. Civ. P. 104(a) (“Preliminary questions  
11 concerning the qualifications of a person to be a witness. . . shall be determined by the court.”);  
12 *United States v. Jawara*, 474 F.3d 565, 583 (9th Cir. 2007) (“failure to make explicit reliability  
13 finding was an error”); *Mukhtar v. California State University*, 299 F.3d 1053, 1066-68 (9th Cir.  
14 2002) (district court prejudicially erred by admitting expert testimony without explicit reliability  
15 determination), *as amended*, 319 F.3rd 1073 (9th Cir. 2003); *Claar v. Burlington Northern R.R.*,  
16 29 F.3d 499, 501 (9th Cir. 1994) (courts are both “authorized and obligated to scrutinize carefully  
17 the reasoning and methodology underlying” expert testimony). As the Supreme Court has made  
18 clear, “the trial judge must ensure that any and all [expert] testimony . . . is not only relevant but  
19 reliable.” *Daubert*, 509 U.S. 579, 589. This role “entails a preliminary assessment of whether  
20 the reasoning or methodology underlying the testimony is . . . valid and of whether that reasoning  
21 or methodology properly can be applied to the facts in issue.” *Id.* at 592-93.

22 While the *Daubert* reliability analysis focuses on an expert’s methodology, the Supreme  
23 Court has also noted that “conclusions and methodology are not entirely different from one  
24 another.” *General Electric Co. v. Joiner*, 522 U.S. 136, 146 (1997).

25 Trained experts commonly extrapolate from existing data. But  
26 nothing in either *Daubert* or the Federal Rules of Evidence requires  
27 a district court to admit opinion evidence that is connected to  
28 existing data only by the *ipse dixit* of the expert. A court may  
conclude that there is simply too great an analytical gap between  
the data and the opinion offered.

1 *Id.*; accord *Heller v. Shaw Indus.*, 167 F.3d 146, 153 (3d Cir. 1999) (“a district court must  
2 examine the expert’s conclusions in order to determine whether they could reliably follow from  
3 the facts known to the expert and the methodology used”).

### 4 **III. CLARKE’S AFFIRMATIVE ROYALTY RATE CALCULATIONS SHOULD BE** 5 **PRECLUDED**

6 The key affirmative opinion Clarke offers is that the FMV hypothetical license for the  
7 infringed PeopleSoft, J.D. Edwards and Siebel materials should be calculated as a running royalty  
8 of 50% of SAP TN’s actual support revenues plus 50% of SAP’s profits from SAP license sales  
9 to the two customers that remain after Clarke does his causation analysis. House Decl., Ex. A  
10 (Clarke Report) at 202-205.<sup>2</sup> This opinion is a results-driven exercise, untethered to the  
11 applicable “*Georgia Pacific*” factors that Clarke claims to have applied, and ignores the  
12 appropriate legal constructs for the FMV license amount and scope. In addition, Clarke’s  
13 affirmative opinion was improperly and belatedly disclosed as rebuttal testimony. For these  
14 reasons, Clarke should be precluded from testifying about his alternative royalty rate calculations.

#### 15 **A. Clarke’s Royalty Rate Approach Is Contrary to the Law, Ignores** 16 **Undisputed Facts and Has No Scientific Basis**

##### 17 **1. Clark’s Royalty Rate Is Based On His Unsubstantiated Speculation** 18 **and Factual Inventions**

19 The fundamental premise of Clarke’s royalty damage estimate is a 50% royalty rate on  
20 SAP TN’s subsequent revenues and a separate 50% of SAP’s profits on a limited number of  
21 application sales. *Id.* Clarke admits the 50% rates he uses are not based on any “quantitative  
22 analysis” or “specific facts” and are not anything he has “ever come across before.” In fact, they  
23 were plucked out of the air, and based just on his “judgment.”<sup>3</sup>

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24 <sup>2</sup> Based on this methodology, Clarke’s license amounts are approximately \$32 million for SAP  
25 TN’s royalty contribution and \$2 million for SAP’s. *Id.*, Ex. A (Clarke Report) at 203, 205.

26 <sup>3</sup> *Id.*, Ex. B (Clarke Depo.) at 377:6-8 (“50 percent of revenues, I’ve really never come across that  
27 before.”); 398:15-400:17 (“Q: What’s the basis for the 50/50 split? That’s my judgment that it is  
28 an appropriate and very high royalty that will be paid on sales that SAP almost certainly would  
have made anyway.”); “Q: Do you have any quantitative analysis that demonstrates 50 percent is  
the right royalty for SAP? A: There isn’t a table that you can go to that would look – you could  
look that up in.”. . . “Q: Can you point me to any specific facts that support a 50 percent royalty  
rather than a 40 or 60 percent royalty? A: I don’t think there’s a particular fact that I could point  
to that would say it should be 40 percent or it should be 60 percent.”); 378: 6-14, 380:16-22 (“Q:  
What’s the basis for your conclusion that the maximum [price any customer would pay for TN

(Footnote Continued on Next Page.)

1 Clarke attempts to justify his 50% SAP TN revenue-based royalty rate by asserting that,  
2 in order to pay a royalty, SAP TN would have to raise its price of providing support services. *Id.*,  
3 Ex. A (Clarke Report) at 202-203. This change of facts is problematic in itself, because, as  
4 Clarke concedes, the law requires him “to assume in the ‘but for’ world that TomorrowNow and  
5 SAP would continue to operate exactly as they did, except that they would have to pay a license  
6 fee to Oracle.” *Id.*, Ex. B (Clarke Depo.) at 364:1-6; *On Davis v. The Gap*, 246 F.3d 152, 166 n.5  
7 (2d Cir. 2001).

8 Clarke then postulates, without analysis, that the most SAP TN could raise its price is to  
9 increase from 50% of Oracle’s price to 75% of Oracle’s price, the 25% difference then funding  
10 the royalty. *Id.*, Ex. A (Clarke Report) at 202-203; Ex. B (Clarke Depo.) at 367:16-22; 378:11-  
11 380:7; 385:8-12. Clarke’s Report does not even attempt to describe why he chose 50% of SAP’s  
12 profits, as opposed to any other rate, as the royalty for SAP’s additional applications sales. *Id.*,  
13 Ex. A (Clarke Report) at 202-203.

14 Such unfounded “junk science,” in which a purported expert invents a crucially important  
15 number and then adjusts the facts to support it, has no place before a jury. *Salinas*, 682  
16 F.Supp.2d at 1029 (“the court must determine whether an expert's testimony reflects ‘scientific  
17 knowledge,’ whether the findings are ‘derived by the scientific method,’ and whether the work  
18 product is ‘good science’ - that is, whether the testimony is reliable and trustworthy”) (citing  
19 *Daubert*, 509 U.S. at 590 & n.9). “Scientific evidence is reliable if it is based on an assertion that  
20 is grounded in methods of science - the focus is on principles and methodology, not on  
21 conclusions.” *Id.* at 1030 (citing *Metabolife Int’l, Inc. v. Wornick*, 264 F.3d 832, 841 (9th Cir.  
22 2001)). Mere speculation and subjective beliefs are impermissible foundations of purported  
23 expert opinion. *See, e.g., Diviero v. Uniroyal Goodrich Tire Co.*, 114 F.3d 851, 853 (9th Cir.  
24 1997) (“Rule 702 demands that expert testimony relate to scientific, technical, or other

25 \_\_\_\_\_  
26 (Footnote Continued from Previous Page.)

27 support] is 75 percent [of Oracle’s price]? A: To a very large extent, that’s my judgment.”; “Q:  
28 Now, the 75 percent maximum selling price is the [reason] you settled on a 50 percent royalty.  
Right? A: I think that’s the right way around to look at it.”)

1 specialized knowledge, which does not include unsubstantiated speculation and subjective  
2 beliefs”).

3 Courts can and do reject patently flawed hypothetical reasonable royalty opinions such as  
4 Clarke’s. The court in *Bowling v. Hasbro, Inc.*, 2008 WL 717741, at \*4 (D.R.I.) did so on  
5 remarkably similar facts, rejecting as unreliable royalty rate opinion where the expert applied “no  
6 rigorous analysis” but “engaged in a superficial and results oriented application of the *Georgia-*  
7 *Pacific* methodology” without “apply[ing] available information and data in order to approximate  
8 the outcome of [the hypothetical] negotiation.” As with Clarke’s unsupported selection of a 50%  
9 royalty rate, the precluded analysis in *Bowling* “begins and ends with [the expert’s] reliance on  
10 and reference to his own expertise.” *Id.* As with Clarke, the precluded expert could not cite  
11 anything to support a key assertion on the scope of the license and, as with Clarke, in the face of  
12 a “major discrepancy between the facts and statements in his report” he “backpedaled” “without  
13 substantiation.” *Id.* at \*5. Critically, as with Clarke’s application of his random 50% rate on only  
14 SAP TN’s minimal revenues, the FMV was just “a simple mathematical conclusion” which was  
15 “patently result oriented” toward his client. *Id.* at \*6. That, as here, the expert “superficially  
16 analyzed” the *Georgia-Pacific* factors in his report was irrelevant: “[M]ere reference to the  
17 *Georgia-Pacific* factors cannot change the sow’s ear of rank speculation into a silk purse of  
18 reliable expert opinion.” *Id.* at \*7.

## 19 2. Using SAP TN’s Revenues As A Royalty Cap Is Contrary to the Law 20 and to Undisputed Facts

21 As the Court has confirmed, “[t]he Ninth Circuit endorses a ‘fair market value’ retroactive  
22 license fee as one measure of actual damages,” and .Oracle is “permitted to present evidence  
23 regarding the fair market value of the copyrights that SAP allegedly infringed, including expert  
24 testimony based on established valuation methodology.” Dkt. 628 (Order Denying Def. Hypo  
25 License MSJ) at 3:15-16; 5:5-7. Those damages are “‘what a willing buyer would have been  
26 reasonably required to pay a willing seller for the plaintiff’s work.’” *Id.* at 3:18-19 (*quoting*  
27 *Jarvis v. K2, Inc.*, 486 F.3d 526, 533 (9th Cir. 2007)). Clarke’s approach doesn’t measure the  
28 actual FMV of the copyrighted materials in suit to the parties at the time of the negotiation;

1 indeed he ignores information that was available at the actual time of the hypothetical negotiation  
2 and substitutes in its place hindsight about SAP’s TN’s subsequent revenues.<sup>4</sup> This tactic puts an  
3 artificial, unwarranted ceiling on the FMV, guaranteeing that no matter the FMV to the parties at  
4 the time of the negotiation, the fee due Oracle could never be greater than half of the revenues  
5 SAP TN earned.

6 Clarke’s analysis is contrary to “the rule that recognizes sales expectations at the time  
7 when infringement begins as a basis for a royalty base as opposed to after-the-fact counting of  
8 actual sales.” *Interactive Pictures Corp. v. Infinite Pictures, Inc.*, 274 F.3d 1371, 1384-85 (Fed.  
9 Cir. 2001).<sup>5</sup> Because Clarke’s approach is inconsistent with the law, it is inherently not helpful to  
10 the trier of fact and therefore irrelevant and inadmissible. *See, e.g., Nationwide Transport*  
11 *Finance v. Cass Information Systems, Inc.*, 523 F.3d 1051, 1055-64 (9th Cir. 2008) (affirming  
12 preclusion of expert testimony that was based on “erroneous or inapplicable legal theories” in  
13 part because it “may confuse or mislead the jury”); *Hebert v. Lisle Corp.*, 99 F.3d 1109, 1117  
14 (Fed. Cir. 1996) (“We encourage exercise of the trial court’s gatekeeper authority when parties  
15 proffer, through purported experts, not only unproven science, see *Daubert*, but markedly  
16

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17 <sup>4</sup> *See, e.g.,* House Decl., Ex. A (Clarke Report) (In pages 90-205 of Clarke’s report, he makes no  
18 mention of Oracle’s valuation of the PeopleSoft customer base SAP and SAP TN were attacking  
19 in doing his FMV analysis, does not rely on SAP’s many projections for SAP TN and Safe  
20 Passage); at 49 (“It is inappropriate for an economic damages expert to rely on a presentation  
21 with no verifiable support for the broad estimates . . . .”); at 54 (“It is inappropriate for Mr. Meyer  
22 to . . . base his speculation on the number of sales SAP hoped to make . . . .”); at 80 (“SAP’s  
23 aspirations regarding new customers are not a useful metric for calculating damages”); *id.*, Ex. B  
24 (Clarke Depo.) at 185:4-18 (Clarke didn’t rely on either SAP’s or Oracle contemporaneous  
25 projections for his FMV analysis).

26 <sup>5</sup> *See also, e.g.,* Model Patent Jury Instructions for the Northern District of California, Instruction  
27 5.7 (“In considering the nature of this negotiation, the focus is on what the expectations of the  
28 patent holder and infringer would have been had they entered into an agreement at that time and  
acted reasonably in their negotiations.”); *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075,  
1081 (Fed. Cir. 1983) (“The issue of the infringer’s profit is to be determined not on the basis of a  
hindsight evaluation of what actually happened, but on the basis of what the parties to the  
hypothetical license negotiations would have considered at the time of the negotiations.”);  
*Snellman v. Ricoh Co., Ltd.*, 862 F.2d 283, 289-90 (Fed. Cir. 1989) (upholding recovery amount  
based on an infringer’s expected sales even though it far surpassed the infringer’s actual sales);  
*Radio Steel & Mfg. Co. v. MTD Products, Inc.*, 788 F.2d 1554, 1557 (Fed. Cir. 1986) (“The  
determination of a reasonable royalty, however, is based not on the infringer’s profit, but on the  
royalty to which a willing licensor and a willing licensee would have agreed at the time the  
infringement began.”).

1 incorrect law. Incorrect statements of law are no more admissible through ‘experts’ than are  
2 falsifiable scientific theories.”).

3 Using SAP TN’s revenues as an automatic ceiling rather than looking to SAP’s assets to  
4 fund the FMV license also ignores the undisputed evidence that SAP treated SAP TN as a loss  
5 leader and otherwise funded SAP TN.<sup>6</sup> Clarke has no basis to assert that the royalty would be  
6 limited to 50% of SAP TN’s support revenues, given that SAP did not intend to use, and did not  
7 use, SAP TN to generate such support revenues and anticipated and got more than just financial  
8 benefit from Defendants’ ongoing infringement. Clarke’s SAP TN-based royalty cap also  
9 contradicts his own position that SAP would fund even his limited FMV license fee. *Id.*, Ex. A  
10 (Clarke Report) at 91; Ex. B (Clarke Depo.) at 390:16-392:2. This too makes Clarke’s royalty  
11 rate opinions inadmissible. *See, e.g., Robinson v. G.D. Searle & Co.*, 286 F. Supp. 2d 1216, 1221  
12 (N.D. Cal. 2003) (expert’s testimony inadmissible when based on factual premise directly  
13 contradicted by evidence on the record).

### 14 3. Clarke’s Royalty Ignores SAP TN Use Beyond Generating Service 15 Revenues

16 Clarke’s royalty result is premised on a scope of use contrary to what the law says must  
17 be valued, and should be excluded for that faulty premise. *See, e.g., Powell v. Carey Intern., Inc.*,  
18 2007 WL 1068487, at \*3 (S.D. Fla.). Specifically, Clarke’s royalty amount does not value *all* of  
19 Defendants’ infringement<sup>7</sup> and further restricts the scope to *only SAP TN’s use of infringed*

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20 <sup>6</sup> House Decl., Ex. K (Ziemen Depo.) at 154:23-155:17 re Ex. N (Depo Ex. 454) (SAP board  
21 decided to offer SAP TN support for free even though meant projected losses in 2007 of 5  
22 million euros and no SAP TN profitability for 2007); at 305:7-23 re Ex. M (Depo Ex. 450)  
23 (“though [SAP TN] was operating at a loss” in update presentations to SAP board, SAP  
24 concluded SAP TN was “a strategic investment that served as a strategic weapon against Oracle”;  
25 “Its value was not only related to [] becom[ing] a profitable revenue -- a revenue unit.”); Ex. F  
26 (Hurst 30(b)(6) Depo.) at 211:11-21 (SAP America reimbursed SAP TN for zero dollar deals);  
27 Ex. D (Brandt Depo.) at 533:19-534:18 (SAP America initially funded SAP TN \$25 million after  
28 SAP TN closed); Ex. G (A. Nelson Depo.) at 138:8-139:11 (describing oversight and funding of  
SAP TN by SAP); Ex. B (Clarke Depo.) at 385:21-386:13; 388:22-389:13; 392:10-393:1 (SAP  
TN zero dollar deals were SAP loss leaders; because SAP “absorbed [SAP TN] losses [Clarke]. .  
.presume[s]they had business reasons for doing what they did”; up-sales potential motivated SAP  
to offer SAP TN support at no cost).

<sup>7</sup> House Decl., Ex. A (Clarke Report) at 116 (“the only [infringing] activities TomorrowNow  
would need a license for would be the difference between the authorized and unauthorized uses  
of the Subject IP (‘Delta’)” and defining that limited “delta” as (1) keeping copies of customer  
environments on SAP TN computers; (2) using fixes developed in one customer’s environment

(Footnote Continued on Next Page.)

1 *materials to support SAP TN's actual customers.*<sup>8</sup> As a result, he fails to value all of SAP TN's  
2 infringement, which includes infringement that did not result in actual customer revenue (*e.g.*,  
3 SAP TN's infringing internal use of software and support materials to create a master library and  
4 perform training and SAP's and SAP TN's reliance on the same to market SAP TN's ability to  
5 provide comprehensive support across Oracle's acquired product families) as he must under the  
6 law.

7 During his deposition, Clarke attempted to reverse course and expand the limited use  
8 description in his report used to create his royalty, but he never amended his report's  
9 approximately \$34 million royalty calculation to account for that scope expansion. House Decl.,  
10 Ex. B (Clarke Depo.) at 140:12-143:4; at 174:2-176:17. That calculation, based as it clearly is on  
11 a fraction of the scope of infringing use, cannot be presented to the jury. "An opinion based on  
12 such unsubstantiated and undocumented information is the antithesis of the scientifically reliable  
13 expert opinion admissible under *Daubert* and Rule 702." *Cabrera v. Cordis Corp.*, 134 F.3d  
14 1418, 1423 (9th Cir. 1998); *accord, Guidroz-Brault v. Mo. Pac. R.R. Co.*, 254 F.3d 825, 830-31  
15 (9th Cir. 2001) (affirming exclusion of multiple experts because conclusions based on factually

16 \_\_\_\_\_  
(Footnote Continued from Previous Page.)

17 for other SAP TN customers; (3) downloading from Oracle any material SAP TN needed for a  
18 customer prior to that customer terminating support with Oracle). As Clarke explained: "I think  
19 in terms of defining the license that we're talking about, it is a very limited license to do really  
20 not very much." *Id.*, Ex. B (Clarke Depo.) at 169:11-13. Clarke's assumed scope of  
21 infringement "delta" is far less than Oracle alleged and than Defendants conceded at summary  
22 judgment and more recently in the press. *See Id.*, Ex. P (Depo. Ex. 3204, listing Meyer's broader  
23 scope of infringing use definition); Dkt. 670 (SAP's Opp. to Oracle's MSJ) at 4:28-5:7  
(conceding infringement of six Oracle registrations related to hundreds of copies of Oracle's  
24 PeopleSoft HRMS and Database Software); Dkt. 748 (SAP 8/5/2010 Press Release) at Ex. A  
(SAP taking "decisive step" and "would not contest . . . liability . . . for copyright infringement  
25 and downloading conduct alleged in Oracle's complaint"); Dkt. 727 (8/5/2010 Defs.' Trial Brief)  
26 at 1:27-2:8 (same, but purporting to preserve various defenses).

27 <sup>8</sup> House Decl., Ex. A (Clarke Report) at 2 n.10 ("I define Subject IP as the portion of the  
28 Software and Support Materials allegedly infringed *and actually used by TomorrowNow*")  
(emphasis added); *see also id.*, Ex. B (Clarke Depo.) at 147:10-17 (the value of SAP TN's use is  
best measured by the actual revenues generated from customers); 178:8-18 (Clarke's value of use  
limited to SAP TN's revenues from customers that purportedly did not benefit from the accused  
conduct). But Clarke is required to value *all* infringement, and must do so whether SAP TN used  
the infringed material with a customer. *See, e.g., Wall Data, Inc. v. Los Angeles County Sheriff's*  
*Dept.*, 447 F.3d 769, 775 n.3, 786-87 (9th Cir. 2006) (upholding damages award based on 3,962  
infringing software copies where the evidence showed that some of these copies of the "software  
would remain installed, but unused" in the defendant's workstations).



1 unsupported assumptions); *Nuveen Quality Income Mun. Fund Inc. v. Prudential Equity Group,*  
2 *LLC*, 262 Fed. Appx. 822, 824-25 (9th Cir. 2008) (“An expert opinion is properly excluded  
3 where it relies on an assumption that is unsupported by the evidence in the record and is not  
4 sufficiently founded upon the facts”).

#### 5 **4. Clarke’s Scope of Use Is Premised on His Own Inexpert Infringement** 6 **Analysis**

7 Clarke’s valuation of the infringement also is premised on his own analysis of the scope  
8 of infringement,<sup>9</sup> which he admittedly has no expertise to do.<sup>10</sup> For that independent reason his  
9 royalty analysis must be excluded. *See, e.g., United States v. Chang*, 207 F.3d 1169, 1172-73  
10 (9th Cir. 2000) (expert “qualified” in one topic excluded from testifying on topic where did not  
11 have expertise); *Salinas*, 682 F.Supp.2d at 1030 (rejecting opinions on warnings by proffered  
12 expert who had no “professional training or expert qualifications to opine on the formulation or  
13 design of warning or safety labels,” had never “investigated a case with similar facts” and never  
14 “testified as a warnings expert”); *Redfoot v. B. F. Ascher & Co.*, 2007 WL 1593239, at \*10-11  
15 (N.D. Cal. (PJH)) (rejecting testimony on medical subjects and conclusions of what caused  
16 victim’s autism for which expert had neither training nor qualifications to opine).<sup>11</sup>

#### 17 **B. Clarke’s “Georgia-Pacific” Analysis Is Not “Rebuttal” and Should Be** 18 **Barred Under Fed. R. Civ. Proc. 37**

19 Clarke’s *Georgia-Pacific* analysis yielding his estimate of the fair market value of the

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20 <sup>9</sup> *Id.*, Ex. B (Clarke Depo.) at 126:16-127:10 (“I did my own analysis of elements of how much of  
21 the intellectual property was infringed and for how long, and the manner in which it was used . . .  
22 [S]o I have assumed that there is liability, but I’ve not assumed that everything you say in the  
23 complaint is true.”); “Q: You did your own analysis of how much IP was infringed and for how  
24 long and the manner in which it was used. Yes or no? A: That’s correct.”); at 130:13-132:4  
25 (describing his infringement analysis and that it yielded the “delta” in his report). Clarke also  
26 (improperly) conducted legal interpretation of customer contracts to arrive at this definition. *Id.*  
27 at 158:24-161:10, 162:4-10.

28 <sup>10</sup> *Id.* at 56:16-57:4, 57:15-20 (Clarke is Certified Public Accountant with training and education  
in accounting and economics); at 250:10-12, 159:14-15 (admits he is “not a technical expert” and  
takes “technical input from technical people who are other experts in the case”).

<sup>11</sup> Clarke also relies on SAP experts David Garmus and Stephen Gray to support his conclusion  
that SAP TN did not need a license for all the copyrights in suit and that Meyer’s scope of  
infringing use assumptions were overbroad. House Decl., Ex. A (Clarke Report) at 34-35, 224.  
Garmus’s and Gray’s analyses are unreliable and unsupported and are thus the subject of separate  
exclusion motions by Oracle. If granted, Clarke’s reliance on their opinions must also be  
precluded. *See, e.g., McNamara v. Kmart Corp.*, 2010 WL 1936268, at \*4 (3d Cir.).

1 infringement at issue should be precluded because it is admittedly “affirmative opinion,” not  
2 rebuttal.<sup>12</sup> The parties agreed, and the Court ordered, that experts submit reports with all  
3 affirmative opinions by November 16, 2009, and rebuttal reports by March 26, 2010. Clarke  
4 provided the first version of his almost 300 page single-spaced expert report on March 26, 2010.  
5 House Decl., ¶ 4. His admittedly affirmative hypothetical royalty rate analysis and amounts are  
6 independent of his criticisms of Meyer’s damages analyses. *Id.*, Ex. A (Clarke Report) at 90, 205  
7 (affirmative Georgia-Pacific analysis with resulting FMV royalty rate). Accordingly, Clarke’s  
8 affirmative calculation of a FMV estimate of \$34 million (and the basis for it) is contrary to the  
9 expert scheduling order and should be excluded.

10           There is no excuse for this delay; indeed, Clarke provided a declaration on July 13, 2009  
11 saying he had been retained since December 2007, had already billed SAP \$4.4 million, and to  
12 date, his “work has focused on the analysis of Plaintiffs’ alleged lost profits, Defendants’ unjust  
13 enrichment *and reasonable royalty*.” Dkt. 345 at ¶¶ 3, 4, 28 (emphasis added).

14           Fed. R. Civ. P. 26(a)(2)(C)(ii) allows the admission of rebuttal testimony only that is  
15 “intended solely to contradict or rebut evidence on the same subject matter identified by another  
16 party. . . .” A rebuttal expert “must restrict his testimony to attacking theories offered by the  
17 adversaries’ experts”). *IBM Corp. v. Fasco Industries, Inc.*, 1995 WL 115421, at \*3 (N.D. Cal.)  
18 (granting in part motion to exclude “rebuttal” opinions); *accord In re Ready-Mix Concrete*  
19 *Antitrust Litig.*, 2009 U.S. Dist. LEXIS 82043, at \*20-21 (S.D. Ind.) (rebuttal report must rebut  
20 not offer affirmative opinions); *Burnham v. U.S.*, 2009 WL 2169191, at\*5 (D. Ariz.) (“Rebuttal  
21 experts shall be limited to responding to opinions stated by initial experts.”).

22 \_\_\_\_\_  
23 <sup>12</sup> House Decl., Ex. B (Clarke Depo.) at 20: 8-19, 22:13-23:7 ( “Q: Well, what was the purpose of  
24 the March 26, 2010 report? A: It was to comment upon Mr. Meyer's report, and also to do my  
25 own analysis and convey, or report, the elements of that analysis and the results of that analysis.;  
26 Q: Now you understood that your March 26, 2010 report was a rebuttal report. . . . And by that,  
27 you were responding to Mr. Meyer’s; you weren’t providing affirmative opinions of your own.  
28 Correct?. . . A: I don’t think that is correct. . . . Well, while it was a rebuttal report, as a general  
proposition, and a decent way to describe it, that wasn't the sole purpose, as I indicated in my  
previous answer. I did do my own analysis of what I thought the damages were in the case and  
included those, and I -- you're using the term, an affirmative opinion. I think that would count as  
an affirmative opinion.”)

1 In *Burnham*, as here, the precluded rebuttal expert “affirmatively opine[d]” based on long  
2 known case evidence on a “key issue” in the case (causation) that he “could have evaluated  
3 before the initial disclosure deadline.” *Id.* As here, “[t]he expert deadlines in this case provided  
4 [the parties] ample time to produce an [initial] expert report.” *Id.* at \*6. The court noted that, as  
5 here, the opposing expert had no opportunity to prepare a rebuttal to the expert’s affirmative  
6 opinions and allowing for that would require extending long-set case deadlines and re-opening  
7 expert discovery. The requirement that rebuttal experts be restricted to responsive opinions  
8 “prevent[s] parties from hiding the ball – from introducing initial experts in the guise of rebuttal  
9 experts and thereby frustrating their opponents’ opportunity to respond to those experts” – as  
10 defendants did here. *Id.* at \*5. Citing *Wong v. Regents of the Univ. of Cal.*, 410 F.3d 1052, 1060  
11 (9th Cir. 2005), the court admonished: “Parties must understand that they will pay a price for  
12 failure to comply strictly with scheduling and other orders[.]” The court completely barred the  
13 expert from testifying and that failure meant summary judgment for failure of proof against  
14 plaintiff. *Id.*<sup>13</sup>

15 Here the appropriate result is less draconian. Clarke would be allowed to present any  
16 otherwise non-objectionable rebuttal opinions to Meyer’s damages analysis. But he would not be  
17 allowed to present the affirmative royalty rate opinions and analysis that he could and should  
18 have made on November 16, 2009, when such affirmative opinions were due.

#### 19 **IV. CLARKE IS NOT QUALIFIED TO TESTIFY TO LEGAL OPINIONS**

20 In his report and at his deposition Clarke repeatedly offered legal opinions, including the  
21 “Copyright Law and Analysis” section of his report summarizing copyright cases, his opinions on  
22 this Court’s rulings based on his reading of those cases and orders, and opinions on how Meyer’s  
23

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24 <sup>13</sup> *Maionchi v. Union Pacific Corp.* 2007 WL 2022027 (N.D. Cal.) reaches a similar result. The  
25 defendant designated as a rebuttal expert, someone whose opinions rebutted no initial witness.  
26 *Id.* at \*1. As here, the defendant could not show “it was substantially justified in waiting 30 days  
27 after the expert disclosure deadline to disclose an expert who is not a rebuttal expert.” *Id.* As  
28 here, the case schedule had been extended twice, and there was insufficient opportunity for the  
opposing party to rebut the report. *Id.* Citing the “wide latitude in imposing sanctions under  
Rule 37(c)(1),” Magistrate Trumbull recommended the mis-designated “rebuttal” expert report  
and testimony be excluded for these reasons. *Id.*

1 approach violates the law as Clarke understands it.<sup>14</sup> In addition, despite the Court’s MSJ Order  
2 allowing Oracle to pursue infringement damages in the form of a FMV license (Dkt 628), and its  
3 recent MSJ Order confirming that pursuing lost profits copyright damages “is often impractical  
4 because of the difficulty of proving such lost profits with specificity“ (Dkt 762 (8/17/2010 Order  
5 re Mtns. For Part. SJ at 20:22-24), Clarke nonetheless opines that “Because the profits Oracle  
6 may have lost as a result of the Alleged Actions can be determined with a high degree of  
7 precision, [] there is no need to *estimate* a reasonable royalty.” *Id.*, Ex. A (Clarke Report) at 22.  
8 Likewise, though the Ninth Circuit has held: “Common sense dictates that an expert may confer  
9 with the copyright holder and that the background data may be factored into calculations of  
10 actual damages,” *Polar Bear Prods., Inc. v. Timex Corp.*, 384 F.3d 700, 709 (9th Cir. 2004),  
11 Clarke erroneously opines that Meyer was “inappropriate” in doing so. House Decl., Ex. A  
12 (Clarke Report) at 40, 45, 86. Perhaps most significantly, in his hypothetical royalty calculation  
13 Clarke justifies his exclusive focus on Defendants’ after-the fact results on his erroneous  
14 interpretation of the law as requiring reliance on actual results over SAP’s and Oracle’s own  
15 contemporaneous projections. *See* Section III.A.2 above.

16 Clarke should be precluded from providing all such testimony because he is admittedly  
17 not a legal expert. House Decl., Ex. B (Clarke Depo.) at 57:5-9 (“I don’t have any training as a  
18 lawyer.”); at 87:23-90:1 (“Q: What expertise do you have, if any, on copyright law?” “A: Well,  
19 of course, I’m not a lawyer, so some people would claim I didn’t have very much expertise in  
20 that”; “I would not hold myself out as an expert on the law of any kind”; “I would not hold  
21 myself out as an expert legal researcher, no.”). *See, e.g., U.S. v. Eastern Mun. Water Dist.*, 2008  
22 WL 4755420, at\*1 (C.D. Cal.) (“testimony that calls for a legal conclusion is inappropriate  
23 matter for expert testimony”) (*citing Aguilar v. Int’l Longshoremen’s Union Local No. 10*, 966

24 \_\_\_\_\_  
25 <sup>14</sup> *See, e.g.,* House Decl., Ex. A (Clarke Report) at Section 15 “Copyright Law and Analysis” at  
26 284-293; Ex. B (Clarke Depo.) at 94:20-95:17; 107:2-8; 108:19-111:6 (based on his own  
27 research, Clarke gathered cases he deemed applicable and intends to offer summaries and  
28 conclusions at trial about how Meyer purportedly does not comply with law); Ex. A (Clarke  
Report) at 3 (interprets Court’s Rule 37 order and opines how bars parts of Meyer’s analysis); Ex.  
B (Clarke Depo.) at 294:8-25; 295:24-296:16) (same); 297:8-18 (confirming his opinions on  
Court’s Rule 37 Order based on his “reading of them to see what they mean”).

1 F.2d 443, 447 (9th Cir. 1992)); *Regents of Univ. of Cal. v. Monsanto Co.*, 2006 WL 5359055, at  
2 \*1 (N.D.Cal. (PJH)) (“Where an expert proposes to testify, however, to legal issues that may  
3 contradict the law to be presented to the trier of fact, such testimony cannot purport to aid the  
4 trier of fact”).

5 **V. CLARKE’S DATABASE FMV LICENSE BASES ARE PREMISED ON**  
6 **IMPROPER LEGAL OPINIONS AND UNRELIABLE METHODOLOGY**

7 In response to Oracle’s FMV license for SAP TN’s infringing use of Oracle’s database  
8 software program, Clarke computes two alternative FMV licenses. One of Clarke’s methods is to  
9 price a single license based on the then current configuration of SAP TN’s multi-processor  
10 servers, which results in a \$1.9 million FMV license fee. House Decl., Ex. A (Clarke Report) at  
11 206-208. Alternatively, Clarke uses a fictitious configuration of TN’s servers as if they were one  
12 single-processor server to price an alternative \$1.9 million FMV license. *Id.* at 208-209. Both of  
13 Clarke’s database FMV computations should be excluded.

14 In his Report and during deposition, Clarke initially premised his database FMV license  
15 analysis on the erroneous belief that there is a legally operative “established royalty” for SAP  
16 TN’s infringing use that he could use to compute his FMV license fee. He opined that Oracle’s  
17 standard database License and Services Agreement (“OLSA”) and associated price lists, pursuant  
18 to which Oracle licenses Oracle database software to customers to run their internal business  
19 operations (like their accounting software), provide an established royalty for Defendants’  
20 infringing use.<sup>15</sup> However, SAP TN’s corporate representative admitted that SAP TN did not use  
21 Oracle’s database software for any internal business operations. *Id.*, Ex. J (Thomas 30(b)(6)  
22 Depo.) at 7:6-16. Thus, Clarke’s opinion ignores that SAP TN’s use of Oracle’s Database  
23 software could never comply with an OLSA.

24 \_\_\_\_\_  
25 <sup>15</sup> House Decl., Ex. A (Clarke Report) at p. 205-206 (“The Oracle database is readily available at  
26 a known price to any customer that wishes to use it”; “the price is known and well established in  
27 the marketplace”); Ex. B (Clarke Depo.) at 452:23-453:18 (“Q. The market price that you refer to  
28 is the price paid to obtain an end-user full-use Oracle database license for Oracle. Correct? . . . A:  
I actually used two different prices in doing my analysis, but . . . they were for licenses that were  
end-user licenses.”); 477:13-22 (Clarke made no adjustments, for any purpose, to the Oracle  
database price to customers).

1 Clarke testified that he believed the legal test for an “established royalty” was “sufficient  
2 evidence in the marketplace that assets similar to the ones at issue trade at a certain price.” *Id.*,  
3 Ex. B (Clarke Depo) at 465:12-25. In fact, the legal test for an established royalty requires that  
4 the owner “has consistently licensed others to engage *in conduct comparable to the defendant’s.*”  
5 *Monsanto Co. v. McFarling*, 488 F.3d 973, 979 (Fed. Cir. 2007)(emphasis added). An expert  
6 opinion premised on the wrong legal standard cannot be presented. *Abuan v. Gen. Elec.*, 3 F.3d  
7 329, 332 (9th Cir. 1993); *Hebert*, 99 F.3d at 1117.

8 When faced at his deposition with his misunderstanding of “established royalty,” Clarke  
9 back-tracked and claimed he actually based his FMV fee on his reading of the OLSA, which was  
10 never referenced either in the text or footnotes of his Report.<sup>16</sup> Clarke then testified that he  
11 derived comfort in his never-before disclosed legal interpretation of Oracle’s OLSA by  
12 comparing it to his own Microsoft Excel software license.<sup>17</sup> This purported comparison also was  
13 not listed as a basis for Clarke’s opinion in his Report and Clarke had not previously produced  
14 the Excel license.<sup>18</sup> Clarke testified that this license comparison and the legal interpretations he  
15 made from it were his alone.<sup>19</sup>

16 Clarke may not provide legal opinions on license terms. *See, e.g., In re W. Asbestos Co.*,  
17 416 B.R. 670, 704 (N.D. Cal. 2009) (PJH) (expert cannot offer opinion on interpretation of  
18 contract terms); *Energy Oils, Inc. v. Montana Power Co.*, 626 F.2d 731, 737 n.11 (9th Cir. 1980)  
19 (expert testimony allowed to show custom and usage in industry but not allowed to give opinion  
20 on effect of contract terms). Moreover, even if it were not impermissible legal opinion, Clarke’s  
21 undocumented use of his own Excel license as a legal check of his interpretation of the OLSA (if  
22 it happened at all) is hardly the sort of scientific method that supports presenting his FMV fee to

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23 <sup>16</sup> House Decl., Ex. B (Clarke Depo.) at 453:19-454:8, 459:18-25; Ex. A (Clarke Report) at 205-  
24 209.

25 <sup>17</sup> House Decl., Ex. B (Clarke Depo.) at 469:8-473:8.

26 <sup>18</sup> *Id.*, Ex. A (Clarke Report) at 205-209; Ex. B (Clarke Depo.) at 473:14-16.

27 <sup>19</sup> *Id.*, Ex. B (Clarke Depo) at 470:5-12 (“Q. Is your understanding based on anything other than  
28 your interpretation of the agreement? A. I’ve not been given any guidance by anyone else. I read  
it, I think I understood it. I find it to be parallel to many other agreements that I’ve read and  
signed or accepted with a click-through.”); 473:14-474:3, 475:4-10 (Clarke’s only support for his  
opinion in his report is his “own words”).

1 a jury. *See, e.g., Perry*, 2010 WL 3025614 at \*21 (“The party proffering the evidence ‘must  
2 explain the expert’s methodology and demonstrate in some objectively verifiable way that the  
3 expert has both chosen a reliable . . . method and followed it faithfully.’”) (quoting *Daubert II*, 43  
4 F.3d at 1319 n.11). And his blatant backpedalling makes his numbers even more unreliable.  
5 *Compare Bowling*, 2008 WL 717741 at \*4.

6 Clarke’s database FMV opinions should also be rejected because Clarke arrived at them  
7 by admittedly revising how SAP TN actually used Oracle’s database software (namely, changing  
8 how SAP TN installed Oracle database software on its multi-processor servers to pretend SAP  
9 TN instead had one single processor server, and then claiming without basis that the installation  
10 would allow for Oracle’s less expensive Standard Edition license) to minimize damages.<sup>20</sup>  
11 Again, the law requires Clarke to value SAP TN’s actual infringing use. *See, e.g., n.8 above.*  
12 Clarke’s manipulation of the facts to drive down damages merits rejection of his opinion as  
13 unreliable. *Compare Bowling*, 2008 WL 717741 at \*6.

14 **VI. CLARKE’S LOST PROFITS AND INFRINGERS’ PROFITS CAUSATION**  
15 **METHODOLOGY IS UNSCIENTIFIC AND UNRELIABLE**

16 To reduce Oracle’s lost profits and infringers’ profits damages for purported lack of  
17 causation, Clarke employs an extraordinary causation formula invented by him just for this case.  
18 He excludes SAP TN customers from damages calculations on the basis of assigning them certain  
19 “customer-specific exclusion criteria” (which result in the automatic exclusion of the customer  
20 from damages) and/or “joint exclusion criteria” (whereby customers are excluded from damages  
21 if they have a combination of (a) either of two specific attributes, and (b) at least one of another  
22 group of exclusion criteria). House Decl., Ex. A (Clarke Report) at 213-217, 221-235; Ex. B  
23 (Clarke Depo.) at 661:3-662:2 (confirming automatic exclusion criteria); at 739:20-740:7-16  
24 (confirming “joint exclusion criteria” formula is “A or B plus at least one of Cs”).

25 Clarke can cite no treatise (or anything else) that supports his “exclusion criteria”

26 \_\_\_\_\_  
27 <sup>20</sup> House Decl., Ex. A (Clarke Report) at 208-209; Ex. B (Clarke Depo) at 478:4-16, 478:25-  
28 479:3 (“Q: So this method is based on what TomorrowNow could have done rather than what  
they actually did? A: That’s correct.”).

1 methodology; the entire approach is a self-creation based on his judgment.<sup>21</sup> Nor has Clarke ever  
2 before employed his “joint exclusion criteria” methodology. *Id.*, Ex. B (Clarke Depo.) at 647:3-  
3 10. He did not create or vet the criteria with Defendants’ own purported enterprise software and  
4 support expert, Brian Sommer. *Id.* at 657:9-12.<sup>22</sup> Sommer’s testimony confirms that Clarke’s  
5 automatic exclusion criteria are improper.<sup>23</sup>

6 Clarke’s “exclusion criteria” methodology is also rendered unreliable by improper  
7 assumptions he draws about the nature of flawed work performed by another SAP expert witness,  
8 Stephen Gray. Clarke relies solely on Gray to exclude 51 SAP TN customers from Oracle’s lost  
9 profits on the basis that there purportedly was “no accused conduct” related to those customers.  
10 *Id.*, Ex. A (Clarke Report) at 224; Ex. B (Clarke Depo.) at 727:12-21; 729:21–730:4. Despite  
11 being confronted by Gray’s testimony that, in developing the list of 51 “non accused conduct”  
12 customers he did not make a determination that these customers were not supported by SAP TN  
13 in an infringing or improper manner,<sup>24</sup> Clarke continues to this day to rely on Gray’s work to  
14 exclude these 51 customers from Oracle’s lost profits.<sup>25</sup> He should be precluded from doing so.

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15 <sup>21</sup> *Id.*, Ex. B (Clarke Depo.) at 663:11-19 (the 11 “Customer-Specific Exclusion Criteria” are not  
16 identified in any publication, but were groupings based on Clarke’s own analysis); 636:19–637:3,  
17 641:4-22 (Clarke cannot identify any treatise that specifies the use of his “Possible Exclusion  
18 Criteria” methodology); 666:3-20 (“Q: Well, there’s also judgment in deciding whether it’s an  
19 automatic exclusion or a potential exclusion. Correct? A: There’s no question that at that level,  
20 that’s a judgment call . . . . So there’s a judgment involved in that, and there’s a judgment  
21 involved in deciding whether they’re specific or automatic exclusions versus possible  
22 exclusions.”); 743:10-744:4 (chose his formula over other possible combinations because he “felt  
23 [it] was the real viable combination”).

24 <sup>22</sup> Clarke did rely on Sommer for his exclusion of customers who had more than a 6 month gap  
25 between when they left Oracle support and went to SAP TN. *Id.*, Ex. A (Clarke Report) at 224.  
26 To the extent Sommer’s opinions on this “service gap” are precluded, Clarke should be precluded  
27 from excluding customers from his lost profits calculations on that basis.

28 <sup>23</sup> By Clarke’s judgment, if a SAP TN customer considered another third-party vendor before  
choosing SAP TN, that customer is automatically excluded from the calculation of Oracle’s lost  
profits, because he concludes that customer would have left Oracle anyway. *Id.*, Ex. B (Clarke  
Depo.) at 667:1-8; 668:11-669:5; Ex. A (Clarke Report) at 223. A customer’s consideration and  
potential capability to self support is one of Clarke’s key “joint exclusion criteria.” *Id.*, Ex. A  
(Clarke Report) at 233-235; Ex. B (Clarke Depo.) at 740:7-16; 771:12-14. However, SAP expert  
Sommer testified that a customer’s evaluation of another vendor clearly does indicate the  
customer necessarily was going to leave its current vendor. *Id.*, Ex. H (Sommer Depo.) at 205:9-  
25. Sommer also testified that the ability to self-support does not mean the customer would  
actually choose to self-support. *Id.* at 328:20-329:4.

<sup>24</sup> *Id.*, Ex. E (Gray Depo.) at 259:6-18; 285:16 – 287:22.

<sup>25</sup> *Id.*, Ex. B (Clarke Depo.) at 730:5-736:15; 738:3-7.



1 See n. 11 above.

2 The unreliability of Clarke’s causation analysis is further confirmed by the fact that he  
3 recognized that many customers who stayed with Oracle support would have been presumed to  
4 have left under his criteria formula.<sup>26</sup> Clarke did not test his assumptions about what  
5 characteristics indicate a SAP TN customer would have left Oracle anyway against customers  
6 who stayed with Oracle support.<sup>27</sup> If allowed to present this unreliable methodology to the jury,  
7 there is clear likelihood of confusing or misleading the jury to draw inappropriate conclusions  
8 about what an Oracle customer would have done in the absence of SAP TN.<sup>28</sup>

9 Clarke’s unrecognized, unscientific and unreliable methodology to exclude customers  
10 from Oracle’s lost profits and infringers’ profits damages should not be allowed as “expert”  
11 testimony. See e.g., *Daubert II*, 43 F.3d at 1318-19 (party must demonstrate in some objectively  
12 verifiable way that its expert has chosen a reliable method and followed it properly, particularly  
13 where no independent, pre-litigation analysis to rely on); *Carnegie Mellon*, 55 F.Supp.2d at 1035  
14 (same); *Perry*, 2010 WL 3025614 at \*21 (same).

15 Moreover, Clarke admittedly “do[es]n’t hold [him]self out as an expert in ERP software”  
16 and has no prior experience or knowledge of the aftermarket support industry for such software.<sup>29</sup>  
17 Consequently, he does not have the expertise to draw conclusions as to what an Oracle support  
18 customer would or would not have done had SAP TN not offered support services. His causation  
19 analysis should be excluded for this reason as well. See, e.g., *Rambus, Inc. v. Hynix*  
20 *Semiconductor, Inc.*, 254 F.R.D. 597, 603-05 (N.D. Cal. 2008) (finding inadmissible testimony of  
21 electrical engineer on “commercial success” because he had no marketing or business training in

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22 <sup>26</sup> *Id.*, at 679:17-25 (customers that never left Oracle exhibited the same characteristics that would  
23 have put them in one or more of Clarke’s exclusions pools); at 681:14-24 (“Q: Right. Would you  
24 agree that Oracle had some customers who would fit one or more of your automatic exclusion  
25 pools, but nonetheless, in the real world, never left? A: As I say, I don’t remember if that fact  
26 pattern arose. But it wouldn’t surprise me if it did.”).

27 <sup>27</sup> *Id.*, at 680:11-681:1 (“If they didn’t leave Oracle, I really didn’t spend any time studying  
28 them.”).

<sup>28</sup> Further proof of his method’s unreliability comes from Clarke’s admission that, in the process  
of classifying customers into his exclusion buckets, “some items may have slipped through the  
cracks.” *Id.* at 714:17-19.

<sup>29</sup> House Decl., Ex. B (Clarke Depo.) at 83:8-13; 84:11-17.

1 commercial aspects of claimed invention).

2 **VII. CLARKE’S THIRD PARTY MARKET SURVEY IS BEYOND CLARKE’S**  
3 **EXPERTISE, UNRELIABLE AND NOT REBUTTAL**

4 Clarke purports to provide expert analysis of the existence and technical viability of  
5 alternatives to TN support, then uses his study to come to the conclusion that there was a “vibrant  
6 market” for third party support of the products at issue.<sup>30</sup> House Decl., Ex. A at 141-71, (Section  
7 8.9.8 of Clarke Report (“Third Party Vendors”)), 142. Clarke uses this conclusion to  
8 significantly reduce his royalty, as well as exclude customers from lost profits damages.<sup>31</sup> But  
9 Clarke is not an expert in ERP software, market research, or competition among vendors  
10 providing support for such software. For lack of expertise alone, his study should be rejected.  
11 *See, e.g., Rambus.*, 254 F.R.D. at 603-05; *Chang*, 207 F.3d at 1172-73.

12 Clarke’s purported third party vendors “market study” is nothing more than his cherry  
13 picked collection of untested information he found on the internet when he made his report.<sup>32</sup>  
14 Clarke’s methodology consists of comparing the words on other purported vendors’ website  
15 materials to those used to describe SAP TN’s service offering, and then opining that the service  
16 offerings from third party vendors and/or self service are viable substitutes for SAP TN. Clarke  
17 proceeds to determine from this “analysis” the comparability of services offered by those vendors  
18 to SAP TN,<sup>33</sup> and concludes that SAP TN customers would have left Oracle even without TN.<sup>34</sup>  
19 Clarke’s only claimed “expertise” to reach his conclusions is his ability to read words on the  
20 internet:

21 Q: What expertise do you have of ERP vendor product offerings  
22 that would allow you to provide expert opinion on the reasonable  
23 similarity of product offerings?

A: I don't -- I don't believe I need that expertise to do what's being  
referenced here. These are statements made by these vendors

24 <sup>30</sup> House Decl., Ex. A (Clarke Report) at 135, 142; Ex. B (Clarke Depo.) at 526:20-527:21;  
528:5-16.

25 <sup>31</sup> *Id.*, Ex. A (Clarke Report) at 135, 223; 230; Ex. B (Clarke Depo.) at 672:14-23.

26 <sup>32</sup> House Decl., Ex. B (Clarke Depo.) at 581:20-23.

27 <sup>33</sup> House Decl., Ex. A (Clarke Report) at 141 (“...many of these firms do have reasonable similar  
product offerings available to customers at any given point in time”)

28 <sup>34</sup> *Id.* at 192 (“In a world absent TomorrowNow, the majority of its customers would likely have  
sought out support services from one of the other vendors that existed in the marketplace.”).

1 themselves, and for the most part, the terminology and vocabulary  
2 they use to describe their services is similar if not identical one to  
the other. So I'm able to read what they say about themselves, and  
I've incorporated that into my analysis.

3 Q: What analysis did you perform to determine that the firms had  
4 reasonably similar product offerings?

5 A: I read what they said they were offering. . . .

6 House Decl., Ex. B (Clarke Depo.) at 548:19-549:14.

7 Even if Clarke had the technical or market knowledge to undertake a meaningful  
8 comparison (which he does not), proper analysis of the support market for the Oracle applications  
9 at issue would require investigation as to what the marketing materials really meant, whether  
10 those services were actually provided, where and when. Clarke did no such testing, accepting  
11 other vendors' internet marketing claims on face value alone. *Id.* at 550:4-21 (did not verify what  
12 specific products vendors supported); 581:24-582:4 (did not confirm any vendors' assertions with  
13 actual customers); 602:9-605:3 (assumed website representation of vendor's offering in March  
14 2010 was indicative of what offered during relevant period); 617:23-618:24 (marketing pieces  
15 merit "healthy skepticism" because of "bias"); 620:15-624:2 (did not apply "healthy skepticism"  
16 to what he interpreted as factual assertions in what he read on internet about third-party  
17 servicers).

18 Regurgitating untested website statements is not allowable expert testimony, even if  
19 Clarke had any industry expertise (which he doesn't). *See Perry*, 2010 WL 3025614 at \*22  
20 ("mere recitation of text in evidence does not assist the court in understanding the evidence  
21 because reading, as much as hearing, 'is within the ability and experience of the trier of fact.'")  
22 (quoting *Beech Aircraft Corp v United States*, 51 F3d 834, 842 (9th Cir .1995)); *Kilgore v.*  
23 *Carson Pirie Holdings, Inc.*, 2006 WL 3253490, at \*4 (6th Cir.) (internet article is unreliable  
24 basis for methodology where expert did not know on what research or methodology the article  
25 was based and conducted no independent research); *Matrix Motor Co. v. Toyota Jidosha*  
26 *Kabushiki Kaisha*, 290 F. Supp. 2d 1083, 1086 (C.D. Cal. 2003) (expert reports "irrelevant"  
27 where they "merely recite hearsay statements, often verbatim, culled from a variety of Internet  
28

1 websites”).<sup>35</sup>

2 Because of his admitted lack of expertise in the enterprise applications software and  
3 support markets, Clarke also should be precluded from testifying at trial as to the reasonableness  
4 – or unreasonableness – of SAP’s actions or goals (*e.g.*, re the Safe Passage program).<sup>36</sup> Because  
5 Clarke has no expert basis for that commentary, it simply usurps the role of the jury to evaluate  
6 factual information or assertions, even to the extent that the information that Clarke read on the  
7 Internet would have been admissible in the first place.

## 8 **VIII. CLARKE’S UNRELIABLE REGRESSION ANALYSES SHOULD BE EXCLUDED**

9 Regression analyses are inherently complicated and, because no jury can be expected to  
10 understand them, the court must be particularly vigilant before allowing an expert to put his  
11 imprimatur of knowledge on them. *DePaepe v. General Motors Corp.*, 141 F.3d 715, 720 (7th  
12 Cir. 1998) (“District courts must be careful to keep experts within their proper scope, lest  
13 apparently scientific testimony carry more weight with the jury than it deserves.”). Clarke’s  
14 training to perform such analyses is limited to two college courses he took in 1969. House Decl.,  
15 Ex. B (Clarke Depo.) at 808:13-809:7. He did not know basic terms of art or recognize one of  
16 the most prominent treatises.<sup>37</sup> The methodology Clarke uses and the results he proffers show his  
17 lack of expertise and a biased results-driven approach.

18 Clarke attempts to apply regression analyses on Oracle data to measure variable costs in  
19

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20 <sup>35</sup> In addition, Clarke’s third party vendor study should be excluded under Rule 37 for the same  
21 reasons as Sommer’s third party analysis, namely it is an affirmative independent analysis that  
22 should have been produced with initial reports. *See* Section III.B above and concurrently filed  
23 Mo. to Exclude Testimony of Brian Sommer.

24 <sup>36</sup> *See, e.g.*, House Decl., Ex. A (Clarke Report) at 6, 15, 19, 20 (“[I]t would be a reasonable  
25 business action for SAP . . .”; “[T]he business rationale for Safe Passage was perfectly  
26 reasonable . . .”; “...The migration programs . . . indicate the evolution of normal competitive  
27 practices in the industry”; “...[I]t was a legitimate business objective for SAP . . .”).

28 <sup>37</sup> *Id.*, Ex. B. at 935:3-7 (“Q: Do you know what a fixed-effects model is? A: I am not familiar  
with that term. Q: Do you know what first differencing is? A: I’ve used that term. I can’t give  
you a definition of it as I sit here.”); 943:23-944:7 (“Q: Are you familiar with the use of fixed  
effects in a time series cross-section regression? A: You asked me whether I had done that kind  
of analysis, and the answer is no. Q: Are you familiar – but you’re familiar with it? A: I’ve  
heard of it, but I’ve never done one, so I – no. I wouldn’t describe my knowledge of fixed-effects  
analysis as familiarity.”); 955:20-956:7 (“Q: Do you recognize the text or Professor Mandala?  
A: I don’t know who G.S. Mandala is. Q: Nor do you recognize the text? A: That’s correct.”).

1 the relevant range of lost support sales, which are the source of Clarke’s estimated profit margins,  
2 and a critical component of Clarke’s lost profits measurement. *Id.*, Ex. A (Clarke Report) at 243-  
3 246, 272-273, 276-281. Oracle’s recognized statistical expert, Dr. Levy, who has performed  
4 hundreds of regression analyses, explains Clarke’s many mistakes and misconceptions that no  
5 actual expert in regression analysis would make. Dr. Levy describes how Clarke makes  
6 methodological choices that are theoretically unsound, contrary to standard econometric  
7 guidance, and, by design, drive Oracle’s damages down. *See* accompanying Declaration of Dr.  
8 Daniel Levy.

9 For example, Clarke uses an inappropriate, and corrupted zero intercept regression which  
10 does not measure how costs vary with revenue and artificially forces lower lost profits damages.  
11 *Id.* at ¶¶ 3 a-d; 4-32. This regression method used in his OEMEA and OUSA regressions is so  
12 profoundly flawed that it produces exactly the same relevant margins for sets of data that have  
13 dramatically differing relevant margins and will produce very different relevant margins for sets  
14 of data that clearly have exactly the same relevant margins. *Id.* at ¶ 18-25. He also applies  
15 flawed methodology to SAP data for his measurement of infringer’s profits by ignoring standard  
16 approaches, such as fixed effects, that are used in this kind of analysis. *Id.* at ¶ 33-40.  
17 Furthermore, Mr. Clarke applies inappropriate methods to Oracle’s total revenue data, which lead  
18 to an incorrect estimate of the relationship between costs and revenues. *Id.* at ¶ 41-46<sup>38</sup> Because  
19 of all his methodological errors and erroneous assumptions, Clarke’s regressions do not provide  
20 the answers he claims they do in terms of the relationship between costs and revenues. *Id.* at  
21 ¶¶ 3, 23-24, 31-32, 51. The results of Clarke’s regressions are fundamentally erroneous, truly  
22 arbitrary, and because they are untethered to the data he purports to analyze, misleading and  
23 unreliable. *Id.* ¶¶ 3-51.

24 Where, as here, “an expert purports to apply principles and methods in accordance with  
25 professional standards, and yet reaches a conclusion that other experts in the field would not

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26 <sup>38</sup> It is unsurprising that Clarke makes this choice as Oracle’s support business is recognized as  
27 Oracle’s highest margin business. House Decl., Ex. L (Depo Ex. 31) at 25. Inclusion of non-  
28 support revenues would only drive Clarke’s measurement of Oracle profit margins down.

1 reach, the trial court may fairly suspect that the principles and methods have not been applied  
2 faithfully.” Fed. R. Evid. 702, Advisory Note. Similarly flawed regression analyses are routinely  
3 excluded. *See, e.g., Madani v. Equilon Enter. LLC*, 2009 WL 2148664, at \*11 (C.D. Cal.)  
4 (excluding expert’s regression analysis in part because results were outside the range generally  
5 acceptable in economic community and expert was unfairly selective in his choice of data); *In re*  
6 *REMEC Inc. Secur. Litig.*, 2010 WL 1676741, at \*58-59 (S.D. Cal.) (excluding proffered expert  
7 regression analysis that pre-determined results and failed to consider readily accessible relevant  
8 data); *Freeland v. AT&T Corp.*, 238 F.R.D. 130, 149 (S.D.N.Y. 2006) (holding incomplete  
9 analysis insufficiently reliable and helpful to justify admission into evidence). Clarke should be  
10 precluded from presenting or relying on his proffered regression analyses for his calculation of  
11 the variable cost margins of OUSA and OEMEA for Oracle’s lost profits damages, and SAP’s  
12 variable expenses for calculation of SAP’s infringer’s profits.

13 **IX. CLARKE’S RELIANCE ON LATE PRODUCED CUSTOMER DECLARATIONS**  
14 **ARE BARRED BY RULE 37**

15 Finally, Oracle moves under Fed. R. Civ. P. 37 to exclude five customer declarations that  
16 were produced after defendants’ damages expert report was due and upon which Clarke  
17 subsequently modified his calculations. Rule 26(a)(2)(B) requires that an expert report “contain a  
18 complete statement of all the opinions to be expressed and the basis and reasons therefore,” as  
19 well as “the data and other information considered by the witness in forming the opinions.”  
20 Failure to satisfy this rule precludes use of this information under Rule 37 unless the failure is  
21 substantially justified or harmless. Defendants’ failure is neither.

22 Defendants first identified SAP TN’s customers in a discovery response on July 26, 2007.  
23 House Decl. ¶ 22. In the two and a half years before the discovery cut off, the parties used that  
24 list to identify customers to contact, get declarations from and depose them within the allotted  
25 fact discovery period, which ended December 4, 2009. *Id.* On April 6, 2010 – five months after  
26 the close of fact discovery, and after the March 26, 2010 due date for SAP’s expert rebuttal  
27 reports – Oracle received a customer declaration by email (Standard Register Co.). On April 9,  
28 2010 Oracle objected to this statement as untimely, citing Defendants’ own assertion in a

