BINGHAM McCUTCHEN LLP
DONN P. PICKETT (SBN 72257)
GEOFFREY M. HOWARD (SBN 157468)
HOLLY A. HOUSE (SBN 136045)
ZACHARY J. ALINDER (SBN 209009)
BREE HANN (SBN 215695)
Three Embarcadero Center
San Francisco, CA 94111-4067
Telephone: (415) 393-2000
Facsimile: (415) 393-2286
donn.pickett@bingham.com
geoff.howard@bingham.com
holly.house@bingham.com
zachary.alinder@bingham.com
bree.hann@bingham.com

BOIES, SCHILLER & FLEXNER LLP
DAVID BOIES (Admitted *Pro Hac Vice*)
333 Main Street
Armonk, NY 10504
Telephone: (914) 749-8200
Facsimile: (914) 749-8300
dboies@bsfllp.com
STEVEN C. HOLTZMAN (SBN 144177)
FRED NORTON (SBN 224725)
1999 Harrison St., Suite 900
Oakland, CA 94612
Telephone: (510) 874-1000
Facsimile: (510) 874-1460
sholtzman@bsfllp.com
fnorton@bsfllp.com

DORIAN DALEY (SBN 129049)
JENNIFER GLOSS (SBN 154227)
500 Oracle Parkway, M/S 5op7
Redwood City, CA 94070
Telephone: (650) 506-4846
Facsimile: (650) 506-7114
dorian.daley@oracle.com
jennifer.gloss@oracle.com

Attorneys for Plaintiffs Oracle USA, Inc., *et al.*

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
OAKLAND DIVISION

ORACLE USA, INC., *et al.*, Plaintiffs, v. SAP AG, *et al.*, Defendants.	No. 07-CV-01658 PJH (EDL) **ORACLE'S MEMORANDUM OF POINTS AND AUTHORITIES IN OPPOSITION TO DEFENDANTS' MOTION TO ENFORCE ORDERS EXCLUDING EVIDENCE AND ARGUMENT**

I. SUMMARY OF ARGUMENT

Defendants' motion asks the Court to "admonish Plaintiffs" regarding its prior orders and to "again preclude" them from offering evidence the Court already excluded. Mot. at 1, 6. That relief is unnecessary. Oracle intends to comply with all of the Court's prior orders and does not intend to offer any precluded evidence. Oracle's opening did not cross any lines, and Defendants do not actually contend that it did, but only that Oracle's case "may yet" include impermissible, albeit unspecified, evidence. If Oracle actually offers such evidence (which it will not), Defendants should object, and the Court should then consider the objection in the context of the exhibit offered and the use made of it with the witness and rule accordingly, just as it already has.

However, to the extent Defendants are in fact seeking to expand the Court's prior orders through this motion, and thereby preclude highly relevant damages evidence that was never the subject of those orders, their motion should be denied. Defendants' trial objection to the admission of PTX_0012 suggests this may be the case.

In court on November 4, Defendants made the same arguments they make in their motion regarding the admissibility of PTX_0012. *See* 11/4/2010 Tr. 502:22-503:22. That exhibit reflected that, at the same time SAP knew of TomorrowNow's infringement, SAP anticipated $897 million in revenues in the first three years of offering PeopleSoft maintenance services, and anticipated converting thousands of PeopleSoft customers to SAP. *Id.* at 504:25-505:6. Defendants argued this highly relevant document should be excluded as impermissible up-sell and cross-sell evidence. *Id.* at 507:14-508:4. The Court correctly overruled Defendants' objection, and the same reasoning applies to this motion. *Id.* at 510:11-511:1 ("[I]t certainly seems to me to be pertinent to the question of fair market value. I mean that's an objective standard, and . . . this seems to me to be perfectly relevant to that.").

As explained below, Oracle will seek to offer similar evidence relevant to fair market value, reflecting the expectations of the parties – Oracle and SAP – at the time of the hypothetical negotiation. That evidence is highly relevant to the determination of damages, and not precluded by any of the Court's prior orders. Barring such evidence at this stage would be highly prejudicial to Oracle and would violate due process. All the evidence that Oracle intends to offer was timely disclosed, subject to extensive discovery, and never precluded by any order, and there is no prejudice to Defendants by now allowing Oracle to offer that evidence in support of its damages claim.

II. ARGUMENT

Party Projections Are Highly Relevant to Damages. The sole issue for the jury is damages. Oracle seeks an award in the form of a license established through a hypothetical license negotiation, based on the reduction in the fair market value of the infringed copyrighted works. Those damages must be determined through the "willing seller," "willing buyer" framework established in the seminal patent case, *Georgia-Pacific v. U.S. Plywood Corp.*, 318 F. Supp. 1116 (S.D.N.Y. 1970), *modified and aff'd*, 446 F.2d 295 (2nd Cir. 1971), *cert. denied*, 404 U.S. 870 (1971), which identifies fifteen non-exclusive factors to be considered.

The revenues the parties anticipated and projected before or at the time of the hypothetical negotiation are highly relevant. *See, e.g.*, *Interactive Pictures Corp. v. Infinite Pictures, Inc.*, 274 F.3d 1371, 1384-85 (Fed. Cir. 2001) (the "rule [] recognizes sales expectations at the time when infringement began as a basis for a royalty base as opposed to after-the-fact counting of actual sales"); 2004 Model Patent Jury Instructions for the Northern District of California, Instruction 5.7 ("In considering the nature of this negotiation, the focus is on what the expectations of the patent holder and infringer would have been had they entered into an agreement at that time and acted reasonably in their negotiations.").[1] Defendants agree. *See, e.g.*, SAP's Opp. to Oracle's *Daubert* Mot. to Exclude Clarke (Dkt. 851) at 8:10-11; 8:24-25

---

[1] *See also, e.g.*, *Riles v. Shell Exploration & Prod.*, 298 F.3d 1302, 1313 (Fed. Cir. 2002) ("A reasonable royalty determination for purposes of making a damages evaluation must relate to the time infringement occurred, and not be an after-the-fact assessment"); *Radio Steel & Mfg. Co. v. MTD Products, Inc.*, 788 F.2d 1554, 1557 (Fed. Cir. 1986) ("The determination of a reasonable royalty . . . is not based on the infringer's profit, but on the royalty to which a willing licensor and a willing licensee would have agreed at the time the infringement began"); *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1081 (Fed. Cir. 1983) ("The issue of the infringer's profit is to be determined not on a basis of a hindsight evaluation of what actually happened, but on the basis of what the parties to the hypothetical negotiation would have considered at the time of the negotiations").

("the proper form of royalty is dependent upon what would have been the most likely agreement during the hypothetical negotiation" (quoting *Linkco, Inc. v. Fujitsu Ltd.*, 232 F. Supp.2d 182, 188 (S.D.N.Y. 2002)). What would have been "the most likely agreement during the hypothetical negotiation" depends on facts that existed *at the time of the negotiation*, including the parties' respective goals, expectations, valuations, and state of mind.

Defendants recognized the relevance of this evidence in their opening, when they repeatedly stated that the evidence would include the *expected* gains and losses for both Oracle and SAP. For example:

> And I didn't show you this one, which is Mr. Henley, the [Oracle] Chairman of the Board's response. His response is, I think there may be some losses eventually *when SAP convinces some SAP customers to switch from PeopleSoft to SAP* rather than upgrading, but our model always assumed there would be some attrition . . . *so, these are not the words of a company that had high expectations that TomorrowNow was going to take away a lot of valuable business*.

11/2/2010 Tr. 413:4-24 (emphasis supplied). Counsel also told the jury: "What they are saying is they would have asked for $2 billion *because [Oracle] supposedly thought* a really large percentage of their PeopleSoft customers were going to go to TomorrowNow and then to SAP." *Id.* at Tr. 412:13-17 (emphasis supplied). He then stated that, to the contrary, the evidence would show: "*At the time Oracle executives did not see a big threat from TomorrowNow*." *Id.* at Tr. 412:23-24; *see also* Def's Mot. To Exclude Meyer (Dkt. 798) at 6:6-7 ("the evidence shows that *Oracle anticipated* very little impact from TN") (emphases supplied). As explained below, such evidence was never precluded by any of the Court's orders. Defendants' opening shows they also did not consider this evidence to be precluded. In any event, Defendants have opened the door to the issue of the expected value of a hypothetical license from both the SAP and Oracle perspectives.

Evidence of the Parties' Projections. To establish the amount that Oracle would have charged, and SAP would have paid, had there been a negotiation in January 2005,[2] Oracle

[2] The January 2005 negotiation would result in a license for the PeopleSoft and J.D. Edwards materials and certain database materials, and there would have been later negotiation for the Siebel copyrights based on TomorrowNow's September 2006 provision of Siebel support using the same infringing support model.

intends to offer – and Defendants have already acknowledged and, in one instance, this Court has already admitted – evidence regarding the value that both parties placed on the infringing materials at or around that time. This limited set of evidence includes SAP's and Oracle's projected (but not actual after-the-fact) gains in connection with the infringed copyrighted materials, including but not limited to projected (but not actual after-the-fact) maintenance revenue and projected (but not actual after-the-fact) revenue from sales to maintenance customers of new versions of software products or other products that customers might purchase (*i.e.*, projected up-sales and cross-sales). These projections reflect the contemporaneous value to the parties of the infringed materials – the exact question before the jury.

The Court Has Never Excluded Party Projections. Defendants' prior motions and the resulting orders – including the Court's recent ruling on Defendants' motions in limine – had nothing to do with the extensively-discovered evidence of each party's anticipated revenue goals and expectations at the time of (and before) the hypothetical negotiation, whether in the form of sales of ancillary products (sometimes referred to as "cross-sell") and sales of new versions of products (sometimes referred to as "up-sell") or any other expected value. The briefing and orders focused exclusively on evidence relevant to *Oracle's actual, after-the-fact <u>upsell/cross-sell lost profits</u> and damage to <u>goodwill</u>*. As stated above, Oracle has not and will not introduce this type of evidence, and *<u>has specifically excluded such evidence from its trial plan</u>*, including, for example, evidence of Oracle's lost software application sales to the specific 358 TomorrowNow customers Defendants discussed time and again in their opening.

<u>Sanctions Motion</u>: On July 14, 2009, Defendants filed a motion for sanctions with Magistrate Judge Laporte in which they sought to preclude Oracle from offering evidence of various types of lost profits damages. Defs' Mot. for Sanctions (Dkt 365). Defendants' sanctions motion expressly "did not extend to" Oracle's "hypothetical license theory," which Defendants acknowledged they were instead attacking in an upcoming motion for summary judgment. *Id.* at 13, n.9. Defendants did not then – or ever – complain that Oracle had failed to produce the contemporaneous projections evidence at the heart of its FMV license theory, or any other evidence relating to that theory. *See id.*

On September 17, 2009, Magistrate Judge Laporte granted Defendants' motion regarding actual lost profits damages and held that Oracle would not be permitted to pursue "(1) alleged lost profits relating to customers who did not become customers of TomorrowNow; (2) alleged lost profits relating to licensing revenue, as opposed to support revenue; and (3) alleged lost profits relating to products that were not supported by TomorrowNow." Order Granting Defs' Mot. for Preclusion of Certain Damages (Dkt. 482) at 26. Oracle filed objections to that order, which the Court overruled. *See* Order Overruling Objections (Dkt. 532).

Consistent with the scope of Defendants' motion, neither of the orders had anything to do with either *SAP's* *projected* cross-sell and up-sell gains at the time it acquired TomorrowNow or *Oracle's* *projected* cross-sell and up-sell gains at the time it acquired PeopleSoft. Indeed, in response to Oracle's objections, Defendants expressly disclaimed that the sanctions order would in any way limit Oracle's ability to present evidence of "SAP's alleged forecasts of potential sales of SAP products to TomorrowNow customers," since that issue of SAP's expectations "has no bearing on Magistrate Laporte's" sanctions order. Defs' Resp. to Pltfs' Objections to Order for Sanctions (Dkt. 526) at 11:18-22.

Motions in Limine: On August 5, 2010, Defendants filed their motions in limine, asking the Court (in motion in limine number 2) to "confirm its prior ruling" and exclude evidence relating to Oracle's lost cross-sell and up-sell opportunities. Defs' Mot.in Limine (Dkt. 728) at 3-6.[3] On September 30, 2010, this Court granted Defendants' motion "to exclude evidence of lost profits (as part of or support for its [Oracle's] fair market value license claim for damages)" and stated that "[t]he record in this case makes clear that . . . 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 revenue." Final

---

[3] Defendants' motion focused exclusively on Oracle's lost cross-sell and up-sell revenues, without ever mentioning SAP's expected gains in the form of cross-sell and up-sell revenues, between which there is no factual or logical connection. *See, e.g.*, Defs' Mot. in Limine (Dkt. 728) at 4:25-26 (asserting that "Plaintiffs' damages expert expressly relies on alleged lost cross-sell and up-sell opportunities") (emphasis supplied); *id.* at 6:9-12 ("If Plaintiffs' expert is permitted to testify on alleged lost cross-sell and up-sell opportunities . . . the Defendants will have been deprived of a meaningful opportunity to rebut that evidence") (emphasis supplied).

Pretrial Order (Dkt. 914) at ¶ 10. The Court also granted Defendants' motion in limine number 1 to exclude "damage to 'goodwill' [and] also evidence of unquantified harm to 'reputation' in the marketplace." *See id*. at ¶ 9.

Nothing in the sanctions orders or this Court's rulings on Defendants' motions in limine bars the admission of evidence reflecting either SAP's projected revenue opportunities from the acquisition of software and support materials unlawfully procured by TomorrowNow or Oracle's projected revenue opportunities from the acquisition of software and support materials owned and copyrighted by PeopleSoft and Siebel. To the contrary, each ruling is plainly limited to preclusion of evidence of Oracle's *actual, after-the-fact* lost profits or harm to marketplace goodwill or reputation, whether as a separate measure of damages or as a component of the fair market value calculation.

Excluding Expectations Evidence Would Be Unfair And Highly Prejudicial. Oracle has relied for over a year on the longstanding, Defendant-acknowledged, and Court-approved distinction between backward-looking lost profits (precluded) and the parties' contemporaneous forward-looking projections relating to the fair market value, including expected (not actual) future gains (not precluded). At the same time, Defendants have been on notice for over a year that Oracle and Meyer intended to rely on that contemporaneous expectations evidence for their FMV license damages. Indeed, in denying Defendants' objections to that very evidence, based on the sanctions order, in connection with their hypothetical license partial summary judgment motion, the Court held that Oracle "*should be permitted to present evidence* regarding the fair market value of the copyrights that SAP allegedly infringed, including expert testimony based on established valuation methodology." Dkt. 628 (Order re Partial SJ) at 5:5-7 (emphasis supplied). Oracle submits that denying this motion follows directly from that ruling. Meyer's reliance on the parties' contemporaneous expectations was and is an "established valuation methodology" for a hypothetical license, and his testimony based on those expectations is paradigm "evidence regarding the fair market value of the copyrights that SAP allegedly infringed." *See id.*[4]

[4] The same goes for Meyer's reliance on "acquired goodwill," Mot. at 1-2, which is simply a financial accounting term for the very same kind of expectations evidence that was never

(Footnote Continued on Next Page.)

There has never been a motion directed to evidence of the projected gains expected by the parties as of the hypothetical license dates, much less a ruling excluding such evidence. Even Defendants' in limine motion, on which they rely, on its face, did not seek that remedy. Instead, as with their current motion, Defendants simply asked the Court "to *confirm its prior ruling* and to exclude the precluded evidence for all purposes." Defs' Mot. in Limine (Dkt. 728) at 3:17-19 (emphasis added). The Court granted the motion. Again, that motion and ruling related to "evidence of lost profits" – the only evidence "precluded" by the "prior ruling" – which the Court ruled cannot be used for any purpose, including for hypothetical license damages. Oracle has no present quarrel with any of the Court's rulings, but it would be unfair and highly prejudicial if Defendants are permitted to dramatically expand those rulings now, during trial.

Excluding Expectations Evidence Would Be Procedurally and Constitutionally Impermissible. Local Rule 7-8(c) requires that any motion for sanctions, regardless of the sources of authority invoked, "must be made as soon as practicable after the filing party learns of the circumstances that it alleges make the motion appropriate." Defendants' suggestion, Mot. at 5, made *for the first time anywhere*, that Oracle failed to produce discovery Defendants need to defend against the hypothetical license damages theory, is false. The record is undisputed that *both parties* generated in the ordinary course of their businesses, and timely produced, the exact forward-looking expectations of up-sell and cross-sell opportunities that the experts and jury may and should, indeed as a matter of law must, consider in valuing the hypothetical license. If Defendants believed what they are suggesting to the Court now, they should have asked for, not expressly disclaimed, such relief *nearly 16 months ago*. Granting it now would violate not only

(Footnote Continued from Previous Page.)

precluded, and that Defendants have already told the jury it will hear. *See* Green, Daniel, "Accounting's Nadir: Failures of Form or Substance?", 12 UPAJBL 601 (2010) ("Accounting" goodwill is "[t]he excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed."). "Non-accounting" goodwill, by contrast, refers to marketplace reputation, which "may be damaged by the loss of goodwill to a particular product or service." ABA Model Jury Instructions 2.10.2 (Business Torts) (modified); *accord* 9/30/10 Tr. at 48:24-25. While Oracle believes Defendants damaged its marketplace goodwill by their massive infringement and cut-rate support offerings, that *backward-looking measure of damages is not relevant to the hypothetical license negotiation and is no longer part of this case. Oracle will not present that evidence.*

basic fairness, but federal, local, and constitutional notice requirements, and constitute reversible error. *See, e.g.*, *U.S. v. Kahaluu Construction Co.*, 857 F.2d 600, 602 (9th Cir. 1988) ("the order compelling production involved only documents relating to the counterclaim; therefore any sanction for violation of the order must also relate to the counterclaim" as a matter of due process); *Unigard Sec. Ins. Co. v. Lakewood Eng'g & Mfg. Corp.*, 982 F.2d 363, 367-68 (9th Cir. 1992) (legal error to award Rule 37 sanction where no court order had been disobeyed).

Excluding Expectations Evidence Would Be Legal Error. Lost profits and fair market value license damages theories are different, and so is the evidence used to prove them. What the parties expected to happen at the outset of infringement (the Parties' expectations entering into a hypothetical license negotiation) is legally irrelevant to what actually happened during the infringement period (lost profits). *Hanson v. Alpine Valley Ski Area, Inc.*, 718 F.2d 1075, 1081 (Fed. Cir. 1983) (reasonable royalty "is to be determined *not on the basis of a hindsight evaluation of what actually happened, but on the basis of what the parties to the hypothetical license negotiations would have considered at the time of the negotiation*") (emphasis supplied). Therefore, an order precluding post-infringement evidence relating to lost profits cannot – and should not – be expanded now to preclude the parties' pre-infringement projections relevant to the fair market value of a hypothetical license. A trial court has no discretion to make an error of law. *See, e.g.*, *Koon v. United States*, 518 U.S. 81, 100 (1996).

III. CONCLUSION

Defendants' motion is unnecessary to the extent it simply seeks to affirm the Court's prior orders, and improper if meant to go farther. Oracle does not intend to introduce "the precluded evidence" for any purpose. The motion should be denied.

DATED: November 5, 2010

Bingham McCutchen LLP

By: /s/ Geoffrey M. Howard
Geoffrey M. Howard
Attorneys for Plaintiffs Oracle USA, Inc., Oracle International Corporation, Oracle EMEA Limited, and Siebel Systems, Inc.