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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)

DEFENDANTS' MOTION TO EXCLUDE EVIDENCE RELATED SOLELY TO CONTRIBUTORY INFRINGEMENT

I. INTRODUCTION

Plaintiffs seek to admit evidence that is related solely to contributory infringement. Defendants stipulated to this claim and this Court ordered that evidence may only be presented for limited context or in support of the remaining issue of damages. *See* ECF No. 952. Defendants have not objected to all of the evidence of contributory infringement that Plaintiffs seek to admit based on the Court's order. However, Plaintiffs keep trying to admit new evidence beyond providing context, and argue that it is relevant by categorizing it as an element of a hypothetical license analysis. Plaintiffs are incorrect as a matter of law that such evidence may factor in to an analysis of the fair market value of a copyright. Further, because Plaintiffs have already presented their erroneous legal argument to the jury, Defendants seek a limiting instruction to correct the jury's faulty understanding of the proper factors to consider in determining a hypothetical license.

II. ARGUMENT

Plaintiffs seek to admit evidence of contributory infringement under the guise of evidence relating to Defendants' alleged willingness to risk litigation. *See* Exhibit A (Oracle's Responses to Defendants' Objections to Evidence); Exhibit B (Power point slide from Plaintiffs' opening). Such evidence, properly characterized as evidence of purported willful infringement, has no place in a calculation of a hypothetical license fee. It is irrelevant and inadmissible under Rule 401 of the Federal Rules of Evidence.

First, evidence regarding a party's willingness to infringe, or similarly, fear of impending infringement litigation, "cannot logically represent part of the fair market value of a license *authorizing* such use." *Barrera v. Brooklyn Music*, No. 9331 (RLC)(KNF), 2004 U.S. Dist. LEXIS 12450, at *15 (S.D.N.Y. June 30, 2004) (rejecting argument that fair market value award should be increased based on infringer's desire "to avoid the need to resort to litigation") (rev'd on other grounds). If willingness to risk infringement were a proper basis for increasing a hypothetical license fee, every damages award based on such hypothetical negotiations would fail to reflect actual market value of the property infringed since a damages award necessarily follows

an *infringement* suit. Thus, an argument that such evidence is relevant removes all usefulness from a hypothetical license as an indicator of *fair market value*.

Second, evidence of willful infringement is not admissible for purposes of determining actual damages in the form of a hypothetical license under copyright law. In *Stehrenberger v. Reynolds Tobacco Holdings,* 335 F. Supp. 2d 466, 468 (S.D.N.Y. 2004), the court found that evidence of willful infringement "does not define a fair and reasonable license fee, but represents concepts of punishment for infringement." The court went on the hold that this component "form[s] no part of 'actual damages' under the statute." *See id.* Plaintiffs seek to increase their damages award by conflating a compensatory measure of damages with evidence that would support an award of punitive or statutory damages. "Copyright infringement is a strict liability wrong." *Faulkner v. Nat'l Geographic Soc'y*, 576 F. Supp. 2d 609, 613 (S.D.N.Y. 2008). Thus, in determining a hypothetical license fee, "there is no proper role for proof of willfulness." *Id.*

Plaintiffs' assertions that the evidence in question proves Defendants' willingness to infringe, and is therefore probative of objective fair market value, misconstrues hypothetical license case law. Plaintiffs rely on three patent infringement cases—*Georgia-Pacific*, *Gyromat*, and *Pentech*—for their contention that evidence of willingness to infringe is evidence of the value of Oracle's intellectual property. *See* Exhibit A. *Georgia-Pacific* and *Gyromat* do not support Plaintiffs' argument that evidence of risk of infringement may be used to calculate fair market value, and *Pentech* does not track with the Southern District of New York's current position on this issue. Thus, Plaintiffs' argument that the evidence is relevant is unsupported.

The "substantial risks and costs" that *Georgia-Pacific* discusses have to do with business risks rather than risk of litigation. *See Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1131 (S.D.N.Y. 1970). The court explained that because the product had proven profitable, the risk of bringing it to market would be at a low level such that a party would be willing to pay a substantial licensing fee. *See id.* Evidence that the product would be profitable, and therefore worth more to a licensor, is wholly distinct from evidence of a party's subjective knowledge regarding the possibility and risk of infringement.

Similarly, the *Gyromat* court discussed business risk, rather than a party's willingness to risk infringement, in determining whether there was a demand for the product at the time of infringement. *See Gyromat Corp. v. Champion Spark Plug Co.*, 735 F.2d 549, 552 (Fed. Cir. 1984). In addition, *Gyromat* discussed risk in the context of a *lost profits* analysis. There, the evidence was relevant because one of the factors in a four-part test for lost profits is the question of whether there is a demand for the product and thus, less of a risk for the licensing party with regard to profitability. *See id.* Thus, Plaintiffs case support is wholly inapposite.

Plaintiffs also cite a 1996 Southern District of New York case indicating that willingness to risk litigation may evidence fair market value. *See Pentech Int'l, Inc. v. Hayduchok*, 931 F. Supp. 1167 (S.D.N.Y. 1996). However, the Southern District has made clear in more recent precedent that evidence of willfulness may *not* be considered in determining a reasonable royalty. *See Faulkner*, 576 F. Supp. 2d at 613; *Stehrenberger*, 335 F. Supp. 2d at 467-68; *Barrera v. Brooklyn Music*, 2004 U.S. Dist. LEXIS 12450, at *15. Thus, Plaintiffs fail to support their contention that evidence of alleged willingness to risk litigation is relevant to a calculation of a hypothetical license. Plaintiffs' evidence is thus inadmissible under Rule 401 of the Federal Rules of Evidence.

Finally, assuming that the evidence offered by Plaintiffs actually proved knowing risk of infringement, even were evidence of such knowledge a relevant factor in a hypothetical license calculation, the evidence Plaintiffs seek to admit is unfairly prejudicial to Defendants and thus inadmissible under Rule 403 of the Federal Rules of Evidence. If the jury is presented with numerous pieces of evidence of Defendants' alleged willfulness, their view of Defendants will be inevitably tainted without Plaintiffs having established anything about objective, fair market value. The *Faulkner* court refused to allow evidence of willful infringement because "[i]ts only function would be in service of an attempt by plaintiff to prejudice the jury's assessment of damages . . . by portraying defendants in an unflattering light." *See Faulkner*, 576 F. Supp. 2d at 613. This Court should similarly exclude evidence that will serve only to disparage Defendants rather than to guide the jury in determining the value of the copyrights at issue.

III. CONCLUSION

Plaintiffs' chosen measure of damages takes place in a hypothetical world where no infringement exists and all activity is authorized. This calculation serves as an objective measure of fair market value of the intellectual property and does not allow for evidence of subjective beliefs or individual risk assessment. Thus, purported evidence of Defendants' subjective beliefs as to risk of actual infringement is entirely irrelevant and will serve only to confuse and prejudice the jury.

For these reasons, Defendants move to exclude all evidence regarding Defendants' alleged willingness to risk infringement that Plaintiffs seek to introduce as evidence of actual damages.

Further, due to Plaintiffs' failure to accurately construe legal standards, the jury has likely been given a false impression of what evidence they are to consider in determining a hypothetical license fee. *See* Exhibit B (inaccurately listing "SAP's willingness to risk assume risk of infringement liability" as an *admission of value* for purposes of determining actual damages). Defendants therefore request a limiting instruction to explain to the jury that they may not take evidence of Defendants' alleged willfulness into account when determining what licensing fee is representative of fair market value.

Dated: November 4, 2010

JONES DAY

By: /s/ Tharan Gregory Lanier
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