No. 12-16944

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,

v.

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

Defendants-Appellees.

On Appeal from the United States District Court for the Northern District of California, No. 07-CV-1658 PJH
Honorable Phyllis J. Hamilton

ANSWERING BRIEF OF DEFENDANTS-APPELLEES

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CORPORATE DISCLOSURE STATEMENT PURSUANT TO RULE 26.1 OF THE FEDERAL RULES OF APPELLATE PROCEDURE

Defendants-Appellees SAP America, Inc. and TomorrowNow, Inc. state that Defendant-Appellee SAP AG wholly owns each of them, either directly or through one or more of its privately held wholly owned subsidiaries. No publicly held corporation owns 10% or more of Defendant-Appellee SAP AG's stock.

TABLE OF CONTENTS

Page

TABLE OF CONTENTS
(continued)

TABLE OF CONTENTS
(continued)

Page

TABLE OF CONTENTS
(continued)

Page

TABLE OF AUTHORITIES

Page(s)

CASES

TABLE OF AUTHORITIES
(continued)

Page(s)

TABLE OF AUTHORITIES
(continued)

Page(s)

TABLE OF AUTHORITIES
(continued)

Page(s)

PRELIMINARY STATEMENT

This appeal principally concerns whether Oracle can recover a hypothetical-license fee as "actual damages" under Section 504 of the Copyright Act absent either evidence that the infringement caused it to lose actual licensing fees or opportunities, or objective evidence of license value. The answer is "no."

What Oracle asks is forbidden by statute. The Copyright Act requires "actual damages" to be "suffered by [the owner] as a result of the infringement." 17 U.S.C. § 504(b). This Court has permitted license-fee awards as actual damages only upon proof that the plaintiff actually lost license fees or opportunities to license resulting from the infringement. Here, not only was there no lost license fee, the undisputed evidence showed that Oracle never would have granted its chief competitor SAP—or anyone else—a license permitting the infringing conduct. There was no licensing opportunity to lose, so no license fee (however measured) could properly be awarded as actual damages in this case.

Even in the limited circumstances where license fees are permitted as a measure of actual damages under the statute, such damages claims must be supported by objective evidence—typically, past licenses between the parties or market benchmarks for comparable transactions. Here, both sides agree that no such benchmarks exist, and Oracle failed to offer any other objective evidence of license price. Instead, it relied on aggregate values of corporate acquisitions, after-the-fact and self-interested opinions of its executives, SAP's purported marketing goals for overall competition with Oracle and admittedly irrelevant "contextual" evidence of billions invested in research and development. This inapposite evidence inflated Oracle's claim far beyond a proper measure of actual damages caused by the infringement. And to ensure that the jury would award massive damages, Oracle piled on days of prejudicial and inflammatory liability evidence, even though liability had been conceded. None of this evidence, even taken together, is sufficient to determine a non-speculative license price. The district court correctly eliminated the $1.3 billion verdict as contrary to law and excessive.

JURISDICTIONAL STATEMENT

SAP agrees with Oracle's Jurisdictional Statement.

QUESTIONS PRESENTED

1. Whether the district court properly granted judgment as a matter of law ("JMOL") that: (a) Oracle was not entitled to seek actual damages for copyright infringement in the form of a hypothetical license because Oracle failed to establish that it lost any licensing fees or opportunities to license resulting from the infringement; and (b) Oracle failed to present sufficient, objective evidence to calculate a non-speculative license price, and whether the court properly exercised its discretion to follow the usual procedure of entering judgment rather than ordering a retrial on the hypothetical license.

2. Whether the court properly exercised its discretion: (a) to grant the motion for a new trial because the $1.3 billion verdict was grossly excessive and contrary to the weight of the evidence; and (b) to set a $272 million remittitur based on damages calculations by Oracle's own expert.

3. In the event of a remand for a new trial, whether the court: (a) acted within its discretion by instructing the jury to award either a hypothetical license or infringer's profits, thereby preventing a double recovery; (b) properly determined that there is no authority for permitting "saved development costs" to value a hypothetical license; (c) correctly held that SAP may deduct overhead expenses when calculating infringer's profits because the plain language of 17 U.S.C. § 504(b) does not distinguish between willful and nonwillful infringers; and (d) properly exercised its discretion to admit SAP's expert testimony.

STATUTES AND RULES

The pertinent statutes and rules are reproduced in the addendum to this brief.

STATEMENT OF THE CASE

On March 22, 2007, Oracle sued SAP AG, SAP America and TomorrowNow for various federal and state claims, including copyright infringement. ER1361. The parties' pre-trial stipulations limited the trial to determining damages for copyright infringement. SER309; ER1240; ER1236-37; SER314. Before trial, the court granted partial summary judgment that Oracle could not seek "saved development costs," ER89-94, 96, and denied Oracle's motion to exclude testimony of SAP's damages expert Stephen Clarke. ER69.

At trial, two alternative damages theories were presented: (1) a "hypothetical license" and (2) lost and infringer's profits. ER161; SER315-36. On November 23, 2010, the jury awarded $1.3 billion in hypothetical-license fees. ER161.

On September 1, 2011, the court granted SAP's motion for JMOL on two independent grounds. *First*, Oracle was not entitled to seek actual damages for copyright infringement in the form of a hypothetical license because Oracle failed to establish that it lost any licensing fees or opportunities as a result of the infringement. ER31-32, 35. *Second*, even if a hypothetical license were available, Oracle failed to offer any objective evidence to calculate a non-speculative license price. ER31-36. The court also granted SAP's new-trial motion, finding the verdict grossly excessive and against the weight of the evidence. ER38. The court vacated the judgment and granted a new trial on lost and infringer's profits, conditioned on Oracle rejecting a $272 million remittitur. ER40-41.

After Oracle rejected the remittitur and elected a new trial, ER159, the parties stipulated to entry of judgment in the amount of $306 million. ER4. Final judgment was entered on August 3, 2012. ER1.

STATEMENT OF FACTS

A. Background

SAP and Oracle are "fierce" competitors in the market for enterprise resource planning (ERP) software. SER284-85, 287; SER100-01. Each company develops and licenses ERP software and offers related customer support services. SER283, 285, 287.

In January 2005, Oracle completed an 18-month hostile takeover of PeopleSoft, an ERP software company that earlier had merged with competitor J.D. Edwards. SER287-88. The takeover and transition were difficult for PeopleSoft customers, prompting many to consider alternative software providers. SER287; SER171-73; ER736. In response, SAP developed the "Safe Harbor" and "Safe Passage" marketing campaigns to encourage these customers to migrate to SAP. SER287-88; ER736. These programs were price discounts through which SAP gave PeopleSoft customers a credit of up to 75% of the customer's previous license cost to apply toward an SAP license purchase. SER287-88.

Also in January 2005, SAP acquired TomorrowNow, a small Texas company providing support services for PeopleSoft users (and later also Siebel users) at a 50-percent discount. SER285-88. TomorrowNow's support services provided customers with software maintenance such as bug fixes and regulatory updates. SER286, 288, 290. TomorrowNow continued to service its own, stand-alone customers, and its support offering became an optional component of Safe Passage. SER288; ER735-37. A customer, however, could take advantage of the Safe Passage discount without ever using TomorrowNow's services. SER97-98.

TomorrowNow was not successful. It had 358 customers total, out of 14,000 potential customers, SER144, and was never profitable. SER21-22; SER63-64; SER288; ER684. SAP shut down TomorrowNow's business operations on October 31, 2008. SER288.

B. Pre-Trial Rulings

1. The District Court's Summary-Judgment Ruling On Hypothetical-License Damages

On August 26, 2009, SAP moved for partial summary judgment to preclude Oracle from seeking actual damages for copyright infringement in the form of a hypothetical license. D.E.431. The court denied SAP's motion, stating "the fact that the Oracle executives and the SAP executives testified to different views on the value of a potential license [alone] is not sufficient to remove a market value license from the damages available." ER1297. The court held that Oracle could claim hypothetical-license fees only if it "present[ed] evidence sufficient to allow the jury to assess fair market value without 'undue speculation.'" ER1296.

2. The District Court's Summary-Judgment Ruling Precluding Saved Development Costs

On March 3, 2010, SAP moved for partial summary judgment to preclude

Oracle from relying on "saved development costs" when calculating a hypothetical license. D.E.640. The court granted this motion, citing the "absence of Ninth Circuit authority for awarding research and development costs to plaintiffs as actual damages for infringement." ER93-94.

3. The District Court's Order Denying Oracle's Motion To Exclude Expert Testimony By Stephen Clarke

Before trial, Oracle moved to preclude SAP damages expert Stephen Clarke. D.E.781. The court rejected Oracle's arguments, finding Clarke qualified and that "[m]ost of [Oracle's] arguments go to either the weight of their opinions and conclusions or to the actual merits of the opinions or conclusions." ER1264; ER69.

C. The Trial

Oracle sought a hypothetical license as actual damages, which it argued was worth "billions." SER162-63; SER277. SAP argued that lost and infringer's profits were the appropriate damages measure, totaling $28 million. SER187; SER157-59. SAP further argued that any hypothetical license was worth only $40.6 million. SER187; SER159.

1. Evidence That Oracle Did Not Lose License Fees

At trial, Oracle presented no evidence that it actually lost any license fees or opportunities to license resulting from the infringement. By its own admission, Oracle never has given any entity a license to "copy Oracle's application software and support materials in order to create their own fixes, patches or updates for customers." SER279-80. As Oracle's damages expert testified, never "in the history of Oracle" has Oracle granted a license for a competitor to use its database software to compete for support-services customers. SER74; ER459. Nor did any evidence—such as comparable licenses—suggest that Oracle ever would have entered into such a license. SER145-46 (Oracle co-President Catz admitting there are no "comparable" licenses; for example, none of Oracle's licenses with partners or resellers allow them to use Oracle's intellectual property to compete for customers). SAP senior executives Brandt and McDermott were unaware of analogous situations in which a company licensed software to or from a competitor to provide support services. SER47; ER529. And both sides' damages experts agreed that no established royalty or benchmark exists in the marketplace. ER459; SER73-74; ER551; SER108-09.

Both sides' witnesses confirmed that the parties never would have entered into a license. Former Oracle co-President Phillips testified that Oracle would have been "terrified" to provide a license to SAP for TomorrowNow's use and that, in January 2005, such a license would have been "unthinkable." ER189-90. Oracle Senior Vice President for Global Practices Allison admitted that Oracle "never" has granted such a license and that it would not "make business sense" to give a license to a competitor "to use your own IP to take your customers." SER27-30, 41. Allison testified that, had TomorrowNow requested a database license, he "wouldn't have given them a license to do what they're doing." SER43; SER44-45. And Catz testified that such a license would be "unprecedented." SER145-46. On SAP's side, SAP CFO Brandt testified that SAP would not have entered into a license with Oracle when SAP purchased TomorrowNow. SER46.

This testimony is reinforced by the fact that SAP and Oracle are direct competitors. Oracle's Phillips and SAP Board member Agassi each testified that they consider the rival company to be their "largest" and "chief" competitor. ER199-200; ER657-58. Oracle CEO Ellison and SAP CEO McDermott testified that the companies are "fierce" and "formidable" competitors. SER52; SER100-01.

2. Purported Evidence Of A Hypothetical-License Price

Despite the undisputed evidence that Oracle did not lose any license fees or opportunities to license, Oracle argued that it was entitled to a hypothetical license in the "billions." SER162-63; SER277. It offered evidence purporting to show the price of three separate licenses for PeopleSoft, Siebel and the Oracle database.

a. PeopleSoft license

Oracle's license claim largely was based on a hypothetical PeopleSoft license. It offered no objective evidence of the type that courts typically use to calculate license price, such as previously negotiated licenses for the work or other benchmarks. Instead, Oracle presented several other types of evidence.

Oracle's demands. Despite their testimony that Oracle would never grant a license to anyone, Oracle executives testified that they would have charged SAP billions for TomorrowNow to have a PeopleSoft license. ER190-91, ER204-05 (Phillips: $3-4 billion); ER288 (Ellison: $3.3 billion); ER320-21 (Catz: "in the billions"). In closing, Oracle's counsel encouraged the jury to consider these demands in calculating a hypothetical license. SER153-56; SER276-77.

Value of intellectual property as a whole. Throughout the trial, Oracle urged the jury to consider Oracle's $11 billion cost of acquiring PeopleSoft. ER190-91 (Phillips testifying to $11 billion demand); ER321 (Catz testifying "in the billions" because Oracle paid $11 billion); ER341, ER423 (Meyer testifying similarly). Oracle deployed these enormous sums to argue that lost profits could not account for the billion-dollar "investments" Oracle made in its intellectual property. SER152. Oracle also presented evidence of the "billions of dollars" it spends each year on research and development ("R&D") for all of its intellectual property, including for dates beyond the relevant time period and products not at issue. SER13-14; *see also* ER178 (Screven testifying to $4 billion yearly R&D budget); ER280 (Ellison testifying to $65 billion total R&D spending).

The parties' goals and assumptions. Presenting evidence of the supposed value of the license to both SAP and Oracle, Oracle relied on SAP's purported sales goals and assumptions for (1) the number of PeopleSoft customers that SAP hoped would switch to TomorrowNow for support services, and (2) the number of

TomorrowNow customers that SAP hoped to convert to SAP software.

Oracle relied almost exclusively on a single SAP document, "A Roadmap for PSFT Customers to SAP," containing customer goals and revenue numbers clearly labeled as "Assumptions." ER799. It reflected SAP's purported goals for Safe Passage as a whole and was not specific to TomorrowNow's projected impact on Safe Passage's success in obtaining SAP customers. Meyer testified that the "Roadmap" showed SAP's hope to obtain 3,000 PeopleSoft customers from the TomorrowNow support offering, ER393-95, and assumed that 1,375 customers would convert to SAP software. ER415-16. But Meyer acknowledged that these numbers were "assumptions." SER69-70. He then multiplied the number of assumed customers by a revenue-per-customer figure he purportedly gleaned from the "Roadmap," without any information on the source of the underlying numbers. ER411-12. Meyer posited SAP's expected gains from a PeopleSoft license as a threefold range from $881 million to $2.69 billion. ER415-16; SER266.

In calculating the value of a license to *Oracle*, Meyer merely input SAP's customer goals from SAP documents. ER427. Meyer did not rely on evidence of Oracle's expectations regarding the TomorrowNow impact, presumably because contemporaneous Oracle documents showed that Oracle actually expected TomorrowNow to have little to no impact—certainly not in the billions of dollars. Oracle executive Jones described the idea that customers would switch to SAP applications based on TomorrowNow as the "silliest argument I have ever heard." SER256. Oracle viewed TomorrowNow as no threat because it understood that switching enterprise software vendors is costly and burdensome; customers do not switch absent compelling business justifications. ER195-96, 214; SER20; SER95-96, 99. As Jones testified, "it's a lot more than just some—some savings in the actual support" for a customer to migrate; it is a "significant undertaking." SER175-76. Oracle's expectation that TomorrowNow would not drive SAP license sales was confirmed and documented by Oracle executives' e-mails. SER262 ("I don't believe we have lost any large customers because of this. If we lost, we lost to SAP for other reasons."); SER253 (describing TomorrowNow's impact as "minimal"); SER251.

Ultimately, using only SAP's customer "assumptions," Meyer calculated Oracle's expected financial impact as at least $1.386 billion. ER428-29.

Liability evidence. Although liability was not at issue, Oracle overwhelmed the jury with evidence that SAP purportedly knew of TomorrowNow's activities from the outset and hid behind a so-called "liability shield." ER778; ER975; SER188; SER191. Oracle argued, including through cross-examination, that SAP "knowingly decided that TomorrowNow was so valuable that SAP would [ac]quire TomorrowNow despite its infringement" and that the jury should value the hypothetical license accordingly. SER151; ER264-

70; ER744-45; ER514. Meyer testified that SAP's willingness to risk suit implies that SAP greatly valued TomorrowNow, suggesting a more expensive license. ER364-66; SER90. And, despite the court's admonition, Oracle repeatedly used inflammatory words with criminal overtones, such as "theft" and "steal," to describe the infringement. SER6-8; SER160-61; ER322; SER143.

Oracle's counsel invited speculation. During closing, Oracle's counsel purported to summarize the manifold "valuations" of Oracle's hypothetical-license claim, which embraced a range of $897 million to $5 billion. SER162-63; SER277. Counsel conceded that "it's hard to have enough support" for a license of $4 to $5 billion and encouraged the jury to pick a number "somewhere between 1.65 and 3 billion," stating that "the answer is probably somewhere in there." SER162-63.

b. Siebel license

Oracle argued that a Siebel license should reflect its $6 billion cost to acquire Siebel (another software company, acquired by Oracle in September 2005) and presented evidence of the price executives purportedly would have demanded. ER210 (Phillips testifying that "the . . . opening number for me would have a 'B' on it [as] in billions if I just paid 6 billion."); ER284-88 (Ellison testifying similarly). And Meyer relied on other SAP documents with customer assumptions to estimate the number of Siebel conversions that SAP purportedly hoped to gain. ER444-46 (testifying regarding ER1136); ER443-44 (testifying regarding SER216).

Relying on this evidence, Meyer determined that Oracle would have charged "at least $100 million" for a Siebel license. ER448-49, 451-52; SER273.

c. Database license

Oracle used a different approach to calculate the price of a hypothetical license to use Oracle's database software. Instead of using Oracle's normal pricing structure, Meyer used a "per-customer" price structure devised solely for this case by Oracle employee Allison. ER458-62; SER73-75; *see also* SER15; SER31-42. Allison admitted that there was no "real-world" transaction in which any customer actually agreed to license the database software on this basis, other than his unsupported assertion that outsourcers pay per-customer. SER41-42. Meyer accepted Allison's pricing structure and assumptions wholesale. SER73-77. To determine the number of customers who "benefited" from TomorrowNow's use of the database software—and thus for whom TomorrowNow would "need" a license—Meyer "assume[d] that those customers took . . . benefits from the fixes and updates" developed on the Oracle database software TomorrowNow used, whether or not that customer's environment ran on an Oracle database. ER457, 460-61; SER274. Using these assumptions, Meyer priced the database license at $55.6 million—close to the most generous calculation of TomorrowNow's total revenues over time ($59 million, SER265) and ignoring that TomorrowNow lost more than it ever had made. ER462; ER550, 557-58.

3. Evidence Of Lost Profits And Infringer's Profits Damages

SAP offered evidence of Oracle's actual harm in the form of lost and infringer's profits, including undisputed evidence that TomorrowNow had but 358 customers, only 86 of whom purchased TomorrowNow service and SAP products/support simultaneously, or were existing TomorrowNow customers at the time that they purchased new SAP software or service. ER478-81; SER53-57; SER144-45; ER546-47; SER78. SAP also presented testimony by former Oracle customers, who stated that they would have left Oracle even absent TomorrowNow's infringement, as confirmed by undisputed evidence that TomorrowNow played no part in their decisions to purchase SAP products. SER177-79; SER181-86; SER166-70; SER130-35. Consistent with these actual results and based on a customer-by-customer analysis, Clarke calculated lost profits of $19.3 million and infringer's profits of $8.7 million ($28 million total). SER187; SER106, 122-25.

Oracle's trial presentation on lost and infringer's profits was brief. On cross-examination, Meyer presented two alternative calculations: (1) $120.7 million in lost profits plus $288 million in infringer's profits, totaling $408.7 million; or (2) $36 million in lost profits and $236 million in infringer's profits, totaling $272 million. ER39, ER469-70. Meyer's higher lost profits calculation was based on projections through 2015, purportedly "to reflect the ongoing impact" of TomorrowNow's operations, ER468-69, rather than cutting off damages as of TomorrowNow's shuttering. ER476-78. And Meyer's higher infringer's-profits calculation included three additional customers who were not included in Meyer's lower calculation because "there's some issues still that sort of exist about the role of TomorrowNow in converting those customers to SAP." ER437; SER89. Before the second scheduled trial, Meyer excluded these three customers. SER346 (deducting revenue for three customers in footnote 11); SER430.

4. The Jury's Verdict

At the conclusion of evidence, Oracle argued, for the first time and contrary to prior representations to the court, SER282, that it was entitled to infringer's profits plus hypothetical-license fees (if the jury awarded less than $1.65 billion), and asked that the court instruct the jury accordingly. ER628-34. The court denied this request, finding that the hypothetical license encompassed infringer's profits. ER634. The jury was instructed to award either a hypothetical license, or lost and infringer's profits. ER161; SER327. On November 23, 2010, the jury awarded $1.3 billion in hypothetical-license damages. ER161.

D. Post-Judgment Rulings

1. SAP's Post-Judgment Motions

On September 1, 2011, the court granted SAP's JMOL and new trial motions. The court's JMOL ruling rested on two independent grounds. *First*, Oracle was not entitled to actual damages for copyright infringement in the form of a hypothetical license because it failed to establish that it lost any licensing fees or opportunities to license. ER31-32, 35. *Second*, even if such fees were recoverable absent proof of lost licensing fees or opportunities, Oracle failed to offer objective evidence to calculate a non-speculative license price. ER31-36. Granting SAP's new trial motion, the court found that the verdict was "grossly excessive" and against the weight of the evidence. ER38-41.

The court vacated the hypothetical-license award and ordered a new trial on lost and infringer's profits, conditioned on Oracle rejecting a $272 million remittitur. ER31-36, 38-41. The court determined that $272 million—the lower of Meyer's lost and infringer's profits calculations—was "the maximum amount of lost profits and infringer's profits sustainable by the proof." ER38.

On September 12, 2011, Oracle sought certification for interlocutory review regarding whether a hypothetical license requires proof of actual or benchmark licenses. D.E.1085. In response, on September 16, 2012, the court issued an order to correct Oracle's misunderstanding of the JMOL order. ER19. The court explained that its September 1 order did not require actual or benchmark licenses to prove the value of a lost license, but rather held that Oracle was required to offer evidence to "establish an objective, non-speculative license price" and failed to do so. ER20. This clarification did not alter the holding that Oracle failed to present objective, non-speculative evidence of a license price—nor did it alter the first basis for granting JMOL, failure to establish lost licensing fees or opportunities.

2. Oracle's Motions For Reconsideration And "Clarification"

On February 6, 2012, Oracle rejected the remittitur and elected a new trial. ER159. Before the second scheduled trial, Oracle asked the court to reconsider its ruling excluding saved development costs, D.E.1122, and to "clarify" whether Oracle could "present evidence and argument in support of a hypothetical license measure of damages." D.E.1120. The court denied both motions. ER18.

3. Oracle's Motion *In Limine* Regarding Deduction Of Overhead Expenses From Infringer's Profits

Also before the second scheduled trial, Oracle moved to preclude SAP from offering evidence of SAP's overhead expenses. Oracle argued that willful infringers may never deduct overhead expenses when calculating infringer's profits. D.E.1145. The court denied Oracle's motion because 17 U.S.C. § 504(b) "makes no distinction between willful and innocent infringers." ER13-14.

SUMMARY OF ARGUMENT

I. The district court properly granted JMOL on two separate grounds, each of which independently supports the judgment. The court correctly held that Oracle was not entitled to recover hypothetical-license fees because Oracle failed to prove that it actually lost any licensing fees or any opportunities to license as a result of the infringement. Instead, the undisputed evidence showed that Oracle never would have granted a license to SAP or to any other party.

II. JMOL was warranted for the additional reason that Oracle failed to present sufficient, objective evidence to calculate a non-speculative license price, as required by this Court. Oracle's evidence was purely subjective, rested on lofty goals and assumptions, and thus provided no objective basis for calculating a license price without improper speculation.

III. In granting JMOL, the court did not abuse its discretion by entering judgment against Oracle's hypothetical-license theory, *see* Fed. R. Civ. P. 50(b)(3), rather than ordering a retrial under that same flawed theory. Given the undisputed trial evidence that Oracle lost no licensing fees or opportunities to license, presented years after clear warning that objective evidence was required, the defects in Oracle's theory are irremediable.

IV. The court did not abuse its discretion by granting SAP's Rule 59 motion for a new trial because the $1.3 billion verdict was grossly excessive and contrary to the weight of the evidence. Oracle presented no evidence of comparable licenses, and it failed to offer any other objective evidence that could support a $1.3 billion verdict. Instead, Oracle improperly relied on evidence of the cost of acquiring entire companies, introduced subjective testimony regarding the price Oracle executives purportedly would have demanded for a license and relied on the speculative opinion of its damages expert. Oracle urged the jury to disregard evidence of actual customer losses resulting from the infringement and presented inflammatory liability evidence to skew the jury's verdict.

Further, in offering a remittitur, the court did not abuse its discretion when it determined that $272 million—a figure that Oracle's expert proposed—was the maximum amount sustainable by the proof.

V. In the event of a new trial, this Court should reject Oracle's attempts to expand damages. *First*, the district court did not abuse its discretion by instructing the jury that it must elect a hypothetical license or infringer's profits because permitting both would lead to an impermissible double recovery.

Second, the court properly concluded that Oracle cannot rely on "saved development costs" to support its hypothetical license, recognizing that the Copyright Act does not allow saved costs as a measure of actual damages.

Third, the court correctly rejected Oracle's distinction between willful and nonwillful infringers as contrary to the statute's plain language. It was thus proper to deny Oracle's motion to preclude SAP, as an alleged willful infringer, from deducting overhead expenses when calculating infringer's profits.

Finally, it was entirely within the court's discretion to admit the testimony of SAP's damages expert, Stephen Clarke. The court did not abuse its discretion in concluding that Clarke was qualified and that Oracle's *Daubert* arguments went to the weight, not the admissibility, of the testimony.

ARGUMENT

I. THIS COURT SHOULD AFFIRM THE ORDER GRANTING JMOL THAT ORACLE WAS NOT ENTITLED TO RECOVER HYPOTHETICAL-LICENSE FEES BECAUSE ORACLE FAILED TO PROVE THAT IT ACTUALLY LOST LICENSING OPPORTUNITIES

The district court correctly ruled that Oracle was not entitled to a hypothetical license because it failed to establish that it lost any licensing fees or opportunities to license. ER31-32, 35. In copyright law, a lost license award is permitted only if the plaintiff actually lost licensing fees or opportunities "as a result of the infringement." 17 U.S.C. § 504(b). JMOL was warranted because there is no dispute that Oracle never has licensed—and never would license—the works to any third-party support provider. ER31-32, 35 (holding that Oracle failed to offer any "evidence of the type on which plaintiffs ordinarily rely to prove that they would have entered into such a license" and that evidence confirmed Oracle "would not ever license to anyone").

A. The Copyright Act And This Court's Precedents Allow Hypothetical-License Awards Only Where The "Actual Damages" Suffered Consist Of Lost License Fees

The damages allowable for copyright infringement are straightforward and statutorily defined: An infringer "is liable for either (1) the copyright owner's actual damages and any additional profits of the infringer," or "(2) statutory damages." 17 U.S.C. § 504(a). Where a plaintiff elects actual damages, it "is entitled to recover the actual damages suffered by him or her as a result of the infringement." *Id.* § 504(b).

"Actual damages" measure "loss in the fair market value of the copyright," which is determined by calculating the plaintiff's lost profits or the "value of the use of the copyrighted work to the infringer." *Polar Bear Prods., Inc. v. Timex Corp.*, 384 F.3d 700, 708 (9th Cir. 2004); *see also Mackie v. Rieser*, 296 F.3d 909, 917 (9th Cir. 2002). The most common and well-accepted way to measure actual damages is to prove lost profits. Under this Court's precedents, however, a plaintiff may seek actual damages for the "value of use" in the form of lost license fees—but only if it suffered lost or reduced license fees due to the infringement. *Polar Bear*, 384 F.3d at 708.

The plain language of section 504(b) requires that a plaintiff establish, as a threshold matter, that any actual damages were actually suffered "as a result of the infringement." 17 U.S.C. § 504(b). Thus, "a causal link between the infringement and the monetary remedy sought is a predicate to recovery of . . . actual damages," whether in the form of lost profits or a hypothetical license. *Polar Bear*, 384 F.3d at 708. It is the plaintiff's burden to "establish this causal connection," which is "akin to tort principles of causation and damages." *Id.*; *see also Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 567 (1985) (recognizing that a copyright holder must "establish[] with reasonable probability the existence of a causal connection between the infringement and a loss of revenue").

Indeed, this Court has never approved a challenged hypothetical license absent proof that, "as a result of the infringement," 17 U.S.C. § 504(b), the copyright owner lost licensing fees or the opportunity to license with the defendant or a third party for the same use. In *Polar Bear*, the defendant had a license which then expired, providing a basis to determine if a license fee was lost. 384 F.3d at 704, 709. In *Jarvis v. K2 Inc.*, 486 F.3d 526 (9th Cir. 2007), this Court affirmed a hypothetical-license award for infringement of copyrighted photographs where the plaintiff had licensed photographs to the defendant in the past. *Id.* at 528, 533-34. This Court upheld a hypothetical-license award in *Mackie* where the parties were not competitors and the plaintiff "had previously given permission for others to use" the copyrighted work in the same way. 296 F.3d at 913, 917. And in *Cream Records, Inc. v. Jos. Schlitz Brewing Co.*, 754 F.2d 826 (9th Cir. 1985), this Court upheld recovery of actual damages in the form of a lost license fee where unauthorized use of a copyrighted song in defendant's commercial deterred potential licensees from licensing the song for their commercials. *Id.* at 827-28.

Other courts are in accord. For example, in *Davis v. The Gap, Inc.*, 246 F.3d 152 (2d Cir. 2001), the Second Circuit allowed recovery of a hypothetical-license fee where the plaintiff had previously had licensed its work for publication. *Id.* at 161-62; *see also Encyclopedia Brown Prods., Ltd. v. Home Box Office, Inc.*, 25 F. Supp. 2d 395, 401-02 (S.D.N.Y. 1998) (upholding hypothetical-license award where defendant previously had license to use copyrighted video, but continued to use it after license expired). Conversely, where there is no evidence that the parties would have agreed to a license and the plaintiff has not otherwise lost an opportunity to license, courts have foreclosed a hypothetical-license fee. In *Business Trends Analysts, Inc. v. Freedonia Group, Inc.*, 887 F.2d 399 (2d Cir. 1989), for example, the parties directly competed in the publication of economic analyses and forecasts, and both produced a robotics industry study. *Id.* at 401. Upon finding that the defendant infringed the plaintiff's study, the court awarded a hypothetical-license fee. *Id*. at 404. The Second Circuit reversed, holding that the "proof in the instant case is inadequate to support such an award" because the parties were direct competitors and there was no evidence that they had any inclination to agree to a license for the infringing activities. *Id*. at 407; *see also Nat'l Conference of Bar Examiners v. Multistate Legal Studies, Inc*., 458 F. Supp. 2d 252, 261 (E.D. Pa. 2006) (declining to award hypothetical license because "there could not have been such a contract" given that license would not have made business sense for parties).

Despite the undisputed evidence that Oracle never had licensed—and never would license—its intellectual property to SAP or to anyone else, *see infra* at 27-31, Oracle persisted in advancing an "automatic-hypothetical-license" theory borrowed from patent law because it was a useful vehicle for inflaming the jury and inflating its damages claim. By claiming that it would never grant a license to SAP and therefore would have insisted on outrageous multi-billion-dollar license fees, Oracle successfully urged the jury to penalize SAP for TomorrowNow's infringement. In doing so, however, Oracle overlooked key differences between copyright law's "hypothetical license" and patent law's "reasonable royalty."

Patent law, unlike copyright law, allows for an automatic "hypothetical" royalty fee simply upon proof of infringement. Congress set a "reasonable royalty" as a minimum damages floor for patent damages, providing that "the court shall award the claimant damages adequate to compensate for the infringement, but *in no event less than a reasonable royalty* for the use made of the invention by the infringer." 35 U.S.C. § 284 (emphasis added). Unlike the Copyright Act, the Patent Act does not require that the reasonable royalty be caused by the infringement; instead, patent law's reasonable royalty is an automatic floor. *See id.*

By contrast, copyright law does not recognize an automatic royalty for actual damages. The Copyright Act creates a very different "floor"—statutory damages under section 504(c), which are not permitted under the Patent Act. Oracle is incorrect that the requirement to prove lost licensing fees would "restrict damages to lost profits." Br. 28. The Copyright Act specifically allows statutory damages as an alternative. 17 U.S.C. § 504(a), (c). This Court should reject Oracle's attempt to rewrite the Copyright Act to create a new floor for damages.

Oracle's argument that a hypothetical-license fee "may be 'presumed' as a 'natural and probable result' of infringement" (Br. 28 (quoting ER33)) flies in the face of established causation principles and this Court's case law. The district court correctly rejected this argument, relying on *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 772 F.2d 505 (9th Cir. 1985). ER33. In *Frank Music*, this Court expressly rejected the argument that "actual damages . . . should be presumed" and emphasized that an owner is not "relieved from or aided in proving actual damages by some presumption." *Id.* at 514 n.8. Because there was no evidence that the infringement impaired the plaintiff's ability to license a full production of its musical, this Court held that the plaintiff was not entitled to a lost license fee. *Id.* at 513-14. Oracle attempts to distinguish *Frank Music* on the basis that it involved lost profits, not a license fee. Br. 28-29. But even accepting this characterization, *Frank Music*'s holding applies with equal force to both lost profits and a hypothetical license, both of which are "actual damages" and must be "suffered by [the copyright owner] as a result of the infringement." 17 U.S.C. § 504(b). Indeed, *Frank Music* likened its facts to *Cream Records*, which involved lost license fees. 772 F.2d at 514 n.7. Evidence of lost licensing fees or opportunities is required to recover actual damages in the form of lost license fees. As discussed below, Oracle failed to present any such evidence.

B. Oracle Did Not Lose License Fees From Any Third Party

Oracle never has argued that it is entitled to a hypothetical license because it lost the opportunity to license the works to third parties for the use made by TomorrowNow. By its own admission, Oracle never has given any entity a license to copy Oracle's application software and support materials in order to create their own fixes, patches or updates for customers. SER28-30. This is further evidenced by the absence of any benchmark licenses or trial testimony regarding the same. *Supra* at 7-9. Because Oracle is not in the business of licensing its copyrighted works to third-party support providers, it cannot argue that SAP's infringement diminished the licensing value of the infringed works. *Frank Music*, 772 F.2d at 513-14; *Cream Records*, 754 F.2d at 827-28. Accordingly, Oracle's only avenue for proving its entitlement to hypothetical lost license fees was to show that, but for infringement, the parties would have agreed to a license.

C. Oracle Did Not Lose License Fees From SAP Or TomorrowNow

Oracle was not entitled to recover hypothetical-license fees because the evidence demonstrated that the parties never would have agreed to the proposed copyright license, and thus, Oracle never lost any license fees. The cases permitting and prohibiting a hypothetical license articulate several factors for determining whether parties would have agreed to a license, including whether: (1) the parties are direct competitors, (2) the parties sell goods in the same market,

(3) the parties previously entered into a similar license, (4) the plaintiff has granted a similar license and (5) the license makes business sense to the parties. *Polar Bear*, 384 F.3d at 711 (parties would have agreed to license because they licensed in the past); *Business Trends*, 887 F.2d at 405-06 (direct competitors would not have agreed to license); *Nat'l Conference of Bar Examiners*, 458 F. Supp. 2d at 261 (no agreement to license because it would not have made business sense); *Davis*, 246 F.3d at 161-62 (no agreement to license because parties did not compete and plaintiff had licensed work in the past); *Encyclopedia Brown*, 25 F. Supp. 2d at 401-02 (same). Oracle's trial evidence fails on every factor.

First, the parties are direct competitors selling in the same market. Evidence of direct competition, by itself, strongly supports a conclusion that a hypothetical license is not a proper measure of actual damages because direct competitors are unlikely to license their intellectual property to one another. *Business Trends*, 887 F.2d at 405-06; *Encyclopedia Brown*, 25 F. Supp. 2d at 401-02. Accordingly, cases in which this Court affirmed a hypothetical-license fee all involved non-competitors. *Wall Data, Inc. v. LA County Sheriff's Dep't*, 447 F.3d 769 (9th Cir. 2006) (computer software developer vs. municipal customer); *Polar Bear*, 384 F.3d 700 (watch company vs. film production company); *Jarvis*, 486 F.3d 526 (photographer vs. advertiser); *Mackie*, 296 F.3d 909 (artist vs. symphony).

The testimony about the parties' direct competition alone demonstrates that

Oracle never would have given such a license to Defendants. There is no question that each considers the other its chief competitor in the applications business. *See supra* at 9. Both damages experts confirmed this competitive relationship. ER370; SER107. As in *Business Trends*, the parties' direct competition is a critical and undisputed fact, demonstrating that a hypothetical license is not a proper damages measure. 887 F.2d at 405-06; *see also Jarvis*, 486 F.3d at 533. Confirming the logic of this conclusion, Phillips testified it was "unthinkable" that Oracle would have ever granted SAP a license in light of the competitive relationship. ER189-90.

Second, the undisputed evidence shows that the parties did not previously enter into a similar license and that Oracle never has granted a similar license. The absence of benchmarks, although not dispositive, typically demonstrates that there is no viable licensing market from which the plaintiff would have derived licensing fees and thus that there was no harm to the work's fair market value in the form of lost license fees. Indeed, this Court has never affirmed a hypothetical-license award where no comparable transactions establishing the likelihood of a license between the parties exist. *Jarvis*, 486 F.3d at 534 (upholding license award where parties had previous license for infringed works); *Polar Bear*, 384 F.3d at 710-11 (same); *Mackie*, 296 F.3d at 917 (affirming award where "permission for others to use" work previously given). There is no evidence—such as comparable Oracle licenses—to suggest that Oracle would have even negotiated, let alone granted, a license to SAP or TomorrowNow. *Jarvis*, 486 F.3d at 528, 533-34 (allowing hypothetical license where parties were not direct competitors and previously had entered into licenses for work at issue); *Encyclopedia Brown*, 25 F. Supp. 2d at 401 (same). As its own executives and damages expert testified, Oracle never has given any entity a license that would cover the stipulated infringing activities. *Supra* at 7-9; SER140-42, 145-46; ER459; SER71-72; SER47. Ultimately, there was no evidence of licenses for comparable use of software applications. *Supra* at 8; ER551; SER108-09; ER189-90; SER28-30, 41-43, 45; SER140-42, 145-46.

Finally, Oracle's executives testified that, immediately following the PeopleSoft acquisition, it would not have made business sense to give Oracle's biggest competitor a license permitting TomorrowNow to use Oracle's intellectual property to compete against Oracle in providing support services for the very PeopleSoft customers Oracle just acquired. SER27-30, 41. It was "unprecedented" and "unthinkable." SER145-46; ER189-90. And SAP's side of the hypothetical negotiating table was equally unwilling. Brandt testified that SAP would have asked TomorrowNow to change its procedures or "would have considered not to buy TomorrowNow," rather than entering into a license with Oracle. SER46. The undisputed fact that it would not have made business sense for these parties to agree to such an unprecedented license supports the conclusion that Oracle may not recover actual damages in the form of a hypothetical license. *See Nat'l*

Conference of Bar Examiners, 458 F. Supp. 2d at 261; *cf. Jarvis*, 486 F.3d at 533; *Business Trends*, 887 F.2d at 405-06.

D. The District Court Did Not Rule That Oracle Was Required To Offer Evidence Of Benchmark Licenses

Oracle complains that the court improperly required evidence of "benchmark" licenses to establish entitlement to lost license fees. Br. 29-31. Not so. Instead, the court observed that benchmarks are probative evidence to show actual lost licensing fees and establish a non-speculative license price. In holding that Oracle failed to prove it lost licensing fees, the court noted, "Oracle 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. Likewise, in finding that Oracle's evidence of license price forced the jury to speculate, the court noted "under Ninth Circuit case law, one way to establish an objective, non-speculative license price is by providing evidence of licenses previously negotiated for comparable use of the infringed work, and benchmark licenses for comparable uses of comparable works." ER20. The court made clear that it "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." ER20. The court's recognition that benchmarks play a significant role—but are not dispositive—in proving entitlement to lost license fees is correct under this Court's precedent. *Polar Bear*, 384 F.3d at 711; *Jarvis*, 486 F.3d at 534.

Unable to dispute the important role that benchmarks typically play in a hypothetical-license analysis, Oracle attempts to manufacture error by misconstruing the JMOL ruling as mandating evidence of benchmark transactions. Since the court never so held, Oracle attacks a straw man in arguing that benchmark licenses are unnecessary to calculate a non-speculative license price.

Likewise, Oracle misses the mark by asserting that requiring evidence of benchmarks to prove entitlement to license damages "create[s] unnecessary tension with the right of a copyright holder not to license his works . . . by narrowing the available remedies for infringement in circumstances where copyrights are of such value that licenses are rarely or never granted." Br. 29. There is no dispute that copyright owners may elect not to license their works. Absent evidence of past licensing history or comparable third-party transactions, however, such copyright owners will need to resort to other objective evidence to show loss of a license fee and the amount of that fee. Without this evidence, recovery of lost profits or statutory damages may be available to redress infringement.

* * *

Because the undisputed evidence showed that Oracle failed to present evidence of any lost licensing fees or opportunities to license, the district court correctly granted JMOL that Oracle is not entitled to a hypothetical-license fee. The court's JMOL ruling should be affirmed.

II. THIS COURT SHOULD AFFIRM THE ORDER GRANTING JMOL THAT ORACLE FAILED TO PRESENT OBJECTIVE EVIDENCE OF THE HYPOTHETICAL-LICENSE VALUE

The court properly granted JMOL for the additional, independent reason that Oracle failed to present objective, non-speculative evidence of the value of a license, even were a hypothetical license an available remedy. ER32 ("[T]he evidence Oracle presented was insufficient to establish an objective non-speculative license price."), ER35; ER20; *see also Lakeside-Scott v. Multnomah County*, 556 F.3d 797, 803 (9th Cir. 2009) ("JMOL is appropriate when the jury could have relied only on speculation to reach its verdict.").

A. A Hypothetical License Requires Objective, Non-Speculative Evidence Of License Value

Where permissible, the amount of a hypothetical license is calculated by considering "'what a willing buyer would have been reasonably required to pay to a willing seller for the owner's work.'" *Mackie*, 296 F.3d at 917 (quoting *Frank Music*, 772 F.2d at 512) (alteration omitted). This inquiry requires an "objective, not a subjective" analysis. *Mackie*, 296 F.3d at 917; *see also Jarvis*, 486 F.3d at 534. "Excessively speculative" claims must be rejected. *Jarvis*, 486 F.3d at 534.

When valuing a hypothetical license, plaintiffs typically present objective evidence of benchmarks, such as licenses previously negotiated for the infringed work or comparable works. *Id.* at 533 (affirming award based on evidence of what defendant typically paid to license photographs, prior dealings with plaintiff, and what plaintiff typically charged to license); *Polar Bear*, 384 F.3d at 709 (affirming award based on parties' existing license); 6 William F. Patry, *Patry on Copyright* § 22:111 (2012) ("Proof of prior license or industry practice is crucial to recovery, since, as with all actual damages, an award of lost license fees may not be based on mere speculation."). This Court never has awarded actual damages measured by a hypothetical-license fee without evidence of benchmark transactions.

Because Oracle presented no benchmark licenses, *supra* at 7-8, 27-31, it was required to present other objective evidence to determine the license value. Oracle failed to do so. Instead, it offered a spate of other evidence, none of which was sufficiently objective to allow a jury to determine, without speculation, "what a willing buyer would have been reasonably required to pay to a willing seller" to license the work. *Mackie*, 296 F.3d at 917 (quotation omitted).

B. Oracle's Evidence Was Insufficient

1. Evidence Of Oracle's Demands

The court properly declined to rely on evidence of "what Oracle would have demanded" for a license. ER35. As a matter of law, a plaintiff's subjective, one-sided demands cannot support a hypothetical license calculation. This Court has foreclosed reliance on such evidence, noting "'[t]he question is not what the owner would have charged, but rather what is the fair market value.'" *Jarvis*, 486 F.3d at 534 (quoting *Davis*, 246 F.3d at 166). Reliance on subjective demands "can risk abuse" because (as here) "[o]nce the defendant has infringed, the owner may claim unreasonable amounts as the license fee." *Davis*, 246 F.3d at 166. An objective inquiry, by contrast, "avoid[s] references to what [the copyright owner] thought he should have earned or wished he had charged." *Jarvis*, 486 F.3d at 534. Therefore, this Court has rejected a copyright owner's "subjective view" of what "he [or she] would have demanded" for a license, reasoning that "the market value approach is an objective, not a subjective, analysis." *Mackie*, 296 F.3d at 913, 917.

At trial, Oracle heavily relied on evidence of what it claimed it would have demanded from SAP, and Oracle's counsel encouraged the jury to consider these demands in calculating a hypothetical license. *See supra* at 9-10. Oracle's demands reflect a purely subjective valuation of "what the owner would have charged," *Jarvis*, 486 F.3d at 534 (quotation omitted), and they cannot support an objective, non-speculative hypothetical-license price. *Mackie*, 296 F.3d at 917.

2. Value Of PeopleSoft Entity As A Whole

At trial, Oracle repeatedly emphasized that it paid $11 billion to acquire PeopleSoft. Over and over, Oracle suggested that a hypothetical license should carry a similar price tag. *See supra* at 10. Oracle's counsel used these large numbers to convince the jury to award a massive hypothetical license, arguing that lost profits did not account for the billion-dollar IP "investments." SER152.

Oracle relied on the cost of purchasing PeopleSoft "lock, stock and barrel," a purchase that included not only intellectual property, but also real estate, office equipment and other company assets. ER215-16. Faced with abundant evidence of an $11 billion price, the jury was forced to speculate regarding the relationship between that acquisition price and the value of the hypothetical license at issue.

Even had Oracle paid $11 billion solely for PeopleSoft's intellectual property, Oracle cannot rely on the value of intellectual property as a whole to prove the value of a limited license to use the intellectual property. A hypothetical license must be based on the value of the defendant's actual use—not on the full cost of replacing the intellectual property. *Wall Data*, 447 F.3d at 776; *Davis*, 246 F.3d at 166 n.5. Courts reject attempts to recover hypothetical-license fees for more than the actual use made of the work. *See, e.g.*, *Powell v. Penhollow*, 260 Fed. App'x 683, 690-91 (5th Cir. 2007) (affirming no hypothetical license for completed architectural plans because defendant infringed only incomplete plans).

3. The Parties' Goals And Assumptions

Oracle relies on purported evidence of SAP's "expected benefits" and of both parties' "contemporaneous financial projections." Br. 33-35. But this evidence merely consists of the subjective goals and assumptions of the parties.

Such goals and assumptions, standing alone, do not comprise sufficiently objective evidence of a license price. This is particularly true where, as here, the parties' goals and assumptions are purely speculative and detached from reality.

a. In copyright law, goals and assumptions cannot provide the sole basis for a hypothetical-license price

Oracle cites no copyright case in which a hypothetical-license price was based on evidence of the parties' goals and assumptions. The cases cited by Oracle merely recite the objective "willing buyer, willing seller" standard and rely on other objective evidence to price the license. *Wall Data*, 447 F.3d at 786-87 (relying on average prices charged by plaintiff); *Davis*, 246 F.3d at 161, 172 (relying on plaintiff's previous licensing fee); *Thoroughbred Software Int'l, Inc. v. Dice Corp.*, 488 F.3d 352, 359 (6th Cir. 2007) (relying on agreement between parties requiring a license fee for each software copy).

The only case Oracle cites that relies on evidence of sales goals is an inapposite Federal Circuit patent case that allowed evidence of expected sales to calculate a reasonable royalty. *Interactive Pictures Corp. v. Infinite Pictures, Inc.*, 274 F.3d 1371, 1384-85 (Fed. Cir. 2001). Unlike patent decisions, however, copyright decisions consistently emphasize that the analysis is "objective," not "subjective." *Mackie*, 296 F.3d at 917; *Jarvis*, 486 F.3d at 534. Attempting to derive a fair market price based on one party's goals, assumptions, expectations or projections is an inherently subjective exercise, never before endorsed by courts that have permitted recovery of license damages. Even *McRoberts Software, Inc. v. Media 100, Inc.*, 329 F.3d 557 (7th Cir. 2003), a copyright case that briefly cites *Interactive Pictures*, relies on numerous established license fees between business partners—not sales expectations—to value a hypothetical license. *Id.* at 566.

b. Oracle's evidence requires speculation

Oracle's purported evidence of SAP's "projections" and "expectations" consists of SAP's purely aspirational goals and assumptions. Oracle cites two principal SAP's "projections": (1) 3,000 PeopleSoft customers would switch to TomorrowNow for support services and (2) out of those 3,000 TomorrowNow customers, 1,375 customers—or around 50%—would convert to SAP software. Br. 35. To support these projections, Oracle primarily relies on an SAP presentation titled "A Roadmap for PSFT Customers to SAP." ER790; ER1164. But the key slide in this presentation, titled "SAP Business Opportunity," prominently labels the numbers—including the customer numbers and the $897 million revenue goal—mere "Assumptions." ER799; ER1173. Similarly, SAP's statements regarding the number of customer conversions to SAP are described as "goals." ER860, ER903.[1] Such aspirational goals and assumptions do not enable a jury to

[1] Oracle asserts that ER984 shows SAP's projections for "convert[ing] 2,000 to 4,000 PeopleSoft customers to SAP," Br. 35, but it actually refers to the potential TomorrowNow customer base. ER984. This provides no basis to assume 2,000 or 3,000 customer conversions to SAP. *See* Br. 36-37 nn. 11-12.

determine, without speculation, the value of a hypothetical license.

SAP's goals required speculation for the additional reason that these goals related to the "Safe Passage initiative" as a whole and were not specific to the infringement. TomorrowNow was only an optional component of Safe Passage; customers could purchase SAP products without purchasing support from TomorrowNow. SER288; SER97-98. It is speculative to assume that SAP's goals for Safe Passage—particularly the number of customers it hoped to convert to SAP—reflect the value that SAP placed on TomorrowNow. Although Oracle points to statements that TomorrowNow was a "key part" of Safe Passage, *see, e.g.*, ER733-36, those general statements do not provide a metric for a quantitative valuation of the limited-use license for TomorrowNow.

Meyer's opinion is based on this flawed evidence. By inputting SAP's purported goals of 3,000 TomorrowNow customers and 1,375 customer conversions to SAP, Meyer estimated that SAP would have expected $880 million in profits. ER410; ER415-16; ER428. He admitted that the numbers were mere "assumption[s]." SER69-70. The court concluded that Meyer's opinion was "speculative" and was "based on little more than guesses about the parties' expectations." ER38.

Oracle's presentation of its own "expectations"—including Meyer's opinion that Oracle would have expected to lose $1.386 billion from SAP's use of the works—is similarly flawed because it is based on *SAP*'s customer goals as set forth in *SAP* documents. ER427-29. This approach piles assumption on assumption, requiring extreme speculation. Moreover, it defies reality because the evidence shows that Oracle expected TomorrowNow to have little to no impact—and certainly not impact in the billions. *See supra* at 11-12.

c. Oracle's evidence is detached from reality

The parties' goals and assumptions are unmoored to reality, underscoring their speculative, aspirational nature. Hypothetical-license claims untethered to the actual harm suffered by an owner are speculative and cannot stand. *Mackie*, 296 F.3d at 917; *Davis*, 246 F.3d at 161. As the Supreme Court has instructed, when "years have gone by" before damages are determined, "[e]xperience is then available to correct uncertain prophecy," and that experience constitutes "a book of wisdom that courts may not neglect." *Sinclair Ref. Co. v. Jenkins Petroleum Process Co.*, 289 U.S. 689, 698 (1933). Although Oracle's calculations were based on projections for 3,000 TomorrowNow customers—with less than 50% of those customers converting to SAP—the undisputed reality is that TomorrowNow had only 358 customers, SER288; SER21-22; SER44-45; ER543, and far fewer converted to SAP. No reasonable jury could conclude that Oracle was entitled to a license based on over eight times the actual number of TomorrowNow customers.

4. Scope Of The Infringement

Oracle's discussion of the scope of the infringement (Br. 32) fails to add any objective support for the jury's $1.3 billion award. Although the scope of the infringement is relevant to determine the nature of the license, it says nothing about the objectively quantifiable value of the use of the software.

5. Siebel And Database Licenses

Oracle also presented values for Siebel and database software licenses, together totaling $155.6 million. These valuations were not supported by the evidence and required the jury to speculate. Even if these valuations were accurate, they did not add material support for the jury's much larger $1.3 billion verdict.

Oracle's Siebel license valuation rested on the same sort of speculative, unsupported evidence on which Meyer relied to calculate the PeopleSoft license, such as Siebel's acquisition price. ER209-10; SER276-77; ER284-86, 288; *supra* at 35-36. And, as with the PeopleSoft license, Meyer based his calculations on SAP's goals and assumptions. ER442-43, 451; SER269-72; *supra* at 36-40.

Regarding the database license, instead of following Oracle's standard price structure for database software, Meyer used a price structure devised solely for this case by Oracle employee Allison. SER33-42; ER458-60. Allison admitted that there was no "real-world" transaction in which any customer agreed to license the software on this basis, SER42, but Meyer still accepted Allison's pricing structure and assumptions wholesale, SER73-77. Meyer also made sweeping assumptions to determine the number of customers who "benefited" from TomorrowNow's use of the database software, which included customers whose environments did not run on an Oracle database. ER457, 461; SER274; SER192; SER206.

6. Oracle's Counsel Encouraged The Jury To Speculate

Compounding the flaws in Oracle's evidence, Oracle's counsel encouraged the jury to speculate when determining a hypothetical-license price. During closing argument, Oracle's counsel purported to summarize the manifold "valuations" of Oracle's claim, ranging from $897 million to $5 billion. SER162-63; SER277. After conceding that "it's hard to have enough support" for a license of $4 to $5 billion, counsel invited the jury simply to pick a number "somewhere between 1.65 and 3 billion," assuring the jury that "the answer is probably somewhere in there." SER162-63. These statements further illustrate the improperly speculative nature of the jury's verdict. The district court's JMOL ruling should be affirmed.

III. THE DISTRICT COURT PROPERLY ENTERED JUDGMENT ON THE HYPOTHETICAL-LICENSE THEORY

When a court grants JMOL, it has two options under Rule 50(b): It may "direct the entry of judgment as a matter of law," Fed. R. Civ. P. 50(b)(3) or, as a less common alternative, it may "order a new trial." Fed. R. Civ. P. 50(b)(2). Cases in which courts order a new trial "are very rare indeed." 9B Charles Alan

Wright *et al.*, *Federal Practice and Procedure* § 2538 (3d ed. 2012). Appellate courts owe great deference to the discretionary decisions to enter judgment or grant a new trial under Rule 50(b). As the Supreme Court explained, "[d]etermination of whether a new trial should be granted or a judgment entered under Rule 50(b) calls for the judgment in the first instance of the judge who saw and heard the witnesses and has the feel of the case which no appellate printed transcript can impart." *Cone v. W. Va. Pulp & Paper Co.*, 330 U.S. 212, 216 (1947).

Here, the court recognized its discretion to grant a new trial on the hypothetical license, ER24, and made an informed decision to enter judgment instead. This is not the "very rare" case where a new trial on the hypothetical-license theory, rather than entry of judgment, is warranted. 9B Wright, *supra*, § 2538. Oracle's trial presentation focused on the hypothetical-license theory, ER38, and Oracle had ample opportunity—at summary judgment and during the three-week trial—to present evidence in support of this theory. A new trial would not allow Oracle to remedy the defects in its proof, *see* 9B Wright, *supra*, § 2538, particularly given the extensive, undisputed evidence that it never would have granted a comparable license to SAP or to anyone else. *Supra* at 7-9, 27-31.

Contrary to Oracle's argument, the court did not "change the rules after the close of proof" by imposing new requirements of "proof of actual willingness to license or benchmark licenses." Br. 45 (emphasis omitted). As the court explained, its summary judgment order "was not intended as a definitive ruling as to what Oracle was or was not required to show." ER34. Rather, "the most salient guidance provided . . . was the instruction that Oracle could claim lost license fees only if it 'present[ed] evidence sufficient to allow the jury to assess fair market value without "undue speculation."'" *Id.* (quoting ER1296). The court made clear that "[g]eneral tort principles of causation" apply to actual damages, ER1294, which is consistent with requiring lost licensing opportunities. At summary judgment, the court "fully anticipated that Oracle would present objective evidence in support of lost license fees" at trial. ER35. But after giving fair warning of what was required, and having had "the benefit of [hearing] all the evidence" at trial, the court granted JMOL because "Oracle failed to present such objective, non-speculative evidence"—both for proving lost licensing opportunities as well as for proving a hypothetical-license value. *Id.* Indeed, "the evidence showed that Oracle had not only not licensed to anyone (including SAP) in the past, but would not ever license to anyone (including SAP)." *Id.*

Oracle cannot argue that it was deprived an opportunity to be "fully heard" on these issues, or that it was unaware of the deficiencies that SAP claimed. Br. 45. These issues were litigated extensively, giving Oracle ample opportunity to present sufficient objective evidence. Oracle's failure to offer this evidence after years of litigation was no accident: No such evidence exists.

IV. THIS COURT SHOULD AFFIRM THE DISTRICT COURT'S RULE 59 ORDER GRANTING A NEW TRIAL

A. The District Court Did Not Abuse Its Discretion In Concluding That The $1.3 Billion Verdict Was Grossly Excessive And Contrary To The Weight Of The Evidence

This Court reviews the district court's decision to grant a new trial for abuse of discretion. *Murphy v. City of Long Beach*, 914 F.2d 183, 186 (9th Cir. 1990). Because district courts have a "better opportunity . . . to appraise the situation," 11 Charles Alan Wright *et al.*, *Federal Practice and Procedure* § 2819 (3d ed. 2012), "[t]he grant of a new trial is confided almost entirely to the[ir] exercise of discretion." *Murphy*, 914 F.2d at 186 (quotations omitted).

The court correctly held that the $1.3 billion verdict was contrary to the weight of the evidence and grossly exceeded the actual harm. ER38. It reasoned that Oracle: (1) relied on "the purported value of the intellectual property as a whole," (2) "elicited self-serving testimony from its executives regarding the price they claim they would have demanded," (3) "proffered the speculative opinion of its damages expert, which was based on little more than guesses about the parties' expectations," and (4) not only failed to present evidence of "objectively verifiable" harm in the form of lost customers, but also "urged the jury to disregard evidence of Oracle's actual customer losses resulting from infringement." *Id.* The court's careful weighing of the evidence reflects its considerable experience in presiding over a three-week trial and in managing this case for four years. 11 Wright, *supra*,

§ 2819. The court was correct—and well within its discretion—on each point.

First, Oracle's evidence of the "value of intellectual property as a whole" led to an excessive verdict. To inflate the jury's award, Oracle repeatedly emphasized that it paid $11 billion for PeopleSoft and $6 billion for Siebel. *See supra* at 10. This evidence invited impermissible speculation because it did not measure the value of use of the intellectual property, but the cost of acquiring entire companies. *See supra* at 35-36, 41. Oracle also presented evidence of overreaching R&D costs for irrelevant time periods and products, *see supra* at 10, which Oracle now concedes is irrelevant. D.E.1057 at 30. The court did not abuse its discretion in concluding that this evidence led to a verdict against the weight of the evidence.

Second, the court correctly ruled that Oracle cannot rely on "self-serving testimony from its executives regarding the price they claim they would have demanded." ER38; *supra* at 34-35. Oracle argues that reliance on this testimony was reasonable because the verdict was only a "fraction" of the amounts that executives claim they would have charged. Br. 42. But this fails to account for the significant impact of repeatedly flashing billion-dollar figures before the jury—a strategy designed to skew the verdict toward a billion-dollar number. *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.2d 1292, 1320 (Fed. Cir. 2011) (recognizing that presentation of inflated, unrelated figures "cannot help but skew the damages horizon for the jury" and finding apt district court's statement that "[t]he $19 billion cat was never put back into the bag"). The court was entitled to consider the impact of this evidence and to conclude that it led to an excessive verdict.

Third, the court concluded that Meyer's opinion was "speculative" and "based on little more than guesses about the parties' expectations." ER38. Oracle does not defend Meyer's opinion, except to say that it was based on the same speculative evidence the court rejected. Br. 43. The court was well within its discretion in concluding that Meyer's opinion was "based on little more than guesses." ER38.

Fourth, the court concluded that Oracle "urged the jury to disregard evidence of Oracle's actual customer losses resulting from infringement." ER38. Oracle's evidence was detached from reality, and Oracle made every effort to distract the jury from the actual harm it suffered. *Supra* at 40, 42. When calculating actual damages, which measure harm suffered "as a result of the infringement," 17 U.S.C. § 504(b), courts should not turn a blind eye to reality. *Davis*, 246 F.3d at 166 (warning against "unrealistically exaggerated claim[s]").

In addition to the flaws cited by the court, the award also was infected by Oracle's presentation of irrelevant and prejudicial liability evidence. Oracle presented a daily barrage of evidence purporting to show that SAP's "willingness to risk liability" and urged the jury to increase its hypothetical-license award based on this evidence. *See supra* at 12-13. Although the parties agreed that some liability evidence was admissible as "background or context," ER1240, Oracle's extensive reliance on liability evidence skewed the jury's damages assessment and led to an excessive verdict. Further infecting the jury's verdict, Oracle repeatedly used words with criminal overtones, such as "theft" and "steal," to describe the infringement. *See supra* at 13. All of this inflammatory evidence conflated issues of liability and concepts of punishment with calculating damages under copyright law, which does not permit punitive damages. *Oboler v. Goldin*, 714 F.2d 211, 213 (2d Cir. 1983). The result of this onslaught of evidence was a verdict that so far outstripped the evidence of actual harm that it can only be described as impermissible punitive damages. *Id.* The new trial ruling should be affirmed.

B. The District Court Did Not Abuse Its Discretion In Setting The Remittitur At $272 Million

The court did not abuse its discretion in concluding that $272 million was "the maximum amount of lost profits and infringer's profits sustainable by the proof," ER38, and setting this amount as the remittitur. *D&S Redi-Mix v. Sierra Redi-Mix & Contracting Co.*, 692 F.2d 1245, 1249 (9th Cir. 1982).

On cross-examination, Meyer presented two alternative calculations for lost and infringer's profits: (1) $120.7 in lost profits plus $288 million in infringer's profits, totaling $408.7 million, or (2) $36 million in lost profits and $236 million in infringer's profits, totaling $272 million. ER39; ER469-70. Meyer's lower lost profits calculation ended in 2008, when TomorrowNow wound down its services, whereas his higher calculation extended through 2015 "to reflect the ongoing impact" of the infringement. ER39-40 (quoting ER468). With respect to infringer's profits, Meyer's higher calculation included three more customers who were not included in the lower calculation because "there's some issues still that sort of exist about the role of TomorrowNow in converting those customers to SAP." ER40 (quoting ER437).

The court accepted the lower of Meyer's two calculations, concluding that Meyer's higher calculation of $408.7 million was "not supported by proof" for two reasons. ER39-40. With respect to lost profits, the court reasoned that "[i]t is undisputed that SAP ceased [TomorrowNow's] operations (and any infringement of Oracle's copyrighted works) in late 2008," and "Oracle provided no evidence to support an additional $84.7 million for 'ongoing impact' for seven years following [TomorrowNow's] demise." ER40. As to infringer's profits, the court reasoned that Meyer's "justification for the larger calculation of infringer's profits is unduly speculative." *Id.* Both of the court's rationales are sound.

The court was correct to question the evidentiary support for Meyer's "ongoing impact" calculation. Meyer failed to explain why Oracle would have continued to suffer $84.7 million in lost profits after TomorrowNow closed. He made no effort to explain the basis for his calculation, even though assessing "ongoing impact" through 2015 necessarily required future projections. He merely stated that lost customers typically do not return. ER476. The jury had no evidence regarding the duration of Oracle's existing customer relationships, the average amount of lost profits Oracle suffered per year or how Meyer calculated his future projections. The court reasonably concluded that the additional $84.7 million was not "sustainable by the proof." *D&S Redi-Mix*, 692 F.2d at 1249.

The court also reasonably concluded that Meyer's higher infringer's profits number was "unduly speculative." ER40. This number depended on including three additional customers, and Meyer admitted at trial—without further explanation—that "there's some issues still that sort of exist about the role of TomorrowNow in converting those customers to SAP." ER437. Confirming that these customers never should have been counted toward the award, Oracle dropped the three customers from its infringer's profits analysis before the second scheduled trial. SER344-47; SER430. This Court should affirm the remittitur.

V. THIS COURT SHOULD AFFIRM THE DISTRICT COURT'S OTHER RULINGS

A. The District Court Did Not Abuse Its Discretion In Declining To Instruct The Jury That It Could Award Oracle Both Hypothetical-License Fees And Duplicative Infringer's Profits

If this Court orders a new trial on the hypothetical-license theory, Oracle argues that it should be permitted to recover both a hypothetical license and infringer's profits. Br. 49-51. But the district court did not abuse its discretion in concluding that, based on the evidence, recovery of both types of damages would result in an impermissible double recovery. *Jones v. Williams*, 297 F.3d 930, 934 (9th Cir. 2002) (reviewing exclusion of jury instructions for abuse of discretion). Oracle's requested instruction had no support in the law or the evidence. *See id.*

The Copyright Act permits recovery of both actual damages and infringer's profits, but only to the extent that they are not duplicative. An owner may recover "actual damages suffered . . . as a result of the infringement, 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) (emphasis added). Double recovery is prohibited: "Where the defendant's profits are nothing more than a measure of the damages suffered by the copyright owner, it would be inappropriate to award damages and profits cumulatively, since in effect they amount to the same thing." H.R. REP. No. 94-1476 at 93 (1976); *Transgo, Inc. v. Ajac Transmission Parts Corp.*, 768 F.2d 1001, 1023-24 (9th Cir. 1985).

The court did not abuse its discretion in concluding that, based on the evidence, Oracle's "hypothetical license does include the infringer's profits." ER634. Meyer disclosed in a pretrial demonstrative that he "included" infringer's profits in his license calculation. SER339. In the Joint Pretrial Statement, Oracle confirmed that it would seek $2.15 billion in hypothetical-license fees; only if the jury awarded lost profits would Oracle then "also seek SAP's infringers' profits." SER282. It was not until the close of evidence that Oracle requested infringer's profits plus hypothetical-license fees (if the jury awarded less than $1.65 billion). ER628-34. But even then, Oracle's counsel conceded that "the hypothetical license, as defined precisely by our expert, does include" infringer's profits. ER632-33. On these facts, the court reasonably determined that Oracle's eleventh-hour request would lead to an impermissible double recovery.

Oracle's cases are unavailing. *Abend v. MCA, Inc.*, 863 F.2d 1465, 1479 (9th Cir. 1988) and *Walker v. Forbes, Inc.*, 28 F.3d 409, 412 (4th Cir. 1994), stand only for the proposition that a copyright owner may recover actual damages and non-duplicative infringer's profits. *Cream Records* also did not authorize recovery of duplicative damages. 754 F.2d at 828. In contrast to Oracle's hypothetical-license claim, the award of lost license fees from *third parties* in *Cream Records* did not encompass the infringer's profits, and neither party claimed that it did. *Id.* The district court's ruling should be affirmed.

B. The District Court Did Not Err In Barring Oracle From Seeking Hypothetical-License Fees Based On Alleged Saved Costs

The district court correctly granted partial summary that actual damages cannot encompass "saved development costs." ER93-94. Neither this Court's precedent, nor the Copyright Act, permits such an award.

No court in this Circuit has permitted a copyright plaintiff to measure hypothetical-license fees based on purported saved costs. The cases Oracle cites as validating "value of use" damages permit recovery only of lost licensing opportunities calculated based on licensing history—not an infringer's saved costs. *Polar Bear*, 384 F.3d at 711 (affirming award based on past negotiations); *Jarvis*, 486 F.3d at 534 (affirming award based on past licenses); *Abend*, 863 F.2d at 1479 (recognizing damages based on impaired ability to market derivative works).

Permitting recovery of hypothetical-license fees based on an infringer's saved costs contravenes the plain text of the Copyright Act, which allows recovery of actual damages and non-duplicative infringer's profits. 17 U.S.C. § 504(b). Actual damages, analyzed from the owner's perspective, compensate for demonstrable harm caused by infringement. *Id.*; *Polar Bear*, 384 F.3d at 708; *Davis*, 246 F.3d at 159. Infringer's profits, analyzed from the infringer's perspective, require that an infringer disgorge profit attributable to the infringement so that it does not benefit from wrongdoing. *Id.* But "saved costs"—which like infringer's profits, attempt to disgorge alleged benefit to the infringer—do not qualify as infringer's profits because, under the Copyright Act, infringer's profits refer not to "gain in economic theory," but rather to "a more conventional view of profits" as "gross revenue less out-of-pocket costs." *Business Trends*, 887 F.2d at 405-06; 17 U.S.C. § 504(b). There being no other category of allowable actual damages, "saved costs" are plainly unauthorized by statute.

No case Oracle cites supports awarding hypothetical-license fees based on an infringer's saved costs.[2] In *Harris Mkt. Research v. Marshall Mktg. & Comm'cns, Inc.*, 948 F.2d 1518 (10th Cir. 1991), the Tenth Circuit allowed a plaintiff to recover its own R&D costs as actual damages, costs incurred to develop software never paid for by the defendant. *Id.* at 152. In *Real View, LLC v. 20-20 Techs., Inc.*, 811 F. Supp. 2d 553 (D. Mass. 2011), the court vacated a hypothetical license as unduly speculative where based only on non-comparable benchmarks, the price that the plaintiff paid to acquire a competitor and the defendant's alleged saved costs. *Id.* at 558-59. The court remarked that even had the plaintiff offered competent evidence of the defendant's saved costs, it "would not provide the jury with a sufficient basis for arriving at a non-speculative hypothetical license fee." *Id.* And *Bourns, Inc. v. Raychem Corp.*, 331 F.3d 704 (9th Cir. 2003), is distinguishable as a trade-secret case—unlike in copyright law, trade-secret law allows recovery of saved costs. *Milgrim on Trade Secrets* § 15.02[3][c][i]. The court's exclusion of "saved development costs" should be affirmed.

[2] Oracle abandoned reliance on *Deltak, Inc. v. Advanced Systems, Inc.*, 767 F.2d 357 (7th Cir. 1985), and for good reason. Purporting to apply this Court's "value of use" test, *Deltak* measured the "value of use" by the defendant's "saved acquisition costs." *Id.* at 360-63. For the reasons discussed above, *Deltak*'s "saved acquisition costs" theory is inconsistent with the plain language of the Copyright Act and is at odds with this Court's precedents. *Deltak* "is an aberration and should remain one." 6 William F. Patry, *Patry on Copyright* § 22:130 (2012).

C. The District Court Correctly Held That Section 504(b) Does Not Distinguish Between Willful And Nonwillful Infringers

Before the second trial, Oracle moved *in limine* to preclude SAP from deducting overhead expenses from its gross revenues when calculating infringer's profits, arguing that willful infringers are precluded from deducting such expenses. The court properly denied this motion, ER13, because the plain language of section 504(b) does not distinguish between willful and nonwillful infringers.

The Copyright Act allows owners to recover infringers' "profits," not gross revenues. 17 U.S.C. § 504(b). By focusing on "profits," section 504(b) allows infringers to "prove . . . deductible expenses." *Id.* It does not distinguish between willful and nonwillful infringers. Indeed, section 504(c)—which establishes a higher cap on statutory damages for willfullness—shows that where Congress intends to impose more stringent penalties on willful infringers, it does. *Camacho v. Bridgeport Fin. Inc.*, 430 F.3d 1078, 1081 (9th Cir. 2005) ("'[W]here Congress includes particular language in one section of a statute but omits it in another section of the same Act, it is generally presumed that Congress acts intentionally and purposely in the disparate inclusion or exclusion.'") (quoting *Russello v. United States*, 464 U.S. 16, 23 (1983)). Creating an exception for willful infringers would award more than "profits" and inflict an unauthorized punishment.

Contrary to Oracle's argument (Br. 53-54), this Court has never precluded willful infringers from deducting overhead costs. *Frank Music* involved a nonwillful infringer, and that opinion at most "leaves open" the question whether willful infringers are precluded from deducting overhead expenses—"it does not mandate or even endorse such a preclusion." *ZZ Top v. Chrysler Corp.*, 70 F. Supp. 2d 1167, 1169 (W.D. Wash. 1999). Further, *Frank Music*'s citation of *Kamar Int'l, Inc. v. Russ Berrie & Co.*, 752 F.2d 1326 (9th Cir. 1984) was misplaced. *Kamar*, which also involved a nonwillful infringer, did not decide the question and observed that the Second Circuit actually permitted willful infringers to deduct "general overhead." *Id.* at 1331. *ZZ Top* is the only published decision in this Circuit to squarely address the issue, and it holds that a willful infringer is not prohibited from deducting overhead expenses. 70 F. Supp. 2d at 1169.

Oracle's other cases are unpersuasive. The Eighth Circuit's decision in *Saxon v. Blann*, 968 F.2d 676 (8th Cir. 1992), merely relied on the *dicta* in *Frank Music* and lacked independent reasoning. *Id.* at 681. And *L.P. Larson, Jr., Co. v. Wm. Wrigley, Jr., Co.*, 277 U.S. 97, 100 (1928), precluded willful infringers from deducting taxes only because of the unique tax consequences of an infringer's profits award, which do not apply in the context of overhead expenses, and thus do not justify judicial rewriting of section 504(b).

D. The District Court Did Not Abuse Its Discretion In Permitting Testimony From SAP's Damages Expert Clarke

A district court has particularly broad discretion to decide the admissibility of expert testimony, and this Court will reverse only for abuse of discretion.

Kumho Tire Co. v. Carmichael, 526 U.S. 137, 152 (1999); *Hangarter v. Provident Life & Accident Ins. Co.*, 373 F.3d 998, 1015-17 (9th Cir. 2004). The court's decision to admit Clarke's testimony was well within its broad discretion. ER1264 (finding Clarke qualified and that "[m]ost of the arguments go to either the weight of opinions and conclusions or to the actual merits of the opinions or conclusions"); ER69. Clarke was well qualified, and his methodology was sound.

1. Clarke Was Qualified To Perform An Economic Causation Analysis And His Methods Were Reliable

As an initial matter, Oracle wrongly asserts that the court failed to make an "express determination" on Clarke's qualifications. Br. 56. The court made such findings multiple times, held two full *Daubert* briefings and heard similar challenges at trial. ER1264; ER69; ER553-54; SER110-17; SER432; ER12.

An extensive record supports the court's finding that Clarke was qualified to testify on causation of lost and infringer's profits. SER292-93, 297-303; SER306-08; ER1264; ER69; ER537-542; ER553-54; SER110-15; SER432; ER12. He is a CPA, has a degree in Management Sciences and taught university-level economics. SER292, 294, 297-303. Clarke's training as an economist qualifies him to evaluate causation because economics involves the study of why individuals and organizations make economic choices. SER428 (Mark Hirschey, *Managerial Economics* 3 (10th ed. 2003) ("Managerial economics applies economic theory and methods to business and administrative decision making.")). He has experience in causation analysis; routinely analyzes markets, competition and economic decision-making; and considers economic causation in every case. SER292-94, 297-303. He has performed thousands of business valuations and hundreds of damages analyses. SER292, 294; ER541-42; SER306 (Roman L. Weil, et al., *Litigation Services Handbook: The Role of The Financial Expert* § 5.3(a) (3d ed. 2001) ("The first step in a damages study translates the legal theory of the harmful event into an analysis of the economic impact of that event . . . this step is often called the 'but-for' analysis.")). Clarke's qualifications to offer a causation analysis are similar to Meyer's, through whom Oracle offered its own causation analysis. SER358. Meyer, too, considered evidence about customers' decisions and excluded customers based on causation. ER437; SER79-88. Oracle's reliance on *FTC v. Amy Travel Serv., Inc.*, 875 F.2d 564 (7th Cir. 1989) is misplaced, because that decision involved testimony on consumer behavior from an expert on travel marketing—not an economics expert. *Id.* at 572-73.

Clarke's causation analysis was thorough and reliable. He identified factors that drive ERP purchase decisions, reviewed customer decision-making evidence, grouped customers displaying similar characteristics and drew conclusions about the economic and business factors that drove those decisions. SER117-21; SER416-22. Clarke reviewed 12.5 million pages of customer-related documents, including documents produced in discovery; deposition transcripts; customer declarations and documents obtained through independent research. ER542-44. Clarke studied the pricing of ERP software and support services, related costs, and other factors affecting customers and concluded that for many customers it would have been commercially unreasonable to incur large expenses to switch software in exchange for minor savings in support costs. SER416-17. And Clarke's exclusion groupings were a logical method of organizing the data for 358 companies. SER293-94. Clarke's extensive analysis on a customer-by-customer basis "help[ed] the trier of fact to understand the evidence or to determine a fact in issue." Fed. R. Evid. 702; *see also Engineered Prods. Co. v. Donaldson Co.*, 313 F. Supp. 2d 951, 1008-11 (E.D. Iowa 2004) (approving customer-by-customer analysis).

2. Clarke's Market Study Analysis Was Reliable And Within His Expertise

Damages experts with Clarke's education, training and experience in accounting, business valuation and economics are competent to opine on diverse industries. *Maiz v. Virani*, 253 F.3d 641, 665 (11th Cir. 2001) (finding economist qualified to opine on economic losses despite lack of experience in real-estate). Oracle's own expert, who has no specific expertise in ERP software, considered himself qualified to analyze the third-party support market and opine that "these companies are not acceptable non-infringing alternatives." SER351-52.

Oracle's argument that Clarke's analysis was "based solely on Internet research, not on any reliable methodology," Br. 58-59, is belied by Clarke's 50-

page analysis of the third-party support market. SER362-415. In over 300 footnotes, Clarke cites numerous sources, including Oracle's documents, SAP and TomorrowNow's documents, customer documents, industry publications, business publications, analyst publications, vendor websites and user publications. SER362-415; *Semerdjian v. McDougal Littell*, 641 F. Supp. 2d 233, 243 (S.D.N.Y. 2009) (upholding expert opinion based on "various sources," including websites). Oracle criticizes Clarke for not "determining the accuracy" of the Internet information he reviewed. Br. 58. But Oracle's cynical assumption that companies typically lie about their services is no basis for excluding Clarke. Oracle's complaint goes to weight, not admissibility. *See Hangarter*, 373 F.3d at 1017 n.14. The court's decision should be affirmed.

CONCLUSION

The judgment should be affirmed in all respects.

Dated: February 8, 2013

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REQUEST FOR ORAL ARGUMENT

Defendants-Appellees respectfully request that this Court hear oral argument in this case.

STATEMENT OF RELATED CASES

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

CERTIFICATE OF COMPLIANCE WITH FED. R. APP. P. 32(A) AND CIRCUIT RULE 32-1

Pursuant to Fed. R. App. P. 32(a)(7)(C) and Circuit Rule 32-1, the attached answering brief is proportionately spaced, has a typeface of 14 points or more and contains 13,787 words.

Dated: February 8, 2013

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CERTIFICATE OF SERVICE

I hereby certify that on this 8th day of February, 2013, I electronically filed the foregoing, along with Defendants-Appellees' Supplemental Excerpts of Record, with the Clerk of the Court for the United States Court of Appeals for the Ninth Circuit by using the appellate CM/ECF system. Participants in the case who are registered CM/ECF users will be served by the appellate CM/ECF system.

I further certify that some of the participants in the case are not registered CM/ECF users. I have caused the foregoing documents to be mailed by First-Class Mail, postage prepaid, to the following non-CM/ECF participants:

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STATUTORY ADDENDUM

ADDENDUM TABLE OF CONTENTS

Page

Title 17—Copyrights

§ 504. Remedies for infringement: Damages and profits

(a) In General.—Except as otherwise provided by this title, an infringer of copyright is liable for either—

> (1) the copyright owner's actual damages and any additional profits of the infringer, as provided by subsection (b); or
>
> (2) statutory damages, as provided by subsection (c).

(b) Actual Damages and Profits.—The copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages. In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work.

(c) Statutory Damages.—

> (1) Except as provided by clause (2) of this subsection, the copyright owner may elect, at any time before final judgment is rendered, to recover, instead of actual damages and profits, an award of statutory damages for all infringements involved in the action, with respect to any one work, for which any one infringer is liable individually, or for which any two or more infringers are liable jointly and severally, in a sum of not less than $750 or more than $30,000 as the court considers just. For the purposes of this subsection, all the parts of a compilation or derivative work constitute one work.
>
> (2) In a case where the copyright owner sustains the burden of proving, and the court finds, that infringement was committed willfully, the court in its discretion may increase the award of statutory damages to a sum of not more than $150,000. In a case where the infringer sustains the burden of proving, and the court finds, that such infringer was not aware and had no reason to believe that his or her acts constituted an infringement of copyright, the court in its discretion may reduce the award of statutory damages to a sum of not less than $200. The court shall remit statutory damages in any case

where an infringer believed and had reasonable grounds for believing that his or her use of the copyrighted work was a fair use under section 107, if the infringer was: (i) an employee or agent of a nonprofit educational institution, library, or archives acting within the scope of his or her employment who, or such institution, library, or archives itself, which infringed by reproducing the work in copies or phonorecords; or (ii) a public broadcasting entity which or a person who, as a regular part of the nonprofit activities of a public broadcasting entity (as defined in section 118(f)) infringed by performing a published nondramatic literary work or by reproducing a transmission program embodying a performance of such a work.

(3) (A) In a case of infringement, it shall be a rebuttable presumption that the infringement was committed willfully for purposes of determining relief if the violator, or a person acting in concert with the violator, knowingly provided or knowingly caused to be provided materially false contact information to a domain name registrar, domain name registry, or other domain name registration authority in registering, maintaining, or renewing a domain name used in connection with the infringement.

(B) Nothing in this paragraph limits what may be considered willful infringement under this subsection.

(C) For purposes of this paragraph, the term "domain name" has the meaning given that term in section 45 of the Act entitled "An Act to provide for the registration and protection of trademarks used in commerce, to carry out the provisions of certain international conventions, and for other purposes" approved July 5, 1946 (commonly referred to as the "Trademark Act of 1946"; 15 U.S.C. 1127).

(d) Additional damages in certain cases.—In any case in which the court finds that a defendant proprietor of an establishment who claims as a defense that its activities were exempt under section 110(5) did not have reasonable grounds to believe that its use of a copyrighted work was exempt under such section, the plaintiff shall be entitled to, in addition to any award of damages under this section, an additional award of two times the amount of the license fee that the proprietor of the establishment concerned should have paid the plaintiff for such use during the preceding period of up to 3 years.

Title 35—Patents

§ 284. Damages

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

When the damages are not found by a jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed. Increased damages under this paragraph shall not apply to provisional rights under section 154(d).

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

Fed. R. Civ. P. 50(b).

(b) Renewing the Motion After Trial; Alternative Motion for a New Trial. If the court does not grant a motion for judgment as a matter of law made under Rule 50(a), the court is considered to have submitted the action to the jury subject to the court's later deciding the legal questions raised by the motion. No later than 28 days after the entry of judgment—or if the motion addresses a jury issue not decided by a verdict, no later than 28 days after the jury was discharged—the movant may file a renewed motion for judgment as a matter of law and may include an alternative or joint request for a new trial under Rule 59. In ruling on the renewed motion, the court may:

(1) allow judgment on the verdict, if the jury returned a verdict;

(2) order a new trial; or

(3) direct the entry of judgment as a matter of law.