Nos. 12-16944, 12-17053

IN THE

United States Court of Appeals

FOR THE NINTH CIRCUIT

ORACLE CORPORATION, a Delaware corporation; ORACLE INTERNATIONAL CORPORATION; ORACLE SYSTEMS CORPORATION; ORACLE USA INC., ORACLE EMEA LIMITED; J.D. EDWARDS EUROPE LIMITED; SIEBEL SYSTEMS, INC.,

Plaintiffs-Appellants/Cross-Appellees,

v.

SAP AG, a German corporation; SAP AMERICA INC.; TOMORROWNOW INC., a Texas corporation,

Defendants-Appellees/Cross-Appellants.

On Appeal From The United States District Court
For The Northern District of California
Hon. Phyllis J. Hamilton, District Judge

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CORPORATE DISCLOSURE STATEMENT

Pursuant to Rule 26.1 of the Federal Rules of Appellate Procedure, plaintiffs-appellants Oracle International Corporation, Oracle Systems Corporation, Oracle USA Inc., Oracle EMEA Limited, J.D. Edwards Europe Limited, and Siebel Systems, Inc. state that Oracle Corporation wholly owns each of them, either directly or through one or more of its privately-held wholly owned subsidiaries. No other publicly held corporation owns 10% or more of any plaintiff-appellant's stock.

TABLE OF CONTENTS

TABLE OF AUTHORITIES

Page(s)

Cases

Statutes and Rules

Miscellaneous

PRELIMINARY STATEMENT

In this case, plaintiffs-appellants Oracle International Corporation, Oracle USA Inc., and Siebel Systems, Inc. (collectively, "Oracle") obtained a $1.3 billion jury verdict against defendants-appellees SAP AG, SAP America Inc., TomorrowNow Inc. ("TN"; and collectively, "SAP") for an admitted, three-year-long campaign of copyright infringement built upon millions of illegal downloads from Oracle's password-protected computer systems.

The U.S. District Court for the Northern District of California (Hamilton, J.) then issued post-trial orders that set aside that verdict, granted SAP judgment as a matter of law on any hypothetical license measure of actual damages, granted SAP a new trial if Oracle rejected a $272 million remittitur, and limited any such new trial to lost profits and infringer's profits as Oracle's sole remedy. In so doing, the district court rejected the jury's findings that Oracle had demonstrated that $1.3 billion represented the fair market value that the parties would have agreed upon had they bargained for a license authorizing SAP's infringing use, and that this valuation was a better measure of Oracle's damages than lost profits and/or infringer's profits.

Those post-trial rulings were in error. The value of a hypothetical license is a long-accepted measure of actual damages under the Copyright Act where, as here, it is based on objective evidence. Contrary to the district court's post-trial orders, the availability of such damages does not depend on a showing of actual willingness to license or comparable "benchmark" licenses. And Oracle's evidence of such damages here, including SAP's own recorded projections of the value of the infringed material at the time of the infringement, was both objective and overwhelming. The jury's $1.3 billion award was therefore reasonable, especially viewing all evidence in the light most favorable to Oracle and drawing all reasonable inferences in Oracle's favor, and the district court should not have substituted its view of that evidence for that of the jury.

As the parties prepared for a second trial, the district court again erred in issuing a series of rulings improperly limiting the evidence Oracle could present, leading Oracle to agree with SAP to stipulate to a final judgment in the amount of $306 million in order to permit this appeal. This Court should reverse and reinstate the jury's verdict, or at minimum, vacate and remand for an unconditional new trial in which damages may be valued by a hypothetical license measure.

JURISDICTIONAL STATEMENT

The district court had jurisdiction under 28 U.S.C. §§ 1331 and 1367. This Court has jurisdiction pursuant to 28 U.S.C. § 1291 to review the stipulated final judgment as to which Oracle preserved its right to appeal. *See, e.g., U.A. Local 342 Apprenticeship & Training Trust v. Babcock & Wilcox Constr. Co.*, 396 F.3d

1056, 1058 (9th Cir. 2005). On August 31, 2012, Oracle filed a timely Notice of Appeal from the final judgment entered on August 3, 2012. ER97-98.

QUESTIONS PRESENTED

1. Whether the district court erred in granting SAP post-trial judgment as a matter of law on hypothetical license damages for admitted copyright infringement, where (a) such damages do not depend upon actual willingness to license or "benchmark" licenses; and (b) Oracle presented overwhelming objective evidence from which a reasonable jury could conclude that the fair market value of a license for SAP's infringing use was $1.3 billion.

2. Whether the district court erred in ordering a new trial limited to lost profits and infringer's profits if Oracle rejected a $272 million remittitur, where (a) Oracle presented overwhelming objective evidence from which a reasonable jury could conclude that the fair market value of a license for SAP's infringing use was $1.3 billion; (b) the district court imposed its additional prerequisites to hypothetical license damages only after the jury had returned its verdict; and (c) the remittitur was set below the maximum amount sustainable by the proof.

3. Whether, in any new trial, Oracle should be able (a) to recover actual damages and infringer's profits; (b) to present evidence of SAP's saved research and development costs; (c) to exclude SAP's evidence of overhead expenses; and

(d) to exclude testimony by SAP's damages expert that was unreliable and outside his expertise.

STATEMENT OF THE CASE

Oracle filed its complaint against SAP in March 2007 (D.E.1) and filed the operative Fourth Amended Complaint in August 2009 (ER1361-1435). Oracle asserted ten claims against SAP under the Copyright Act, the Computer Fraud and Abuse Act, and state law. ER1411-31.[1] With respect to the copyright claim, Oracle alleged that SAP had infringed 120 copyright registrations on Oracle software and related support materials, and sought both actual damages and "profits attributable to the infringement not taken into account in computing actual damages" under 17 U.S.C. § 504(b). ER1418.

In August 2009, SAP filed the first of two motions for partial summary judgment, arguing that Oracle was not entitled to seek hypothetical license damages on its copyright claim. D.E.447. In January 2010, the district court denied the motion. ER1293. In August 2010, the district court largely denied SAP's second partial summary judgment motion, but did rule that hypothetical license damages could not encompass any research and development costs that SAP saved as a result of the infringing conduct. ER93-94.

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[1] The non-copyright claims are not at issue on appeal.

In September 2010, the district court issued its Final Pretrial Order, which, among other things, denied Oracle's *Daubert* motion to exclude SAP damages expert Stephen Clarke. ER69.

Immediately prior to trial, TN stipulated to liability on all claims (ER1238) and SAP AG and SAP America stipulated to liability for contributory copyright infringement (ER1236), with each reserving its defenses to damages. Following a thirteen-day damages trial on the copyright claims in November 2010 featuring 28 witnesses and 190 exhibits, a jury concluded that actual damages should be measured by the fair market value of a hypothetical license rather than by lost profits, and awarded Oracle $1.3 billion in actual damages. ER161. In September 2011, the district court granted SAP's renewed motion for judgment as a matter of law ("JMOL") with respect to hypothetical license damages (ER26-36), as well as SAP's motion for a new trial, the latter conditioned on Oracle's rejection of a $272 million remittitur (the "JMOL/New Trial Order") (ER36-40).

Oracle moved for a stay of proceedings pending the filing and disposition of a motion to certify the JMOL/New Trial Order for interlocutory appeal. D.E.1086. The district court denied the stay (the "Stay Order") (ER19) and, later, the request for certification (D.E.1103). In denying the stay, the district court sought to clarify its JMOL ruling. ER20.

Oracle rejected the remittitur in February 2012 (ER160), and the parties proceeded toward a second trial. Oracle moved to clarify whether it could present evidence of hypothetical license damages (D.E.1120), to exclude certain evidence regarding cost reductions relevant to measuring infringer's profits (D.E. 1145), and to exclude testimony by SAP expert Clarke (*id.*). The court denied each motion. ER12-13, ER18.

The parties thereafter stipulated to the entry of judgment in Oracle's favor in the amount of $306 million. ER4. The final stipulated judgment, as to which Oracle reserved its right to appeal, was entered in August 2012. ER1.

STATEMENT OF FACTS

A. Oracle's And SAP's Competition In The Enterprise Software Industry

Oracle and SAP are long-time competitors in the enterprise software industry, although SAP is "a much larger company in the applications segment." ER185, ER189-90. Oracle devotes "massive" resources to the "long and arduous process" of developing software designed to help customers manage and grow their businesses (ER178-79, ER280, ER1376), funding its research and development through license and maintenance fees that customers pay to obtain technical support and software updates (ER179, ER166).

In January 2005, Oracle completed an ***$11 billion*** acquisition of PeopleSoft (ER343-44), giving it access to PeopleSoft's 9,920 customers (ER306-07), including those from PeopleSoft's prior acquisition of J.D. Edwards. Oracle thus nearly doubled its share of the enterprise applications market (ER186, ER366-68, ER926) and could now "aggressively challenge SAP for leadership in business software solutions" (ER1002). Oracle based its acquisition price on a model that reasonably assumed retention of nearly 90% of PeopleSoft customers and receipt of the accompanying support/update revenue stream for at least ten years. ER195-96, ER309, ER1133, ER1159-1162. Oracle anticipated earning $5.4 billion from PeopleSoft customers in the first four years alone. ER146-47, ER297-98, ER1162.1.

B. SAP's Acquisition Of TomorrowNow With Knowledge Of Its Infringement

In response to Oracle's acquisition, SAP devised a "dramatic, market-changing" plan to mount "an immediate and serious challenge to Oracle" through the acquisition of TN (ER903, ER252, ER661-62), which—enabled by its massive illicit copying of PeopleSoft and J.D. Edwards software—provided half-price software maintenance to and updates of PeopleSoft and J.D. Edwards software applications (ER737-38). SAP's top executives considered TN a "strategic weapon against Oracle" (ER881, ER687) and the "cornerstone" of its so-called "Safe Passage program," which was designed to recruit PeopleSoft and J.D. Edwards customers (ER678, ER663-64, ER685, ER881, ER888, ER902-06) with the "number one single-minded ambition" of converting them to SAP's competing software (ER510-11; *see also* ER789-99, ER881, ER733, ER245-48, ER221). SAP acknowledged that it could not achieve this ambition without TN: SAP's "market research show[ed] that [TN] [was] the only meaningful North American provider of third party PeopleSoft maintenance services." ER820. As SAP America Director Werner Brandt acknowledged at trial, "[TN] was the only company in North America that had the capacity to do what SAP wanted done." ER246-47.

The SAP Executive Board acquired TN with full knowledge that "there could be substantial legal issues with TomorrowNow's service delivery processes." ER266; *see also* ER252, ER255. The Board knew that TN had no research and development department (ER268, ER1049), knew that TN owned no relevant intellectual property (ER893), commissioned an investigation that concluded that it was "very likely that TomorrowNow is using the software outside the contractual use rights granted to them" (ER784), and reviewed a report warning that "the access rights to the PeopleSoft software is very likely to be challenged by Oracle" (ER824, ER265). SAP nonetheless acquired TN "with the knowledge that there was a risk that Oracle would sue" (ER704-05, ER656-57) and retained TN's corporate existence in the hope that it would act as a "liability shield" (ER825).

SAP devised a strategy for TN to continue offering software maintenance to customers of PeopleSoft and J.D. Edwards at half the price Oracle did, which allowed SAP to gain support revenues for TN in the short term and substantially greater revenues for itself in the long term by tying discounted support on PeopleSoft and J.D. Edwards software to a deal that transitioned those customers to SAP licenses and SAP support. ER243, ER705-06, ER746, ER761-62, ER764-76, ER861-63, ER874, ER902-06, ER979, ER1134, ER1167-70. According to a December 23, 2004 "Roadmap for PSFT Customers to SAP," unanimously adopted by the SAP Executive Board, SAP projected that it would earn $897 million in revenue in just three years from offering TN's maintenance service and converting part of that customer base. ER678-79, ER699-700, ER799. SAP further understood that, by diverting Oracle's new PeopleSoft and J.D. Edwards customers to TN's half-price support offering, it would deprive Oracle of revenues Oracle could have used to pay for the PeopleSoft acquisition and to invest in research and development, and, accordingly, "contain Oracle's potential growth in the next generation application market." ER903; *see* ER251-52, ER674-75, ER705-06, ER861.

SAP thus calculated TN's financial benefit to SAP as far exceeding the mere amount of support revenues SAP obtained. In April 2006, for example, SAP estimated that:

> Every $1 of 2005 closed [TN] business typically represents…
>
> 1. $2 taken from Oracle's annual maintenance

2. $20 taken away from any 10-year maintenance-based justification for the PeopleSoft/JDE takeover

3. $10 increase to SAP's strategic license revenue pipeline.

ER1158; *see* ER878 ("Over the long term, every $1 of TN Stand-alone revenue this year represents $18 of originally expected Oracle revenue from their misguided acquisition strategy.").

C. SAP's Massive Copyright Infringement

The warnings to SAP's board were correct: as is now undisputed, TN built its entire business upon unlicensed downloads and copies of Oracle's copyrighted software and support materials. This downloading was massive in scope and essential to TN's business model. Oracle's technical expert, Kevin Mandia, found over 10 million downloaded Oracle files on TN's systems—some five terabytes of material. ER494. Mandia also found evidence of "about 7,100 or more copies of Oracle applications software and Oracle database software," some 10 terabytes, that had been on TN's servers. ER496-97.[2] To create these copies, TN obtained installation CDs and DVDs from its customers, copied them onto its computers, used passwords to illicitly download software and software updates from Oracle's websites, and used that software to develop and test fixes and updates to Oracle software using a significant amount of Oracle's own code. ER506, ER749-54.

[2] "Database software" refers to Oracle's Relational Database Management System, which was used by customers running PeopleSoft on an Oracle database. *See* ER236-37, ER560-61.

SAP took no steps to ensure that TN stopped infringing. ER264-65, ER712-15, ER717. After Oracle acquired Siebel Systems for $6.1 billion in 2006,[3] SAP expanded TN's service offering to Siebel products even though it knew doing so entailed further illicit use because "at that time, [TN] didn't have any people at all who had any experience with Siebel software." ER269.

In November 2006, an Oracle employee noticed suspicious downloads and Oracle's prompt investigation quickly identified unauthorized downloads on a massive scale. ER169-72. Oracle filed this action in March 2007, but SAP stopped TN's infringing conduct only a year later and only after SAP could not find a buyer for TN. ER258, ER514-18, ER754. TN closed in October 2008. ER175.

D. The Pre-Trial Proceedings

1. The Summary Judgment Rulings

SAP filed two motions for partial summary judgment seeking to limit the damages available to Oracle. *First*, SAP sought a ruling that Oracle was not entitled to pursue hypothetical license damages on the copyright claim on the ground that "the undisputed evidence shows that, but for infringement, the parties never would have entered into a license for the copyrighted material at issue."

[3] Oracle's Siebel acquisition model projected that it would receive $500 million in annual maintenance revenue from 4,000 acquired Siebel customers. ER1132 (D.E.1058-36), ER315-16, ER449-50.

ER1293. The district court denied the motion, ruling that Oracle was "not required to prove that it would have successfully negotiated a license with SAP" and that Oracle was not "precluded from seeking license damages simply because it has never before licensed what SAP infringed." ER1296. The court explained that the pertinent question for calculating hypothetical license damages "is not what Oracle would have charged for a license, 'but what is the fair market value.'" ER1297 (quoting *Davis v. The Gap*, 246 F.3d 152, 166 (2d Cir. 2001)).

Second, SAP sought partial summary judgment on certain claims and damages theories, arguing, among other things, that Oracle was not entitled to recover development costs that SAP saved as a result of the infringing conduct. D.E.813 (refiled D.E.640). The district court granted summary judgment to SAP on this issue, analyzing "whether *plaintiffs* are entitled to recoup all their research and development costs as actual damages for defendants' infringement" (ER93) (emphasis added), rather than considering whether *SAP's* saved research and development costs were relevant to determining the fair market value of a hypothetical license.[4]

[4] In a footnote, the district court also stated that Oracle's calculations of saved development costs were speculative because there was no evidence of what SAP would have spent (ER94 n.5), disregarding that Oracle in fact sought to present just such evidence (ER1323, ER1333).

2. The Denial Of Oracle's *Daubert* Motion

The district court also denied Oracle's motion to exclude SAP's damages expert Stephen Clarke. Oracle contended in its motion and again at trial that (1) Clarke was not qualified to opine on why customers left Oracle since his background was in accounting, not consumer behavior; (2) Clarke likewise was not qualified to opine on whether viable alternatives existed in the market absent TN; and (3) Clarke's methodology for determining viable alternatives was unreliable since it was based solely on Internet research. D.E.781; ER58-63. The district court rejected these arguments, concluding that they went only to the weight of the testimony. ER69; *see* ER58, ER63-64, ER1264.

E. The Damages Trial Following SAP's Stipulation To Liability

Immediately prior to trial, TN "stipulate[d] to all liability on all claims" and SAP AG and SAP America "stipulate[d] to vicarious liability on the copyright claims against TN in their entirety." ER1239. Specifically, TN admitted that it "copied millions of updates and support materials for [J.D. Edwards], PeopleSoft, and Siebel by downloading them from Oracle's websites [onto] [TN's] computers" and "further copied certain portions of those materials" internally. ER506. SAP AG and SAP America also stipulated that they are liable for contributory infringement (ER1237), admitting that "they knew or had reason to know of the infringing activity of [TN]; and … they intentionally materially contributed to the infringing activity" (ER507). SAP, however, retained its defenses to damages. ER1239-40.[5]

At trial, Oracle's damages presentation focused on the fair market value of a hypothetical license for TN's infringing use that Oracle and SAP might have negotiated in January 2005 and, with respect to Siebel, in September 2006. Oracle's damages expert, Paul Meyer, provided extensive testimony regarding the substantial contemporaneous evidence admitted at trial, including financial modeling and top-level business strategy on both sides, that would have driven such negotiations. ER324-78, ER385-452, ER456-63. Meyer applied established valuation methodology to that evidence, opining that, at a hypothetical negotiation, the parties would have agreed that the fair market value of SAP's use of Oracle's copyrighted software was at least $1.656 billion: $1.5 billion for PeopleSoft, $100 million for Siebel, and $56 million for the Oracle Database. ER430-32, ER451-52, ER460-62. Although SAP's expert Clarke offered lower figures, he agreed that, given TN's sweeping use of Oracle's copyrighted materials, the hypothetical license would have had to allow "virtually unlimited copies of Oracle's software whenever [SAP and TN] needed." ER602-03, ER1187.

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[5] In an effort to streamline the trial, the parties agreed that Oracle would not seek monetary relief on the non-copyright claims. ER1247.

Oracle's expert Meyer also provided measures of Oracle's lost profits and SAP's infringer's profits, reasoning that, through 2015, defections would cause Oracle to suffer $120.7 million in lost profits and give SAP $288 million in illegitimate infringer's profits. ER436-37, ER468-82, ER488-89. These numbers rested on the conclusion that SAP's infringing use of Oracle's copyrighted materials had helped to cause 253 out of 358 customers to leave Oracle for SAP and 66 out of 86 customers who purchased software in addition to support from SAP to do so. ER293-94, ER472-73, ER478-81. Meyer used the 2015 date to reflect the fact that customers who signed with a competitor were unlikely to return: "[W]hen a customer leaves, it doesn't come back, you break the service, you lose the relationship." ER476. Meyer also calculated, in the alternative, that if the impact of the infringement ceased when SAP closed TN in 2008, Oracle had suffered $36 million in lost profits while SAP obtained $236 million in infringer's profits. ER436, ER468. Both lost profits figures would have been much higher had the district court not ruled pre-trial that Oracle's measure of lost profits was limited to software support services diverted from Oracle to TN. *See* ER1335-36; D.E.532.[6]

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[6] The ruling precluded Oracle from offering evidence of substantial lost up-sell transactions (*i.e.*, upgrades) and cross-sell opportunities (*i.e.*, sales of additional services to an existing customer) attributable to SAP's infringement; lost profits related to customers that did not become customers of TN (*e.g.*, discounts given in response to TN, and the abandonment of contractually scheduled price

Instructed to determine which measure of damages would best compensate Oracle—Oracle's lost profits or a hypothetical license—the jury chose the latter and assessed the value of such a license at $1.3 billion. ER161. The jury did not consider whether to additionally award non-duplicative infringer's profits, as the district court declined (ER161) over Oracle's objection (ER631-34) to instruct the jury that Oracle could recover both.

F. The District Court's Post-Trial Rulings

1. The JMOL And New Trial Order

Following the jury's verdict, SAP renewed its JMOL motion on hypothetical license damages and also moved for new trial. The district court granted both motions, conditioning the latter on Oracle's rejection of a remittitur to $272 million.

The JMOL decision rested on two grounds. *First*, while acknowledging that this Court "has never explicitly held that hypothetical [license] damages are not available absent actual proof that the plaintiff would have licensed the infringed work to the defendant or a third party for the specific use at issue" (ER33), the district court ruled that, "to establish its entitlement to recover hypothetical license damages, Oracle was required to show that, but for infringement, the parties would have agreed to license the use of the copyrighted works at issue." ER31; *contra*

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increases); and expenses incurred in order to respond to TN (*e.g.*, the early adoption of Oracle's Lifetime Support and Applications Unlimited programs).

ER1296 (ruling at summary judgment that no such proof was required). The court concluded that Oracle had not satisfied that burden because it "offered no evidence of the type on which plaintiffs ordinarily rely to prove that they would have entered into such a license, such as past licensing history or a plaintiff's previous licensing practices." ER31-32.

Second, the district court ruled that "the evidence Oracle presented was insufficient to establish an objective non-speculative license price." ER32; *contra* ER1296 (ruling at summary judgment that no such proof was required). The court stated that the hypothetical license price must be "established through objective evidence of benchmark transactions, such as licenses previously negotiated for comparable use of the infringed work, and benchmark licenses for comparable uses of comparable works." ER32. The court concluded that, because "Oracle failed to present evidence of benchmark licenses," it "cannot recover a lost license fee award." ER32; *see also* ER35 (similar).

The district court also granted SAP a new trial, limited to lost profits and infringer's profits, on the ground that the jury's verdict was "contrary to the weight of the evidence." ER38. This ruling rested on the JMOL decision and the court's view that Oracle had presented insufficient evidence of hypothetical license damages:

> Rather than providing evidence of SAP's actual use of the copyrighted works, and [an] objectively verifiable number of customers lost as a

> result, Oracle presented evidence of the purported value of the intellectual property as a whole, elicited self-serving testimony from its executives regarding the price they claim they would have demanded in an admittedly fictional negotiation, and proffered the speculative opinion of its damages experts, which was based on little more than guesses about the parties' expectations.

ER38.

The district court conditioned the new trial on Oracle's rejection of a remittitur to $272 million. ER38. This amount reflected the $36 million in lost profits and $236 million in infringer's profits calculated by Oracle's damages expert Meyer through 2008, disregarding his calculation of $120.7 million in lost profits through 2015 and finding his calculation of $288 million in infringer's profits "unduly speculative." ER40.

Oracle moved to certify the JMOL/New Trial Order for interlocutory appeal and for a stay pending disposition of that motion. D.E. 1085. The district court denied the stay, *sua sponte* "clarify[ing]" that its previous order "did not hold as a matter of law" that hypothetical license damages "are available only if the copyright owner provides evidence of actual licenses it entered into or would have entered into for the infringed works, and/or actual 'benchmark' licenses entered into by any party for comparable use of the infringed or comparable works," but instead had ruled:

> that evidence provided by Oracle was not sufficient to support an award of hypothetical license damages because it failed to provide objective evidence of what a willing buyer would have paid, and

> because it failed to provide evidence sufficient to allow the jury to assess fair market value without undue speculation.

ER20.

2. The Rulings Following Oracle's Rejection Of The Remittitur

In February 2012, Oracle rejected the remittitur, seeking instead "to vindicate the verdict of the jury and Oracle's intellectual property rights as a copyright owner." ER160. Oracle moved to clarify that, in the second trial, it could present evidence of hypothetical license damages. D.E.1120 The district court denied the motion, restricting Oracle to proof of lost profits and infringer's profits. ER18. Oracle thereafter submitted an offer of proof as to the hypothetical license evidence that it would have presented in a second trial. ER108-58.

In preparation for the second trial, Oracle also filed several motions *in limine* regarding lost profits and infringer's profits. As relevant here, Oracle sought to preclude SAP from introducing evidence regarding deductions of overhead expenses from SAP's infringer's profits, arguing that such deductions were not available to willful infringers. D.E.1145, at 15-16. The district court denied the motion. ER13. Oracle also renewed its motion to exclude testimony by SAP expert Clarke. D.E.1145, at 2-11. The district court denied that motion as well, relying on its prior rulings. ER12.

G. The Stipulated Judgment

As the second trial approached, the parties engaged in extensive court-sponsored mediation that led to an agreement in which they stipulated to the entry of a $306 million judgment in Oracle's favor. ER4. In the stipulation, Oracle contended that, but for the limitations established by the district court's rulings, its recovery in a new trial would be greater than $306 million. ER5. The parties also expressly reserved their rights to appeal. ER6. After judgment was entered (ER1), Oracle appealed and SAP cross-appealed.

SUMMARY OF ARGUMENT

This Court should vacate the judgment and remand the case to the district court with directions to enter judgment in favor of Oracle in the amount $1.3 billion. The jury's award of hypothetical license damages, which are a long-accepted measure of actual damages under the Copyright Act, was supported by overwhelming, contemporaneous evidence, and the district court overreached in substituting its view of the evidence for that of the jury.

1. The district court's grant of judgment as a matter of law under Rule 50(b) on hypothetical license damages rests on at least three errors. *First*, contrary to the district court's ruling, the parties' actual willingness to license is not a prerequisite to an award of hypothetical license damages, which *assume* the

existence of both a willing buyer and a willing seller, and provide a tool for measuring the fair market value of the infringing use.

Nor, *second*, is evidence of "benchmark" licensing practices necessary to support an award of hypothetical license damages. Such a requirement would both contradict a copyright holder's right not to license his works and conflict with valuation of royalty rates in the analogous patent context, which does not require reliance on "benchmark" transactions.

Third, the district court erred in setting aside the jury's verdict on the ground that no reasonable juror could have valued a hypothetical license for SAP's use of Oracle's copyrighted materials at $1.3 billion. Oracle in fact provided a wealth of evidence from which a rational jury could have found that a hypothetical negotiation would have resulted in that price. That evidence included the massive scope of SAP's infringement (and thus of the use for which SAP would have required a license); SAP's own contemporaneous short-term and long-term expected benefits from its infringement; the $11 billion sum Oracle paid for PeopleSoft; and the parties' *own* contemporaneous financial projections showing a total expected revenue swing of nearly $2.3 billion from the use of PeopleSoft materials alone. Viewing this evidence in the light most favorable to Oracle and drawing all reasonable inferences in favor of the jury's verdict, it is clear that the verdict falls within the range of reasonable market value.

2. The district court erred for similar reasons in granting a new trial under Rule 59 limited to lost profits and infringer's profits, as the jury's verdict was supported by overwhelming contemporaneous evidence of the value both parties would have placed on SAP's intended use of Oracle's copyrighted materials. But even if a new damages trial were warranted, Oracle should be permitted in that new trial to seek hypothetical license damages, not only lost profits and infringer's profits. Such an unconditional new trial is appropriate where proof of damages was found speculative, especially where the district court changes the rules after the close of proof (here, by requiring proof of actual willingness to license and benchmark licenses). At the very least, the remittitur should be increased from $272 million to $408.7 million, which reflects the maximum amount of lost profits and infringer's profits supported by the evidence at trial.

3. If the Court orders a new trial and/or increases the remittitur, it should correct the district court's evidentiary errors to avoid tainting any further proceedings. *First*, the court wrongly declined to instruct the jury that Oracle could recover *both* hypothetical license damages and infringer's profits not taken into account in computing those damages. The Copyright Act explicitly permits recovery of both types of awards, and this Court has recognized the same.

Second, the district court erred by preventing Oracle from recovering SAP's saved research and development costs. Such costs are part of the "value of use" of Oracle's copyrighted materials, and are permissible evidence of hypothetical license damages.

Third, contrary to the district court's ruling before the second trial, SAP should not be permitted to offer evidence of its overhead expenses in an effort to diminish its profits from the infringement. This Court has held, at least with respect to willful infringers (like SAP), that such expenses do not constitute "deductible expenses" under the Copyright Act.

Finally, the district court abused its discretion in permitting SAP's damages expert, Stephen Clarke, to testify regarding consumer behavior and his "market study." Not only was Clarke unqualified to opine on such topics (his training and experience is limited to accounting), but his opinions were unreliable since his methodologies were either *ad hoc* (consumer behavior) or based solely on unverified Internet research ("market studies").

STANDARD OF REVIEW

This Court "review[s] the district court's order granting a motion for judgment as a matter of law under Fed. R. Civ. P. 50 de novo," applying the same standard as the district court and giving the jury's verdict the same deference as was owed by the district court. *Mangum v. Action Collection Serv.*, 575 F.3d 935, 938-39 (9th Cir. 2009); *see also Polar Bear Prods. v. Timex Corp.*, 384 F.3d 700, 708 (9th Cir. 2004) (same standard as to copyright damages). This Court also reviews *de novo* a district court's other legal rulings, including a grant of summary judgment and jury instructions. *See, e.g.*, *Terenkian v. Republic of Iraq*, 694 F.3d 1122, 1132 (9th Cir. 2012); *Bias v. Moynihan*, 508 F.3d 1212, 1218 (9th Cir. 2007); *Dang v. Cross*, 422 F.3d 800, 804 (9th Cir. 2005).

This Court reviews for abuse of discretion an order granting a new trial, *see, e.g.*, *Tortu v. Las Vegas Metro. Police Dep't*, 556 F.3d 1075, 1083 (9th Cir. 2009), as well as evidentiary rulings, *see, e.g.*, *United States v. Boulware*, 384 F.3d 794, 800-01 (9th Cir. 2004). "Under this standard, reversal is appropriate only where the trial court made an error of law or a clearly erroneous finding of fact, or where the reviewing court has a definite and firm conviction that the district court committed a clear error of judgment." *Id.* at 801 (citation and internal quotation omitted). An erroneous exclusion of evidence is reversible if the error was not harmless. *Id.* at 808.

ARGUMENT

I. THIS COURT SHOULD REINSTATE THE JURY VERDICT OF $1.3 BILLION BECAUSE THE DISTRICT COURT ERRED IN ENTERING POST-TRIAL JUDGMENT THAT ORACLE'S EVIDENCE OF ITS HYPOTHETICAL LICENSE DAMAGES WAS INSUFFICIENT AS A MATTER OF LAW

Entry of judgment as a matter of law under Rule 50(b) is an extraordinary remedy that "is properly granted only if no reasonable juror could find in the non-moving party's favor." *Mangum*, 575 F.3d at 938-39 (quotation omitted). On a JMOL motion, a district court may not "weigh the evidence," and "must view the evidence in the light most favorable to the nonmoving party ... and draw all reasonable inferences in that party's favor." *EEOC v. Go Daddy Software, Inc.*, 581 F.3d 951, 961 (9th Cir. 2009) (citations and quotations omitted). The district court's grant of JMOL on hypothetical license damages was error under these standards.

To begin with, this Court has long held that hypothetical license damages are a proper measure under the Copyright Act of "the actual damages suffered by [a copyright owner] as a result of the infringement," 17 U.S.C. § 504(b). *See, e.g.*, *Polar Bear*, 384 F.3d at 709 ("[I]t is not improper for a jury to consider either a hypothetical lost license fee or the value of the infringing use to the infringer to determine actual damages, provided the amount is not based on 'undue speculation.'") (quoting *McRoberts Software, Inc. v. Media 100, Inc.*, 329 F.3d

557, 566 (7th Cir. 2003)); *Jarvis v. K2 Inc.*, 486 F.3d 526, 533-35 (9th Cir. 2007) (copyright holder entitled to recover fair market value of license that defendant did not obtain prior to infringing use); *Wall Data Inc. v. L.A. Cnty. Sheriff's Dep't*, 447 F.3d 769, 786 (9th Cir. 2006) (approving instruction defining "actual damages" as "the amount a willing buyer would have been reasonably required to pay a willing seller at the time of the infringement for the actual use made by the [defendant] of the plaintiff's work"). The purpose of hypothetical license damages is to give the jury a tool for measuring the value of the right that has been infringed. *See Wall Data*, 447 F.3d at 786; *Davis*, 246 F.3d at 172; *see also* 2 GOLDSTEIN ON COPYRIGHT, § 14.1.1.1(b) (noting that such damages represent a value between the minimum that a reasonable seller would have demanded and the maximum that a reasonable buyer would have been willing to pay).

Moreover, the evidence clearly supported a rational jury's conclusions that Oracle's actual damages were best measured by the value of a hypothetical license and that such a license was worth $1.3 billion.

A. The District Court Erred In Requiring Evidence Of Actual Willingness To License Or "Benchmark" Licenses To Support Hypothetical License Damages

Contrary to the district court's post-trial JMOL/New Trial Order (ER22-41) (later partially disclaimed by the court's Stay Order *sua sponte* clarifying the original order) (ER19-21)), hypothetical license damages do *not* require a plaintiff to establish that it actually would have licensed the defendant or to prove the existence of any comparable third-party "benchmark" licenses.

1. An Award Of Hypothetical License Damages Does Not Require Proof Of Actual Willingness To License

Because hypothetical license damages measure injury to the value of the plaintiff's intellectual property by assuming the existence of both a willing buyer and a willing seller, *e.g.*, *Davis*, 246 F.3d at 171-72; *Wall Data*, 447 F.3d at 786, such a measure does *not* require proof of actual willingness to license. To the contrary, "whether the infringer might in fact have negotiated with the owner or purchased at the owner's price is *irrelevant* to the purpose of the test." *Davis*, 246 F.3d at 171-72 (emphasis added); *see also McRoberts*, 329 F.3d at 567 (defendant's argument that it would not have chosen to license the copyrighted materials "misses the point").

The district court thus erred in describing a hypothetical license as a measure of "license fees … *actually* lost as a result of the infringement" (ER33 (emphasis added)) and in ruling that Oracle could not recover hypothetical license damages absent evidence that "the parties would have agreed to [a] license" (ER22).[7] A copyright holder is entitled *not* to license its work. *See, e.g.*, *Stewart v. Abend*, 495 U.S. 207, 228-29 (1990) ("[N]othing in the copyright statutes would prevent an

[7] The Stay Order's "clarification" of the JMOL/New Trial Order did *not* modify this aspect of the court's ruling. *See* ER31.

author from hoarding all of his works during the term of the copyright."); *Laws v. Sony Music Entm't, Inc.*, 448 F.3d 1134, 1137 (9th Cir. 2006) (similar).[8] It would turn copyright protection on its head to restrict damages to lost profits where the copyright owner refuses to license its work—such a plaintiff would have no lost profits to claim, and, under the district court's reasoning, no basis for seeking a hypothetical license, leaving the copyright owner with no actual damages remedy at all.

The district court likewise erred in asserting that this Court has "expressly rejected the argument that damage in the form of lost licensing opportunities may be 'presumed' as a 'natural and probable result' of infringement." ER33 (citing *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 772 F.2d 505, 513-14 (9th Cir. 1985)). The plaintiff in *Frank Music* (which considered the Copyright Act of 1909, rather than the current statute) did not seek hypothetical license damages, but instead sought lost profits on the theory that the defendant's misappropriation of six minutes of music effectively precluded the plaintiff from presenting its own,

[8] Patent law is analogous to copyright law on this point, considering as one relevant factor in valuing damages "[t]he licensor's established policy and marketing program to maintain his patent monopoly by *not* licensing others to use the invention." *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1120 (S.D.N.Y. 1970) (emphasis added), *modified and aff'd*, 446 F.2d 295 (2d Cir. 1971); *see Medtronic Sofamor Danek USA, Inc. v. Globus Med., Inc.*, 637 F. Supp. 2d 290, 310 (E.D. Pa. 2009) (reluctance to license "weighs in favor of higher royalty rate").

much longer musical theater production. *Id.* at 513. The plaintiff elicited evidence regarding the income it would have received from its production, but this Court found no clear error in the district court's refusal, following bench trial, to allow recovery of such damages, since the plaintiff had not presented sufficient evidence of causation; namely, that the infringement had "significantly impair[ed] the prospects for presenting a full production." *Id.* In a footnote, this Court declined to hold that *lost profits* should be presumed from infringement, *id.* at 514 n.8, but it did *not* address the standard for recovering hypothetical license damages, much less require actual lost license fees as a prerequisite to recovering such damages. No such prerequisite exists.

2. An Award Of Hypothetical License Damages Does Not Require Proof Of "Benchmark" Licenses

There is likewise no requirement that a copyright holder provide evidence of "benchmark" licenses in order to establish hypothetical license damages. *See* 2 GOLDSTEIN, *supra*, § 14.1.1.1(b) (explaining that market-value damages are appropriate even "[w]hen a preexisting license with the infringer or a third party is not available as a benchmark for determining actual damages"). Such a requirement would create unnecessary tension with the right of a copyright holder not to license his works, *see, e.g.*, *Stewart*, 495 U.S. at 228-29; *Laws*, 448 F.3d at 1137, by narrowing the available remedies for infringement in circumstances where copyrights are of such value that licenses are rarely or never granted.

The district court based its erroneous imposition of such an obligation on its observations that a "hypothetical license price requires an 'objective, not a subjective' analysis" and that "'excessively speculative' claims must be rejected." ER32 (citing, *e.g.*, *Jarvis*, 486 F.3d at 534; *Mackie v. Rieser*, 296 F.3d 909, 917 (9th Cir. 2002)). But neither of these general rules regarding damages valuation implies a rigid requirement of any particular type of proof. In analogous patent contexts, courts assess a royalty rate between direct competitors without the aid of any reliable comparator "benchmark" transactions, *see, e.g.*, *Georgia-Pacific*, 318 F. Supp. at 1124, relying upon the plaintiff's expected losses and the defendant's expected profits at the time of the hypothesized agreement as bases for estimating the royalty, *id.* at 1129-32.[9]

To the contrary, limitation to "objective" inquiries is meant simply to head off consideration of the value of subjective "hurt feelings" occurring as a result of an infringement, *Mackie*, 296 F.3d at 916-17, or exclusive reliance on the plaintiff's own testimony about what he "thought he should have earned or wished he had charged," *Jarvis*, 486 F.3d at 534; *see also Davis*, 246 F.3d at 166 ("The question is not what the owner would have charged, but rather what is the fair market value."); 2 GOLDSTEIN, *supra*, § 14.1.1.1(b) (willing-buyer/willing-seller

[9] SAP agreed at trial that *Georgia-Pacific* provides an appropriate valuation framework (ER639), and its expert used that framework to value the hypothetical license here (ER548-51).

measure "is essentially an objective rather than a subjective measure of damages"). And the requirement that a verdict not be "excessively speculative" is just a restatement of the general requirement that a jury award be "sufficiently supported by [substantial] evidence." *Polar Bear*, 384 F.3d at 708.

None of these concerns mandates proof of actual comparable licenses, and many other forms of objective evidence can establish a hypothetical license valuation that is within the "range of the reasonable market value," *id.* at 709, as the evidence overwhelmingly did here.

B. The District Court Erred In Ruling That Oracle's Hypothetical License Damages Evidence Was Insufficient As A Matter Of Law

The court also erred under Rule 50(b) in overturning the jury's verdict insofar as it found the evidence too speculative to support the jury's damages figure. A district court may not set aside a copyright damages verdict that is within "the range of the reasonable market value." *Polar Bear*, 384 F.3d at 709; *see also Jarvis*, 486 F.3d at 534-35 (affirming award of damages that "was near the center of the range supported by the evidence); *Wall Data*, 447 F.3d at 786-87 (upholding award that fell "within an acceptable range … sustainable by the proof") (quotation omitted); *McRoberts*, 329 F.3d at 567 (copyright holder "was not required to establish the actual value [of rights infringed]; it was required only to provide sufficient evidence of the value so that the jury did not have to resort to undue speculation in estimating actual damages"). Viewing the evidence in the light most favorable to Oracle and drawing all reasonable inferences in favor of the jury's verdict, it was error to conclude that no reasonable juror could have reached the $1.3 billion award returned below. *E.g.*, *Go Daddy*, 581 F.3d at 961.

1. Overwhelming Evidence Supports The Jury's Valuation Of A Hypothetical License At $1.3 Billion

The jury's award of $1.3 billion in hypothetical license damages rested upon numerous objective sources at trial. *First*, a hypothetical license between Oracle and SAP would have taken into account the value of TN's massive infringement. *See Thoroughbred Software Int'l, Inc. v. Dice Corp.*, 488 F.3d 352, 359 (6th Cir. 2007) (defendant "is liable for the unpaid license fees for all the unauthorized copies it made, regardless of whether these copies were accessible to or used by [its] customers"). It is undisputed that any hypothetical license here would have authorized SAP to obtain access to ***millions*** of copyrighted files. TN had twenty servers containing improperly downloaded or copied Oracle software, as well as thousands of copies of installations of Oracle's copyrighted works—a total of over fifteen terabytes of copies of Oracle's software (ER492-96). Oracle's expert estimated that the illegal downloads alone, which totaled over five terabytes of infringing data, would encircle the globe nine times if printed out on double-sided paper laid end-to-end. ER495. SAP's damages expert agreed that a license for such sweeping use of Oracle's copyrighted materials would have had to allow "virtually unlimited copies of Oracle's software whenever [SAP and TN] needed." ER602-03, ER1187.

Second, any hypothetical license between Oracle and SAP also would have taken into account SAP's *expected* benefits from its use of those stolen materials. *See Wall Data*, 447 F.3d at 786; *Davis*, 246 F.3d at 172; *Thoroughbred Software*, 488 F.3d at 359. As is the rule in the parallel patent-law context, and as was agreed by both parties' experts (ER439, ER580-81), "the negotiation must be hypothesized as of the time infringement began," so that the license fee is based on "sales expectations at the time when infringement begins, … as opposed to an after-the-fact counting of actual sales." *Interactive Pictures Corp. v. Infinite Pictures, Inc.*, 274 F.3d 1371, 1384-85 (Fed. Cir. 2001); *see also McRoberts*, 329 F.3d at 566 (endorsing this rule in copyright case). Here, the jury was presented with evidence of both SAP's short-term expected benefits from support revenues and its long-term expected benefits from reducing Oracle's scale and market share. *See supra*, at 13-15. By using TN to gain access to PeopleSoft's customer base, SAP aimed "to attack Oracle" (ER725) by "shrink[ing] Oracle's share of the application market and increas[ing] SAP's share" while "contain[ing] Oracle's potential growth in the next generation application market." ER251-52, ER903. SAP aimed to "disrupt[] Oracle's ability to pay for the [PeopleSoft] acquisition out of cash flow" and to divert "cash flow that could otherwise be used for research and development." ER252, ER675, ER705. A rational jury thus was amply entitled to conclude that any hypothetical license would include those substantial expected medium- and long-term benefits to SAP, far exceeding the amount of any existing sales. ER596-98.

Third, a rational jury was entitled to consider that Oracle had just paid $11 billion, in an arm's-length transaction, to acquire PeopleSoft and the accompanying intellectual property that SAP and TN admittedly stole. ER190-91, ER284-85. PeopleSoft had spent between $500-$600 million annually to develop its software (ER311-12), and by acquiring that software and the accompanying customer base (along with Siebel's), Oracle expected to earn an annual income stream of $1.7 billion in the form of the very software maintenance payments SAP planned to divert away with the TN offering. ER622-23, ER319. Although hypothetical license damages may not reflect one party's *subjective* valuation of the rights at issue, *see Jarvis*, 486 F.3d at 534, the jury could reasonably have considered the contemporaneous purchase price resulting from an arm's-length negotiation in the course of assessing the *objective* "amount [that] would have been acceptable by a prudent [copyright holder] who was willing to grant a license," *Georgia-Pacific*, 318 F. Supp. at 1120; *see also id.* (relevant factors include, *inter alia*, the licensor's "established polic[ies]," the parties' actual "commercial relationship," and the nature of the "business proposition" embodied in the hypothetical license); *Polar Bear*, 384 F.3d at 709 (permitting consideration of "background data" gleaned from expert's consultations with plaintiff's principals).

Fourth, the parties' own contemporaneous financial projections—including SAP's projections—amply confirm the reasonableness of the jury's award of $1.3 billion. Before acquiring TN, SAP projected that TN's aggressive discounting (enabled by its theft of Oracle's copyrighted materials), would allow it to persuade at least 3,000 PeopleSoft customers—one-third of the total customer base—to switch to TN for maintenance services (ER799), and that SAP would be able to convert at least 1,375 of those customers into full SAP software purchasers, (ER799). *See* ER245-46; ER860; ER903 ("Our goal is to convert the majority of the" customer base.); ER984 (SAP projecting that by 2009 it would convert 2,000 to 4,000 PeopleSoft customers to SAP); ER1173. SAP developed these projections with "input and extensive guidance" from its Executive Board (ER1163, ER799), in an "attempt[] to make reasonable assumptions" (ER678, ER699-700).

SAP's own pre-infringement projections also showed that it earned an average of $68,000 per customer per year, plus $358,000 per new customer conversion and $86,000 per cross-sold customer (about 70% of which was profit). ER412. Taking these projections together, Oracle expert Meyer calculated[10] that,

[10] Meyer used reasonable discount rates to account for the assumption that license fees would have been paid in lump sums in 2005. ER412-13.

SAP could have expected to earn profits of ***$880 million*** by 2008 by achieving its minimum target of converting just 1,375 of TN's maintenance customers to its own software. ER410, ER415-16, ER428.[11] Indeed, prior to completing the acquisition of TN, SAP's Executive Board approved a business model that valued the benefits of acquiring TN as ***at least $897 million*** over the first three years alone—with substantial benefits continuing well into the future. ER677-78, ER683, ER699-700, ER733-36, ER799, ER1173.

Moreover, contemporaneous financial data shows that Oracle would have expected an even larger negative impact on its own business from SAP's use of the PeopleSoft software. When Oracle made its decision to acquire PeopleSoft and its client base, "the key justification to spend $11.1 billion" was its expert-approved estimate that each PeopleSoft customer would return an average of $130,000 annually, 80% of which would be profit. ER301, ER297-98, ER319-20, ER814-17, ER426-28. Taking this estimate together with SAP's contemporaneous customer-conversion projections, Meyer calculated that Oracle would have

[11] Under more aggressive assumptions, Meyer determined that SAP could have reasonably expected to earn more than ***$1.22 billion*** if it had captured 2,000 Oracle customers (ER415-16), and that the total expected value of the converted customers (including from cross-sell and up-sell transactions) would have been some ***$2.69 billion*** (ER415-16). Other metrics would have given even higher estimates of customer value. For example, the evidence showed that SAP earned an average of $1.9 million for each of the four customers that it admits converted to SAP as a result of TN. ER574-76. At that rate, SAP's projected customer conversions would have earned it between ***$2.6 billion and $5.7 billion***.

expected to lose at least ***$1.386 billion*** in support revenue from SAP's use of the PeopleSoft copyrighted materials. ER429.[12]

Finally, in addition to a license for the PeopleSoft copyrighted materials, the parties also would have negotiated licenses for TN's separate use of Oracle's Siebel and database software. Meyer determined that SAP would have expected to gain between $97 million and $247 million from its use of the Siebel software, and that Oracle would simultaneously have expected to suffer some $164 million in negative financial impacts. ER442-43, ER451. He thus determined that the Siebel license would have been worth at least ***$100 million***. ER452. Meyer also explained that the licensing fees for the 172 customers found to be using unauthorized copies of Oracle's database software would have cost SAP some ***$55.6 million***. ER462.

Given this data, a rational jury easily could have found the total value of the required licenses to be ***$1.3 billion***. A reasonable jury, for instance, could have determined that the parties would have expected a total minimum revenue swing of nearly $2.3 billion from the PeopleSoft materials alone—almost $900 million in new profits to SAP in only the first three years, and nearly $1.4 billion in direct financial impacts to Oracle. A reasonable jury likewise could have determined that

[12] Under more aggressive assumptions, SAP could reasonably have expected to earn ***$1.82 billion*** or as much as ***$2.46 billion***. ER429-31.

the parties would have met near the middle of that approximation, and agreed on a price of about ***$1.15 billion*** for a license on the PeopleSoft materials.[13] In addition, a reasonable jury, following Meyer, could have concluded that SAP would have expected to pay some ***$100 million*** for the Siebel copyrighted materials, and more than ***$55 million*** for the database software. Together, these approximations of the license's value comport with the jury's finding that SAP would have agreed to make a ***$1.3 billion*** investment for all three licenses.

2. The Evidence Supporting The Jury's $1.3 Billion Award Was Objective And Non-Speculative

The district court was incorrect to find (ER32) the overwhelming evidence of hypothetical license damage unduly subjective or speculative. SAP's pre-infringement business projections, Oracle's arm's-length transaction modeling, and the parties' contemporaneous profit and revenue projections are all forms of evidence well within the bounds of prior decisions in the analogous patent context, where the Federal Circuit has repeatedly applied and approved similar analyses based on evidence comparable to the specific, contemporaneous data Oracle introduced here. *E.g.*, *Interactive Pictures*, 274 F.3d at 1385 (infringer's "sales expectations at the time when infringement begins" are proper "basis for a royalty base"); *Snellman v. Ricoh Co.*, 862 F.2d 283, 289 (Fed. Cir. 1988) (affirming

[13] Relying on the middle-of-the-road expected profit and loss scenarios, Meyer assessed the value of the hypothetical license fee for the PeopleSoft materials at a minimum of ***$1.5 billion***. ER431.

jury's consideration of internal "document projecting [defendant's] anticipated sale" of infringing products in support of reasonable-royalty damages); *TWM Mfg. Co., Inc. v. Dura Corp.*, 789 F.2d 895, 900 (Fed. Cir. 1986) (affirming reasonable-royalty damages based on "pre-infringement internal memorandum" assessing defendant's anticipated profits). There is no legal basis for declining to apply this methodology in the parallel copyright context, and the district court offered none.

Nor is there reason to conclude that the evidence failed to establish "the range of the reasonable market value" or that the jury's verdict did not fall within that range. *Polar Bear*, 384 F.3d at 709; *see also supra*, Part I.B.1. The jury heard substantial expert testimony establishing a range of figures representing reasonable valuations of the infringed intellectual property before arriving at a value at the low end of that range. *See McRoberts*, 329 F.3d at 567 (relying on, *inter alia*, evidence of value of copyrighted work to defendant's business to establish range of its market value); *cf. Jarvis*, 486 F.3d at 534 (upholding district court's calculation of damages by halving average of six estimates of fair market value because award was "well within the range of the other five estimates").[14]

[14] The specific, contemporaneous evidence of the value of the hypothetical license here, which was largely derived from SAP's own contemporaneous data, compares favorably to the patent cases on which SAP relied in support of its JMOL motion. For example, *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292, 1317-18 (Fed. Cir. 2011), rejected use of an abstract "rule of thumb" (insufficiently tethered to the facts of the case) pursuant to which it was *assumed* that the licensee would pay 25% of its expected profits as a royalty. *Lucent Techs., Inc. v. Gateway,*

In all, there was ample evidentiary basis for the jury verdict. Particularly viewing the evidence in the light most favorable to Oracle and resolving inferences in its favor, as the district court should have, the verdict was a reasonable, objective estimate of the value of SAP's infringement. The jury's $1.3 billion verdict should be reinstated.

II. THE DISTRICT COURT ABUSED ITS DISCRETION IN GRANTING SAP A NEW TRIAL LIMITED TO LOST PROFITS AND INFRINGER'S PROFITS AND CONDITIONED ON ORACLE'S REFUSAL TO ACCEPT REMITTITUR TO $272 MILLION

A. A New Trial Was Not Warranted Because The Overwhelming Weight Of The Evidence Supported The Jury's Verdict

Erring under Rule 59 as it had under Rule 50(b), the district court ruled that the jury's "$1.3 billion verdict [was] contrary to the weight of the evidence" so as to warrant a new trial ER38. According to the court, Oracle's proof was inadequate because it relied primarily on "evidence of the purported value of the intellectual property as a whole, … testimony from its executives regarding the price they claim they would have demanded in an admittedly fictional negotiation, and … the speculative opinion of its damages expert, which was based on little

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Inc., 580 F.3d 1301, 1327 (Fed. Cir. 2009), recognized that parties may rely on estimates of a product's expected usage in determining a lump-sum royalty, but concluded that the plaintiff in that case had identified no evidence of such estimates. And in *Wordtech Systems, Inc. v. Integrated Network Solutions, Inc.*, 609 F.3d 1308, 1318-22 (Fed. Cir. 2010), and *ResQNet.com, Inc. v. Lansa, Inc.*, 594 F.3d 860, 870-71 (Fed. Cir. 2010) (per curiam), plaintiffs relied primarily on purported benchmark licenses that they could not tie to their own cases.

more than guesses about the parties' expectations." *Id.* To the extent the court ruled that the jury's award of *hypothetical license damages* was against the weight of the evidence so as to warrant a new trial, its cursory order runs afoul of the rule that a court "may not grant a new trial simply because it would have arrived at a different verdict." *Silver Sage Partners, Ltd. v. City of Desert Hot Springs*, 251 F.3d 814, 819 (9th Cir. 2001); *see also S.E.C. v. Todd*, 642 F.3d 1207, 1225 (9th Cir. 2011) (new trial is warranted only where "the verdict is against the great weight of the evidence, or it is quite clear that the jury has reached a seriously erroneous result"). The order should be vacated.[15]

First, the "value of the intellectual property as a whole"—an apparent reference to Oracle's evidence of the prices it paid to purchase PeopleSoft and Siebel, and to develop its own intellectual property, *see* D.E.1044 at 7-8—was clearly relevant to the fair market value of a hypothetical license. Those *contemporaneous* purchase prices resulting from arm's-length negotiations provided *objective* background evidence concerning the "amount [that] would have been acceptable by a prudent [copyright holder] who was willing to grant a license." *Georgia-Pacific*, 318 F. Supp. at 1120; *see also supra*, Part I.B.1. More important, the same model underpinned both Oracle's decision to pay $11 billion

[15] To the extent the district court ruled that there was insufficient evidence of lost profits and infringers' profits to support a $1.3 billion verdict, Oracle does not contest that ruling.

for PeopleSoft and Oracle's expert's analysis of the financial impact that Oracle would have expected from the loss of exclusive access to the infringed copyrights. For example, Meyer valued the hypothetical license using Oracle's documented average support revenue per customer of $130,000, Oracle's 3.5% expected customer attrition rate, and Oracle's expected profit margin, all taken from the same valuation model. ER426-29. The fact that Oracle actually based major business decisions on those numbers shows that they are not speculative.

Second, the district court was likewise incorrect in ruling that Oracle improperly relied on its executives' testimony regarding the amount they would have demanded for the contemplated license. The ultimate price of the license was but one aspect of their testimony, which focused on objective factors demonstrating the importance and value of the copyrighted worked to Oracle's business. Moreover, testimony as to the amount Oracle executives would demand provided a window into what would have transpired at a hypothetical negotiation. *See Polar Bear*, 384 F.3d at 709; *supra*, Part I.B.1. The jury, moreover, did not impermissibly base its verdict on the amount Oracle "wished [it] had charged," *Jarvis*, 486 F.3d at 534, as evidenced by the fact that the verdict is a small fraction of Oracle's acquisition costs and the amounts its executives said they would have demanded. ER204-05, ER287-89.

Third, the district court repeated the same errors that it had committed in granting JMOL when it asserted that the financial evidence of the value of a hypothetical license was "speculative" and grounded in "little more than guesses about the parties' expectations." ER38. As explained in Part I.B, *supra*, the $1.3 billion verdict was supported by substantial, contemporaneous evidence of the value both parties would have placed on SAP's intended use of Oracle's copyrights—not just the value of the acquired companies or the intellectual property in the abstract. Both parties relied on that data in making extraordinarily important business decisions—Oracle in spending $11 billion to purchase PeopleSoft; SAP in undertaking a plainly illegal course of conduct and exposing itself to substantial liability. The parties would have relied on the same models in determining the price for a hypothetical license, and their expectations at the time of licensing are *the* legally salient data point, *see McRoberts*, 329 F.3d at 566; *Interactive Pictures*, 274 F.3d at 1384-85. Oracle's expert neither guessed about his data nor had any need to do so—he was instead able to rely on *SAP's* own contemporaneous projections and revenue figures, as well as *Oracle's* own contemporaneous valuation of its business, all of which were admitted into evidence at trial.[16]

[16] The jury properly rejected SAP's competing $40.6 million valuation of a hypothetical license, which was based on a "running royalty" model rather than an up-front lump sum. ER526, ER577. SAP's expert took into account only the

Contrary to the court's generalized contention that the verdict exceeds what the evidence will bear, the jury's verdict did not exceed the actual harm to Oracle and its intellectual property. The very premise of hypothetical license damages is that such an award measures the injury to the value of the subject works, *see, e.g.*, *Wall Data*, 447 F.3d at 786; *Polar Bear*, 384 F.3d at 708; *Davis*, 246 F.3d at 172, and the evidence here established that the value of a license (and thus of the misappropriated intellectual property) fell in a range encompassing the jury's verdict. *See supra*, Part I.B.1. The jury's well-supported verdict should stand.

B. Even If A New Trial On Damages Were Warranted, It Should Have Been Unconditional

The district court should have granted an unconditional new trial on damages at most, even if Oracle's hypothetical license damages evidence had been speculative. Under Rule 50(b), a district court may order a new trial instead of directing entry of judgment as a matter of law, *Cone v. W. Va. Pulp & Paper Co.*, 330 U.S. 212, 215 (1947), where proof of damages is speculative, *see, e.g.*, *McClaran v. Plastic Indus., Inc.*, 97 F.3d 347, 354, 356-57, 364 (9th Cir. 1996) (ordering new damages trial in lieu of JMOL); *Whitserve, LLC v. Computer*

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customers that SAP actually succeeded in poaching from Oracle, and the jury could reasonably have concluded that hypothetical negotiating parties would have based the license fee on the number and kind of copies to be made and the uses to which they would be put—rather than what SAP actually wound up achieving through its infringement. *See, e.g.*, *Wall Data*, 447 F.3d at 775 & n.3; *Polar Bear*, 384 F.3d at 709; *Davis*, 246 F.3d at 172; *Interactive Pictures*, 274 F.3d at 1385.

Packages, Inc., 694 F.3d 10, 33-34 (Fed. Cir. 2012) (same); *Hidden Oaks Ltd. v. City of Austin*, 138 F.3d 1036, 1051-52 (5th Cir. 1998) (same). The district court abused its discretion by not taking the same step.

This is especially so here because the district court changed the rules *after the close of proof*. Prior to the JMOL/New Trial Order, the district court had never held that hypothetical license damages require proof of actual willingness to license or benchmark licenses; to the contrary, the court had *rejected* both of these propositions in its prior rulings. ER642-43; ER652-54; ER1296-97. Judgment as a matter of law may be granted only "[i]f a party has been fully heard on an issue," FED. R. CIV. P. 50(a)(1), and a "major purpose" of a motion under this rule is "to call the claimed deficiency in the evidence to the attention of the court and *to opposing counsel* at a time when the opposing party is still in a position to correct the deficit." *Waters v. Young*, 100 F.3d 1437, 1441 (9th Cir. 1996) (quotation omitted). "In no event … should the court enter judgment against a party who has not been apprised of the materiality of the dispositive fact and been afforded an opportunity to present any available evidence bearing on that fact." FED. R. CIV. P. 50 adv. comm. n. (1991), *quoted in Waters*, 100 F.3d at 1441. Oracle was not "fully heard" because the district court gave it no notice of the evidentiary requirements it would ultimately impose. Accordingly, the proper remedy would have been to order an unconditional new trial at which Oracle could present evidence to satisfy any newly imposed evidentiary burden, and any new trial order should be modified to allow proof of hypothetical license damages.

C. At The Very Least, The Remittitur Should Be Increased To $408.7 Million

Even if the district court were correct to enter judgment as a matter of law on hypothetical license damages (which it was not), and to limit its new trial order to evidence of lost profits and infringer's profits (which it likewise was not), it still abused its discretion in selecting the amount of its remittitur. A remittitur (if given) must be in "the maximum amount sustainable by the proof." *D&S Redi-Mix v. Sierra Redi-Mix & Contracting Co.*, 692 F.2d 1245, 1249 (9th Cir. 1982). This rule prevents a district court from violating the Seventh Amendment by substituting its own judgment for that of the jury. *See* 11 WRIGHT & MILLER, FED. PRAC. & PROC. § 2815 & n.19. Remittitur to an amount below the maximum that the evidence can reasonably sustain is thus an error of law and *ipso facto* an abuse of discretion. *See McCabe v. Parker*, 608 F.3d 1068, 1082 (8th Cir. 2010) (finding an error of law and thus "a clear abuse of discretion" where "[t]he amounts selected by the district court are inconsistent with the maximum recovery rule"); *see generally Del Monte Dunes at Monterey, Ltd. v. City of Monterey*, 95 F.3d 1422, 1426 (9th Cir. 1996) ("A district court by definition abuses its discretion when it makes an error of law.").

The district court's remittitur runs afoul of this rule. Assuming *arguendo* that hypothetical license damages are unavailable, the "maximum amount" of damages supported by the evidence at trial is the $120.7 million in lost profits *plus* $288 million in infringer's profits ($408.7 million total) that Meyer's testimony established. ER436-37, ER468-82, ER488-89. These calculations reasonably estimated the ongoing effects of SAP's infringements until 2015. Instead of accepting this maximum amount, as it was bound to do, the court adopted Meyer's alternative calculations of $36 million in lost profits and $236 million in infringer's profits ($272 million total), under a fictional scenario in which profits and losses from SAP's misappropriation of Oracle's property suddenly ceased when SAP closed TN in 2008. ER18, ER471, ER489. While the jury might have been free to choose this lesser amount, the district court was not.

The court's rationales for rejecting Meyer's testimony do not withstand even minimal scrutiny. *First*, the court incorrectly asserted that "Oracle provided no evidence to support an additional $84.7 million [in lost profits] for 'ongoing impact' for seven years following TN's demise." ER40. As Oracle executives testified, absent infringement, Oracle's customers would typically remain on Oracle support for an average of ten years. ER309 (Oracle co-President and CFO describing 10-year customer relationships as "conservative"), ER814-16 (PeopleSoft valuation describing 10-year relationships). At the same time, as

Meyer testified, the expense and inconvenience of changing service providers means that losing a client (or gaining one) is relatively permanent: "[W]hen a customer leaves, it doesn't come back, you break the service, you lose the relationship." ER476. From this common-sense observation, a jury could have inferred that even though the infringement ended in 2008, SAP would hold onto (and Oracle would continue to be deprived of) the customers SAP had been able to lure away on account of its earlier infringement. There was thus a clear evidentiary basis from which a jury might reasonably have concluded that Oracle would continue to endure damages after 2008.

Second, the district court asserted, without support, that "Meyer's justification for the larger calculation of infringer's profits is unduly speculative." ER40. But this too is mistaken. As Meyer explained, his $288 million calculation of SAP's profits from infringement is based on an examination of the 86 companies that switched from Oracle to SAP during the relevant time period. *See* ER478-81. From this group, Meyer determined that twenty of the customers had changed service providers for reasons unrelated to TN's infringement of Oracle's copyrights, but that the other 66 made the switch due to the infringement. ER472-76, ER478-81. Meyer then assessed the particular effects on Oracle and SAP from each of these defections, and extrapolated that those effects would continue well into the future. A jury could reasonably agree with this assessment of the effects of SAP's infringement, and thus could have accepted Meyer's larger lost-profits and infringer's-profits calculations. Since the amount of the remittitur was less than the maximum permitted by the evidence (exclusive of hypothetical license evidence), the district court abused its discretion.

III. IN THE EVENT OF ANY REMAND FOR NEW TRIAL, THIS COURT SHOULD CORRECT THE DISTRICT COURT'S LEGAL AND EVIDENTIARY ERRORS

In the event the Court rejects the above arguments for reinstating the jury verdict for Oracle, it should remand for a new trial in which Oracle may seek hypothetical license damages, lost profits, and infringer's profits without the strictures imposed by the district court's evidentiary errors. The district court erroneously limited the evidence that Oracle could present in any second trial, while permitting SAP to offer unreliable damages testimony by an unqualified expert. Oracle should be free to prove its damages through proper evidence at any new trial.

A. The District Court Erred In Barring Oracle From Recovering Both Actual Damages And Infringer's Profits

In denying Oracle's requested instruction that the jury could award both actual damages in the form of hypothetical license damages and infringer's profits, the district court erred and in so doing prejudiced Oracle. Jury instructions "must correctly state the law," and "[e]ach party is … entitled to an instruction about his or her theory of the case if it is supported by law and has foundation in the evidence." *Clem v. Lomeli*, 566 F.3d 1177, 1181 (9th Cir. 2009) (quotation omitted). "In evaluating jury instructions, prejudicial error results when, looking to the instructions as a whole, the substance of the applicable law was [not] fairly and correctly covered." *Swinton v. Potomac Corp.*, 270 F.3d 794, 802 (9th Cir. 2001) (quotation omitted).

Section 504 of the Copyright Act explicitly permits a copyright owner to recover *both* "actual damages" (to compensate it for its loss) *and* "any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages." 17 U.S.C. §§ 504(a)(1), 504(b). The legislative history makes clear that Congress intended to permit copyright owners to seek both types of awards:

> [S]ection 504(b) recognizes the different purposes served by awards of damages and profits. Damages are awarded to compensate the copyright owner for losses from the infringement, and profits are awarded to prevent the infringer from unfairly benefiting from a wrongful act. … [I]n cases where the copyright owner has suffered damages not reflected in the infringer's profits, or where there have been profits attributable to the copyrighted work but not used as a measure of damages, subsection (b) authorizes the award of both.

H.R. REP. NO. 94-1476, at 161 (1976); *see also Polar Bear*, 384 F.3d at 718 (similar).

Consistent with this statutory text and purpose, this Court has held that copyright plaintiffs may recover ***both*** actual damages and infringer's profits. *See, e.g.*, *Abend v. MCA, Inc.*, 863 F.2d 1465, 1479 (9th Cir. 1988) ("In addition to actual damages suffered, Abend would be entitled to profits attributable to the infringement."); *Cream Records, Inc. v. Jos. Schlitz Brewing Co.*, 754 F.2d 826, 828 (9th Cir. 1985) (stating, in an appeal of an award of hypothetical license damages plus infringer's profits, that "the copyright owner is entitled to recover 'any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages'") (quoting 17 U.S.C. § 504(b)). As the Fourth Circuit explained, both actual damages and infringer's profits are awarded so that "the infringer realize[s] that it is cheaper to buy than to steal." *Walker v. Forbes, Inc.*, 28 F.3d 409, 412 (4th Cir. 1994).

Contrary to this well-established law, the district court ruled that "the hypothetical license does include the infringer's profits regardless of what [damages] number the jury comes back with." ER634. But, as Oracle explained, if the jury awarded hypothetical license damages below the amount proffered by Oracle's expert Meyer (*i.e.*, below $1.656 billion (ER463)), the jury would have to determine whether that hypothetical license value included all of the infringer's profits. ER632-33. Without the requested instruction (ER1208), the jury never had the opportunity to make this determination. The failure to give the legally correct jury instruction was prejudicial because it would permit the jury to award only an amount of actual damages that did not include all infringer's profits. This error should be corrected before any new trial.

B. The District Court Improperly Excluded Evidence Of SAP's Saved Research And Development Costs

The district court also erred in ruling on SAP's motion for partial summary judgment that hypothetical license damages could not take into account the billions of dollars in research and development costs that SAP would have had to incur absent its infringement of Oracle's intellectual property. ER93-94. That ruling was erroneous as a matter of law, because the savings a buyer would achieve from not having to develop a product are relevant to determine the fair market value of a hypothetical license for that product.

This Court has long recognized an objective "value of use" measure of actual copyright damages. *Jarvis*, 486 F.3d at 534; *Polar Bear*, 384 F.3d at 708; *Abend*, 863 F.2d at 1479. Saved development costs are part of the value of infringement and thus should be included in quantifying the fair market value. *See Polar Bear*, 384 F.3d at 708 (including as damages "the value of the use of the copyrighted work to the infringer") (quotation omitted). There is no basis to exclude such evidence categorically and other courts have found such evidence relevant. *Harris Market Research v. Marshall Mkting. & Comm'cns, Inc.* 948 F.2d 1518, 1524 (10th Cir. 1991) (allowing consideration of copyright-holder's development costs in determining hypothetical license); *Real View, LLC. v. 20-20 Techns., Inc.* 811 F. Supp. 2d 553, 558-59 (D. Mass. 2011) (noting instruction that jury "could take into account 'any design costs that [the infringer] saved by its use of ... [copyrighted material]'"); *cf. Bourns, Inc. v. Raychem Corp.*, 331 F.3d 704, 709-10 (9th Cir. 2003) (affirming award of saved development costs under unjust enrichment theory where defendant had misappropriated trade secrets).

The district court initially accepted this "value of use" approach (ER1295), but later ruled to the contrary (ER93-94). This ruling was inconsistent with the authorities above and should be vacated in advance of any new trial.

C. The District Court Improperly Held Admissible SAP's Evidence Of Overhead Expenses For Purposes Of Calculating Infringer's Profits

The district court also erred as a matter of law in denying Oracle's motion *in limine*, directed to the second trial, to preclude SAP from offering evidence of its overhead expenses in an effort to lower its infringer's profits. ER13-14. This error too should be corrected in advance of any retrial.

Section 504(b) permits a copyright defendant to introduce evidence of "deductible expenses" to be offset against gross revenues, so as to reach a figure for "profits of the infringer." 17 U.S.C. § 504(b). The Copyright Act, however, does not define "deductible expenses," and courts, including this Court, have filled this gap by precluding willful infringers from deducting overhead costs. *See, e.g.*, *Frank Music*, 772 F.2d at 515 ("A portion of an infringer's overhead properly may be deducted from gross revenues to arrive at profits, *at least where the infringement was not willful, conscious, or deliberate*.") (emphasis added); *Saxon* *v. Blann*, 968 F.2d 676, 681 (8th Cir. 1992) ("Overhead may not be deducted from gross revenues to arrive at profits when an infringement was deliberate or willful."); *cf. L.P. Larson, Jr., Co. v. Wm. Wrigley, Jr., Co.*, 277 U.S. 97, 99-100 (1928) (holding that willful infringers could not deduct income taxes), *cited in Three Boys Music Corp. v. Bolton*, 212 F.3d 477, 487 (9th Cir. 2000). This rule ensures that there is an adequate disincentive to infringe, as mere disgorgement of profits—with deductions available for the cost of infringement—offers little to dissuade a willful infringer who is necessarily taking a calculated risk.

Here, TN pled guilty to criminal copyright infringement following the first trial. In the plea, TN conceded that it "willfully infringed the copyrights of Oracle's copyrighted works … for the purpose of commercial advantage and private financial gain." *United States v. TomorrowNow, Inc.*, No. 4:11-cr-642, Plea Agreement, Dkt. No. 13, at 5:13-15 (N.D. Cal. Sept. 14, 2011). In the civil case, SAP AG and SAP America stipulated that they "intentionally materially contributed" to TN's willful infringement. ER507. In light of these admissions, the district court should have precluded SAP from deducting overhead expenses when calculating lost profits.

In denying Oracle's motion, the district court relied on the absence of any distinction between willful and non-willful infringers in Section 504(b), in contrast to Section 504(c), which does distinguish between willful and non-willful infringers for caps on statutory damages. ER13-14. But Section 504(c) employs a different scheme for the calculation of statutory damages than exists in Section 504(b) for the calculation of actual damages, and thus the reference to willful infringers in Section 504(c), but not Section 504(b), sheds little light on congressional intent. If anything, the higher cap on statutory damages for willful infringers than non-willful infringers in Section 504(c) suggests that differences in culpability should affect the extent to which deductions are available under Section 504(b) to ensure adequate deterrence. Thus, in any new trial, SAP should be precluded from deducting overhead expenses when calculating infringer's profits.

D. The District Court Abused Its Discretion In Permitting Testimony By SAP's Damages Expert Clarke

SAP's expert, Stephen Clarke, was not qualified to testify on the topics as to which he opined, and his testimony was unreliable; the district court thus should have excluded it under Federal Rule of Evidence 702, which requires consideration of whether the expert has special knowledge, skill, experience, training, or education on the subject matter, and under *Daubert v. Merrell Dow Pharms., Inc.*, 509 U.S. 579, 592-93 (1993), which requires determination "whether the reasoning or methodology underlying [expert] testimony is scientifically valid and … whether that reasoning or methodology properly can be applied to the facts in issue." Expert opinions "are to be admitted only if the facts or data are of a type reasonably relied upon by experts in the particular field in forming opinions or inferences upon the subject." *Id.* at 595 (internal quotations omitted). "[M]aintaining *Daubert*'s standards is particularly important considering the aura of authority experts often exude, which can lead juries to give more weight to their testimony." *Mukhtar v. Cal. State Univ., Hayward*, 299 F.3d 1053, 1063-64 (9th Cir. 2002).

1. Clarke's Consumer Behavior Testimony Was Unreliable And Outside His Expertise

Over Oracle's objection (D.E.781; D.E.1145; ER62), the district court—without making an express determination about expert qualifications or reliability—improperly admitted Clarke's testimony regarding consumer behavior as to which he lacked any expertise (ER12, ER63-65, ER69). Clarke testified that he looked at consumer information to determine why customers left Oracle and excluded from his analysis of lost profits and infringer's profits consumers who purportedly left for reasons other than switching to TN. ER59. Clarke's consumer behavior opinion removed 63 customers from his lost profits analysis, and 82 of 86 customers from his analysis of SAP's infringer's profits. ER546-47, ER565. With respect to infringer's profits, this represented hundreds of millions of dollars of revenue. ER576 (Clarke subtracting $675 million in infringer's profits).

Clarke, however, is unqualified to provide any testimony about how customers made purchasing decisions. He has no experience, knowledge, training, or expertise in consumer behavior or any related field. Rather, Clarke's only training and experience is in accounting. ER538-40. Because his testimony sought to explain *why* customers acted as they did, he needed expertise in consumer behavior that he lacked. *See, e.g., F.T.C. v. Amy Travel Service, Inc.*, 875 F.2d 564, 572-73 (7th Cir. 1989) (affirming exclusion of expert testimony about consumer reaction to sales pitch because such testimony required expert in consumer psychology or consumer behavior).

Clarke's *ad hoc* "methodology" for excluding certain customers also was unreliable, providing an independent basis for excluding the testimony. Clarke admitted that he "toyed with all kinds of ways of doing this, trying to make an appropriate judgment as to whether these customers would have left" (ER572), apparently developing his "method" for the sole purpose of testifying in this case (ER564-68). The absence of any discernible, testable methodology, particularly one that was developed prior to the litigation, is a "very significant fact" that weighs against the reliability of expert testimony. *Daubert v. Merrell Dow Pharms, Inc.*, 43 F.3d 1311, 1317 (9th Cir. 1995).

The district court thus abused its discretion in admitting this consumer behavior opinion, which substantially decreased Clarke's computation of lost profits and infringer's profits. SAP should be precluded from offering this testimony in a second trial.

2. Clarke's Market Study Testimony Was Unreliable And Outside His Expertise

Over Oracle's objection (D.E.781; D.E.1145; ER58), the district court also improperly admitted Clarke's testimony regarding "market studies." Clarke opined that TN customers would have left Oracle even if TN had not existed and that competition from other companies would have reduced the fair market value of a hypothetical license below the amount proffered by Oracle's expert. ER584-86.

Not only was Clarke unqualified to opine on market alternatives (given his background is limited to accounting), his opinion was based solely on Internet research, not any reliable methodology. Clarke merely examined website marketing materials (ER587), and did so without determining the accuracy of that information (ER588). He then used that information to evaluate whether companies in the same field would be viable competitors for PeopleSoft customers seeking support, a matter also beyond Clarke's expertise. ER555-57. He was also unable to explain how he evaluated the market at the time of hypothetical license negotiations in 2005, rather than when he prepared his expert report years later. ER590.

Clarke's Internet research reflects none of the hallmarks of a scientific and verifiable method necessary to satisfy the *Daubert* standard. *See, e.g.*, *Kilgore v. Carson Pirie Holdings, Inc.*, 205 Fed. App'x 367, 372 (6th Cir. 2006) (affirming exclusion of expert opinion based on internet article and personal experience "was not supported by sufficient data or reliable methodology"); *Trademark Props., Inc. v. A & E Television Networks*, 2008 WL 4811461, *2 (D.S.C. Oct. 28, 2008) (excluding expert damages opinion that relied on a newspaper article and internet research); *In re Ameriserve Food Distrib., Inc.*, 267 B.R. 668, 672 (D. Del. 2001) ("It cannot be said that internet and library research, such as here, is the type 'experts' customarily rely upon in forming legitimate opinions.").

The district court thus abused its discretion in admitting such testimony, and that error should be corrected in advance of any second trial.

CONCLUSION

The judgment should be vacated and the case remanded with directions to enter judgment in favor of Oracle in the amount of $1.3 billion. Alternatively, the judgment should be vacated and the case remanded either (1) for a new trial on hypothetical license damages, lost profits, and infringer's profits, free from the district court's evidentiary errors, or (2) so that Oracle may consider whether to accept a remittitur in the amount of $408.7 million or a new trial on lost profits and infringer's profits, again free from the district court's evidentiary errors.

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Respectfully submitted,

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REQUEST FOR ORAL ARGUMENT

Plaintiffs-Appellants/Cross-Appellees respectfully request that this Court hear oral argument in this case.

STATEMENT OF RELATED CASES

Pursuant to Circuit Rule 28-2.6, Defendants-Appellants/Cross-Appellees state that they are not aware of any related cases pending in this Court.

CERTIFICATE OF COMPLIANCE WITH FRAP 32(a)(7)(C) & CIRCUIT RULE 32-1

Pursuant to Fed. R. App. P. 32(a)(7)(C) and Circuit Rule 32-1, the attached opening brief is proportionately spaced, has a typeface of 14 points or more and contains 13,785 words.

s/ Kathleen M. Sullivan_______________________	December 10, 2012
Attorney for Plaintiffs-Appellants/Cross-Appellees	Date

CERTIFICATE OF SERVICE

I, Kathleen M. Sullivan, a member of the Bar of this Court, hereby certify that on December 10, 2012, I electronically filed the foregoing "Opening Brief of Plaintiffs-Appellants" with the Clerk of the Court for the United States Court of Appeals for the Ninth Circuit by using the appellate CM/ECF system. I certify that all participants in the case are registered CM/ECF users and that service will be accomplished by the appellate CM/ECF system.

I further certify that I caused one copy of Plaintiffs-Appellants/Cross-Appellees' Excerpts of Record to be served by third-party carrier for delivery within three business days, upon:

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