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
Hon. Phyllis J. Hamilton, District Judge

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INTRODUCTION

In its answering brief, SAP disregards the overwhelming objective evidence supporting the $1.3 billion verdict in favor of Oracle. While the number $1.3 billion may seem large, so was the scale of the copyright infringement by which SAP sought to build business on the back of Oracle's intellectual property. SAP and TN obtained ***over 10 million copyrighted Oracle files*** and another 7,100 copies of Oracle software (totaling ***15 terabytes*** of material). SAP's own contemporaneous projections, which SAP itself described as "reasonable," enabled Oracle's expert to project that SAP would have expected to earn profits of over ***$880 million*** in just the first three years of operating TN on the basis of this massive infringement. And Oracle's expert calculated, based on Oracle's contemporaneous projections from its $11.1 billion PeopleSoft acquisition, that Oracle would have expected to lose ***$1.386 billion*** in support revenue by licensing SAP's infringing use of PeopleSoft copyrighted materials alone. A $1.3 billion verdict is well within the range a rational jury could have chosen to compensate Oracle for a total expected revenue swing of some ***$2.3 billion*** attributable to TN's and SAP's infringement—especially when that evidence is viewed in the light most favorable to Oracle, as it must be.

Unable to show how the jury's award falls outside a reasonable range supported by the objective evidence at trial, including both parties' contemporaneous financial projections, SAP argues in its answering brief that hypothetical-license damages require a showing of lost licenses or licensing opportunities, despite unbroken authority to the contrary; labels various categories of evidence speculative or unreliable, even though it failed to object to admission of that evidence at trial; and offers various legal theories why the instructional and evidentiary errors in the first trial should not be corrected in any new trial, none of them availing. SAP thus fails to show why the JMOL/New Trial Order should not be reversed or vacated.

ARGUMENT

I. SAP FAILS TO DEFEND THE DISTRICT COURT'S POST-TRIAL JUDGMENT THAT ORACLE'S EVIDENCE OF ITS HYPOTHETICAL-LICENSE DAMAGES WAS INSUFFICIENT AS A MATTER OF LAW

A. Hypothetical-License Damages Do Not Require Proof Of Actual Lost License Fees

SAP concedes (SAP Br. 31-32) that hypothetical-license damages need not be "established through objective evidence of benchmark transactions," as the district court initially erroneously ruled (ER32), but defends the district court's JMOL ruling nonetheless on the theory that hypothetical-license damages are available "only where the 'actual damages' suffered consist of lost license fees" (SAP Br. 21; *see id.* 21-31). This novel argument finds no support in the statute or the case law. *See* Oracle Br. 26-31.

The term "actual damages" in the Copyright Act, 17 U.S.C. § 504(a), is not limited to out-of-pocket pecuniary loss, as SAP wrongly suggests (SAP Br. 21-22). Rather, as this Court has explained, "actual damages" refers generally to the "'the loss in the fair market value of the copyright'" caused by an act of infringement. *Polar Bear Prods., Inc. v. Timex Corp.*, 384 F.3d 700, 708 (9th Cir. 2004) (quoting *McRoberts Software, Inc. v. Media 100, Inc.*, 329 F.3d 557, 566 (7th Cir. 2003)); *see also Wall Data Inc. v. L.A. Cnty. Sheriff's Dep't*, 447 F.3d 769, 786 (9th Cir. 2006) (defining "actual damages" as "the amount of money [necessary] to adequately compensate the copyright owner for the reduction of the market value of the copyrighted work caused by the infringement").[1] Because the value of a copyright is the right to exclude others from copying, a copyright-holder may choose to maximize a copyright's value by refusing to license and thus choosing to forego license fees. *See* 17 U.S.C. § 106; *Stewart v. Abend*, 495 U.S. 207, 228-29 (1990); *Laws v. Sony Music Entm't, Inc.*, 448 F.3d 1134, 1137 (9th Cir. 2006).

For these reasons, the courts of appeals that have considered this issue have uniformly declined to require lost license fees or fee opportunities as a prerequisite to recovery of hypothetical-license damages. *See McRoberts*, 329 F.3d at 567;

[1] SAP offers no support for its assertion (SAP Br. 22) that "[t]he most common and well-accepted way to measure actual damages is to prove lost profits." In fact, as the district court recognized, pursuing a lost-profits theory is "often impractical because of the difficulty of proving such lost profits with specificity." ER91.

Davis v. The Gap, Inc., 246 F.3d 152, 171-72 (2d Cir. 2001). To the contrary, those courts have held that the question "whether the infringer might ***in fact*** have negotiated with the owner or purchased at the owner's price is ***irrelevant*** to the purpose of the [hypothetical-license] test," *Davis*, 246 F.3d at 171-72 (emphasis added), and that the contention that the parties would not have reached a license agreement "***misses the point***," *McRoberts*, 329 F.3d at 567 (emphasis added). SAP ignores these holdings, which recognize that hypothetical-license damages turn not on speculation about a counterfactual situation in which the infringer respected the plaintiff's copyrights, but rather on valuation of the amount by which the defendant's infringement has impaired the value of the plaintiff's copyright.[2]

SAP is also incorrect to suggest (SAP Br. 23, 27-28) that this Court's prior decisions counsel in favor of a different result. Rather, this Court routinely ***permits*** recovery of hypothetical-license damages without questioning whether the copyright holder would have agreed to a license with the infringer. For example, in *Jarvis v. K2 Inc.*, 486 F.3d 526 (9th Cir. 2007), this Court approved hypothetical-license damages notwithstanding the plaintiff's protest that he would

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[2] SAP's reliance (SAP Br. 24) on *Business Trends Analysts, Inc. v. Freedonia Group, Inc.*, 887 F.2d 399 (2d Cir. 1989), is misplaced. *Business Trends* concerned only the infringer's-profits provision of § 504; its disapproval of a license-fee measure of "actual damages" is *dicta* that *Davis* subsequently rejected in the course of permitting hypothetical-license damages. *See* 246 F.3d at 162-63, 171-72. Professor Goldstein rightly regards the entire *Business Trends* decision as "wrong." 2 GOLDSTEIN ON COPYRIGHT, § 14.1.1.1(b) & n.44.

not have accepted the rates found by the district court. *See id.* at 534-35 & n.8. In *Mackie v. Rieser*, 296 F.3d 909 (9th Cir. 2002), this Court affirmed an award of hypothetical-license damages far lower than those the plaintiff said it would have accepted. *See* 296 F.3d at 913, 916-17. In *Polar Bear*, this Court affirmed a hypothetical-license damages award despite evidence showing that the defendant would not have agreed to a license. *See* 384 F.3d at 704; *id.* at 709 ("Having taken the copyrighted material, Timex is in no better position to haggle over the license fee than an ordinary thief….").[3] And in *Wall Data*, this Court affirmed hypothetical-license damages notwithstanding evidence that the defendant would *not* have purchased additional licenses given limitations it had placed on the number of simultaneous users of the copied software. *See id.* at 774-75 & n.3, 786-87. In none of those cases did this Court hold that recovery of hypothetical-license damages depends upon losing an actual license or licensing opportunity.

Nor is SAP correct in suggesting (SAP Br. 26) that *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 772 F.2d 505 (9th Cir. 1985), supports such a requirement. The work at issue there was a performance of the full *Kismet* show, and the plaintiff failed to establish that the infringing use of only a small portion of the show in one venue caused any diminution of the market for the larger work.

[3] SAP is thus wrong to imply (SAP Br. 22) that *Polar Bear* supports its argument that hypothetical license damages are available only where a plaintiff "suffered lost or reduced license fees due to the infringement."

Id. at 513-14. This Court stated in a footnote that causation and actual damages should not be presumed, *id.* at 514 n.8, but it did not hold that causation must be proven in any particular manner.[4] This Court's earlier decision in *Cream Records, Inc. v. Jos. Schlitz Brewing Co.*, 754 F.2d 826, 827 (9th Cir. 1985) (per curiam), illustrates that a plaintiff may show that infringement harms his work's value by destroying his ability to sell it to other parties, but neither *Cream Records* nor *Frank Music* requires such proof to establish causation in other factual circumstances. The causation question is simply whether the jury could reasonably infer that the defendant's infringement damaged the value of the copyright. *See, e.g.*, *Davis*, 246 F.3d at 172; Oracle Br. 32-40.

SAP also misplaces reliance (SAP Br. 25) on its observation that patent law provides for a "reasonable royalty" as a "floor" on damages, while copyright law provides for statutory damages. The availability of statutory damages as an ***alternative*** to "actual damages" under the Copyright Act, 17 U.S.C. § 504(a), says nothing about the meaning of "actual damages," a broad term that Congress chose in order "to provide the courts with reasonable latitude to adjust recovery to the circumstances of the case." H.R. REP. NO. 94-1476, at 161 (1976); *see also, e.g.*,

[4] Far from seeking a presumption that a hypothetical-license fee is "the natural and probable result of infringement," as SAP wrongly contends (SAP Br. 26), Oracle relies upon the jury's well-supported findings that SAP's infringement damaged the value of its copyrights in the amount of $1.3 billion.

Davis, 246 F.3d at 164 (collecting sources and observing that "[c]ourts and commentators agree [§ 504] should be broadly construed to favor victims of infringement"). SAP's cramped construction of "actual damages" as excluding hypothetical-license damages would defeat Congress's intent and the statute's remedial purpose.

B. The Jury's Hypothetical-License Valuation Is Supported By Overwhelming Objective And Non-Speculative Evidence

In seeking to uphold the district court's JMOL overruling the jury's hypothetical-license damages, SAP does not contest that the jury had before it evidence supporting the conclusion that a hypothetical license for the copyrighted PeopleSoft materials would have been worth at least $1.15 billion, that a hypothetical license for the Siebel material and database software would have been worth at least $155 million, and that the resulting $1.3 billion verdict was far less than the $2.3 billion revenue swing SAP would have expected to enjoy had it licensed rather than stolen the PeopleSoft materials alone. *See* Oracle Br. 31-40. Nor does SAP acknowledge the standard of review requiring all inferences to be drawn in favor of the jury's verdict. And its efforts to relitigate the case with no deference to that verdict are unpersuasive or legally incorrect.

First, contrary to SAP's assertions (SAP Br. 38-40), the testimony by Oracle's expert Meyer was neither subjective nor impermissibly speculative. Meyer did not base his valuation upon any individual's emotional harms or personal beliefs about what Oracle's copyrights were worth,[5] but rather upon financial data and projections that the parties prepared for independent, contemporaneous business purposes. For instance, SAP's documentation showed projected revenues of $68,000 annually for each customer, of an additional $358,000 for each new customer, and of $86,000 per cross-sold customer. ER412 (discussing ER799). While SAP denigrates this evidence as merely "aspirational" (SAP Br. 38), SAP developed those projections with "input and extensive guidance" from its Executive Board (ER1163, ER790-812), and SAP's own executive testified that those projections were intended to be "reasonable assumptions" (ER678). SAP does not deny that it considered its projections reliable enough to serve as the basis for its acquisition of TN. *See* Oracle Br. 35-36.[6] A reasonable jury thus could infer that SAP, having relied on its projections

[5] As Oracle explained (Oracle Br. 30-31), the limitation to "objective" valuation inquiries excludes only damages for "hurt feelings," *Mackie*, 296 F.3d at 916-17, and damages based only on unsupported testimony regarding what the plaintiff "thought he should have earned or wished he had charged," *Jarvis*, 486 F.3d at 534. The jury's findings do not rest on either type of evidence.

[6] SAP wrongly faults (SAP Br. 39-40) Meyer for relying on SAP's reasonable projections when assessing Oracle's expectations, for a hypothetical negotiation "contemplate[s] a marshaling of all of the pertinent facts which, like cards dealt face up, ***are for all to see.***" *Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp. 1116, 1123 (S.D.N.Y. 1970) (emphasis added), *modified & aff'd*, 446 F.2d 295 (2d Cir. 1971). Moreover, it is the infringer SAP, not Oracle, that "must bear the risk of uncertainty as to damages." *Brewer v. Hustler Magazine, Inc.*, 749 F.2d 527, 529 (9th Cir. 1984) (upholding damages verdict "within a range supported by the record").

in acquiring TN's illegitimate business, would equally have relied on them in negotiating an agreement to use Oracle's works on a lawful basis. And a reasonable jury likewise could find that Oracle would have based its selling price on the same revenue figures on which it had relied in purchasing PeopleSoft. *See* Oracle Br. 36-38.

For similar reasons, SAP is wrong that this evidence was "detached from reality" (SAP Br. 40). As Oracle has explained (*see* Oracle Br. 33-34), the jury was entitled to conclude that, in an ***ex ante*** negotiation, the parties would have based a license on the value of the customers SAP ***intended*** to take by using the infringed works, whether or not it later succeeded. *See, e.g.*, *McRoberts*, 329 F.3d at 566; *Interactive Pictures Corp. v. Infinite Pictures, Inc.*, 274 F.3d 1371, 1384-85 (Fed. Cir. 2001). As SAP's own expert agreed at trial (ER580-81), such evidence identifies the parameters within which the parties would have negotiated a hypothetical license. Excluding such evidence would collapse a hypothetical-license measure of damages, which is *ex ante*, into a lost-profits measure of damages, which is *ex post*.[7]

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[7] For these reasons, SAP's emphasis (SAP Br. 15-16, 40, 47) on the difference between the jury's hypothetical-license award and the amount of lost profits that Oracle sought at trial is beside the point. Moreover, SAP ignores that the lost-profits figure at trial would have been closer to the hypothetical-license figure if the district court had not restricted Oracle's proof (ER1360) and had allowed Oracle to prove additional lost profits from up-sell and cross-sell opportunities, as well as the discounted pricing and increased expenses that SAP's

SAP offers no independent basis (SAP Br. 41) for rejecting Meyer's expert testimony regarding the Siebel hypothetical license, but does challenge (SAP Br. 41-42) the pricing structure that Meyer used with respect to the database license and his determination of the number of TN customers that benefited from the database software. But the testimony showed that Oracle's pricing structure referenced database licenses for internal use only (SER38), and a license for multiple end-users would be structured differently (SER41). Oracle also demonstrated that even those TN customers not running on an Oracle database used fixes or received updates developed using the Oracle database. ER461, SER274.

Second, SAP is wrong to complain that the jury considered (1) testimony from Oracle executives concerning the multi-billion-dollar value of Oracle's copyrighted material (SAP Br. 34-35); (2) Oracle's $11 billion acquisition price for PeopleSoft (SAP Br. 35-36); and (3) the scope of SAP's infringement (SAP Br. 41). Contrary to SAP's suggestions, it is settled that: (1) a copyright holder may introduce evidence of internal valuations of its intellectual property, *see supra* pp. 7-9; (2) "background data" is relevant to determining what licensing terms would have been acceptable to a reasonable copyright holder, *see, e.g.*, *Polar Bear*, 384

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infringement forced Oracle to accept. *See* FER5-9, FER12-14, FER21-23, FER28-29, FER32-39, FER41-42, FER44, FER46-47, FER49; *see also* ER1351; D.E.532; Oracle Br. 15 n.6.

F.3d at 709; and (3) evidence of a defendant's willingness to proceed with infringing activity in the face of substantial legal risks is relevant to show that the defendant placed a high value on the rights it infringed, *see, e.g.*, *Georgia-Pacific,* 318 F. Supp. at 1123 ("Noteworthy is the fact that … GP deliberately decided to duplicate [the patentholder's product] notwithstanding the caveat of GP's own counsel that an expensive infringement suit was inevitable.").[8]

Such evidence thus was properly admitted here to help show what the parties' positions would have been in a hypothetical negotiation. The Oracle executives explained that licensing the software would "give it to [Oracle's] largest competitor," requiring $3-4 billion in upfront licensing fees (ER204-05), and that Oracle would have required a $4 billion price given its expected loss of customers and revenue (ER287-89). The Oracle executives' testimony also relied on Oracle's $11.1 billion purchase price to acquire PeopleSoft, which was based on expected earnings of $5.4 billion in support revenue from PeopleSoft customers in the first four years. ER146-47, ER205, ER297-98, ER1162. Evidence on the scope of the infringement (*e.g.*, ER496-97) was likewise relevant to show that SAP would have

[8] *See also Pentech Int'l, Inc. v. Hayduchok*, 931 F. Supp. 1167, 1175 (S.D.N.Y. 1996) (finding, in applying the *Georgia-Pacific* factors, that "the fact that Pentech would risk the expense of a law suit implies that the [patented] product is valuable"); *cf. Gyromat Corp. v. Champion Spark Plug Co.*, 735 F.2d 549, 552 (Fed. Cir. 1984) ("Champion's decision to risk infringement liability indicates the value it placed on the patented features.").

paid a high value for a license since TN's entire business model depended on Oracle's copyrighted works.

Third, SAP faults Oracle for supposedly not heeding the district court's "clear warning that objective evidence was required" (SAP Br. 19) and instead relying on the parties' contemporaneous "goals and assumptions" in determining a hypothetical-license fee (SAP Br. 41). But SAP fails to note that the context for that "warning" was the trial court's summary judgment ruling *permitting* Oracle to show hypothetical-license damages, and that at trial, Oracle heeded the court's requirement that it use an "established valuation methodology." ER1297. That methodology was the one derived from the *Georgia-Pacific* framework used in the analogous patent context, which expressly includes reliance on contemporaneous projections, *see* 318 F. Supp. at 1131. Having agreed at trial that *Georgia-Pacific* provides an appropriate valuation framework (ER639), SAP is conspicuous in its silence about *Georgia-Pacific* on appeal. Nor can there be any doubt that *Georgia-Pacific*'s willing-buyer/willing-seller methodology is "an objective rather than a subjective measure of damages." 2 GOLDSTEIN, *supra*, § 14.1.1.1(b); *accord McRoberts*, 329 F.3d at 566; *Interactive Pictures Corp.*, 274 F.3d at 1384-85; *see Georgia-Pacific*, 318 F. Supp. at 1120.

Finally, SAP overlooks that, in reviewing a post-trial judgment as a matter of law, this Court does not "substitute [its] view of the evidence for that of the jury," *Polar Bear*, 384 F.3d at 708-09 (quotation omitted), or otherwise "weigh the evidence," but instead "must view the evidence in the light most favorable to the non-moving party … and draw all reasonable inferences in that party's favor," *EEOC v. Go Daddy Software, Inc.*, 581 F.3d 951, 961 (9th Cir. 2009) (citations and quotations omitted). SAP's failure to acknowledge—let alone apply—this standard undermines its assessment of the evidence.

Because the jury was entitled to accept Meyer's testimony regarding the range of the reasonable market value of the infringed copyrights, it was entitled to conclude that willing parties to a hypothetical negotiation would have reached a compromise license price of around $1.3 billion. The district court erred in overturning the jury's verdict, and its JMOL/New Trial Order should be reversed.

II. SAP FAILS TO DEFEND THE DISTRICT COURT'S GRANT OF A NEW TRIAL LIMITED TO LOST PROFITS AND INFRINGER'S PROFITS AND CONDITIONED ON ORACLE'S REFUSAL TO ACCEPT REMITTITUR TO $272 MILLION

A. The Jury's $1.3 Billion Damages Verdict Is Consistent With The Weight Of The Evidence

In seeking to defend the district court's new trial ruling, SAP does not argue that the jury's award was outside the "range of evidence presented" on the harm inflicted on Oracle's intellectual property. *United States v. 4.0 Acres of Land*, 175 F.3d 1133, 1143 (9th Cir. 1999) (no new trial as long as "[t]he jury award was not outside the range of evidence presented"); *accord S.E.C. v. Todd*, 642 F.3d 1207, 1225 (9th Cir. 2011). SAP instead challenges the evidence Oracle presented at trial (SAP Br. 46-47), arguing that it "invited impermissible speculation," "skew[ed] the verdict," "distract[ed] the jury from the actual harm [Oracle] suffered," and was "irrelevant and prejudicial." But these considerations go to the *admissibility* of Oracle's evidence, which SAP has not challenged on appeal, and not to whether the verdict was against "the clear weight of the evidence" as necessary to warrant a new trial.

The objective evidence at trial in fact overwhelmingly supported the jury's damages verdict. *See* Oracle Br. 40-44. In order to establish hypothetical-license damages (ER426-29), Oracle presented not only its contemporaneous valuation of PeopleSoft (ER814-16, ER622-23), Oracle executives' testimony (ER204-05, ER287-89), and Meyer's valuation model, but also SAP's contemporaneous projections of expected TN revenues (ER678-79, ER699-700, ER799). The only testimony valuing a hypothetical-license at less than $1 billion came from SAP's own expert. A reasonable jury could reject his estimate (a paltry $40.6 million, *see* SER276-77[9]) as grossly understating the copyright injury to Oracle.

SAP's additional arguments are also incorrect. *First*, SAP does not counter Oracle's explanation (Oracle Br. 41-42) that evidence concerning the acquisition

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[9] SAP mentions this figure in passing (SAP Br. 7), but does not explain or defend it.

prices for PeopleSoft and Siebel, like Oracle executives' valuations of Oracle's copyrights, was relevant to establishing Oracle's posture in a hypothetical negotiation. *See Georgia-Pacific*, 318 F. Supp. at 1120; *see also supra* pp. 10-12. While SAP speculates that such evidence "skew[ed] the verdict toward a billion-dollar number" (SAP Br. 46), SAP disregards Oracle's explanation that a verdict of $1.3 billion is a fraction of the Oracle executives' multi-billion-dollar evaluations and the $11.1 billion PeopleSoft acquisition price, making plain that the jury reasonably evaluated the relative value of this evidence in valuing Oracle's copyrights.[10]

Second, SAP is wrong to assert that "Meyer's opinion was 'speculative' and 'based on little more than guesses about the parties' expectations.'" SAP Br. 47 (quoting ER38). Analysis of hypothetical negotiations is routine when quantifying damages in the intellectual property context. *See, e.g., McRoberts*, 329 F.3d at 567; *Jarvis*, 486 F.3d at 534; *Davis*, 246 F.3d at 171-72; *Georgia-Pacific*, 318 F.

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[10] SAP also cites (SAP Br. 46-47) *Uniloc USA, Inc. v. Microsoft Corp.*, 632 F.3d 1292 (Fed. Cir. 2011), for the proposition that Oracle's multi-billion-dollar analysis may have impermissibly "skew[ed]" the verdict. But *Uniloc* actually *supports* admission of the executives' testimony, which related directly to the value of copyrighted material. *Uniloc* disallowed consideration of the entire market value of a product for which the infringing patent was *a very small component* and "d[id] not create the basis for customer demand." *Id.* at 1320. But *Uniloc* recognized that the market-value approach is permissible where the infringed component, as here, *does* provide the basis for such demand. *See id.* at 1320-21. Because TN based its business on the infringing software in its entirety, *Uniloc*'s component-based analysis is irrelevant.

Supp. at 1120; 2 GOLDSTEIN, *supra*, § 14.1; ER653 (instructing jury that "there is no precise formula for determining actual damages," "[d]etermining the fair market value of the rights infringed may involve some uncertainty," "Oracle is not required to establish its actual damages with precision"); *supra* pp. 4-5, 12. And there is no basis to assume that the jury disregarded the instruction that the damages "award must be based on evidence, not on speculation, guesswork or conjecture" (ER653). Because Meyer's analysis was based on contemporaneous, detailed data endorsed by the parties' senior executives for independent business purposes (*see* Oracle Br. 43; *supra* pp. 7-9, 11-12), the district court abused its discretion in overturning the jury's reliance on that testimony.

Third, SAP wrongly suggests (SAP Br. 47) that "Oracle made every effort to distract the jury from the actual harm it suffered." In fact, Oracle did nothing more than argue to the jury that its actual damages were better measured by the value of a hypothetical license than by lost profits. ER648-49. There was nothing wrong with that argument, and the jury was entitled to accept it—as it did in rendering its verdict (ER161).

Fourth, SAP's fails in its challenge (SAP Br. 47-48) to the admission of liability evidence at a trial on damages. The parties agreed that such evidence was relevant for purposes of giving the jury context (ER1240), and SAP did not seek to exclude the evidence of which it now complains (*see* SAP Br. 12-13 (citing evidence)).[11] Additionally, infringement evidence was relevant to damages insofar as it demonstrated the value that SAP placed on Oracle's works, and thus helped to establish what would have been SAP's negotiating posture in a hypothetical negotiation. *See supra* pp. 11-12. And SAP mischaracterizes the record when it contends (SAP Br. 48) that Oracle exhorted the jury to punish SAP, as Oracle made no such argument and, in any event, SAP did not object to counsel's statements at trial (*see* ER1240). The jury's $1.3 billion award, moreover, cannot be considered impermissibly "punitive," because it falls within the range of reasonable license valuations that the evidence supports and in fact is ***well below*** Oracle's expert's valuation of $1.656 billion. *See* ER430-32, ER451-52, ER460-62.

The jury's verdict is thus consistent with the great weight of the evidence, and the district court abused its discretion in setting it aside on new trial motion.

B. Oracle Should Be Permitted To Pursue Hypothetical-License Damages In Any New Trial

In arguing (SAP Br. 42-44) that the district court properly denied Oracle the chance to present hypothetical-license damages in any new trial, SAP ignores that the district court never ruled ***before or during trial*** that lost license fees or license opportunities were a prerequisite to recovery of such damages. *See* Oracle Br. 44-

[11] The district court did exclude substantial amounts of related evidence at SAP's request. *See* ER1256-60.

46. Rather, before trial, the district court expressly rejected the argument that hypothetical-license damages require proof of actual willingness to license. ER642-43, ER652-54, ER1296-97. The jury instructions reflect this correct interpretation of § 504. ER654 (providing instruction on "the expectations of the parties at the time the infringement first began[,] ***or*** insight into the amount a willing buyer would have been reasonably required to pay a willing seller at the time of the infringement," and omitting any requirement that the parties actually would have agreed to a license) (emphasis added). Only in its ***post-trial*** JMOL/New Trial Order did the district court for the first time impose this requirement. ER31-32.

Rule 50, however, precludes the district court from barring Oracle from presenting evidence at a second trial that it was never told was required until after the first. *See, e.g.*, *Waters v. Young*, 100 F.3d 1437, 1441 (9th Cir. 1996) ("'In no event … should the court enter judgment against a party who has not been apprised of the materiality of the dispositive fact and been afforded an opportunity to present any available evidence bearing on that fact.'") (quoting FED. R. CIV. P. 50 advisory committee's note (1991)) (emphasis added). SAP suggests (SAP Br. 43-44) that Oracle could not cure any deficiencies in its proof in a new trial, but it identifies no testimony or evidence at the first trial that forecloses Oracle from satisfying a "willingness-to-license" standard for all, or at least some, of the infringing activity.

C. Any Remittitur Should Have Been Set At $408.7 Million, Not $272 Million

In supporting the district court's $272 million remittitur, SAP does not question that a remittitur must be set at "the maximum amount sustainable by the proof," *D&S Redi-Mix v. Sierra Redi-Mix & Contracting Co.*, 692 F.2d 1245, 1249 (9th Cir. 1982), or that a remittitur to an amount below that level is reversible error, *see, e.g.*, *McCabe v. Parker*, 608 F.3d 1068, 1082 (8th Cir. 2010). Instead, SAP criticizes two aspects of Oracle's expert Meyer's analysis that contributed to his calculation of $408.7 million in lost and infringer's profits. Neither argument has merit. *See* Oracle Br. 46-49.

First, contrary to SAP's contention (SAP Br. 49), the district court was ***not*** "correct to question the evidentiary support for Meyer's 'ongoing impact' calculation" regarding lost profits. Rather, "[f]or established businesses, expected future profits may be extrapolated with reasonable certainty from historical evidence of the income and expenses of the business prior to the damaging event." *Wash Solutions, Inc. v. PDQ Mfg., Inc.*, 395 F.3d 888, 893 (8th Cir. 2005); *accord Palmer v. Conn. Ry. & Lighting Co.*, 311 U.S. 544, 559 (1941); *In re John Richards Homes Bldg. Co., L.L.C.*, 439 F.3d 248, 264 (6th Cir. 2006). The value of each customer to Oracle was well established at trial. *See* ER427 (discussing

ER1133); ER301-03. In his analysis, Meyer simply extrapolated those numbers over a conservative estimate of a ten-year customer relationship. *See* ER469. This ten-year period was supported by substantial evidence, including testimony by Oracle executives regarding historical experiences *and* documentation showing low annual attrition rates. ER309 (Oracle co-President and CFO describing 10-year customer relationships as "conservative"); ER814-16 (PeopleSoft valuation describing 10-year relationships and expected attrition rate of only 3.5%); ER476 (customers unlikely to return after switching providers because "when a customer leaves, it doesn't come back, you break the service, you lose the relationship"). Meyer's calculation of $120.7 million in lost profits was thus more than "sustainable by the proof." *D&S Redi-Mix*, 692 F.2d at 1249.

Nor, *second*, can SAP rehabilitate the district court's cursory determination that Meyer's calculation of $288 million in infringer's profits was "unduly speculative." ER40. SAP suggests (SAP Br. 50) that Meyer's figures improperly included three customers, but it offers no reason that a jury could not have considered them. The district court made no such finding, and Oracle's decision not to seek infringer's profits for those customers in a second trial (*see id.*) cannot support the district court's erroneous conclusion about what verdict the evidence at the first trial could have sustained.

The district court abused its discretion in setting the remittitur at an amount lower than the evidence will support.

III. SAP FAILS TO DEFEND THE DISTRICT COURT'S OTHER LEGAL AND EVIDENTIARY ERRORS THAT WOULD TAINT ANY NEW TRIAL ON REMAND

A. Oracle Was Entitled To An Instruction That The Jury Could Award Actual Damages And *Non*-Duplicative Infringer's Profits

SAP posits (SAP Br. 50-51) a deferential standard of review of the district court's failure to instruct the jury that it could award infringer's profits if they were not included in the hypothetical-license damages. It is well-established, however, that, "[i]f jury instructions are challenged as a misstatement of the law, they are reviewed de novo." *Voohries-Larson v. Cessna Aircraft Co.*, 241 F.3d 707, 713 (9th Cir. 2001).

SAP next attempts (SAP Br. 52) to distinguish *Abend v. MCA, Inc.*, 863 F.2d 1465, 1479 (9th Cir. 1988), and *Cream Records*, 754 F.2d at 828, on the ground that neither permitted the recovery of duplicative damages. But Oracle has ***not*** sought duplicative recovery. Instead, Oracle has merely requested, as the Copyright Act permits, an instruction allowing the jury to determine for itself whether a damages award of less than Meyer's $1.656 billion calculation (ER463) took into account all of SAP's infringer's profits. *See* ER632-33. Oracle's requested instruction is consistent with the statute—which explicitly authorizes recovery of both actual damages and infringer's profits "not taken into account in computing the actual damages," 17 U.S.C. § 504(b)—and with *Abend*, 863 F.2d at 1480, and *Cream Records*, 754 F.2d at 828, both of which correctly allowed recovery of infringer's profits in addition to actual damages. The district court's error should be corrected before any new trial.

B. SAP's Saved Research And Development Costs Were Relevant To Calculation Of Hypothetical-License Damages

SAP contends (SAP Br. 53) that the district court correctly excluded the billions of dollars it saved in research and development costs because they do not qualify as actual damages or infringer's profits (ER93-94). This argument misses the point. *See* Oracle Br. 52-53. Oracle does not argue here that saved development costs constitute damages, but rather that evidence of such costs is relevant to determining the "value of use" of copyrighted works. Like other objective evidence that this Court has considered to establish "actual damages," *see, e.g.*, *Jarvis*, 486 F.3d at 534; *Polar Bear*, 384 F.3d at 708-09, such evidence should be included in quantifying fair market value. *See, e.g.*, *Harris Mkt. Research v. Marshall Mktg. & Commc'ns, Inc.* 948 F.2d 1518, 1524 (10th Cir. 1991) (allowing consideration of copyright-holder's development costs in determining hypothetical license); *cf. Bourns, Inc. v. Raychem Corp.*, 331 F.3d

704, 709-10 (9th Cir. 2003) (affirming award of saved development costs in trade secrets case).[12]

C. SAP's Evidence Of Overhead Expenses Is Irrelevant To The Calculation Of Infringer's Profits

Despite TN's guilty plea to criminal copyright violations, and SAP's stipulation that it willfully infringed Oracle's copyrights, SAP nonetheless defends the district court's decision (ER13-14) to permit SAP to offer evidence of overhead expenses in a second trial. As this Court has made clear, however, willful infringers may not deduct overhead expenses. *See Frank Music*, 772 F.2d at 515. SAP's reliance on a single district court decision and an inapt rule of statutory interpretation fall far short of supporting the district court's ruling, which should be corrected before any retrial. *See* Oracle Br. 53-55.

SAP primarily argues (SAP Br. 55) that § 504(b), unlike § 504(c), "does not distinguish between willful and non-willful infringers." But SAP does not refute Oracle's explanation (Oracle Br. 55) that the calculation of statutory damages under Section 504(c) is far different from the calculation of actual damages under Section 504(b). The text of 17 U.S.C. § 504(b) does not define the phrase

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[12] SAP seeks (SAP Br. 54) to distinguish *Harris Market Research* on the ground that it allowed a *copyright holder* to recover its own R&D costs when infringement prevented it from recovering the same through sales, but that just reinforces that the defendant costs saved by infringement. And SAP offers no reason why the *Bourns* rule should not translate from the trade secret context to the parallel copyright setting.

"deductible expenses," and thus leaves open the question whether a willful infringer may exclude overhead costs. Courts have filled this gap by holding that willful and non-willful infringers may be treated differently when calculating deductible expenses, with some courts—including this Court—precluding willful infringers from deducting overhead expenses. *See, e.g.*, *Frank Music*, 772 F.2d at 515 ("A portion of an infringer's overhead properly may be deducted from gross revenues to arrive at profits, at least where the ***infringement was not willful, conscious, or deliberate***.") (emphasis added); *Saxon v. Blann*, 968 F.2d 676, 681 (8th Cir. 1992) ("Overhead may not be deducted from gross revenues to arrive at profits when an infringement was deliberate or willful."). Even courts that allow willful infringers to deduct overhead expenses acknowledge that a stricter standard should apply to them. *See Hamil Am., Inc. v. GFI*, 193 F.3d 92, 106-07 (2d Cir. 1999) (holding that calculation of deductible expenses "must be applied with particular rigor in the case of willful infringement" because of "concern that willful infringers should not be permitted to subsidize the sale of legitimate goods with the sale of infringing goods by passing part of its fixed cost on to the copyright holder") (quotation marks omitted). Such disparate treatment acknowledges that mere disgorgement of profits may not sufficiently dissuade a willful infringer from taking a calculated risk—a concern that SAP does not acknowledge.[13]

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[13] SAP's reliance (SAP Br. 56) on *ZZ Top v. Chrysler Corp.*, 70 F. Supp.

D. SAP's Damages Expert Clarke Was Not Qualified To Testify About Consumer Behavior Or Market Studies

Finally, SAP fails to rehabilitate its expert, Stephen Clarke, after Oracle demonstrated (Oracle Br. 55-59) that he is unqualified and that he applied unreliable methodologies.

1. Clarke Was Unqualified To Evaluate Consumer Behavior And Applied Unreliable Methods

SAP wrongly asserts that Clarke is "an economist" (SAP Br. 57) and is therefore qualified to offer testimony on consumer behavior. In fact, Clarke is a Certified Public Accountant with little economics training; he earns his living not by performing economic analysis, but by tallying damages for purposes of litigation. SER292; SER298-303.[14] SAP nonetheless asserts that he is qualified to testify on consumer behavior because he "considers economic causation in every case." SAP Br. 58. But economic causation—*i.e.*, "the difference between the plaintiff's economic position if the harmful event had not occurred and the plaintiff's actual economic position" (SER293 (citation omitted))—is limited to the ***effects*** of consumer decisions; it does not encompass ***why*** consumers make particular choices. In this case, Clarke's opinion went beyond the mere effect of

2d 1167, 1169 (W.D. Wash. 1999), is misplaced. That decision rests on the same mistaken statutory construction argument that SAP here advances, is inconsistent with *Frank Music*, and has not been followed by any other court.

[14] Clarke's review of "12.5 million pages of customer-related documents" that were produced in this litigation (SAP Br. 58-59) is not a substitute for expertise he did not independently possess.

Oracle losing customers: He offered judgments about why customers left. ER546-47; ER565; *see also* ER59. As Oracle explained (Oracle Br. 56-57), this analysis was outside Clarke's expertise and should have been excluded. *See, e.g.*, *Arista Records LLC v. Lime Group LLC*, 2011 WL 1674796, *10 (S.D.N.Y. May 2, 2011) (excluding causation testimony of CPA with MBA in copyright infringement case); *cf. Tages v. Univision Television Grp., Inc.*, 2005 WL 2736997, *4 (N.D. Ill. Oct. 20, 2005) (suggesting that "plaintiffs' claims require a different kind of expert, such as one with expertise in marketing or consumer behavior rather than accounting").

Further, SAP does not deny, as Oracle argued (Oracle Br. 57), that Clarke created an *ad hoc* "methodology" for excluding certain customers. Instead, SAP contends that such an unscientific analysis genuinely "'help[ed] the trier of fact to understand the evidence or determine a fact in issue.'" SAP Br. 59 (quoting FED. R. EVID. 702). But whatever "help" Clarke might have been, his testimony still should have been excluded because it did not satisfy the additional requirement of being reliable. *See Daubert v. Merrell Dow Pharm., Inc.*, 509 U.S. 579, 589 (1993); *Elsayed Mukhtar v. Cal. State Univ., Hayward*, 299 F.3d 1053, 1063 & n.7 (9th Cir. 2002), *as amended*, 319 F.3d 1073 (9th Cir. 2003). SAP offers no basis for concluding that Clarke met this requisite, and admitting this testimony was therefore an abuse of discretion that should be corrected in advance of any second trial.

2. Clarke Was Unqualified To Conduct A Market Study Of Alternatives To Oracle And Applied Unreliable Methods

Similarly, SAP's attempts (SAP Br. 59-60) to bolster Clarke's qualifications and methodology regarding market alternatives to Oracle fall short. SAP identifies *no* part of Clarke's background qualifying him to opine on market alternatives, and his testimony relied in substantial part on an uncritical review of websites, news articles, and other third-party information. *See* Oracle Br. 58-59; SER362-415 (relying upon, *inter alia*, Business Week, Computer World, and IT Jungle website articles). His opinions about available alternatives bear none of the hallmarks of reliable expert testimony. *See Arista Records*, 2011 WL 1674796, *10 ("The Court agrees that, given [the expert's] lack of expertise in the music industry and technology spheres, and the fact that he appears to rely almost entirely on an uncritical review of others' views, much of his testimony on this issue must be excluded."). The district court abused its discretion in admitting Clarke's testimony.

CONCLUSION

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

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Respectfully submitted,

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

Pursuant to Fed. R. App. P. 32(a)(7)(C) and Circuit Rule 32-1, the attached opening brief is proportionately spaced, has a typeface of 14 points or more and contains 6,601 words.

s/ Kathleen M. Sullivan______________________ March 25, 2013
Attorney for Plaintiffs-Appellants Date

CERTIFICATE OF SERVICE

I, Kathleen M. Sullivan, a member of the Bar of this Court, hereby certify that on March 25, 2013, I electronically filed the foregoing "Reply Brief of Plaintiffs-Appellants" with the Clerk of the Court for the United States Court of Appeals for the Ninth Circuit by using the appellate CM/ECF system. I certify that all participants in the case are registered CM/ECF users and that service will be accomplished by the appellate CM/ECF system.

I further certify that I caused one copy of Plaintiffs-Appellants' Further Excerpts of Record filed under seal to be served by third-party carrier Federal Express by overnight delivery to the following counsel for Defendants-Appellees:

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