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18

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
OAKLAND DIVISION

22 ORACLE USA, INC., et al.,

Case No. 07-CV-1658 PJH (EDL)

23 Plaintiffs,

**DEFENDANTS' OPPOSITION TO
PLAINTIFFS' MOTION NO. 1 TO
EXCLUDE EXPERT TESTIMONY OF
STEPHEN K. CLARKE**

24 v.

DOCUMENT SUBMITTED UNDER SEAL

SAP AG, et al.,

Date: September 30, 2010

25 Defendants.

Time: 2:30 p.m.

Courtroom: 3, 3rd Floor

Judge: Hon. Phyllis J. Hamilton

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1 **I. INTRODUCTION**

2 Plaintiffs' motion to exclude Defendants' damages expert, Stephen Clarke, should be
3 denied. Plaintiffs' arguments rest on misstatements of law and misrepresentations of Clarke's
4 opinions and testimony, and go to weight not admissibility. Plaintiffs' attack on Clarke's
5 *Georgia-Pacific* analysis is groundless. His analysis is rebuttal because it concerns the "same
6 subject matter" addressed by Plaintiffs' damages expert, Paul Meyer. Clarke's royalty approach
7 is reliable, supported by the facts, consistent with the law, and fully compensates Plaintiffs. It is
8 also well within Clarke's expertise. Clarke's causation methodology is also admissible. At
9 bottom, Plaintiffs quibble not with Clarke's methods, but his conclusions, and their arguments go
10 to weight not admissibility. Similarly, Clarke's database value of use analysis is admissible and
11 properly based on Plaintiffs' standard database license agreement. And contrary to Plaintiffs'
12 assertion, Clarke is qualified to do a regression analysis and his analysis is consistent with
13 generally accepted techniques. Finally, Clarke offers only economic opinions, not legal opinions.
14 Plaintiffs arguments to the contrary are just wrong. In short, Clarke is amply qualified to offer the
15 opinions at issue and his methods more than satisfy the requirements of Rule 702.

16 **II. LEGAL STANDARD**

17 Rule 702 permits experts qualified by "knowledge, experience, skill, expertise, training, or
18 education" to testify "in the form of an opinion or otherwise" based on "scientific, technical, or
19 other specialized knowledge" if that knowledge will "assist the trier of fact to understand the
20 evidence or to determine a fact in issue." Fed. R. Evid. 702. The Court serves as the
21 "gatekeeper" in excluding expert testimony that fails to clear the threshold hurdles of relevance
22 and reliability. *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579, 589 (1993). Reliability is
23 determined based on the soundness of the methodology, not the expert's ultimate conclusions.
24 *Kennedy v. Collagen Corp.*, 161 F.3d 1226, 1230-31 (9th Cir. 1998) (courts should not exclude
25 expert testimony because they disagree with their conclusions). When the threshold for
26 admissibility is met, differences in the experts' opinions go to weight not admissibility. *Id.*

1 **III. CLARKE'S GEORGIA-PACIFIC ANALYSIS IS ADMISSIBLE REBUTTAL**

2 **A. Clarke's Analysis Is Well Within the Scope of Rebuttal.**

3 Plaintiffs complain that Clarke goes beyond the scope of rebuttal by performing his own
4 *Georgia-Pacific* analysis. D.I. 781 (Pls.' Mot. To Exclude Clarke) (hereafter, "D.I. 781") at 11-
5 13. Plaintiffs are wrong. Expert testimony is considered rebuttal if it contradicts or rebuts
6 evidence "on the same subject matter identified by another party . . ." Fed. R. Civ. P.
7 26(a)(2)(C)(ii). It is also well established that a rebuttal expert is not limited to challenging an
8 opposing expert's analysis but may perform his own analysis of the "same subject matter." See,
9 e.g., *In re REMEC Inc. Sec. Litig.*, 702 F. Supp. 2d 1202, 1220 (S.D. Cal. 2010) (goodwill
10 impairment analysis proper rebuttal although opposing expert did not do one); *MMI Realty Servs., Inc. v. Westchester Surplus Lines Ins. Co.*, No. 07-00466, 2009 U.S. Dist. LEXIS 18379, at * 3-5
11 (D. Haw. Mar. 10, 2009) (expert's "separate and distinct" analysis proper rebuttal to opinions on
12 same subject); *Gray v. United States*, No. 05-CV-1893, 2007 U.S. Dist. LEXIS 17937, at *2-5
13 (S.D. Cal. Mar. 12, 2007) (economist's different methodology and results proper rebuttal to
14 opposing expert's damages opinion); *Humphreys v. Regents of Univ. of Cal.*, No. C-04-03808,
15 2006 U.S. Dist. LEXIS 47822, at * 17-18 (N.D. Cal. Jul. 6, 2006) (mitigation opinion proper
16 rebuttal although opposing expert did not address it; exposed flaw in damages opinion).
17

18 Clarke's *Georgia-Pacific* analysis falls squarely within the "same subject matter" rule.
19 Clarke's opinion not only rebuts Meyer on the same general subject matter (alleged damages), it
20 rebuts his specific methodology (hypothetical license using a *Georgia-Pacific* analysis) and his
21 conclusion (that a paid up license is more appropriate than a running royalty).¹

22 Plaintiffs' cases are inapposite. Plaintiffs rely on *Burnham v. United States*, No. CV-07-
23 8017, 2009 U.S. Dist. LEXIS 62602, at *14-18 (D. Ariz. Jul. 20, 2009), a personal injury case in
24 which the plaintiff submitted an expert report on causation after the deadline for initial reports.
25 The court rejected the argument that it was rebuttal, finding that it addressed an essential element
26 of the plaintiff's claim that should have been provided in an initial report and that it did not

27

28 ¹ Plaintiffs rely on Clarke's testimony to the effect that he did his own analysis in addition
to responding to Meyer. D.I. 781 at 12 n.12. His testimony is consistent with the principle
described above that a rebuttal expert may perform his own analysis on the same subject matter.

1 respond to any opposing expert opinion. *Id.* Here, Clarke's *Georgia-Pacific* analysis directly
2 rebuts Meyer's and was necessary only because Meyer presented a *Georgia-Pacific* analysis.
3 Wallace Decl. ¶ 1, Ex. 1 (Clarke Report) at 22, 90-92 (Clarke considers lost profits and
4 infringers' profits more appropriate damage measures in this case).²

5 Likewise, in *Maionchi v. Union Pac. Corp.*, No. C-03-0647, 2007 U.S. Dist. LEXIS
6 53169, at *3-4 (N.D. Cal. Jul. 9, 2007) the expert opinion on reasonableness of attorneys' fees
7 was outside the scope of rebuttal because the opposing expert did not opine on attorneys' fees.
8 Similarly, in *IBM Corp. v. Fasco Indus., Inc.*, No. C-93-20326, 1995 WL 115421, at *3-4 (N.D.
9 Cal. Mar. 15, 1995), the court excluded two experts because they planned "to opine on subjects
10 that [plaintiff's] experts will not address."³ Plaintiffs' final case, *In re Ready-Mixed Concrete*
11 *Antitrust Litig.*, 261 F.R.D. 154, 159-60 (S.D. Ind. 2009), is not on point at all. The issue was
12 whether the plaintiffs' "supplemental" expert reports were truly supplementary or, as defendants
13 argued, a complete "do over" of their initial opinions. The case contains little to no discussion of
14 the proper scope of rebuttal testimony under Fed. R. Civ. P. 26(a)(2)(C)(ii), and provides no
15 support for Plaintiffs' position. *Id.* at 159-60.

16 Plaintiffs' prejudice argument also fails. Plaintiffs rely on *Burnham*, in which the court
17 held that permitting the plaintiffs' expert to submit a report long after the close of discovery
18 would delay trial and cause prejudice because the defendant had prepared an expert report,
19 completed discovery, and drafted a summary judgment motion "in reliance on the fact that no
20 opposing expert had been designated." *Id.* at *17. Here, Clarke's *Georgia-Pacific* analysis has
21 caused neither prejudice nor delay. Plaintiffs have known for more than two years that Clarke
22 would submit a rebuttal report and should have anticipated that he would rebut all of Meyer's
23 opinions, including his *Georgia-Pacific* analysis. Plaintiffs received Clarke's report on March 26,
24 2010, six months before trial and three months before the close of expert discovery. Wallace

25 ² All references to "Wallace Decl." are to the Declaration of Elaine Wallace in Support of
Defendants' Opposition to Plaintiffs' Motion to Exclude Expert Testimony of Stephen K. Clarke.

26 ³ To the extent Plaintiffs rely on the statement in *IBM* that rebuttal experts cannot put
forth their own theories, that statement is dictum and against the weight of more recent authority.
See, e.g., *SEC v. Badian*, No. 06-Civ-2621, 2009 U.S. Dist. LEXIS 120951, at *14-15 (S.D.N.Y.
Dec. 22, 2009) (disagreeing with *IBM*'s "narrow interpretation" of Rule 26(a)(2)(C)(ii), and
describing it as dictum that lacks supporting authority).

1 Decl. ¶ 1. Plaintiffs deposed Clarke for three days, much of it on his *Georgia-Pacific* analysis.
2 Meyer has already prepared rebuttal opinions to Clarke, which he testified to in deposition, and
3 Plaintiffs did not move for additional expert discovery or other relief.

4 **B. Clarke's Georgia-Pacific Analysis Is Reliable and Supported by the Facts.**

5 Plaintiffs challenge Clarke's analysis on four grounds, all of them unfounded.

6 **1. *Clarke's royalty rates are consistent with Georgia-Pacific and supported***
7 ***by the evidence.***

8 Plaintiffs erroneously claim that Clarke's royalty rates are an "invention," not based on
9 specific facts, and "untethered" to any *Georgia-Pacific* factor. D.I. 781 at 5. But their argument
10 mischaracterizes Clarke's report and testimony and ignores both the law and the facts.

11 **TN's Royalty Rate:** Clarke's TN royalty rate — 50% of gross revenues — reflects the
12 requirement that a reasonable royalty permit the licensee "a reasonable profit":

13 The amount that a licensor (such as the patentee) and a licensee (such as the
14 infringer) would have agreed upon (at the time the infringement began) if both
15 had been reasonably and voluntarily trying to reach an agreement; that is, the
amount which a prudent licensee . . . would have been willing to pay as a royalty
and yet be able to make a reasonable profit and which amount would have been
acceptable by a prudent patentee who was willing to grant a license.

17 *Georgia-Pacific Corp. v. United States Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970)
18 (describing Factor 15) (emphasis added).⁴

19 Clarke explains the factual basis for his TN royalty rate in his report. Wallace Decl. ¶ 1,
20 Ex. 1 (Clarke Report) at 201-05 (discussing Factor 15). TN provided Oracle customers an
21 alternative, low cost support option. *Id.* TN typically charged customers 50% of the amount
22 Oracle charged for support. *Id.* The economic realities of TN's low cost support model constrain
23 the amount TN could pay as a royalty while still attracting customers and hoping to make a profit.
24 *Id.* Thus, in determining how much Oracle would accept and TN could pay, Clarke considered
25 the following factors: (1) given the parties' status as direct competitors in the market for support

26

⁴ Meyer acknowledged the importance of Factor 15. Wallace Decl. ¶ 2, Ex. 2 (Meyer
27 5/12/10 Tr.) at 153:10-19 ("in Factor 15, you get to look back at what you did in the first 14
28 factors . . . you get the benefits of all that to figure out the value of the copyrighted
materials . . .")

1 services, Oracle would prefer a royalty rate that would require TN to charge as close to Oracle's
2 support fees as possible; (2) a royalty rate of 50% of Oracle's support fees would put TN out of
3 business because it would require TN to charge the same for support as Oracle;⁵ (3) the highest
4 royalty rate that would allow TN the possibility of making a profit is 25% of Oracle's support
5 fees, which would have permitted TN to charge its customers 75% of Oracle's support fees rather
6 than the 50% it actually charged; and (4) it would be inappropriate under Factor 15 to set the
7 royalty rate so high that TN could not remain in business.

8 Far from being an "invention" and "untethered" to any *Georgia-Pacific* factor, Clarke's
9 royalty rate derives directly from application of Factor 15. Clarke confirmed this in deposition,
10 testifying that: (1) because Oracle and TN are competitors, the rate should be the maximum TN
11 could pay; (2) it would be unreasonable to assume that TN could pay more than a 50% royalty
12 rate without impacting sales; and (3) his conclusion that 50% is the maximum royalty that could
13 be construed as rational and reasonable is based on "years of experience, looking at pricing
14 models and customer behavior, teaching economics, micro and macro, about what drives
15 customer behavior, looking at demand curves, the relationship between price and the quantity
16 demanded." Wallace Decl. ¶ 3, Ex. 3 (Clarke 6/9/10 Tr.) at 375:10-381:21.⁶

17 Plaintiffs' argument that it is "problematic" to assume TN would pass the royalty on to its
18 customers misstates the law and Clarke's testimony. D.I. 781 at 6. Plaintiffs cite *On Davis v. The*
19 *Gap, Inc.*, 246 F.3d 152, 166 n.5 (2d Cir. 2001), which stands for the uncontroversial proposition
20 that a fair market value license fee must be based on the actual use the defendant made of the
21 copyrighted work, *i.e.* the scope of actual infringement. 246 F.3d at 166 n.5;⁷ *see also Wall Data*

22 ⁵ If TN had to pay the equivalent of 50% of Oracle's support fees as a royalty and passed
23 that amount along to its customers, TN would have been charging customers the same for support
as Oracle (*i.e.* 50% of Oracle support fees, which is what TN charged absent a license + an
additional 50% of Oracle support fees to cover the royalty = 100% of Oracle support fees).

24 ⁶ Plaintiffs misrepresent Clarke by quoting snippets of testimony out of context. For
25 example, for one of Clarke's answers, Plaintiffs quote one sentence mid-answer, but omit the rest
of the answer. For another, Plaintiffs quote the first sentence but omit the remaining sentences.
D.I. 781 at 5 (quoting 377:6-8 and 378:13-14, respectively). The results are misleading. For
26 example, Plaintiffs' statement that "Clarke admits that the 50% rates he uses are not based on any
'quantitative analysis' or 'specific' facts and are not anything he has 'ever come across before'"
(D.I. 781 at 5) is grossly misleading, as shown by the fuller excerpts of Clarke's testimony
27 submitted by Defendants.

28 ⁷ Thus, in the footnote on which Plaintiffs rely, the *On Davis* court states that "the fair
DEFS.' OPP. TO PLS.' MOT. NO. 1 TO EXCLUDE
EXPERT TESTIMONY OF STEPHEN K. CLARKE
Case No. 07-CV-1658 PJH (EDL)

1 *Inc. v. L. A. Cnty. Sheriff's Dep't.*, 447 F.3d 769, 786 (9th Cir. 2006). *On Davis* does not limit —
2 indeed, does not even address — the economic factors to be considered in determining under
3 *Georgia-Pacific* how much a licensee could pay as a royalty and still “make a reasonable profit.”
4 The *Georgia-Pacific* analysis, and Factor 15 in particular, requires consideration of the same
5 factors the hypothetical licensee would have considered, such as the additional cost a license fee
6 would impose and how that cost might be recouped, including through raising prices. *Georgia-*
7 *Pacific*, 318 F. Supp. at 1121 (requiring consideration of any “economic factor that normally
8 prudent businessmen would, under similar circumstances, take into consideration in negotiating
9 the hypothetical license.”). That is what Clarke’s analysis does, and what Clarke testified to in
10 deposition. Wallace Decl. ¶ 3, Ex. 3 (Clarke 6/9/10 Tr.) at 361:16-362:10 (“But, of course, in the
11 actual world, there was no license. So it’s inappropriate to say, well, there can’t be any
12 differences between the actual world and the hypothetical world. Of course, there’s a big
13 difference. There’s a license in place in the hypothetical world.”).⁸

14 **SAP’s Royalty Rate:** Plaintiffs ignore Clarke’s testimony as to why 50% is the
15 appropriate royalty rate for software sales made by SAP. Wallace Decl. ¶ 3, Ex. 3 (Clarke 6/9/10
16 Tr.) at 396:10-400:19. Clarke testified that 50% is “as high as you could make it and still say it
17 would be fair to both sides.” *Id.* SAP would be unwilling to pay any royalty on sales of its own
18 products because it most likely would make the sales even absent TN, and because TN would
19 already have paid a royalty of 50% of its gross revenues. *Id.*; *see also* Wallace Decl. ¶ 1, Ex. 1
20 (Clarke Report) at 204-05. Oracle, on the other hand, would want to maximize the royalty on
21 sales of SAP products because of the parties’ status as direct competitors. *Id.* Clarke also
22 analogizes to the analytical approach, under which excess profits made as a result of infringement
23 are disgorged. *Id.* Based on this analogy and the parties’ respective positions in the hypothetical

24
25 (continued...)

26 market value to be determined is . . . the use the infringer made,” and distinguishes the fair market
27 value of use “of a Mickey Mouse image for a single performance of a school play” from the fee
28 typically charged for use of the same image in a commercial production. 246 F.3d at 166 n.5.

⁸ Again, Plaintiffs misrepresent Clarke’s testimony with an out of context quote that, this time, consists not of his answer, but the deposing attorney’s question. D.I. 781 at 6.

negotiation, Clarke concludes that 50% is the rate on which a prudent licensee and licensor would have agreed because “it is the highest rate it could be and still be reasonable to the parties at the negotiating table.” Wallace Decl. ¶ 3, Ex. 3 (Clarke 6/9/10 Tr.) at 396:10-400:19.

Plaintiffs argue that Clarke’s *Georgia-Pacific* analysis is “superficial,” comparing it with *Bowling v. Hasbro, Inc.*, No. 05-229, 2008 U.S. Dist. LEXIS 30043, at *12-23 (D.R.I. Mar. 17, 2008). In *Bowling*, however, the analysis was “superficial” because it lacked “sufficient reference to facts, data, or any relevant information.” *Id.* at *12-13. Here, Clarke’s analysis accounts for almost half of his 294 page report, is significantly more extensive and detailed than Meyer’s, and considers all relevant factors, including multiple factors that Meyer either ignored or summarily dismissed. Clarke Decl. ¶ 4.⁹ Plaintiffs’ argument that it is “superficial” is inconsistent with their complaint that Meyer had “no opportunity to prepare a rebuttal.” D.I. 781 at 7, 12-13 (complaining about Clarke’s “almost 300 page single-spaced” report). In *Bowling*, the expert “had no particular starting point,” while Clarke’s starting point was the parties’ status as direct competitors weighed against the constraints imposed by TN’s business model. *Id.* at *13. The expert in *Bowling* was blatantly “result oriented towards his client,” assuming the licensee would pay his client almost twice what his client charged others. *Id.* at *20-22. Clarke, by contrast, set the royalty at the maximum *his client could pay*. The expert in *Bowling* “backpedaled.” *Id.* at *14-16. Plaintiffs accuse Clarke of the same, but cite *no support* for the claim. There is no comparison with *Bowling*.

2. *Clarke applied the royalty rate to the appropriate revenues.*

Relying on *Interactive Pictures Corp. v. Infinite Pictures, Inc.*, 274 F.3d 1371, 1384-85 (Fed. Cir. 2001), Plaintiffs contend that it is “inconsistent with the law” for Clarke to apply the royalty to Defendants’ actual sales rather than to estimates of future sales made at the time of the hypothetical negotiation. D.I. 781 at 7-8. Plaintiffs misstate the law. In *Interactive*, the plaintiff’s expert calculated damages as a fully paid-up license based on projected rather than actual sales. The defendant objected that the projections were too speculative. The court

⁹ All references to “Clarke Decl.” are to the Declaration of Stephen K. Clarke in Support of Defendants’ Opposition to Plaintiffs’ Motion to Exclude Expert Testimony of Stephen K. Clarke.

1 declined to create a bright line rule that projections must always be close to actual sales to form
2 the basis of a royalty calculation, noting that it “would essentially eviscerate the rule that
3 recognizes sales expectations at the time when infringement begins as a basis for a royalty base as
4 opposed to an after-the-fact counting of actual sales.” *Id.* (emphasis added). However, the court
5 did not, as Plaintiffs claim, say a royalty can never be a running royalty, or that must always be
6 based on projected rather than actual sales.

7 If Plaintiffs were correct, it would never be permissible to award damages in the form of a
8 running royalty based on actual sales. That plainly is not the law:

9 A reasonable royalty may be computed in various ways, including a lump-sum
10 royalty based on expected sales or a running royalty based on a percentage of
11 actual sales. The choice of the proper form of the royalty is dependent upon what
12 would have been the most likely agreement during the hypothetical negotiation.

13 *Linkco, Inc. v. Fujitsu Ltd.*, 232 F. Supp. 2d 182, 188 (S.D.N.Y. 2002); *see also Secure*
14 *Energy, Inc. v. Coal Synthetics, LLC*, No. 4:08CV1719, 2010 U.S. Dist. LEXIS 41120, at
15 *23-24 (E.D. Mo. Apr. 27, 2010) (same); *Sightsound.com Inc. v. N2K, Inc.*, 391 F. Supp.
16 2d 321, 357 (W. D. Penn. 2003) (same); *GNB Battery Techs., Inc. v. Exide Corp.*, 886 F.
17 Supp. 420, 439-40 (D. Del. 1995) (declining to award lump sum royalty; awarding
18 running royalty of \$0.80 for each infringing battery sold). In fact, the award in *Georgia-*
19 *Pacific* was a running royalty based on actual sales. 318 F. Supp. at 1126, 1143
20 (distinguishing running royalty based on actual sales and fixed fee, paid-up license;
21 concluding that “\$50.00 per thousand square feet of the [product] made and sold . . .
22 represents a fair reasonable royalty”); *see also Lucent Techs., Inc. v. Gateway, Inc.*,
23 580 F.3d 1301, 1325-27 (Fed. Cir. 2009) (noting that plaintiff sought a running royalty
24 while defendant sought a lump-sum royalty, and discussing the two types of license).

25 Clarke’s approach is consistent with the principle that “[t]he choice of the proper
26 form of the royalty is dependent upon what would have been the most likely agreement
27 during the hypothetical negotiation.”

SAP would not have wanted to overpay for the License and a fixed fee up front would have made that more likely; and Oracle would not want to have been underpaid for the License, and a fixed fee in advance would have made that more likely. Accordingly, the parties would both have had an interest in negotiating a royalty rate set as a percentage of applicable revenues or profits. There is precedent for SAP and Oracle in a royalty negotiation. In 1994, they negotiated a license agreement for SAP's resale of the Oracle database and that royalty was set at a percentage of the product price with a variable that depended on the amount of product sold.

Wallace Decl. ¶ 1, Ex. 1 (Clarke Report) at 91-92. Plaintiffs disagree with Clarke's approach, but that does not make it unreliable. It is simply "grist for the cross-examination mill." *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F. Supp. 2d 147, 152 (D.R.I. 2009) (whether evidence supports a lump sum or running royalty goes to weight, not admissibility, of an expert's testimony).¹⁰

Plaintiffs also misstate the facts. They assert that Clarke ignored "the undisputed evidence that SAP treated SAP TN as a loss leader and otherwise funded SAP TN." D.I. 781 at 9. However, the overwhelming evidence (including evidence Meyer relies on for his value of use calculation) is that SAP did not consider or treat TN as a loss leader. *See, e.g.*, Wallace Decl. ¶¶ 4-5, Ex. 4 (Pls.' Ex. 608) at SAP-OR00136764 (projecting 15%, 25%, and 32% profitability for TN in 2006, 2007, and 2008, respectively); Ex. 5 (Pls.' Ex. 436) at SAP-OR00141571 ("TomorrowNow still operates at a loss in 2006 but Break-even is expected for 2008 after completion of globalization and business scoping in 2007 (in line with board assumption to become a profitable business within 2-3 years after acquisition)"). The CFO of SAP AG, Werner Brandt, confirmed in deposition that SAP expected TN to become profitable. *Id.* at ¶ 6, Ex. 6 (Brandt Tr.) at 262:15-263:17, 273:19-276:7.¹¹

Plaintiffs also misrepresent Clarke's opinion. D.I. 781 at 9. As Clarke explained in the portions of his report and testimony to which Plaintiffs cite, his assumption that

¹⁰ In the case of a running royalty based on actual sales, the royalty *rate* is determined based on the information available to the parties at time of the hypothetical negotiation, but applied to actual sales.

¹¹ Plaintiffs' reliance on so-called "zero dollar deals" is misplaced. D.I. 781 at 9 n.6. TN provided zero dollar deals to only a tiny fraction of its customers. Clarke Decl. ¶ 5. Clarke did not testify that SAP treated TN as a loss leader generally, only with respect to these few zero dollar deals. Wallace Decl. ¶ 3, Ex. 3 (Clarke 6/9/10 Tr.) at 385:25-386:13.

1 SAP would subsidize the 50% TN royalty was based on the fact that TN was not yet
2 profitable and would have been even less profitable if it had to pay a royalty. That is not
3 inconsistent with his opinion that 50% is the upper limit of a *reasonable* TN royalty.
4 *Georgia-Pacific* requires Clarke to assume that TN and SAP would act prudently in the
5 hypothetical negotiation. Plaintiffs' unsubstantiated claim that SAP would have funded
6 unlimited TN losses is patently *unreasonable*.

7 It is "not the role of the trial court to evaluate the correctness of facts underlying
8 one expert's testimony." *DSU Med. Corp. v. JMS Co., Ltd.*, 296 F. Supp. 2d 1140, 1147-
9 48 (N.D. Cal. 2003); *see also* Fed. R. Evid. 702 Advisory Committee Note (2000) (trial
10 court may not "exclude an expert's testimony on the ground that the court believes one
11 version of the facts and not the other.").¹² When experts rely on conflicting facts, "an
12 expert may testify on his party's version of the disputed facts." 296 F. Supp. at 1148.
13 The proper way to address such a situation is cross-examination. *Id.*

14 **3. *Clarke's royalty approach fully compensates Plaintiffs.***

15 Plaintiffs complain that Clarke's hypothetical license approach fails to fully compensate
16 for the alleged infringement because he "fails to value . . . infringement that did not result in
17 actual customer revenue . . ." D.I. 781 at 9. Plaintiffs provide only a vague example of this
18 allegedly uncompensated use: Plaintiffs point to the use of a "master library" of software to train
19 employees and market to customers. *Id.* Plaintiffs do not explain how a royalty based on
20 customer revenues would fail to compensate for these activities. Nor has Plaintiffs' expert
21 identified or quantified this allegedly uncompensated use. In addition, Meyer was unable to
22 identify any specific use that would not be adequately compensated by lost profits damages based
23 on customer revenues. Wallace Decl. ¶ 2, Ex. 2 (Meyer 5/12/10 Tr.) at 137:15-150:12.

24 Plaintiffs wrongly accuse Clarke of "reversing course" in deposition. D.I. 781 at 10.
25 Clarke testified: "I assumed for the purposes of my calculations that all of TomorrowNow's
26 activities were caught up within the alleged action. So I assumed everything was infringing . . . I

27 ¹² This is distinguishable from an expert opinion, such as Meyer's, that is speculative
28 because it is based on *insufficient* facts. A court may properly exclude such opinions under Fed.
R. Evid. 702.

1 still included all of the activities of TomorrowNow in my calculations.” Wallace Decl. ¶ 7, Ex. 7
2 (Clarke 6/8/10 Tr.) at 135:10-136:17.¹³ Clarke then clarified: “when I applied the royalty rate, if
3 there was no accused conduct on the part of certain customers of TomorrowNow, I did not apply
4 that rate to those revenues.” *Id.* at 139:20-141:15. Plaintiffs describe this as “reversing course”
5 and complain that Clarke never amended his \$34 million royalty calculation “to account for that
6 scope expansion.” D.I. 781 at 10. There was no “scope expansion,” however, and no need for
7 any amendment. Clarke was simply clarifying that, in calculating the royalty amount, he did not
8 include any royalty for customers identified by Defendants’ technical expert as “No Accused
9 Conduct” customers. Plaintiffs may disagree that there was no accused conduct associated with
10 these customers, but this factual dispute goes to weight, not admissibility. 296 F. Supp. at 1148.

11 Finally, Plaintiffs’ cases do not support their argument. *Powell v. Carey Int'l, Inc.*, No. 05-
12 21395, 2007 WL 1068487, at *3-4 (S.D. Fla. Apr. 9, 2007) is an irrelevant Fair Labor Standards
13 Act case in which the court excluded an expert whose unpaid wages calculations were “at odds
14 with the law of the case.” As for *Wall Data*, Plaintiffs erroneously claim that the court upheld a
15 damage award based on 3,962 infringing copies of software where not every copy was used. D.I.
16 781 at 10 n.8. In fact, the court stated that it was impossible to determine the basis for the award.
17 447 F.3d at 786-87 (unclear whether jury’s award based on 2,344 copies or 3,962 copies).

18 **4. *Clarke’s scope of use analysis is well within his expertise.***

19 Plaintiffs’ only support for their argument that Clarke’s scope of use analysis is improper is
20 a partial excerpt from his testimony that is wholly out of context. D.I. 781 at 11. Plaintiffs
21 contend that Clarke did his own technical analysis of the scope of infringement, which he is not
22 qualified to do. *Id.* However, Plaintiffs omit the portions of Clarke’s answers in which he
23 explains that he relied on Defendants’ technical experts for the analysis of what software was
24 infringed and how, and that his own analysis related to the infringement start and end dates, its
25 geographic scope, and how TN’s support services compared to the services of other third party
26 support providers. Thus, for example, Plaintiffs quote Clarke’s testimony that he “did [his] own
27 analysis of elements of how much of the intellectual property was infringed and for how long, and

28

¹³ Plaintiffs omit this testimony.

1 the manner in which it was used . . ." but omit from the same answer his testimony that "not
2 everything that the plaintiffs say in their complaint do I accept to be true. And one of those
3 things, as an example, was that . . . the entire business model was infringing. I don't think that's
4 true. And there's expert opinion on that that indicates that that's not true." Wallace Decl. ¶ 7, Ex.
5 7 (Clarke 6/8/10 Tr.) at 126:1-136:17. Also omitted by Plaintiffs, Clarke testified:

6 I incorporated expert opinion, as I've indicated to you now three or four times,
7 that suggested, indicates, that certain intellectual property owned by Oracle was
8 not used. I have relied upon that opinion to some extent. I've also, as I said, done
my own analysis that said, infringement started at this point, ended at this point . . .
. in certain geographic territories . . . And those limitations mean that what I
9 have included does not — is not equal to the entire intellectual property that was
acquired by Oracle in the PeopleSoft and the Siebel transactions.

10 Wallace Decl. ¶ 7, Ex. 7 (Clarke 6/8/10 Tr.) at 124:1-130:12 (also including testimony that "I
11 have made certain assumptions about the liability in the case. And I have done so within the
12 context of certain other expert reports that I've referenced in my report to try to determine what
13 the Subject IP is . . ."); *see also id.* at 130:13-132:4 (describing delta between TN's allegedly
14 infringing services and services of other providers lawfully operating in the same market).¹⁴

15 Plaintiffs' argument that Clarke performed improper "legal interpretation of customer
16 contracts" is similarly flawed. D.I. 781 at 11 n.11. In the testimony they cite, Clarke explains
17 that the scope of the hypothetical license to be valued is the delta between TN's allegedly
18 infringing services, as described in the complaint, and the services that other third party support
19 providers in the market provide without any license from Oracle. Wallace Decl. ¶ 7, Ex. 7
20 (Clarke 6/8/10 Tr.) at 158:17-163:25. Clarke engages in no legal analysis. Plaintiffs do not
21 dispute that Clarke is a qualified damages expert, with expertise in accounting and economics.
22 D.I. 781 at 11 n.11. His analysis is well within the scope of that expertise.

23 **IV. CLARKE'S CAUSATION ANALYSIS IS ADMISSIBLE**

24 **A. Clarke's Causation Methodology Is Admissible.**

25 Plaintiffs do not dispute that a causation analysis is necessary. D.I. 781 at 17-19; *see also*
26 D.I. 628 (1/28/10 MSJ Order) ("General tort principles of causation and damages apply . . . The

27 ¹⁴ Indeed, Plaintiffs' argument that Clarke's opinions should be excluded to the extent that
28 Garmus' and Gray's opinions are excluded demonstrates the falsity of their claim that Clarke did
his own technical analysis. D.I. 781 at 11 n.11.

1 plaintiff bears the burden of proving the causal connection between the infringement and the
2 monetary remedy sought.”). Plaintiffs say they dispute Clarke’s methodology, but in fact their
3 quibble is not with his methods, but his conclusions. Their arguments go to the weight, not the
4 admissibility, of Clarke’s causation opinions.

5 What Plaintiffs characterize as “an extraordinary causation formula invented” by Clarke is
6 nothing of the sort. *First*, Clarke’s exclusion pools are simply a logical method of organizing the
7 millions of pages of causation related data that Clarke reviewed for orderly and efficient
8 presentation to the jury. Clarke Decl. ¶¶ 6-8. This is an appropriate role for an expert and, far
9 from usurping the role of the jury, “assist[s] the trier of fact to understand the evidence or to
10 determine a fact in issue.” Fed. R. Evid. 702. The exclusion pools (which could just as easily be
11 called groups, categories, or something similar) group together customers with similar causation
12 characteristics. Wallace Decl. ¶¶ 1, 3, 8, Ex. 1 (Clarke Report) at 209-35, Ex. 3 (Clarke 6/9/10
13 Tr.) at 630:10-635:4, Ex. 8 (Clarke 6/10/10 Tr.) at 659:18-664:5; *see also* Clarke Decl. ¶¶ 6-8.
14 This is the only practical way of analyzing 358 customers on a customer by customer basis and
15 presenting the results to the jury in a usable form.

16 *Second*, Clarke’s exclusion pools embody the principle that a copyright plaintiff may
17 recover only those lost profits suffered “as a result of the infringement” and infringer’s profits
18 “attributable to the infringement.” 17 U.S.C. § 504 (b). Amounts not traceable to the
19 infringement are excluded. *Id.* Here, this means determining whether customers, but for TN,
20 would have stayed on Oracle support and/or purchased software from SAP, which is no different
21 in principle from the causation analysis to be done in every copyright case. *See, e.g., Data Gen.*
22 *Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1170-77 (1st Cir. 1994) (plaintiff must
23 show that its losses and defendants’ gains would not have occurred “but for” infringement, and
24 defendant may rebut by showing they would have occurred anyway; recognizing relevance of
25 customer motivations to this analysis).

26 *Third*, Plaintiffs complain that the analysis is based on Clarke’s judgment. D.I. 781 at 17-
27 18. However, this is precisely the sort of judgment that his training and 30 years of experience in
28 damages analysis, business valuation, and economics qualifies him to make. Clarke Decl. ¶ 9,

1 and Ex. 2 (*Litigation Services Handbook, The Role of The Financial Expert*) (“The first step in a
2 damages study translates the legal theory of the harmful event into an analysis of the economic
3 impact of that event . . . this step is often called the “but for” analysis.”).¹⁵ Moreover, Plaintiffs
4 ignore the vast amount of causation related data Clarke reviewed in performing his analysis,
5 much of it from customers and from Plaintiffs’ own documents relating to customer motivations.
6 *Id.* at ¶ 7. Plaintiffs do not contend that this data is unreliable, that Clarke’s analysis of it was not
7 rigorous, that his pools are not supported by the data.

8 Plaintiffs’ remaining criticisms are also unfounded. Plaintiffs state that Clarke did not
9 “vet” his exclusion pools with SAP’s industry expert, Brian Sommer, and that Sommer confirmed
10 they are “improper.” D.I. 781 at 18. In fact, Sommer, testified that the customer by customer
11 analysis was “outside the scope” of his opinions, thus it would have been inappropriate for Clarke
12 to “vet” his exclusion pools with him. Wallace Decl. ¶ 9, Ex. 9 (Sommer Tr.) at 206:1-208:4,
13 330:3-332:14. Similarly, Sommer never testified that any exclusion pool was improper.¹⁶ *Id.*

14 At bottom, Plaintiffs simply disagree with Clarke’s conclusion that a customer should be
15 excluded from the lost profits calculations if analysis of the causation related evidence for that
16 customer shows that the customer belongs in particular exclusion pools. D.I. 781 at 17-18; *see*
17 *also* Wallace Decl. ¶ 1, Ex. 1 (Clarke Report) at 234-35 (explaining Joint Exclusion Criteria).

18 That is not a basis for a Daubert motion, but for cross-examination.

19 **B. Clarke Is Qualified To Analyze The Third Party Support Market.**

20 Plaintiffs claim Clarke is not qualified to analyze competition in the third party support
21 market because he is not an expert in “ERP software.” D.I. 781 at 20. However, as an economist,
22 damages expert, and a CPA accredited in business valuation, Clarke routinely analyzes markets
23 and competition. Clarke Decl. ¶¶ 10-11. For example, under the professional standards of the
24 American Institute of Certified Public Accountants (“AICPA”), business valuation requires
25 consideration of the environment in which a business operates, including the specific industry,

26 ¹⁵ As discussed in Section B below, Clarke has extensive experience in determining what
27 drives customer purchasing decisions, and the fact that he is not an expert in ERP software does
not make him unqualified.

28 ¹⁶ Plaintiffs also complain that Clarke relies on Gray but fail to explain why it is improper
for him to rely on another expert’s opinion. D.I. 781 at 18.

1 geographic market, economic environment, and competition. *Id.* Clarke has valued
2 approximately 2000 businesses during his 35 year career in accounting and economics. *Id.* He
3 has also performed hundreds of lost profits calculations for different kinds of businesses during
4 his 22 years as a damages expert, including analysis of relevant competitive information. *Id.*

5 Plaintiffs cite no support for the proposition that an economist is not qualified to assess the
6 economic issue of competition in a given market absent pre-existing expertise in that specific
7 market.¹⁷ In *Indus. Automation Supply, LLC v. United Rentals Highway Techs.*, No. 3:04-CV-99,
8 2006 WL 5219390, at * 1-2 (D. N.D. Feb. 8, 2006), the court rejected the same argument
9 Plaintiffs make here, finding that a business valuation expert with no experience in the field of
10 road construction was qualified to testify on pricing in that market. *Id.* (“courts routinely allow
11 experts to testify as to subject areas related to, although not conterminous with, their expertise.”).
12 In addition, Plaintiffs’ own damages expert, who has no expertise in ERP software, considered
13 himself qualified to respond to Clarke with his own analysis of the third party support market and
14 concluded that “these companies are not acceptable non-infringing alternatives on any kind of
15 scale.” Wallace Decl. ¶ 10, Ex. 10 (Meyer 5/13/10 Tr.) at 572:3-575:5.

16 Plaintiffs’ argument that Clarke’s analysis is “nothing more” than a “cherry picked
17 collection” of information “found on the internet” is belied by the evidence on which they rely.
18 D.I. 781 at 20. As shown in their excerpt of Clarke’s report, Clarke provides a detailed, 50 page
19 analysis of the third party support market. D.I. 783 (House Decl.) ¶ 6, Ex. A (Clarke Report) at
20 139-92.¹⁸ He cites, in over 300 footnotes, to numerous different sources, including: (a) Plaintiffs’
21 documents; (b) Defendants’ documents; (c) customer documents; (d) industry publications such
22 as *Infoworld.com*, *Computerworld.com*, *CIO Decisions*, *Computer Business Review*, *Information*
23 *Week*, *Network World*, and *ITJungle*; (e) business publications such as *Business Week*, *CFO*

24 ¹⁷ *United States v. Chang*, 207 F.3d 1169, 1172-73 (9th Cir. 2000) and *Rambus Inc. v. Hynix Semiconductor Inc.*, 254 F.R.D. 597, 603-05 (N.D. Cal. 2008) are not on point and readily
25 distinguishable. D.I. 781 at 20. *Chang* addressed the qualifications of a professor in international
26 finance to identify counterfeit foreign securities, and *Rambus* addressed an electrical engineering
27 expert’s qualifications to opine on the commercial success of the patented product. Neither case
supports the proposition that an economist such as Clarke is not qualified to opine on the
economic issue of competition in a given market.

28 ¹⁸ All references to “House Decl.” are to the Declaration of Holly A. House in Support of Motion No. 1 to Exclude Testimony of Defendants’ Expert Stephen Clarke (D.I. 783).

1 *Europe, Investors Business Daily*, and the *Wall Street Journal*; (f) analyst publications from AMR
2 Research, Credit Suisse Equity Research, Forrester Research, and Gartner Research; (g) vendor
3 websites; and (h) user publications such as *JDETips Journal*. *Id.*; *see also* Clarke Decl. ¶ 12.

4 Plaintiffs fail to support their claim that the information in this 50-page, 300-footnote
5 analysis was “cherry picked,” and even a cursory review proves the falsity of the claim that his
6 methodology consists of regurgitating statements on vendors’ websites. D.I. 781 at 21. Clarke
7 identifies the relevant third party vendors over time, provides detailed descriptions of their
8 services and pricing structure compared with TN’s, and analyzes the extent to which Plaintiffs,
9 TN, customers, analysts, and others considered each vendor to compete with and TN. D.I. 783
10 (House Decl.) ¶ 6, Ex. A (Clarke Report) at 139-92. Plaintiffs’ cases are inapposite because they
11 address an expert’s “regurgitation” or “mere recitation” of information, without accompanying
12 analysis. D.I. 781 at 21. That is not what Clarke did.

13 Plaintiffs criticize Clarke for not “testing” whether third party support providers really
14 provide the services described on their websites, but, again, they misrepresent his testimony. D.I.
15 781 at 21. For example, Plaintiffs claim Clarke did not verify “what specific products vendors
16 supported.” *Id.* What he actually was asked was whether he verified that vendors “serviced all
17 versions of all products” within the relevant product families. *Id.* He responded that was not
18 necessary, because even TN did not support all versions of all products. *Id.* Similarly, while he
19 did not speak with customers, he reviewed customer depositions, declarations, and voluminous
20 customer documents. *Id.*, *see also* Clarke Decl. ¶ 12. Clarke also reasonably distinguished
21 between true marketing claims, which may be subject to puffery, and statements regarding which
22 specific services a vendor provides, which are less likely to be the subject of puffery.
23 Plaintiffs’ unwarranted assumption that companies typically lie about the services they offer is
24 not a basis for excluding Clarke. *See Semerdjian v. McDougal Littell*, 641 F. Supp. 2d 233, 243
25 (S.D.N.Y. 2009) (information from vendor websites sufficient under Rule 703). At best, it is
26 more grist for the cross-examination mill.¹⁹

27 ¹⁹ Plaintiffs state in the title of this section of their motion that Clarke’s third party
28 analysis is “not rebuttal,” but they do not address that point in their argument. D.I. 781 at 20. It
is rebuttal, however, because it rebuts Meyer’s assumption that there were no alternative third
party support providers and, but for TN, customers would have remained with Oracle. Plaintiffs

1 **C. The Declarations Were Timely and Plaintiffs Have Suffered No Prejudice.**

2 Plaintiffs complain that five customer declarations on which Clarke relies were not
3 produced until after his expert report. D.I. 781 at 24-25. Plaintiffs claim that the declarations
4 were untimely and that they were prejudiced by the late production. *Id.* Neither claim has merit.

5 Changes or additions to expert reports may be made up until the date of pre-trial
6 disclosures, provided they do not include new theories or opinions. Fed. R. Civ. P. 26(e)(2); *see*
7 *also Capitol Justice LLC v. Wachovia Bank, N.A.*, No. 07-2095, 2009 U.S. Dist. LEXIS 126573,
8 at *6-10 (D.D.C. Dec. 8, 2009); *United States v. 14.3 Acres of Land*, No. 07CV886, 2008 U.S.
9 Dist. LEXIS 66667, at *15-24 (S.D. Cal. Aug. 29, 2008). In this case, pre-trial disclosures were
10 due on August 5, 2010. All of the declarations, and Clarke's related supplementation of his report,
11 were produced prior to that date.²⁰ D.I. 781 at 24-25. Clarke's supplementation did not include
12 new opinions. He simply adjusted his damage numbers to reflect exclusion of these customers.²¹

13 The customer declarations are relevant to Clarke's lost profits and disgorgement analysis,
14 specifically to causation of damages. The declarations show that the customers would have left
15 Oracle support even absent TN and that the customers did not decide to purchase SAP software
16 because of TN. Wallace Decl. ¶¶ 12-16, Ex. 12 (Standard Register: "Had TomorrowNow not
17 been available to provide support at that time, I believe that we would have continued to look for
18 an alternative support provider to Oracle in order to lower costs."), Ex. 13 (Amsted Rail:
19 "However, had TomorrowNow not been available, it is more likely than not that we would have
20 terminated support with Oracle and either used Rimini Street or we would have supported the
21

22 (continued...)

23 also claim Clarke reduced his royalty rate based on his third party analysis, which is not the case.
24 As discussed above, Clarke set the rate at the highest it could be and still be considered
reasonable to both sides.

25 ²⁰ Plaintiffs cite an email from Defendants stating that declarations obtained after the
expert report due date "do not provide a basis for supplementation . . ." D.I. 781 at 25.
26 However, Plaintiffs fail to include their reply to the email, in which they rejected Defendants'
position. Plaintiffs cannot have it both ways. Wallace Decl. ¶ 11, Ex. 11 (12/08/09 email from H.
27 House to E. Wallace).

28 ²¹ This fact distinguishes these customer declarations from the Levy declaration discussed
below. The Levy declaration on which Plaintiffs rely consists entirely of new opinions.

1 applications ourselves.”), Ex. 14 (New Page Corporation (“SENA”): “Our decision to replace
2 SENA’s JDE applications was not influenced in any way by the fact that SENA had used
3 TomorrowNow support for its JDE applications.”), Ex. 15 (Rotkappchen: “If TomorrowNow had
4 not been an available option at the time, we still would have replaced the JDE applications with
5 SAP applications. The TomorrowNow support option we took was not the cause of our decision
6 to move to SAP.”), Ex. 16 (Haworth: “Our selection of SAP was not caused by the fact that
7 TomorrowNow provided support services for certain of our PeopleSoft applications. None of our
8 purchases of SAP software and support were caused by the fact that we were able to use
9 TomorrowNow’s services. If TomorrowNow had not been an available option at the time we
10 used them, we still would have made the purchases of SAP applications and services.”).

11 Plaintiffs argue that they “could not test the declarations with discovery.” D.I. 781 at 25.
12 This argument fails. *First*, fact discovery closed on December 4, 2009, four months before
13 Clarke’s report was due. Even if the declarations had been produced with Clarke’s report, fact
14 discovery was already closed. *Second*, Plaintiffs or their damages expert could have contacted
15 the customers at any time to obtain informal discovery regarding the declarations. In fact,
16 Plaintiffs *did* contact two of them before Defendants and obtained their own declarations from
17 them. Wallace Decl. ¶¶ 17-18, Ex. 17 (7/21/09 Amsted Rail declaration), Ex. 18 (11/11/09
18 Standard Register declaration). The declarations Plaintiffs obtained from these customers did not
19 state whether the customers would have stayed with Oracle but for TN, which prompted
20 Defendants to contact the customers to find out. *Id.* Plaintiffs asked (or should have asked) that
21 question, but clearly did not like (or want) the answer. Plaintiffs cannot claim prejudice just
22 because Defendants now have the answer.²²

23 ²² A similar situation occurred with a declaration not at issue in Plaintiffs’ motion.
24 Plaintiffs’ counsel provided a draft declaration to customer Cowlitz County. The draft declaration
25 stated that Cowlitz County would have remained on Oracle support if TN had not been available.
26 Cowlitz County deleted that statement and replaced it with a statement to the effect that had TN
not been available, it would have “elected not to renew” support with Oracle and “relied on its
27 own in-house technicians” Plaintiffs’ counsel told Cowlitz County that this statement was
“not necessary” and provided a new draft declaration that omitted any discussion of what the
customer would have done had TN not been available. Wallace Decl. ¶ 19, Ex. 19 (3/4/10
Cowlitz County declaration). Cowlitz County signed the new declaration, Plaintiffs’ counsel
provided it to their damages expert, and he then included the customer in his lost profits
calculation. Had Defendants not contacted Cowlitz County themselves, the misleading nature of
this declaration would never have come to light. *Id.*

1 Third, although four of the five declarations were produced before Clarke's deposition in
2 June 2010, Plaintiffs asked him no questions about their content or how they impacted his
3 analysis beyond the impact on his final damage numbers. Plaintiffs limited their questions to how
4 and when the declarations were obtained, a subject on which Clarke testified he had no
5 knowledge.²³ Wallace Decl. ¶ 7, Ex. 7 (Clarke 6/8/10 Tr.) at 24:23-28:18. Plaintiffs have no
6 interest in discovery regarding the content of the declarations, only in preventing Clarke from
7 relying on them and the jury from learning about them.

8 Even assuming the declarations were untimely (and that Plaintiffs' Rule 37 motion is
9 timely and procedurally proper), there is no basis to grant Plaintiffs' motion. Plaintiffs have
10 suffered no prejudice. They simply seek to have their own misleading declarations go unrebutted.

11 **V. CLARKE'S DATABASE VALUE OF USE ANALYSIS IS ADMISSIBLE**

12 Meyer's opinion on the value of TN's use of Oracle database software depends entirely on
13 the opinions of Oracle employee, Richard Allison, that: (1) no standard Oracle database license
14 would apply to TN's use of the software; and (2) he would create a "unique" hypothetical license
15 and charge \$55.6 million for it. D.I. 798 (Defs.' Mot. Exclude Meyer) at 19-22. How Allison
16 arrived at his opinions—including why he contends no standard license could apply—has never
17 been disclosed since Allison developed them after the close of discovery, and Meyer accepted
18 them wholesale. *Id.* At deposition, Allison was not even aware TN had used Oracle database
19 software. Wallace Decl. ¶ 20, Ex. 20 (Allison Tr.) at 215:17-216:1.

20 In response to the self-serving Meyer/Allison approach, Clarke identified two standard
21 Oracle database products that would have met TN's needs at a fraction of the cost Allison
22 proposed to charge. Wallace Decl. ¶ 1, Ex. 1 (Clarke Report) at 205-09. Clarke concluded that
23 Oracle's Enterprise and Standard Edition database products would have fulfilled TN's needs. *Id.*

24
25
26 ²³ Plaintiffs claim that Defendants "blocked inquiry into the reasons for the untimeliness." But Clarke testified that he had no knowledge regarding the timing. Wallace Decl. ¶ 7, Ex. 7 (Clarke 6/8/10 Tr.) at 24:23-25:21 (Q: And do you know why they came in after you had submitted your report? A: No."). The parties have a stipulation limiting inquiry into communications between experts and counsel. Defendants' proper objections pursuant to that stipulation do not form the basis for a Rule 37 motion.

1 Applying Oracle's published pricing to TN's needs, he developed two alternative valuations of
2 approximately \$1.9 million each. *Id.* Plaintiffs' objections to Clarke's approach are baseless.

3 *First*, Plaintiffs argue that TN "did not use Oracle's database software for internal
4 business operations" and thus Oracle's standard License and Services Agreement ("OLSA")
5 would not apply. D.I. 781 at 15. Plaintiffs do not explain why TN's use would not comply with
6 OLSA. Plaintiffs do not even provide a copy of OLSA or any of its terms.²⁴ In fact, there is
7 nothing in OLSA that limits use to "administrative" purposes or provides an example of internal
8 operations as limited to running "accounting software." Wallace Decl. ¶ 21, Ex. 21 (Pls.' Ex.
9 3210). Plaintiffs' unsupported assertions that OLSA limits customer use of the software to
10 "internal business operations (like their accounting software)," and that TN did not use it for such
11 purposes, miss the mark. In fact, TN *did* use it for internal business operations. Plaintiffs
12 misrepresent the testimony of TN's corporate representative, Bill Thomas, claiming he admitted
13 that TN did not use the software "for any internal business operation." D.I. 781 at 15. His actual
14 testimony was:

15 Q. So — yeah. Did TomorrowNow use Oracle's database software for any
16 purpose other than to provide support to its — TomorrowNow's customers?

17 A. No.

18 Q. In other words, did it use it for any internal TomorrowNow administrative
19 purpose separate from providing support to customers?

20 A. No.

21 D.I. 783 (House Decl.) ¶ 15, Ex. J (Thomas Tr.) at 7:9-16. He did not state that TN did not use
22 the software for internal business operations. Indeed, the implication of the last question is that
23 use for providing support to customers *is* an "internal" purpose.

24 TN provided customers support for Plaintiffs' application software. Thomas Decl. ¶¶ 3-4;
25 Baugh Decl. ¶¶ 3-4.²⁵ TN did not provide support for the database software, but used it only
internally. *Id.* TN did not distribute or provide access to the database software or any
modifications. *Id.* In other contexts under the Copyright Act, courts have distinguished between

26 ²⁴ Clarke identified one form of OLSA at deposition. Wallace Decl. ¶ 3, Ex. 3 (Clarke
6/9/10 Tr.) at 452:16-454:8; *see also id.* at ¶ 21, Ex. 21 (Pls.' Ex. 3210).

27 ²⁵ All references to "Thomas Decl." and "Baugh Decl." are to the Declarations of William
R. Thomas and John Baugh in Support of Defendants' Opposition to Plaintiffs' Motion to
28 Exclude Expert Testimony of Stephen K. Clarke.

1 internal use, on the one hand, and external use meaning the program was “marketed,
2 manufactured, distributed, transferred, or used for any purpose other than . . . internal business
3 needs.” *Aymes v. Bonnelli*, 47 F.3d 23, 27 (2d Cir. 1995). Here, Clarke correctly assumed that
4 TN’s use was internal only. Wallace Decl. ¶ 3, Ex. 3 (Clarke 6/9/10 Tr.) at 459:11-25 (“. . . the
5 use of the database itself was essentially internal to TomorrowNow.”). At best, Plaintiffs have
6 raised a factual dispute as to whether OLSA applies. Under these circumstances, Clarke properly
7 relied on Oracle’s standard pricing and OLSA as evidence of an established price with which to
8 value TN’s use. As noted above, it is “not the role of the trial court to evaluate the correctness of
9 facts underlying one’s expert testimony.” *DSU Med.*, 296 F. Supp. 2d. at 1147-48.

10 *Second*, Plaintiffs’ argument that Clarke applied the wrong definition of an “established
11 royalty” is hairsplitting. D.I. 781 at 16. Plaintiffs argue that Clarke’s definition in deposition
12 (“sufficient evidence in the marketplace that assets similar to the ones at issue trade at a certain
13 price”) conflicts with case law defining an established royalty as evidence that a plaintiff “has
14 consistently licensed others to engage in conduct comparable to defendant’s at a uniform
15 royalty.” *Id.* (citing *Monsanto Co. v. McFarling*, 488 F.3d 973, 979 (Fed. Cir. 2007)). There is no
16 difference in substance between these definitions. Each considers whether there is an established
17 price in the market. Moreover, Clarke relies on evidence that Oracle consistently licenses the
18 database software at a known price, thus comporting with Oracle’s preferred definition. Wallace
19 Decl. ¶ 1, Ex. 1 (Clarke Report) at 205-06 (the “Oracle database is readily available at a known
20 price” and “the price is known and well established in the marketplace.”).

21 *Third*, Plaintiffs’ assertion that Clarke “back-tracked” is false. D.I. at 781 at 16. Clarke
22 based his analysis on evidence of Plaintiffs’ established practice of licensing its Standard Edition
23 and the Enterprise Edition products. When questioned in deposition about OLSA, Clarke’s
24 responses merely confirmed that it supports his position. Wallace Decl. ¶ 3, Ex. 3 (Clarke 6/9/10
25 Tr.) at 459:11-25. Moreover, Clarke does not provide legal opinions on the license terms, as
26 Oracle suggests. Those terms speak for themselves and when considered in connection with the
27 evidence of how TN used the software, it is evident that the Standard and Enterprise Edition
28 products are appropriate benchmarks for proving an established royalty.

Finally, contrary to Plaintiffs' argument, Clarke's alternative valuation scenario is simply a response to Plaintiffs' unique approach. Under Clarke's first scenario, he applied Oracle's published list pricing for the Enterprise Edition product to the actual servers on which TN installed the software and calculated a price of \$1.9 million. Wallace Decl. ¶ 1, Ex. 1 (Clarke Report) at 205-208. Under this pricing formula, TN would have had to purchase licenses for 27 processors. *Id.* In response to Allison's disputed contention that TN would have needed to purchase the database product separately for each customer it supported, Clarke prepared an alternative calculation of the cost of purchasing separate licenses for each of the 71 customer software environments it maintained using the Oracle database software. *Id.* at 208-09. Under this scenario, Clarke assumed TN would have acted reasonably and purchased the less expensive Standard Edition licenses and installed the software on single processor servers. Plaintiffs complain that this approach does not reflect "actual infringing use" because TN did not actually deploy single processor servers for each customer environment. D.I. 781 at 17. But it was Plaintiffs that first made the hypothetical assumption about a different configuration than that actually used by TN. Wallace Decl. ¶ 22, Ex. 22 (Meyer Report) ¶ 252 ("... I have applied Oracle's pricing for its standard OLSA licensing terms assuming a particular configuration of TomorrowNow hardware.").²⁶ Clarke's alternative valuation is a response to a new set of hypothetical facts posited by Plaintiffs. Clarke cannot be criticized for responding in kind. Knowledge of what it would have cost to purchase separate licenses for each support customer is at a minimum a relevant consideration in determining what a reasonable licensor would have agreed to pay.²⁷

VI. CLARKE'S REGRESSION ANALYSIS IS ADMISSIBLE

Plaintiffs challenge Clarke's qualifications to perform his regression analysis and contend that his methods and results are unreliable. Plaintiffs are wrong on both counts. Plaintiffs also

²⁶ Allison and Meyer assumed for their hypothetical license that all of TN's servers had the "largest configuration" when in fact they did not. Wallace Decl. ¶ 22, Ex. 22 (Meyer Report) ¶ 252.

²⁷ In any event, there is no need to get to Plaintiffs' hypothetical configuration, as Clarke's valuation assuming the pricing of the Enterprise Edition to TN's actual configuration is appropriate and admissible.

1 rely on an improper declaration by Levy, a witness whom Plaintiffs have never disclosed on the
2 subject of regression analysis, econometrics, or damages.

3 **A. Clarke Is Qualified To Perform His Regression Analysis.**

4 Clarke has been doing regression analysis since 1969, received training in the technique as
5 part of a rigorous accounting program that included statistical analysis, has performed regression
6 analyses on “hundreds” of occasions since then, including as a qualified expert in a court of law.
7 Wallace Decl. ¶ 8, Ex. 8 (Clarke 6/10/10 Tr.) at 807:23-810:1, 929:13-930:12; *see also* Clarke
8 Decl. ¶¶ 13-14. Plaintiffs imply that Clarke is not qualified because he learned the technique in
9 1969. D.I. 781 at 22. However, the technique has not materially changed since then. Clarke has
10 simply been using it for a long time. Plaintiffs also mistakenly claim that Clarke is not familiar
11 with “basic terms of art,” when in fact the issue is different use of terminology. *Id.* at ¶ 43
12 (Clarke refers to “fixed effects” as “dummy variables”). Plaintiffs also rely on the fact that
13 Clarke was unfamiliar with a particular text. D.I. 781 at 22. But lack of familiarity with a single
14 text does not make him unqualified.

15 **B. The Court Should Exclude the Levy Declaration.**

16 Plaintiffs’ rely on Levy’s opinions on regression analysis, none of which were disclosed in
17 Levy’s report, provided in any supplemental or rebuttal materials, disclosed at his deposition, or
18 otherwise disclosed before Plaintiffs’ Daubert motion. *See* Defendants’ Objections to the
19 Declarations of Daniel Levy Filed in Support of Plaintiffs’ Motions to Exclude (“Objs. to Evid.”)
20 at 1-3. Levy was not even disclosed as an expert in econometrics or on damages, and expressly
21 stated at deposition that he was not offering opinions relating to damages. *Id.*

22 Plaintiffs made a calculated decision to lay in the weeds on this issue and spring Levy’s
23 new opinions on Defendants in their Daubert motion in an attempt to limit Defendants’ ability to
24 respond. Objs. to Evid. at 1-4. Based on the lines of inquiry at Clarke’s June 2010 deposition
25 (cited by Plaintiffs in their motion and Levy in his declaration) Plaintiffs have known since at
26 least that time that they would submit these new opinions, and may have known since shortly
27 after receiving Clarke’s report in March 2010. Plaintiffs failed to meet and confer with
28 Defendants or seek leave of Court to submit any new expert opinions.

1 The Levy declaration is untimely and Defendants have been prejudiced as result. Obj. to
2 Evid. at 1-4. The breadth and range of Levy's opinions and supporting materials requires
3 significant time and effort to evaluate and response. *Id.* Plaintiffs' sandbagging deprived
4 Defendants of a full and fair opportunity to do so. *Luke v. Family Care and Urgent Med. Clinics*,
5 323 Fed. Appx. 496, 498-99 (9th Cir. 2009) (affirming exclusion of expert declaration in
6 opposition to summary judgment). The Court should exclude the Levy declaration.

7 **C. Clarke Correctly Applied Generally Accepted Methods.**

8 Levy's primary criticism concerns Clarke's use of a zero intercept regression to determine
9 variable costs when calculating lost profits and alleged infringer's profits. D.I. 781 at 23. Levy
10 claims that use of this technique inflates variable costs and lowers Clarke's damage numbers, and
11 he purports to prove that point by doing his own analysis. *Id.*

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In short, Clarke is amply qualified, his analysis is consistent with generally accepted
principles and supported by multiple authorities. Clark Decl. ¶¶ 17-46. Levy's belated
declaration is based on incorrect calculations and his analysis is flawed because he lacks the

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1 relevant accounting expertise.

2 **VII. CLARKE IS NOT OFFERING LEGAL OPINIONS**

3 Clarke does not purport, or intend, to provide any legal opinions. Clarke's opinion that it
4 is unnecessary to estimate a reasonable royalty in this case because lost profits can be determined
5 with precision is not a legal opinion, as Plaintiffs contend, but an economic opinion. D.I. 781 at
6 14. Similarly, Clarke's view that it was inappropriate for Meyer to base his purportedly
7 "independent" opinion on the unsupported opinions of his client is not a legal opinion, but one
8 based on the professional standards applicable to damage experts. *Id.* Plaintiffs point to no legal
9 authorities on which Clarke purportedly relies for these opinions. In fact, when Plaintiffs referred
10 Clarke in deposition to the case they quote in their motion, *Polar Bear Prods., Inc. v. Timex Corp.*,
11 384 F.3d 700 (9th Cir. 2004), Clarke denied any knowledge of the quoted language and explained
12 that his position was based on his understanding of appropriate conduct for a professional
13 testifying expert. Wallace Decl. ¶ 7 , Ex. 7 (Clarke 6/8/10 Tr.) at 112:1-116:13.

14 Plaintiffs misrepresent Clarke's report and testimony. When questioned about the cases
15 cited in his report, he testified that the purpose of including them is not to give legal opinions but
16 because he and Meyer cannot "do the economics in a vacuum . . ." Wallace Decl. ¶ 7 , Ex. 7
17 (Clarke 6/8/10 Tr.) at 103:3-104:2. This is no different from Meyer's recitation of cases and
18 Court orders, and his understanding of them, in his report. *See, e.g.*, Wallace Decl. ¶ 22, Ex. 22
19 (Meyer Report) ¶¶ 91-95, 157-58. Moreover, Clarke did not testify that "he intends to offer
20 summaries and conclusions at trial" about them, as Plaintiffs state. D.I. 781 at 14 n.14. Plaintiffs
21 simply omit the relevant testimony. Wallace Decl. ¶ 7 , Ex. 7 (Clarke 6/8/10 Tr.) at 107:2-108:2.

22 **VIII. CONCLUSION**

23 For the reasons stated above, Plaintiffs' motion should be denied.

24 Dated: September 9, 2010

JONES DAY

25 By: /s/ Tharan Gregory Lanier
26 Tharan Gregory Lanier

27 Counsel for Defendants

28 SAP AG, SAP AMERICA, INC., and TN, INC.