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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 ENFORCE ORDERS EXCLUDING EVIDENCE AND ARGUMENT OF LOST CROSS-SELL AND UP-SELL OPPORTUNITIES AND GOODWILL

I. INTRODUCTION

Twice this Court has ordered that Oracle may not present evidence of lost license **cross-sell and up-sell opportunities** or impacts on **goodwill**, including harm to reputation. The Court ruled that the precluded evidence is inadmissible for any purpose and will not be admitted through the back door. ECF No. 532 (Adopting Order) at 1. In orders on Defendants' Motions In Limine Nos. 1 and 2, the Court confirmed these rulings and specified that Oracle may not present "lost 'cross-sell' and 'up-sell' opportunities" even "as part of or support for its fair market value license claim for damages." ECF No. 914 (Final Pretrial Order) at 2, ¶¶ 9-10.

Oracle's opening statement suggested that Oracle may yet attempt to quantify damages based on the value of lost up-sell and cross-sell opportunities. In discussing the "evidence that will be considered in calculating" damages, Oracle's counsel broadly asserted that **"Oracle loses the benefit of the customers**."[1] Because Oracle takes the position that the primary benefit of the PeopleSoft customers was the opportunity to make up-sales and cross-sales to them (which in turn was the value of Oracle's goodwill), Defendants are understandably concerned that Oracle will calculate damages for lost up-sell and cross-sell opportunities. *See, e.g.*, ECF 728 (Defendants' Motions In Limine) at 4:22-5:18.

Defendants bring this motion to enforce the Court's orders and to prevent Plaintiffs from repackaging the precluded evidence under some other guise and divulging it to the jury, thereby ringing a bell that cannot be un-rung. Defendants request that the Court admonish Plaintiffs that they may not:

(1) Offer evidence or argument about the impact of Defendants' actions on the value of goodwill;

(2) Offer evidence or argument about the impact of Defendants' actions on Oracle's up-sell and cross-sell opportunities; or

(3) Offer a calculation of damages that directly or indirectly is founded on the impact of Defendants' actions on Oracle's goodwill or its up-sell and cross-sell opportunities. This includes,

[1] Transcript of Proceedings, Nov. 2, 2010 at 346:25-347:2, 349:23-24 (attached as Exhibit A) (emphasis added).

for example, Mr. Meyer's "market approach" based on acquired goodwill. *See, e.g.*, ECF No. 774 (Motion to Exclude Expert Testimony of Paul K. Meyer) at 4:19-9:6.

II. PROCEDURAL HISTORY

Plaintiffs' refusal to produce damages discovery beyond lost support revenues for customers that were supported by TomorrowNow resulted in Judge Laporte's Sanctions Order. ECF No. 482 (Sanctions Order). Judge Laporte found that Plaintiffs had refused to produce such discovery for over two years until Defendants deposed Oracle's senior executives who claimed—for the first time—that lost support revenues from the TomorrowNow customers were the "tip of the iceberg" and that the "greater economic harm came from lost licensing revenue and price reductions to customers that never left Oracle for TomorrowNow." *Id.* at 17. Judge Laporte noted that the "iceberg was invisible to Defendants and to the Court (though not to Plaintiffs) for more than two years of intensive discovery efforts." *Id.* at 17-18. Finding no justification for Plaintiffs' eleventh hour attempt to expand their damages claims and severe prejudice to Defendants and to the Court's ability to manage the case, Judge Laporte issued the Sanctions Order. *Id.* at 26.

The Sanctions Order precludes Plaintiffs from offering evidence of lost software license sales, sales of products that were not supported by TomorrowNow or any sales to customers that did not become customers of TomorrowNow. *Id.* These precluded sales include cross-sell and up-sell opportunities for new and different Oracle products to both existing and potential customers. *Id.* at 3. As Judge Laporte noted, however, her ruling hardly leaves Plaintiffs without a remedy in that "Plaintiffs may continue to pursue the many millions (perhaps over a billion) of dollars in damages that they have claimed all along ***based on lost support revenue for customers that left Oracle for TomorrowNow***." *Id.* (emphasis added).

When Plaintiffs objected to the Sanctions Order and sought this Court's clarification of its scope, they acknowledged that the order precludes any claim for damages to goodwill. ECF No. 499 (Pls.' Objs.) at 2 ("The damages that arguably fit Magistrate Laporte's premise are . . . damages to Oracle's goodwill . . . ."). In addition, Defendants noted in response to Plaintiffs' objections that

> [i]f Oracle's expert is permitted to testify on the amount of the precluded lost profits damages for purposes of, for example, supporting his opinion on the value of a hypothetical license (or any other damages theory), the prejudice to Defendants is the same as if he was testifying for purposes of the lost profits claim. Defendants will have been deprived of a full and fair opportunity to rebut that evidence by Oracle's discovery misconduct.

ECF No. 526 (Defs.' Resp. to Pls.' Objs.) at 21. On November 2, 2009, the Court overruled Plaintiffs' objections and adopted the Sanctions Order in its entirety. ECF No. 532 (Adopting Order). The Court ruled that the precluded evidence would not be admitted for any other purpose. *Id*. at 1 ("the precluded evidence will NOT be admitted through the back door . . . .").

On August 5, 2010, Defendants filed Motions In Limine Nos. 1 & 2 to enforce the prior orders and to preclude evidence and argument of impacts on goodwill and lost cross-sell and up-sell opportunities. ECF No. 728 (Defs.' Motions In Limine) at 1-6. In response, Plaintiffs argued that these preclusion orders were limited to the theory of lost profits damages and that the evidence should be admitted to prove fair market value license damages.[2] At the hearing, Plaintiffs argued: "I've seen nothing in the record that Judge Laporte ruled that every single thing that could be considered evidence in some broad, broad way as to good will was out of the case."[3] The Court saw it differently, stating: "When I affirmed or adopted Judge Laporte's order, it was certainly my intention that there would be no evidence, not only was there clearly going to be no claim of damages for harm to good will, but there would be no evidence of goodwill." *Id*. at 50:25-51:4. The Court granted Motion In Limine No. 1 as follows:

> 9. Defendants' Motion in Limine No. 1 to exclude evidence and argument re harm to Oracle's "goodwill" is GRANTED. The court previously precluded evidence of harm to Oracle's "goodwill," because Oracle made no adequate disclosure and SAP had not had the opportunity to take discovery. The court intended to preclude not only evidence of damage to "goodwill" but also evidence of unquantified harm to "reputation" in the marketplace. To the extent that Oracle seeks to introduce such evidence for some other purpose than to support its claim for damages, the court finds that the prejudice to SAP would far outweigh the probative value.

ECF No. 914 (Final Pretrial Order) at 2.

[2] ECF No. 790 (Pls.' Opp. to Defs.' Motions In Limine) at 1-5.

[3] Transcript of Proceedings, September 30, 2010 at 49:19-23 (attached as Exhibit B).

Similarly, the Court rejected Plaintiffs' attempt to use evidence of lost cross-sell or up-sell opportunities for any purpose, including for fair market value license damages. Defendants showed in their motion how Meyer tried to distinguish his use of lost up-sell and cross-sell opportunities to quantify lost profits (which he conceded is forbidden) and his consideration of it in his fair market value calculation. ECF No. 728 (Defendants' Motion In Limine) at 7:1-18. At the hearing, Defendants described Meyer's "back door" approach to using this evidence:

> And then more subtly through the back door, their damages expert uses lost cross-sell and up-sell opportunities as a fairly important centerpiece of his fair-value-of-use analysis where he basically says—and this gets back to goodwill a little bit—that good will is largely these cross-sell and up-sell opportunities, so Oracle was going to lose that value too.
>
> We think that's just the back door and has the effect of eviscerating Judge Laporte's order.

See Exhibit B hereto at 54:13-19. In response, Plaintiffs conceded that "what wasn't disclosed was up-sell/cross-sell opportunities" (*id* at 51:25-52-2), but argued that Meyer should nevertheless be able to rely on that evidence to calculate fair market value license damages. *Id.* at 57-58. The Court rejected Plaintiffs' argument and granted Motion In Limine Nos. 2 as follows:

> 10. Defendants' Motion in Limine No. 2 to exclude evidence of lost profits (as part of or support for its fair market value license claim for damages) is GRANTED. The record in this case makes clear that, as with evidence of "good will," Oracle made no adequate disclosure and SAP had no opportunity to take discovery, regarding lost profits in the form of lost software license sales (lost "cross-sell" and "up-sell" opportunities) or lost license revenues.

ECF No. 914 (Final Pretrial Order) at 2.

III. ARGUMENT

The Court's preclusion orders are broadly preclusive and appropriately so given Plaintiffs' discovery misconduct and repeated attempts to avoid the consequences of it. The Court rejected Plaintiffs' argument that evidence of the value of goodwill and lost cross-sell and up-sell opportunities are admissible to support a claim for fair market value license damages. The Court should reaffirm its orders and admonish Plaintiffs that any violations thereof could result in sanctions. The Court should also specifically preclude Plaintiffs' use of any evidence or argument the impact of Defendants' actions on the value of goodwill, on Oracle's up-sell and

cross-sell opportunities, or any calculation of actual damages that directly or indirectly is founded on the impact of Defendants' actions on Oracle's goodwill or its up-sell and cross-sell opportunities.

The Court's rulings have been properly decided on the merits. Plaintiffs refused to provide complete discovery of their actual up-sell and cross-sell experience for the periods both before and after Oracle acquired PeopleSoft. Had Plaintiffs produced that information, Defendants' expert could have analyzed and tested the data and reached his own conclusions about the value of those opportunities and how that information should be treated in the hypothetical negotiation.[4] For example, evidence of the nature and extent of PeopleSoft's cross-sell and up-sell history before Oracle's acquisition would shed light on the reasonableness of Meyer's assumptions about the value of future cross-sell and up-sell opportunities at the time of the hypothetical negotiation.

Likewise, information about Oracle's actual results in cross-selling and up-selling *after* the acquisition would have shed light on whether and, if so, to what extent there was any actual harm to those opportunities. With information about Oracle's actual sales, Defendants could have used the actual results to critically assess Meyer's assumption about the value of lost up-sell and cross-sell opportunities and its impact on the hypothetical negotiation.

Should Oracle present evidence or argument about impacts on goodwill and/or on cross-sell and up-sell opportunities in violation of the Court's orders, the Court would be well within its rights to strike Plaintiffs' claims for damages. Under Rule 16(f)(1)(c), a court "may issue any just orders, including those authorized by Rule 37(b)(2)(A)(ii)-(vii), if a party or its attorney . . . fails to obey a . . . pretrial order." Fed. R. Civ. Proc. 16(f)(1)(C). Rule 37(b)(2)(A) provides for certain sanctions, including "prohibiting the disobedient party from supporting or opposing designated claims." Fed. R. Civ. Proc. 37(b)(2)(A)(ii). Such terminating sanctions are appropriate where a party's violation "threaten[s] to interfere with the rightful decision of the

[4] For a discussion of *some* of the reasons Defendants were prejudiced by Oracle's refusal to produce discovery concerning potential license sales, s*ee generally* ECF No. 344 (Declaration of Stephen K. Clarke in Support of Defendants' Motion for Sanctions Pursuant to Fed. R. Civ. P. 37(c) and 16(f)) ¶¶ 19-23 and ECF No. 399 (Reply Declaration of Stephen K. Clarke in Support of Defendants' Motion for Sanctions Pursuant to Fed. R. Civ. P. 37(c) and 16(f)).

case." *In re Lebbos*, 362 F. App'x 863, 864 (9th Cir. 2010) (citing *Valley Eng'rs Inc. v. Elec. Eng'g Co.*, 158 F.3d 1051, 1057 (9th Cir. 1998)). *See, e.g.*, *DXS, Inc. v. Siemens Med. Sys., Inc.*, 100 F.3d 462, 466 (6th Cir. 1996) (discussing district court's grant of mistrial for violation of court's pretrial rulings on motions in limine).

IV. CONCLUSION

The Court should again preclude Plaintiffs from offering any evidence, argument or making reference to any theory of damages founded on goodwill or cross-sell and up-sell opportunities.

Dated: November 5, 2010

JONES DAY

By: /s/ Jason McDonell
Jason McDonell

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