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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)

[PROPOSED] ORDER DENYING PLAINTIFFS' MOTION NO. 3 TO EXCLUDE EXPERT TESTIMONY OF DAVID GARMUS

Having considered Plaintiffs' Motion No. 3: To Exclude Testimony of Defendants' Expert David Garmus (D.I. 767), Defendants' Opposition to Plaintiffs' Motion No. 3: To Exclude Testimony of Defendants' Expert David Garmus, the memoranda and declarations in support, and exhibits attached thereto:

IT IS HEREBY ORDERED THAT: Plaintiffs' motion is DENIED.

Plaintiffs' expert Paul Pinto, designated solely to testify on so-called "saved development costs," as well as Defendants' experts Donald Reifer and David Garmus (designated solely to rebut Pinto), are no longer relevant to this case as a result of this Court's August 17, 2010 order holding that Plaintiffs may not seek damages in the form of "saved development costs" for any cause of action in this case. Because it seeks to exclude certain specific opinions of Garmus that rebut Pinto's opinions on saved development costs, Plaintiffs' motion is moot and is therefore DENIED. Even were it not moot, Plaintiffs' motion would be denied for failing to offer any suitable basis for excluding Garmus' rebuttal testimony.

RULE 702 OF THE FEDERAL RULES OF EVIDENCE

Testimony Regarding IFPUG: Pinto purports to develop an estimate of "the amount that SAP would have spent to develop software of similar functionality to what it [allegedly] infringed here," in part by using a technique known as "Function Point Analysis" ("FPA"). As a function point expert, Garmus evaluates and rebuts Pinto's purported FPA by referencing the industry standards set by the International Function Point Users Group ("IFPUG"), the international professional organization that promulgates standards for FPA. Garmus has extensive credentials as an expert in IFPUG and FPA, including over thirty years of experience in the field of software estimation; over 17 years as an IFPUG Certified Function Point Specialist; previous leadership positions at IFPUG, including as former President of the organization; and membership on the IFPUG Counting Practices Committee from 1990 to the present.

Plaintiffs argue that Garmus should not be permitted to testify regarding IFPUG or what practices IFPUG approves. However, experts can opine on industry standards. *See, e.g.*, *Davis v. Mason County*, 927 F.2d 1473, 1485 (9th Cir. 1991) (holding "Fed. R. Evid. 702 permits expert testimony comparing the conduct of parties to the industry standard"); *Erikson v. Baxter*

Healthcare, Inc., 131 F. Supp. 2d 995, 1001 (N.D. Ill. 2001); *Callaway Golf Co. v. Screen Actors Guild, Inc.*, No. 07CV0373-LAB (WMc), 2009 WL 5125603, at *3 (S.D. Cal. Dec. 18, 2009). Here, the Court finds that Garmus may properly opine about standards promulgated by IFPUG based on his expertise and previous experience. As an industry veteran and expert on the FPA, Garmus' testimony regarding IFPUG's standards for conducting an FPA would be relevant to rebutting Pinto's opinions and helpful to the jury, as it considers the validity of Pinto's purported use of FPA and provides the jury with valuable insight into a specialized field. *See Vucinich v. Paine, Webber, Jackson & Curtis, Inc.*, 803 F.2d 454, 461 (9th Cir. 1986). Further, in light of Garmus' expertise and experience in FPA and in IFPUG leadership positions, his opinion about IFPUG's standards is not speculation, but the product of his expertise; thus, Garmus' testimony about the IFPUG standards would not introduce the opinions of experts not present in the courtroom. *See Callaway*, 2009 WL 5125603, at *3 (holding opinion that was "obviously based on [expert's] experience" was not lacking in factual basis).

The Court further finds unpersuasive Plaintiffs' arguments that Garmus' opinions lack a factual basis in light of his citation to certain IFPUG bulletin board posts. Garmus relies on these posts as examples of others who disagree with a technique employed by Pinto known as "backfiring." To the extent that Plaintiffs disagree with Garmus' reliance on these bulletin board posts to support his opinion regarding the impropriety of "backfiring," this concern goes to the weight, not admissibility, of Garmus' opinion. *See Clicks Billiards, Inc. v. Sixshooters, Inc.*, 251 F.3d 1252, 1262-63 (9th Cir. 2001); *Primrose Operating Co. v. National Am. Ins. Co.*, 382 F.3d 546, 562 (5th Cir. 2004); *Jones v. Otis Elevator Co.*, 861 F.2d 655, 662-63 (11th Cir. 1988).

Testimony Regarding the Scope of an FPA: Plaintiffs argue that Garmus should be prohibited from offering opinions regarding the modules TomorrowNow ("TN") serviced or did not service, and thus, and the modules that that Pinto should or should not have sized, because Garmus is not an expert in TN's business practices and because Garmus' list of modules Pinto should not have sized is based on inadequate factual support.

When conducting an FPA of a software program, one must determine the "scope" of the software that should be measured. In other words, one must first determine how much of the

software to size. In his analysis, Pinto measures the entire PeopleSoft and J.D. Edwards software suites at a particular release level. Garmus opines that the proper scope of an FPA estimate should only include the modules that an entity would actually use because that is the only software it would pay to build. The Court finds that Garmus may properly opine on the propriety of Pinto's sizing of an entire suite of products. Garmus made this determination by appropriately relying on his experience in FPA and software valuation. *See, e.g., Kumho Tire Co. v. Carmichael*, 526 U.S. 137, 156 (1999).

In addition to Garmus' opinions regarding Pinto's general approach of sizing entire software suites, Plaintiffs also object to Garmus' opinion that Pinto should not have included in his FPA estimate any modules TN did not service because TN never would have developed modules it did not use; similarly, Plaintiffs object to Garmus' identification of particular modules Pinto should not have sized. Plaintiffs claim that Garmus is not an expert on TN's business model and should not be permitted to render these opinions. However, the relevant inquiry is not whether Garmus is an expert on TN, but whether Garmus, an expert in FPA, reviewed sufficient data to determine the modules that should not be included in Pinto's FPA count.

The Court finds that Garmus relies on sufficient data to determine which modules Pinto should exclude from his analysis. Garmus relies on two comprehensive sources of information to determine which modules Pinto should not size: Appendix L to the Expert Report of Stephen K. Clarke ("Appendix L") and two exports from TN's SAS Database. Appendix L is a compilation of over 3300 rows of factual data, detailing contract information for all of TN's customers, including information about all the modules TN contracted to service. The exports from TN's SAS database include data that TN recorded as part of its day-to-day business activities, including which modules TN used to support each customer. Garmus compared this data to the list of modules Plaintiffs' asserted actually comprise the PeopleSoft and J.D. Edwards EnterpriseOne software suites. Garmus determined which modules TN apparently did not service and, therefore, that he believes Pinto should exclude from his FPA. Given the comprehensive nature of those spreadsheets and the fact that the SAS spreadsheets include TN's business records, Garmus' use of these materials is permissible and reliable. *See, e.g., Walton v. Bridgestone/Firestone, Inc.*, No.

CV-05-3027-PHX-ROS, 2009 U.S. Dist. LEXIS 85014, at *33 (D. Ariz. Jan. 16, 2009); *cf. Sommerfield v. City of Chicago*, 254 F.R.D. 317, 322 (N.D. Ill. 2008) (discussing the reliability of business records in the course of discussing the data on which an expert might appropriately rely). Further, Plaintiffs' characterization of Appendix L and the SAS spreadsheets as propounding the "view" of counsel is without merit. As the Court describes above, the sources Garmus used in his analysis were comprehensive spreadsheets of objective data; neither source was made by counsel or involved editorial discretion.

The Court further notes that Plaintiffs' chief complaint regarding Garmus' opinions on Pinto's sizing technique is that Garmus' opinions are incorrect. In particular, Plaintiffs assert that certain evidence contradicts Garmus' opinions on the modules TN did not service. However, the test for reliability under *Daubert* "is not the correctness of the expert's conclusions but the soundness of his methodology." *Stilwell v. Smith & Nephew, Inc.*, 482 F.3d 1187, 1191 (9th Cir. 2007) (citing *Daubert v. Merrell Dow Pharms., Inc.*, 43 F.3d 1311, 1318 (9th Cir. 1995)). Moreover, the evidence Plaintiffs cite as allegedly contradicting Garmus' opinions is in fact irrelevant to Garmus' opinions. Specifically, SAP's high-level public statements regarding liability-related litigation decisions and regarding TN's downloading of unspecified "information" from Oracle's websites say nothing about which modules TN used to support its customers. Similarly, evidence regarding libraries of documentation does not provide any indication regarding the modules of software that TN was using. Nor do statements made in TN's marketing material, which describe the software and releases TN could service, bear on which specific modules TN did service. Likewise, statements about software release levels a TN employee claimed to be running "in a shed behind [his] house" do not speak to the modules TN serviced. Finally, evidence of unspecified stray copies of installation CDs or backup environments again says little about what modules TN needed to service its customers, and thus, says nothing about which modules Pinto should size.

To the extent Plaintiffs contend that Garmus should have also considered these or any other materials, such concerns affect the weight, not admissibility, of expert opinion, and properly can be addressed during cross-examination. *See Bazemore v. Friday*, 478 U.S. 385, 400 (1986);

Hemmings v. Tidy-Man's Inc., 285 F.3d 1174, 1188 (9th Cir. 2002); *Jones*, 861 F.2d at 662-63; *Microfinancial, Inc. v. Premier Holidays Int'l, Inc.*, 385 F.3d 72, 81 (1st Cir. 2004); *EEOC v. Morgan Stanley & Co.*, 324 F. Supp. 2d 451, 458-60 (S.D.N.Y. 2004).

Finally, the Court notes that because Garmus' opinions regarding the proper scope of an FPA analysis and about the modules used by TN to service customers are admissible, Defendants' damages expert Stephen K. Clarke's reliance on these opinions is also permissible.

Exemplar IFPUG Function Point Counts: Plaintiffs argue that Garmus' exemplar function point counts are irrelevant to the current matter and constitute improper affirmative opinion. Plaintiffs' argument is without merit. Because Defendants argue that Pinto did not perform proper IFPUG counts, Garmus' counts provide an example of what steps would have been included in a proper FPA and demonstrate Garmus' expertise in the subject area (as well as, and conversely, Garmus' claim that Pinto's lacks of expertise). Because Garmus' counts are exemplars of the proper methodology, they would be relevant to rebut Pinto, and it is of no moment that the modules he used were not contained in the same release levels sized by Pinto.

Moreover, Garmus' exemplar counts are proper "rebuttal" opinions. Expert opinions are proper "rebuttal" opinions when the rebuttal expert opines on the same "subject matter" as the affirmative expert. *See* Fed. R. Civ. P. 26(a)(2)(C); *Garcia v. Union Labor Life Ins. Co.*, No. CV 04-0721-WJR (RNBx), 2004 WL 5644436, at *2 (C.D. Cal. Nov. 24, 2004). In this case, Pinto claims to use FPA; Garmus opines that Pinto does not properly perform FPA, and Garmus demonstrates what Pinto should have done. Such an opinion clearly concerns the "same subject matter"—FPA—as Plaintiffs' expert opinion, and thus constitutes proper rebuttal opinion. *See MMI Realty Servs., Inc. v. Westchester Surplus Lines Ins. Co.*, No. 07-00466 BMK, 2009 WL 649894, at *2 (D. Haw. Mar. 10, 2009). Moreover, courts routinely find that expert opinions are properly "rebuttal" opinions when the expert engages in a type or form of analysis not performed by the affirmative expert, and that analysis demonstrates a "flaw" or potential defect in the affirmative expert's methodology. *See Humphreys v. Regents of the Univ. of Cal.*, No. C 04-03808 SI, 2006 U.S. Dist. LEXIS 47822, at *17-18 (N.D. Cal. July 6, 2006); *In re Remec Inc. Sec. Litig.*, No. 04-CV-1948-MMA (AJB), 2010 U.S. Dist. LEXIS 48415, at *28-29 (S.D. Cal. Apr.

21, 2010). Garmus acts well within his role as a rebuttal expert by pointing out claimed flaws in Pinto's methodology and demonstrating how he believes a proper IFPUG analysis is done.

Appropriate Costs to Measure with FPA: Plaintiffs argue that Garmus offers an improper legal opinion about the appropriateness of saved development costs as a measure of damages in this case. The Court finds that Garmus does not offer such an impermissible legal opinion. Garmus does not opine on the availability of saved development costs as a legal matter, but rather discusses whether, as a practical matter and given the facts in this case, a software estimation expert would have estimated the cost of entire software suites. Garmus opines, as a software estimation expert, that when a maintenance provider is the intended user of a software product, a reasonable expert does not measure the entire cost of developing that software. This is because a maintenance provider would need an exact copy of the client's software to perform maintenance, and it would be unfeasible—indeed, impossible—for the maintenance provider to develop the exact same software on its own. This is not a legal opinion. *See, e.g., Hangarter v. Provident Life and Accident Ins. Co.*, 373 F.3d 998, 1010, 1016 (9th Cir. 2004).

For all these reasons, the Court denies Plaintiffs' motion to exclude Garmus' testimony pursuant to Rule 702.

IT IS SO ORDERED.

DATED: _____ By: _____
Hon. Phyllis J. Hamilton