

EXHIBIT I

Oracle USA, Inc., et al

v.

SAP AG, et al

Stephen K. Clarke
Expert Report

May 7, 2010

fact that numerous companies, ranging from small start-ups in the U.S., to billion dollar international companies have entered the third-party support business suggests that the marketplace's acceptance of third-party support vendors is positive and growing. In addition, these companies provide support services that are substantially similar to those provided by TomorrowNow to J.D. Edwards and PeopleSoft customers. The fact that they do so with varying degrees of acquiescence by Oracle creating a vibrant market for replacement support in the process. Therefore, over time, there will be significant downward pressure on Oracle to lower the cost of support which will put similar downward pressure on the Reasonable Royalty.

8.9. Georgia-Pacific Factor No. 9: Advantages over Old Devices

“The utility and advantages of the patent property over the old modes or devices, if any, that had been used for working out similar results.”

Of course, because this is a copyright case, there are no “old devices” and “old modes” at issue and such devices that would not be relevant in the context of this case anyway (because support must always include the latest methods of achieving the purpose of the applications; even if the application itself is an old, retired version, the updates for tax and accounting purposes must always be current).

However, I am going to address this factor by amending it slightly to comport with the copyright nature of the case as follows:

The advantages of providing support services for existing applications using Oracle support versus the support provided by third-party vendors in general.

The Subject IP includes “the updates, patches and fixes incorporated in each relevant version, service packs of Oracle updates, patches and fixes, and individual exemplar Software and Support Materials, including certain Oracle knowledge management solutions and certain Oracle updates, patches and fixes...”⁶⁰¹ In addition, Oracle support allows the customer to contact a call center for assistance with a software problem (a problem is referred to as a “case”).

It is apparent there are ways for TomorrowNow to have achieved a high level of support (at least a level of support the customers would have found acceptable) by utilizing alternatives to the alleged inappropriate use of the Subject IP, I discuss several examples in the following sections. I also discuss alternatives to TomorrowNow, including self-support and other support vendors.

8.9.1. Tax and Regulatory Updates and Bug Fixes and Patches

Keeping the software current with the latest tax and other regulatory authorities is a component of the support Oracle provides its customers. The company gathers the relevant data (from the various authorities) and creates the updates needed to insert the revised data into the customer's

in annual support costs. Klee Associates and netCustomer advertised up to 75% cost savings but the customer paid an hourly fee for people employed on their project on top of the support fee. CH2M HILL advertised a 30% cost savings.

⁶⁰¹ Complaint, page 55.

systems that require such changes. Generally, the customer (or their consultant) imports the necessary software elements to effect the changes to their system.⁶⁰² Oracle does not have a monopoly on the data needed to create the changes. There are data-gathering services that gather the data and sell relevant data to companies that need them. Therefore, Oracle enjoys no special advantages in the area of tax updates (except, perhaps, that it is able to amortize its data gathering costs over more customers).

Instead of downloading Oracle's tax and regulatory updates, TomorrowNow began to write their own beginning in fall of 2003.⁶⁰³ TomorrowNow did its "...own research on regulatory sites or subscription services to determine what the new changes are – are going to impact the software and we design and develop those changes from scratch for the different clients."⁶⁰⁴ John Baugh further testified that:

Well, one, we're no longer getting any updates from PeopleSoft. I'm not sure at what point that process has changed, but since I think sometime in 2003 or 2004 – I'm not sure of the exact date – we've been doing all the regulatory research and developing the updates ourself. So that would be the – the one primary difference is that there's no involvement or no code that's being delivered by PeopleSoft that is used. It is all our own code now.⁶⁰⁵

Katherine Walker Williams also testified that:

Generally what we do is we have some people that are business analysts that it is their responsibility to research tax updates and – and find out all the changes in the tax updates from tax localities. When they find those things, they would write up a business document to explain the change, and the development team would take that business document and develop the code off of the code itself in the clients [sic] – in the local environments.⁶⁰⁶

Oracle enjoys an advantage in any area of fixes and patches that requires special understanding of how the software operates. However, for the most part⁶⁰⁷ Oracle's advantages are relatively minor in nature because many third-party support vendors offer similar levels of service and many ERP customers are able to self support.⁶⁰⁸ I assume that the customers themselves have

⁶⁰² "Customers regularly had employees, contractors, consulting firms help them implement, install, maintain and update their software. In order to do so, they [Oracle] had to grant those customers a customer connection ID if they had to do a download on them or update or fix. Standard business Oracle condoned and promoted all the time as part of the customer's license." Bob Geib deposition dated January 9, 2009, pages 230-231.

⁶⁰³ Shelley Nelson deposition dated April 18, 2008, page 280.

⁶⁰⁴ Shelley Nelson deposition dated October 30, 2007, pages 141-142.

⁶⁰⁵ John Baugh deposition dated February 6, 2008, pages 65-66.

⁶⁰⁶ Katherine Walker Williams deposition dated April 1, 2008, page 15.

⁶⁰⁷ Although I understand from the evidence that such instances are relatively rare, there may be bugs that require significant in-depth knowledge to fix. The existence of intractable bugs is also evidenced in the discovery documents. However, their relative rarity means Oracle's support advantages are limited. Jesper Anderson deposition dated June 10, 2009, pages 57-59.

⁶⁰⁸ Buffy Ransom deposition dated April 30, 2009, pages 118-119. Richard Cummins deposition dated April 21, 2009, pages 60-61.

access to the source code needed to create, test and install bug fixes and patches, as do the wide variety of third-party vendors that support Oracle products.⁶⁰⁹ Therefore, TomorrowNow would not need a license to access Oracle's source code, provided it operated within the boundaries of the customer's Oracle license.⁶¹⁰

8.9.2. Alternatives to Copies of Customer Environments

Remote access appears to be an alternative to keeping copies of environments on TomorrowNow's systems for some, if not all, of the activities that TomorrowNow performed, and I understand that TomorrowNow supported some customers remotely.⁶¹¹ In fact, most of the J.D.Edwards customers were remote,⁶¹² "nearly all of the [PeopleSoft] financial customers were remote,"⁶¹³ and "Some [PeopleSoft] HR customers were remote."⁶¹⁴ The main advantages to TomorrowNow having the License are cost-savings and speed (mainly for time to access remotely) the Delta would provide. The existence of numerous third party vendors as alternatives to TomorrowNow indicates a low royalty for the Subject IP.

Maintenance of Oracle's customer environments on TomorrowNow computers would cause upward pressure on the Reasonable Royalty.

8.9.3. Alternatives to Cross-Use of Customer Environments

An alternative to cross-use of customer environments is to develop fixes for each client individually. The existence of numerous third party vendors as alternatives to TomorrowNow's use of the Subject IP puts downward pressure on the Reasonable Royalty.

8.9.4. Alternatives to Using Downloaded Material for Multiple Customers

I understand that Plaintiffs allege that it was inappropriate for TomorrowNow to use one customer's downloaded materials to support another customer.⁶¹⁵ I also understand that Oracle contends that it was inappropriate for TomorrowNow to have downloaded the Subject IP to its computers. An alternative to any downloads at TomorrowNow would have been for TomorrowNow to assist the customers to download the Subject IP and retain it at *their* premises. On the other hand, Oracle would not wish to allow storage of downloaded materials on TomorrowNow computers. On balance, therefore, storage of downloads on TomorrowNow computer creates upward pressure on the Reasonable Royalty

⁶⁰⁹ Mark Kreutz deposition dated October 30, 2007, pages 143-144. Larry Ellison deposition dated May 5, 2009, page 20.

⁶¹⁰ Richard Allison deposition dated November 11, 2009, page 67.

⁶¹¹ John Zepecki deposition dated September 9, 2008, pages 220-221. "A. Consulting providers would often access customer systems. Q. Remotely? A. Yes. Remotely."

⁶¹² Shelley Nelson deposition dated April 18, 2008, page 487.

⁶¹³ George Lester deposition dated April 23, 2009, page 63.

⁶¹⁴ George Lester deposition dated April 23, 2009, page 63. Mark White stated that TomorrowNow had some concern as to whether it would be possible to transition hosted PeopleSoft payroll customers to a remote environment. Mark White deposition dated March 5, 2009, pages 278-279.

⁶¹⁵ Complaint, page 56. Based on Mr. Gray's analysis, many of TomorrowNow's customer downloads were stored in individual customer folders.

REDACTED - NOT RELEVANT TO OPPOSITION

8.9.8.17 Other

In addition to engaging an active third-party support vendor to support a customer's software, there are other alternatives. To list them all would be prohibitively time-consuming and unnecessary. However, an example will suffice:

A customer that, for whatever reason (financial distress, downsized operations, parent mandate) wanted to reduce its total IT department spend, could do so by outsourcing certain activities or reducing the complexity and capability of their software (while still retaining needed operational capacity). For example, one method of reducing costs might include buying an off-the-shelf accounting system or inventory control package. While less than ideal from the point-of-view of integration, use of such reduced functionality packages may allow a company to significantly reduce its overall IT spending and, in extremis, the customer may have no choice but to do so.

8.9.8.18 Summary of Available Alternatives

As described in detail above, numerous alternatives to Oracle support exist now and existed at the time of the Negotiation in January 2005. For example, LegacyMode, CedarCrestone, and Citagus for PeopleSoft products; and Versytec, Conexus Partners, and Klee Associates for J.D.Edwards products, plus a large group of consultants, systems integrators and outsourcing firms were available to customers at that time.

Appendices F-1 and F-2 summarize the available alternative support vendors over time for PeopleSoft and J.D.Edwards software products. These appendices represent a conservative summary of the available support vendors because they exclude vendors of outsourced business operations, support vendors based outside the U.S. and "On-Demand" or SaaS products that

REDACTED - NOT RELEVANT TO OPPOSITION

⁸⁶⁰ Salesforce.com is a web-based CRM solution for sales and marketing streamlines customer relationship management. See Salesforce.com. "CRM." March 14, 2010. <<http://www.salesforce.com/>>. See also, "Third-Party Risk Analysis 05-10-06;" ORCL00032753 and "Third-Party Risk Analysis 2008, 1-25-08;" ORCL00079745.

compete to fully replace Oracle ERP licenses and support. Appendix F-3 summarizes the range of cost savings advertised by third party support vendors.

8.9.9. Demand for Third-Party Support

The emergence of third-party support vendors is driven by customer demand and the corresponding opportunity to provide a niche service in the marketplace. Oracle business documents highlight the third-party vendors' positioning and value proposition relative to Oracle which I interpret to mean they are acceptable substitutes at significantly reduced prices.⁸⁶¹

In 2005, Forrester Research reported, “[t]his emerging alternative support market may encourage Oracle (and other app vendors with large installed bases) to improve the quality and value of its support... The most visible market for third-party applications support targets the [Oracle] acquired PeopleSoft and J.D. Edwards customers.”⁸⁶² Indeed, most of the third-party support providers focused largely, if not entirely, on products that Oracle acquired with PeopleSoft, J.D.Edwards and Siebel.⁸⁶³ Gartner reports that “There is a small segment of vendors that offer third-party software support, and it is primarily applications maintenance for legacy products, such as PeopleSoft, JD Edwards, Siebel and older versions of SAP.”⁸⁶⁴

As I discuss below, third-party support services are focused on Oracle acquired products and are a viable option for some ERP customers.

8.9.10. Third-Party Support Viability

There are advantages and disadvantages to obtaining support through one of the third-party vendors in the market, making third-party support a viable option for certain customers. Angela Eager with Computer Business Review reported:

Not surprisingly there are compromises. Third-party support is only appropriate for stable, legacy systems where there is little requirement for change, other than in predictable areas such as meeting tax and other regulatory requirements, because those opting out of vendor maintenance also opt out of the latest releases and vendor-built security updates and patches. As Rimini Street CEO Seth Ravin points out, this means the third-party option is not suitable for everyone. ‘Would we expect a majority of the customers? No, but we believe we could get a 10% to 15% fringe.’

⁸⁶¹ “Oracle Third-Party Support SWAT Team.” ORCL00088177-181, at -179.

⁸⁶² Hamerman, Paul, with Jessica Harrington. “Third-Party Application Support Promises Lower Costs, with Tradeoffs: Oracle’s PeopleSoft Acquisition Boosts an Emerging Market.” Forrester Research. March 11, 2005; ORCL00427952-954, at -952.

⁸⁶³ *IT Jungle*, an online IT periodical reported that Conexus Partners, CIBER, Klee Associates, Versytec, and TomorrowNow “...are after the same thing: to serve the growing number of [J.D.Edwards] World and [PeopleSoft] EnterpriseOne users...” See Woodie, Alex. “JDE Shops Have Plenty of Options for Third-Party Maintenance.” *IT Jungle*. February 8, 2005. <<http://www.itjungle.com/fhs/fhs020805-story01.html>>.

⁸⁶⁴ Igou, Bob. “Dataquest Insight: Top 50 Software Maintenance and Support Service Providers, Business as Usual in a Highly Fragmented Market, Worldwide, 2008.” Gartner Dataquest. November 20, 2008, page 22.

Damages Summary¹²⁶⁹	
Disgorgement – SAP ¹²⁷⁰	\$4,344,212
Disgorgement – TomorrowNow ¹²⁷¹	\$1,054,474
Oracle Lost Profits	
OUSA	\$10,162,957
OEMEA	
PeopleSoft	\$241,616
J.D.Edwards EnterpriseOne	\$476,574
J.D.Edwards World	\$159,632
Siebel	\$787,569
OIC	\$17,312,276
OTC	\$1,660,199
ORC	\$248,569
Total	\$36,448,078

Lost Profits and Disgorgement damages are additive. Therefore, total damages if Defendants are found liable for all of Oracle's claims are \$36,448,078.



Stephen K. Clarke

May 7th, 2010

Date

¹²⁶⁹ I did not calculate damages for the No Accused Conduct customers in any of my damages analyses. Earlier in my report, I calculated a reasonable royalty in response to Mr. Meyer's presentation. I do not consider reasonable royalty to be an appropriate measure of damages in this matter.

¹²⁷⁰ Appendix N-1.

¹²⁷¹ Appendix Q-1.