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19 UNITED STATES DISTRICT COURT
20 NORTHERN DISTRICT OF CALIFORNIA
21 OAKLAND DIVISION

23 ORACLE USA, INC., et al.,
24 Plaintiffs,
25 v.
26 SAP AG, et al.,
27 Defendants.

Case No. 07-CV-1658 PJH (EDL)

**DEFENDANTS' OPPOSITIONS TO
ORACLE'S MOTIONS *IN LIMINE***

Date: May 24, 2012
Time: 2:30 p.m.
Courtroom: 3, 3rd Floor
Judge: Hon. Phyllis J. Hamilton

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1 **I. INTRODUCTION**

2 Four of Oracle's five motions *in limine* repeat, at times verbatim, arguments that Oracle
3 previously raised and the Court twice rejected. Oracle presents no new facts or argument in
4 support of these motions and no reasons why the Court should not deny them a third time. The
5 fifth motion, concerning deductible expenses, should be denied because it is contrary to the law
6 and untimely advances new damages computations and expert opinion.

7 **II. OPPOSITION TO MOTION NO. 1 – CLARKE'S EXPERTISE**

8 Motion No. 1 seeks to exclude "customer behavior" testimony by Defendants' damages
9 expert, Stephen K. Clarke, purportedly because he is not qualified to offer such testimony. The
10 motion offers the same arguments that the Court rejected in denying Oracle's *Daubert* motion and
11 again at trial. ECF No. 914 (9/30/10 Order); *see also* Declaration of Tharan Gregory Lanier
12 ("Lanier Decl.") ¶ 11, Ex. 11 (9/30/10 Hrg. Tr.) at 60:9-15 (finding "all of the experts . . .
13 qualified," no "real basis for excluding" them, and that "[m]ost of the arguments go to either the
14 weight of their opinions and conclusions or to the actual merits of the opinions or conclusions").
15 Oracle presents no new facts or argument, and its motion should be rejected for the same reasons.

16 **A. Clarke Is Qualified to Opine on Causation.**

17 Clarke's education and training in accounting and economics and his 22 years of
18 experience as a damages expert amply qualify him to testify on the causation issues in this case.
19 *See* ECF No. 854 (9/9/10 Clarke Decl.) ¶ 2 & Ex. 1. Oracle contends that Clarke's opinions are
20 based on some sort of psychological analysis that he is not qualified to perform and that the
21 causation issues in this case require prior expertise in the ERP industry that Clarke does not have.
22 However, Oracle intends to offer a causation analysis of its own through its damages expert, Paul
23 K. Meyer, who has the same kind of education, training, and experience as Clarke and no prior
24 expertise in the ERP industry.¹

25 Causation in the context of lost profits and infringer's profits claims is not a psychological
26 analysis but a business and economic one, focused on institutional decision-making. Like Clarke,

27 _____
28 ¹ Meyer, like Clarke, is a CPA. *See* Lanier Decl. ¶ 7, Ex. 7 (2/23/10 Supp. Expert Report
of Paul K. Meyer) ¶ 2.

1 Meyer considered evidence about customers' decisions and excluded customers from his damages
 2 calculation based on that evidence. Lanier Decl. ¶ 12, Ex. 12 (11/12/10 Trial Tr.) at 1296:19-25
 3 (Meyer excluded customers for "causation"); *id.* at 1301:2-20 (Meyer excluded customers based
 4 on their unique support service history). In fact, several of Clarke's exclusion pools, including
 5 "Decided to Join SAP Prior to Joining TomorrowNow," "Parent Company Mandate," and
 6 "Standardization," are based on causation factors that initially were identified by Meyer based on
 7 his own review of customer evidence. *Compare* Lanier Decl. ¶ 8, Ex. 8 (Meyer Schedule
 8 30.1.SU) *with* ¶ 9, Ex. 9 (5/7/10 Clarke Report) at 213-15.

9 As Meyer himself testified, the question of why a company acted as it did is the kind of
 10 analysis that accountants and economists perform all the time:

11 Q: Do you believe you're qualified to draw conclusions about what SAP thought
 12 from looking at the documents of SAP's internal deliberations?

13 A: Those documents in combination with the testimony from people like Mr.
 14 Agassi that says he could have in his mind gotten more customers, I think that's
 15 what people like myself consider and come to these determinations. And I'll put
 that forward, and I'll let others in the record speak to the projections, but that's
 my perspective on it.

16 Lanier Decl. ¶ 1, Ex. 1 (5/12/10 Meyer Tr.) at 225:4-14.

17 As a CPA accredited in business valuation and a damages expert with training in
 18 economics, Clarke routinely analyzes markets, competition, economic decision-making, and
 19 customer behavior. ECF No. 854 (9/9/10 Clarke Decl.) ¶ 2 & Ex. 1. For two decades, Clarke has
 20 valued businesses under the professional standards of the American Institute of Certified Public
 21 Accountants, which require him to consider the environment in which a business operates,
 22 including the specific industry, geographic market, economic environment, and competition. *Id.*
 23 ¶¶ 10-11. During his 22 years as an expert, he has performed hundreds of damages calculations
 24 for numerous kinds of businesses. *Id.* He thus has ample experience in causation analysis, which
 25 is the threshold issue in any damages analysis. *Id.* ¶ 6, Ex. 2 (Weil, Roman L., et al., *Litigation*
 26 *Services Handbook: The Role of The Financial Expert* (3d ed. 2001)) § 5.3(a) ("The first step in a
 27 damages study translates the legal theory of the harmful event into an analysis of the economic
 28 impact of that event . . . this step is often called the 'but-for' analysis.>"). Clarke's training as an

1 economist further qualifies him to evaluate causation because a key aspect of economics is the
2 study of why consumers (individual and organizational) make certain economic choices. *See,*
3 *e.g.,* Mark Hirschey, *Managerial Economics* 3 (10th ed. 2003) (“Managerial economics applies
4 economic theory and methods to business and administrative decision making.”).

5 Damages experts like Clarke are capable of evaluating consumer behavior in any industry,
6 including the ERP industry, with the appropriate research and study. As Meyer—who had no
7 experience with the ERP industry before this case—testified at deposition:

8 Q: As someone who by your background and experience is not an enterprise
9 software industry expert or an expert on industry enterprise software customer
10 purchasing practices, do you believe you’re qualified to respond to Mr. Clarke’s
11 report in that regard?

11 A: If I understand your question, from the issue which I am expert in, which is
12 the high technology area and determining damages and valuation and doing
13 analysis and have looked at hundreds of technology companies, absolutely I’m
14 qualified to do the analysis I’ve done. And I don’t believe it takes someone with
15 that background to do these types of analyses, because they are driven by the facts
16 of this case.

17 Lanier Decl. ¶ 3, Ex. 3 (5/14/10 Meyer Tr.) at 712:24-713:15 (objection omitted).

18 By reviewing extensive and customer-specific documentation, Clarke familiarized himself
19 with the pricing structure of ERP software and support services, related costs, and other factors
20 affecting ERP customers. Taking these factors together, and applying his education, training and
21 professional judgment developed over years of practice, he concluded, for example, that for many
22 customers, it simply would be commercially unreasonable to switch software and incur the large
23 related expenses in exchange for the relatively small savings in support costs that TomorrowNow
24 could offer. Lanier Decl. ¶ 9, Ex. 9 (5/7/10 Clarke Report) at 211-12. This kind of analysis of
25 rational market behavior is classic economic analysis.

26 Case law confirms that Clarke is qualified to opine on causation and that experience in the
27 ERP industry is not necessary to support his opinions. In *Industry Automation Supply, LLC v.*
28 *United Rentals Highway Techs.*, the court rejected the same argument that Oracle makes here,
finding that a business valuation expert with no experience in the field of road construction was
qualified to testify on pricing in that market. No. 3:04-CV-99, 2006 WL 5219390, at *1-2
(D.N.D. Feb. 8, 2006) (“[C]ourts routinely allow experts to testify as to subject areas related to,

1 although not conterminous with, their expertise.”). In another closely analogous case, a court
2 admitted testimony from a damages expert with an accounting background who had reviewed
3 contemporaneous records to determine whether the defendant’s conduct had caused customers
4 (insurance agents) to terminate their relationships with the plaintiff (a sales-lead-generation firm).
5 *NetQuote, Inc. v. Byrd*, No. 07-cv-00630-DME-MEH, 2008 WL 2442048, at *1 (D. Colo. June
6 13, 2008) (adopting Magistrate Judge’s Report and Recommendation, 2008 WL 2442048, at *6-7
7 (D. Colo. Apr. 29, 2008)). The court rejected the argument that the expert should be excluded,
8 despite his expertise in business valuations and economic analysis, because he lacked expertise in
9 “insurance lead generation.” *Id.* at *7; *see also Conlon Grp. Ariz., LLC v. CNL Resort Biltmore*
10 *Real Estate, Inc.*, No. CV-08-0965-PHX-FJM, 2009 WL 2259734, at *3 (D. Ariz. July 27, 2009)
11 (denying motion to exclude opinion of damages expert due to alleged lack of industry knowledge
12 about hotel and pool management).

13 The cases on which Oracle relies, *United States v. Chang*, 207 F.3d 1169, 1172-73 (9th
14 Cir. 2000) and *Rambus Inc. v. Hynix Semiconductor Inc.*, 254 F.R.D. 597, 603-05 (N.D. Cal.
15 2008), are readily distinguishable because the subject matters at issue were clearly outside the
16 witnesses’ expertise. *Chang* addressed the qualifications of a professor in international finance to
17 identify counterfeit foreign securities, 207 F.3d at 1172-73, and *Rambus* addressed an electrical
18 engineering expert’s qualifications to opine on the commercial success of the patented product,
19 254 F.R.D. 603-05. Neither case supports the proposition that a damages expert like Clarke is not
20 qualified to opine on the threshold issue of causation.

21 **B. Clarke’s Causation Methodology Is Reliable.**

22 What Oracle characterizes as a “novel,” “invented” and “made-up” methodology is
23 nothing of the sort. To prepare his opinions, Clarke and his staff reviewed approximately 12.5
24 million pages of material, including documents produced during discovery, deposition transcripts,
25 customer declarations, and documents obtained through independent research. Lanier Decl. ¶ 12,
26 Ex. 12 (11/16/10 Trial Tr.) at 1535:25-1537:7. After reviewing this information, Clarke grouped
27 customers exhibiting similar characteristics relevant to purchasing decisions. *Id.* at 1596:18-
28 1597:25 (explaining how customers were grouped after reviewing collected information), 1598:5-

1 1600:7 (explaining why customers were excluded from damages calculation). Clarke then
2 applied his financial, business, and economic training to the materials to analyze the customers'
3 decision to switch software providers. *See Robert Billet Promotions, Inc. v. IMI Cornelius, Inc.*,
4 Civ. A. No. 95-1376, 1998 WL 151806, at *5 (E.D. Pa. Apr. 1, 1998) (damages opinion based on
5 client interviews, documents produced in course of discovery, industry documents, damages
6 treatise, and accounting rules for measuring damages was admissible; criticism of source of
7 expert's damages assumptions and information went to weight).

8 Although Oracle disagrees with the results of Clarke's causation analysis, it cannot
9 seriously contend that customer-by-customer causation analysis is not an accepted or reliable
10 methodology. Indeed, courts routinely accept this approach. *See, e.g., Engineered Prods. Co. v.*
11 *Donaldson Co., Inc.*, 313 F. Supp. 2d 951, 1011 (N.D. Iowa 2004) (approving accountant's
12 customer-by-customer lost profits analysis); *NetQuote*, 2008 WL 2442048, at *7 (admitting
13 causation testimony of damages expert who performed customer-by-customer review).

14 Clarke's exclusion pools (which just as easily could be called groups, categories, or some
15 similar term) are simply a logical method of organizing the vast amount of causation data that he
16 reviewed. ECF No. 854 (9/9/10 Clarke Decl.) ¶¶ 7-8. Indeed, it may be the only practical way to
17 analyze 358 customers and present the results to the jury in a comprehensible form. *Id.* This is
18 an appropriate role for an expert and, far from usurping the role of the jury, "help[s] the trier of
19 fact to understand the evidence or to determine a fact in issue." Fed. R. Evid. 702.

20 Oracle purports to dispute Clarke's methodology but does not contend that the underlying
21 causation data is unreliable, that Clarke's analysis of it was not thorough, or that his exclusion
22 pools are not supported by sound business and economic theory and the data. Oracle's real
23 dispute is with not Clarke's methods but with his conclusions. As the Court correctly ruled twice
24 before, that is not grounds for exclusion, but a matter for cross-examination.

25 **III. OPPOSITION TO MOTION NO. 2 – THIRD PARTY MARKET**

26 Motion No. 2 seeks to exclude testimony by Clarke as to the third party support market,
27 purportedly because he is not qualified to offer such testimony. This motion also is based on the
28 same arguments that the Court rejected in denying Oracle's *Daubert* motion and again at trial.

1 ECF No. 914 (9/30/10 Order); *see also* Lanier Decl. ¶ 11, Ex. 11 (9/30/10 Hrg. Tr.) at 60:9-15.
2 Oracle offers no new facts or argument, and its motion should be rejected for the same reasons.

3 **A. Clarke Is Qualified to Opine on the Third Party Support Market.**

4 As in its Motion No. 1, Oracle relies on the same flawed argument regarding Clarke's
5 prior knowledge of the ERP software and support market. As discussed above, damages experts
6 with Clarke's education, training, and years of experience in accounting, business valuation, and
7 economics are competent to analyze and opine on any industry; courts routinely admit such
8 testimony where the expert had no prior knowledge of an industry. *Supra* at 3-5. Indeed,
9 Oracle's own expert, who has no specific expertise in ERP software, considered himself qualified
10 to analyze the third party support market and opine that "these companies are not acceptable non-
11 infringing alternatives on any kind of scale." Lanier Decl. ¶ 2, Ex. 2 (5/13/10 Meyer Tr.) at
12 574:14-575:5. The Court should reject Oracle's argument as it did at the first trial. ECF No.
13 1146 (Jindal Decl.) ¶ 2, Ex. A (11/16/10 Trial Tr.) at 1570:3-24 (overruling objection based on
14 purported lack of expertise).

15 **B. Clarke's Analysis of the Third Party Support Market Is Reliable.**

16 Oracle's argument that Clarke's analysis is "nothing more" than a "cherry picked
17 collection" of information "found on the internet" is belied by Clarke's report, which provides a
18 detailed, 50-page analysis of the third party support market. Lanier Decl. ¶ 9, Ex. 9 (5/7/10
19 Clarke Report) at 139-92. In over 300 footnotes, Clarke cites numerous sources, including:
20 (a) Oracle's documents; (b) Defendants' documents; (c) customer documents; (d) industry
21 publications such as *Infoworld.com*, *Computerworld.com*, *CIO Decisions*, *Computer Business*
22 *Review*, *Information Week*, *Network World*, and *ITJungle*; (e) business publications such as
23 *Business Week*, *CFO Europe*, *Investors Business Daily*, and the *Wall Street Journal*; (f) analyst
24 publications from AMR Research, Credit Suisse Equity Research, Forrester Research, and
25 Gartner Research; (g) vendor websites; and (h) user publications such as *JDETips Journal*. *Id.*

26 Oracle fails to support the argument that the information in this 50-page, 300-footnote
27 analysis was "cherry picked." Even a cursory review proves the falsity of the claim that Clarke's
28 methodology consists of regurgitating statements on vendors' websites. Clarke identifies relevant

1 third party vendors over time, provides detailed descriptions of their services and pricing structure
 2 compared with TomorrowNow's, and analyzes the extent to which Oracle, TomorrowNow,
 3 customers, analysts, and others considered each vendor to compete with TomorrowNow.²

4 Oracle criticizes Clarke for not "testing" whether third party support providers really
 5 provide the services described on their websites, but, in so doing, misrepresents his testimony.
 6 For example, Oracle claims that Clarke testified that he did not verify "what specific products
 7 vendors supported," but the actual question to Clarke was broader—*i.e.*, whether he verified that
 8 vendors "serviced all versions of all products" within the relevant product families. Lanier Decl.
 9 ¶ 6, Ex. 6 (6/9/10 Clarke Tr.) at 550:4-21. Clarke responded that that was not necessary, since
 10 even TomorrowNow did not support all versions of all products. *Id.* Similarly, while he did not
 11 speak with customers, Clarke reviewed customer depositions, declarations, and documents. *Id.*;
 12 *see also* Lanier Decl. ¶ 11, Ex. 11 (11/16/10 Trial Tr.) at 1535:23-1537:7.

13 Clarke also reasonably distinguished between true marketing claims, which may be
 14 subject to puffery, and statements regarding which specific services a vendor provides, which are
 15 less likely to be the subject of puffery. Oracle's unwarranted assumption that companies typically
 16 lie about the services they offer is not a basis for excluding Clarke. *See Semerdjian v. McDougal*
 17 *Littell*, 641 F. Supp. 2d 233, 243 (S.D.N.Y. 2009) (information from vendor websites sufficient
 18 under Rule 703; overruling objections to economist's testimony regarding market for copyrighted
 19 images because he had reviewed "various sources" to familiarize himself with industry practice,
 20 including industry documents and relevant industry websites). At best, Oracle's issues go to
 21 weight, not admissibility, and its motion should be denied.

22 **IV. OPPOSITION TO MOTION NO. 3 – HEARSAY THROUGH EXPERTS**

23 Motion No. 3 seeks to exclude otherwise inadmissible evidence that Defendants may offer
 24 through experts. This motion also rehashes arguments that Oracle made at trial that the Court
 25 properly rejected. Clarke's testimony is not a "conduit" for hearsay. As it did at trial, Oracle fails
 26 to recognize the distinction between Clarke's conclusions (which the Court correctly ruled are

27 _____
 28 ² Oracle's cites are inapposite because they address an expert's "regurgitation" or "mere
 recitation" of information, without accompanying analysis. That is not what Clarke has done.

1 admissible) and the evidence on which they are based (much of which is admissible and some of
2 which is not). Similarly, with regard to the use of otherwise inadmissible evidence to cross-
3 examine Meyer, Oracle ignores the distinction that the Court properly drew at trial between
4 evidence that Meyer merely saw but did not consider and evidence that he actually considered.

5 **A. The Court Properly Permitted Clarke to Testify to His Opinions.**

6 The rules governing expert reliance on hearsay are well established. Under Rule 703, an
7 expert may provide an opinion based on inadmissible evidence (including hearsay) as long as it is
8 of a type reasonably relied on by experts in the field. Fed. R. Evid. 703. The evidence does not
9 become admissible simply by virtue of the expert's reliance on it; it becomes admissible only if
10 the court finds that its probative value substantially outweighs its prejudicial effect. *Id.* But the
11 *opinion itself* is admissible regardless of the admissibility of the underlying evidence. *Id.* ("An
12 expert may base an opinion on facts or data in the case that the expert has been made aware of or
13 personally observed. If experts in the particular field would reasonably rely on those kinds of
14 facts or data in forming an opinion on the subject, they need not be admissible *for the opinion to*
15 *be admitted.*") (emphasis added). For example, in *Weiss v. Allstate Ins. Co.*, the plaintiffs' expert
16 relied on an Accuweather report in forming his opinion on the cause of the property damage at
17 issue in the case. 512 F. Supp. 2d 463, 477 (E.D. La. 2007). While ruling that the weather report
18 was inadmissible hearsay, because property damage experts regularly rely on such reports, the
19 court held that the opinion itself was admissible and that the expert could inform the jury that he
20 relied on the report. *Id.* Similarly, in *Bartlett v. Mut. Pharm. Co.*, the court permitted expert
21 testimony as to the number of users of a particular drug even though the expert obtained the
22 number from a hearsay FDA document. 742 F. Supp. 2d 182, 191 (D.N.H. 2010). The court
23 noted that because medical experts routinely rely on FDA materials in forming their opinions, the
24 "opinion may be admitted even though it is based on hearsay." *Id.*; *see also Valley Forge Ins. Co.*
25 *v. Zurich Am. Ins. Co.*, No. C 09-2007 SBA, 2012 U.S. Dist. LEXIS 8378, at *7 (N.D. Cal. Jan.
26 25, 2012) ("[Rule 703] permits experts to render opinions even if based on hearsay."); *Martinez-*
27 *Hernandez v. Butterball, L.L.C.*, No. 5:07-CV-174-H, 2011 U.S. Dist. LEXIS 111000, at *28-29
28 (E.D.N.C. Sept. 26, 2011) (permitting expert testimony based in part on hearsay declarations).

1 Oracle fails to distinguish between admissible expert opinion and inadmissible evidence
2 on which it may be based. At the first trial, Oracle sought to prevent Clarke from testifying to any
3 conclusions from purportedly inadmissible evidence, as well as to the contents of inadmissible
4 evidence itself. The Court properly rejected that argument and, consistent with Rule 703, held
5 that while Clarke could not disclose the details of inadmissible documents, he could “testify to the
6 conclusions he drew from those.” ECF No. 1146 (Jindal Decl.) ¶ 2, Ex. A (11/16/10 Trial Tr.) at
7 1594:14-1596:10. Oracle repeats this error in its motion, arguing not only that Clarke may not
8 disclose inadmissible evidence, but also that he may not testify to, for example, the meaning of a
9 particular exclusion pool, even if he does so without disclosing the details of any out-of-court
10 statement or otherwise inadmissible evidence. For example, Oracle argues that Clarke’s testimony
11 regarding the meaning of the Service Evaluation pool should have been excluded, even though the
12 testimony does not disclose the details of any document, including any inadmissible document.
13 Pl.’s MIL No. 3 at 12. The testimony was: “‘Service Evaluation’ means that the company was
14 out looking at other vendors, other ways to get its support for its Oracle systems. There were 41
15 of those.” ECF No. 1146 (Jindal Decl.) ¶ 2, Ex. A (11/16/10 Trial Tr.) at 1599:18-21.

16 Oracle’s argument is wrong. If accepted, it would eviscerate the rule that an expert’s
17 opinion is admissible even if the underlying evidence is not. The Court also should reject
18 Oracle’s misleading argument that, to be admissible, expert opinion must be based on evidence
19 for which a witness first has laid a foundation at trial. This is contrary to Rule 703 and, again,
20 ignores the distinction between the opinion itself, which is admissible, and the underlying
21 evidence on which it is based, which may or may not be.

22 *Therasense, Inc. v. Becton, Dickinson and Co.* is readily distinguishable. No. C 04-02123
23 WHA, 2008 WL 2323856, at *1-3 (N.D. Cal. May 22, 2008). There, the court addressed “the
24 attempted spoon-feeding of client-prepared and lawyer-orchestrated ‘facts’ to a hired expert who
25 then ‘relies’ on the information to express an opinion.” *Id.* at *1. The case involved an expert’s
26 reliance on experiments conducted by the party that hired him, in secret, solely for the purpose of
27 the litigation, out of the presence of the expert, concealed from the opposing party under a claim
28 of privilege, and only disclosed after the close of discovery. *Id.* at *3. In that context, the court

1 held the expert's opinion inadmissible because the plaintiff "clearly intended to thwart discovery
2 into the foundation" for the experiments, no professional could reasonably rely on such a "rigged
3 and biased source of information," and the probative value of the testimony would be far
4 outweighed by its prejudicial effect. *Id.* at *2-3.

5 Here, by contrast, Clarke's causation opinion is based on his review of millions of pages
6 of contemporaneous documents (most of them Oracle's own) disclosed during discovery and of
7 the type reasonably relied on by accountants, economists, and other damages experts. Lanier
8 Decl. ¶ 11, Ex. 11 (11/16/10 Trial Tr.) at 1535:23-1537:7. There was no "spoon-feeding" of
9 client or lawyer-prepared facts that would undermine the reliability of Clarke's opinion.

10 As discussed in Defendants' Trial Brief, much of the evidence on which Clarke relied is
11 admissible. ECF No. 1139 (4/26/12 Defs.' Trial Brief) at 10-17. But, as the Court correctly ruled
12 at the last trial, even if some is not, the opinions themselves are still admissible.

13 **B. Oracle Misstates the Court's Ruling on Cross-Examination with Hearsay.**

14 Oracle does not dispute that a party may cross-examine an opposing expert with hearsay
15 evidence if the expert relied on the evidence as a basis for his opinion. Thus, Oracle's argument
16 is limited to excluding cross-examination with hearsay evidence that an expert "considered" but
17 on which he did not ultimately rely. Oracle misstates the Court's ruling on this issue.

18 In each of the three instances about which Oracle complains, the Court admitted evidence
19 based on Meyer's testimony that he had "considered" it in formulating his opinions. ECF No.
20 1146 (Jindal Decl.) ¶ 2, Ex. A (11/9/10 Trial Tr.) at 1143:24-1145:24, 1151:20-1152:16, 1156:20-
21 1157:14. Oracle argues that the Court later "corrected itself" by ruling that Meyer simply having
22 seen a document did not render it admissible. Now, Oracle treats "merely having seen" a
23 document as synonymous with having considered it in formulating an opinion, and ignores the
24 distinction that the Court properly drew between those two concepts. *Id.* at 1163:21-22 ("It's not
25 the same thing. He has seen it before is not quite the same thing as he has considered it.").

26 In *United States v. A & S Council Oil Co.*, the Fourth Circuit held that, under Rule 705,
27 the defendant should have been permitted to cross-examine an expert regarding inadmissible
28 evidence that the expert had chosen not to use as a basis for his opinion. 947 F.2d 1128, 1135

1 (4th Cir. 1991). The court reasoned that because the expert knew of the evidence but did not rely
2 on it, he had “necessarily discounted” it. *Id.* at 1135. Accordingly, the defendant “should have
3 been permitted to fully explore the bases of Rollins’ opinion, including inquiry about [the
4 inadmissible evidence].” *Id.* (“Rule 703 creates a shield by which a party may enjoy the benefit
5 of inadmissible evidence by wrapping it in an expert’s opinion; Rule 705 is the cross-examiner’s
6 sword, and, within very broad limits, he may wield it as he likes.”).

7 The Fourth Circuit’s reasoning applies with equal force here. That Meyer considered
8 certain evidence but chose not to rely on it goes to his credibility and the reliability of his
9 opinions. Rules 703 and 705 permit cross-examination with inadmissible evidence for those
10 purposes. *See id.* (“Full examination of the underpinnings of an expert’s opinion is permitted
11 because the expert, like all witnesses, puts his credibility in issue by taking the stand.”); *see also*
12 *Ratliff v. Schiber Truck Co.*, 150 F.3d 949, 955 (8th Cir. 1998) (upholding district court’s
13 admission of otherwise inadmissible report to cross-examine testifying expert, where expert
14 reviewed report and implicitly rejected its contents by coming to opposite conclusion; “counsel
15 was free to cross-examine the expert as to all documents he reviewed in establishing his
16 opinion”); *Vodusek v. Bayliner Marine Corp.*, 71 F.3d 148, 157 (4th Cir. 1995) (upholding
17 admission of otherwise inadmissible transcripts to cross-examine testifying expert, where expert
18 had reviewed and disagreed with statements in transcripts).

19 Defendants are not aware of any case, and Oracle has not cited any, that holds otherwise.
20 Oracle’s cases are not on point. In *In re Hanford Nuclear Reservation Litig.*, the expert was
21 cross-examined with deposition testimony that he never saw, let alone considered or relied on.
22 534 F.3d 986, 1011-12 (9th Cir. 2008). In *Bobb v. Modern Prods., Inc.*, the expert testified that
23 he had seen the report at issue, but there was no testimony either way as to whether he considered
24 or relied on it. 648 F.2d 1051, 1055-56 (5th Cir. 1981), *overruled on other grounds by Gautreaux*
25 *v. Scurlock Marine, Inc.*, 107 F.3d 331 (5th Cir. 1997). Oracle’s cases thus support the Court’s
26 ruling that merely having seen an inadmissible document is not sufficient to permit cross-
27 examination on it. But they do not support the position that Defendant may not cross-examine
28 Meyer on evidence that he considered but ultimately chose to ignore.

1 **V. OPPOSITION TO MOTION NO. 4 – CUSTOMER DECLARATIONS**

2 Motion No. 4 seeks to exclude five customer declarations on which Clarke relied. Like
3 the first three motions, Motion No. 4 raises an issue that the Court considered and rejected—the
4 admissibility of five customer declarations provided to Oracle before the August 5, 2010 pretrial
5 disclosures deadline and limited revisions to Clarke’s opinions based thereon. Oracle’s motion
6 should be denied because the disclosures all were timely supplements under Rule 26(e) of the
7 Federal Rules of Civil Procedure. The Court properly ruled that Clarke may testify based on the
8 declarations and should uphold its previous ruling.

9 **A. The Court Previously Admitted Clarke’s Opinions Related to the Customer**
10 **Declarations.**

11 Oracle raised this objection at the last trial, and the Court properly ruled that Clarke could
12 testify to his opinions. Lanier Decl. ¶ 11, Ex. 11 (11/16/10 Trial Tr.) at 1518:18-1524:1. Oracle
13 had a full and fair opportunity to argue for exclusion and presented all of the arguments it now
14 repeats. *Id.* After considering Oracle’s objections, the Court ruled that: “[Clarke] can refer to
15 [the declarations]. They will not come in as evidence.” *Id.* at 1523:23-24. Oracle presents no
16 reason or authority for why the Court should change its decision. Indeed, the only case Oracle
17 cites held the opposite of what Oracle urges the Court to find here. *See Maionchi v. Union Pac.*
18 *Corp.*, No. C 03-0647 JF PVT, 2007 WL 2022027, at *1 (N.D. Cal. July 9, 2007) (denying
19 motion to exclude allegedly late-disclosed expert opinion).

20 **B. Clarke’s Supplements Were Timely Disclosed under Rule 26(e).**

21 The Court’s prior ruling was correct because Clarke’s supplemental opinions were timely
22 disclosed under Rule 26(e). As long as supplemental reports do not advance new theories or
23 opinions, experts can revise or correct their reports until the deadline for pretrial disclosures. Fed.
24 R. Civ. P. 26(e); *see also Abila v. United States*, No. 2:09-cv-01345-KJD-LRL, 2011 U.S. Dist.
25 LEXIS 42944, at *5 (D. Nev. Apr. 4, 2011) (denying motion to exclude supplemental report
26 timely served before deadline); *United States v. 14.3 Acres of Land*, No. 07cv886-W(NLS), 2008
27 U.S. Dist. LEXIS 66667, at *17, 23-24 (S.D. Cal. Aug. 29, 2008) (same).

28 Because all of the disputed declarations and accompanying supplemental reports were

1 provided before the August 5, 2010 pretrial disclosure deadline, they were timely and, as the
2 Court previously ruled, should not be excluded. ECF No. 325 (6/11/09 Order) at 2 (setting
3 August 5, 2010 as pretrial disclosures deadline); Pl.'s MIL No. 4 at 14 (showing supplements
4 were served on or before August 4, 2010).

5 Moreover, unlike Meyer's new April 20, 2012 Report (discussed in detail in ECF No.
6 1142 (4/26/12 Defs.' MIL No. 1)), the disputed revisions to Clarke's report contain no new
7 theories or opinions. Clarke's methodology always focused on whether customers should be
8 excluded from or included in his damages calculations based on the available evidence (*see, e.g.*,
9 ECF 932 (Defs.' Opp. to *Daubert*) at 12-14), and these minor supplements merely updated the
10 exclusion of a small number of customers based on newly-acquired information.³ Lanier Decl.
11 ¶ 11, Ex. 11 (11/18/10 Trial Tr.) at 1784:3-1790:18. This was a permissible supplement. *See,*
12 *e.g., Capitol Justice LLC v. Wachovia Bank, N.A.*, 706 F. Supp. 2d 34, 39-40 (D.D.C. 2009)
13 (holding revised report that applied same methodology, but changed only inputs and calculations,
14 was timely supplement); *see also Abila*, 2011 U.S. Dist. LEXIS 42944, at *5 (finding report
15 updating damages numbers was timely supplement); *14.3 Acres of Land*, 2008 U.S. Dist. LEXIS
16 66667, at *16, 23-24 (finding reports updating underlying information were timely supplements).

17 **C. Oracle Suffered No Prejudice.**

18 Oracle's only articulated prejudice—that it could not “test the declarations” without
19 further discovery—fails for the same reasons it did previously. First, because Oracle received
20 four of the declarations by Meyer's May 12-14, 2010 deposition, Meyer had time to consider the
21 declarations and revise his opinions if necessary before pretrial disclosures. Pl.'s MIL No. 4 at 14
22 (noting that Oracle received Standard Register, Amsted Rail, NewPage, and Rotkappchen
23 declarations on or before May 10, 2010); *see also* Lanier Decl. ¶ 11, Ex. 11 (11/16/10 Trial Tr.) at
24 1519:11-16; 1520:6-9. Indeed, Meyer revised his damages calculation before his deposition to
25 remove customer Cowlitz County based on another declaration, not raised in Oracle's motion,
26 where that declaration “related to whether or not they would have stayed with Oracle and been an

27 ³ Indeed, one supplement simply disclosed that the declaration “further” supported his
28 *already issued opinion*; Clarke's numbers did not change. Lanier Decl. ¶ 10; Ex. 10 (8/4/10
Clarke Supp. Report).

1 Oracle customer but for TomorrowNow.”⁴ Lanier Decl. ¶¶ 1, 4, Ex. 1 (5/12/10 Meyer Tr.) at
 2 95:17-19; 97:22-98:12; Ex. 4 (Defs.’ Depo. Ex. 2019) at Line 1. Meyer could have revised his
 3 opinions based on the declarations at issue, but did not.

4 Second, as noted during oral argument, these four declarations also were available before
 5 Clarke’s June 8-10, 2010 deposition, and Oracle had ample opportunity to question him about
 6 them. Lanier Decl. ¶ 11, Ex. 11 (11/16/10 Trial Tr.) at 1520:16-23; *see also Maionchi*, 2007 WL
 7 2022027, at *1 (denying motion to exclude late opinion because, *inter alia*, party could depose
 8 expert on opinions). Instead, Oracle limited its questions to how and when the declarations were
 9 obtained. Lanier Decl. ¶ 5, Ex. 5 (6/8/10 Clarke Tr.) at 24:23-28:18. This is unsurprising.
 10 Oracle had no interest in discovery regarding the content of the declarations—which discussed
 11 reasons customers left Oracle or purchased SAP software other than TomorrowNow—because it
 12 would have led Meyer to reduce his inflated damages number. Oracle wishes only to prevent
 13 Clarke from relying on them and the jury from learning about them.

14 Third, Oracle could have obtained informal discovery from the customers at any time.
 15 Indeed, two of the disputed declarations supplemented declarations Oracle already obtained. ECF
 16 No. 865 (9/9/10 Wallace Decl.) ¶ 18, Ex. 18 (11/11/09 Standard Register Decl.); Ex. 17 (7/21/09
 17 Amsted Rail Decl.); Lanier Decl. ¶ 11, Ex. 11 (11/16/10 Trial Tr.) at 1523:15-19.

18 Moreover, Oracle’s claim of harm falls flat given its failure to submit a timely motion to
 19 compel this allegedly vital discovery. As noted above, Oracle received four of the disputed
 20 declarations and Clarke’s supplements by May 10, 2010. *See* Pl.’s Mot. No. 4 at 14. According
 21 to the Civil Local Rules, Oracle had until at least June 25, 2010, if not July 2, 2010, to bring a

22 _____
 23 ⁴ The history of this declaration demonstrates one reason why Defendants obtained the
 24 declarations at issue. Oracle’s counsel provided a draft declaration to Cowlitz County. The draft
 25 stated that Cowlitz County would have remained on Oracle support if TomorrowNow had not
 26 been available. Cowlitz County deleted that statement and replaced it with a statement to the
 27 effect that had TomorrowNow not been available, it would have “elected not to renew” support
 28 with Oracle and “relied on its own in-house technicians” Oracle’s counsel told Cowlitz
 County that this statement was not “necessary” and provided a new draft omitting any discussion
 of what the customer would have done had TomorrowNow not been available. ECF No. 865
 (9/9/10 Wallace Decl.) ¶ 19, Ex. 19 (3/4/10 Cowlitz County Decl.). Cowlitz County signed the
 new declaration. Oracle’s counsel provided it to Meyer, and he then included the customer in his
 lost profits calculation. Had Defendants not contacted Cowlitz County themselves, the
 misleading nature of this declaration never would have come to light. *Id.*

1 motion to compel the discovery it now insists was necessary to “test the declarations.” Civil L.R.
 2 37-3 (motions to compel must be filed within 7 days of expert discovery cut-off); ECF No. 586
 3 (12/21/09 Order) at 2 (setting June 18, 2010 as expert discovery cut-off); ECF No. 720 (6/17/10
 4 Order) at 2 (extending deadline to June 25, 2010 for limited purpose). It did not. Failure to
 5 prosecute the discovery undermines Oracle’s current claim to have suffered harm. *Freeman v.*
 6 *Allstate Life Ins. Co.*, 253 F.3d 533, 537 (9th Cir. 2001) (upholding denial of motion to exclude
 7 untimely disclosed evidence, where plaintiff failed to prosecute issue pursuant to local rules).

8 Finally, the Haworth declaration, signed on July 27, 2010 and served on August 4, 2010,
 9 was merely confirmatory evidence supporting positions Clarke already had taken—that Haworth
 10 should be excluded from infringer’s profits—resulting in no adjustment to his damages opinions
 11 or calculations. Lanier Decl. ¶ 10, Ex. 10 (8/4/10 Clarke Supp. Report) (stating that Haworth
 12 “declaration is *further support for* my exclusion of the customer from my disgorgement damages
 13 calculation”) (emphasis added). All of the facts related in the declaration regarding Haworth’s
 14 reasons for leaving Oracle support and choosing SAP software also can be found in Oracle’s own
 15 admissions. *See, e.g.*, ECF No. 865 (9/9/10 Wallace Decl.) ¶ 16, Ex. 16 (7/27/10 Haworth Decl.)
 16 ¶¶ 5-6; *see also* ECF No. 1139 (4/26/12 Defs.’ Trial Brief) at 13-15. Such a supplement, in which
 17 Clarke’s damages numbers are not even updated, could not have caused Oracle any harm.

18 **VI. OPPOSITION TO MOTION NO. 5 – DEDUCTIBLE EXPENSES**

19 Motion No. 5 seeks to exclude infringer’s profits calculations by Clarke that include any
 20 cost deductions from Defendants’ gross revenues.⁵ The Court should deny the motion because it
 21 is based on an erroneous statement of the law and because it advances new, inconsistent attorney
 22 argument and expert opinion barred by the Federal Rules, the Court’s orders, and equity.

23 **A. Willful Infringers Are Not Barred from Deducting Expenses.**

24 The Court should not preclude Clarke from opining on Defendants’ deductible expenses
 25 because there is no statutory basis for denying an accused willful infringer the opportunity to
 26 deduct expenses from revenues attributable to infringement. Indeed, the Copyright Act allows a

27 ⁵ Defendants’ Motion *in Limine* No. 1 anticipates and responds in detail to the arguments
 28 Oracle advances, and Defendants incorporate their motion by reference herein. ECF No. 1142
 (4/26/12 Defs.’ MIL No. 1) at 12-14.

1 copyright owner to recover only an infringer's "profits," not its gross revenues. 17 U.S.C.
2 § 504(b). Nothing in the Act defines "profits of the infringer that are attributable to the
3 infringement" differently if the infringement is willful. *Id.*

4 Oracle relies on *dicta* in Ninth Circuit cases and the Comment to Instruction 17.27 of the
5 Ninth Circuit Model Civil Jury Instructions ("Willful Infringement") for the proposition that
6 "where a defendant willfully infringes, it loses the right to deduct [] expenses from its infringers'
7 revenues." Pl.'s MIL No. 5 at 15; Ninth Circuit Manual of Model Jury Instructions, Instruction
8 17.27, Comment (citing *Kamar Int'l, Inc. v. Russ Berrie & Co.*, 752 F.2d 1326, 1331-32 (9th Cir.
9 1984)); *Frank Music Corp. v. Metro-Goldwyn-Mayer, Inc.*, 772 F.2d 505, 515 (9th Cir. 1985).
10 Notably, the Model Instruction on "Defendant's Profits" expressly permits deducting expenses,
11 without reference to the nature of the infringement, and no Model Instruction provides otherwise.
12 See Ninth Circuit Manual of Model Jury Instructions, Instruction 17.24. The passing reference in
13 Instruction 17.27's Comment to the deductibility of expenses is not an authoritative statement of
14 the law. *Cf.* Ninth Circuit Manual of Model Jury Instructions, Introduction ("The instructions in
15 this Manual are models. . . . The Ninth Circuit Court of Appeals does not adopt these instructions
16 as definitive."); *Dang v. Cross*, 422 F.3d 800, 805 (9th Cir. 2005) ("[T]he 'use of a model jury
17 instruction does not preclude a finding of error.'" (citation omitted). And the Ninth Circuit case
18 law on which the Comment and Oracle rely does not hold that deductions are disallowed for
19 alleged willful infringers. In fact, the only published decision in this Circuit to have squarely
20 addressed the issue held that a willful infringer is not prohibited from deducting expenses to
21 calculate profits. See *ZZ Top v. Chrysler Corp.*, 70 F. Supp. 2d 1167, 1168 (W.D. Wash. 1999).

22 In *Kamar*, the Ninth Circuit considered the plaintiff's argument that the defendant, an
23 alleged willful infringer, should not be allowed to deduct "overhead" expenses in calculating
24 infringer's profits. 752 F.2d at 1331. The plaintiff relied on language from a Second Circuit
25 case, *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 51 (2d Cir. 1939), *aff'd*, 309 U.S.
26 390 (1940), to the effect that a "plagiarist may not charge for his labor." *Id.* at 51. Having
27 determined that the defendant was not a willful infringer, however, it was unnecessary for the
28 Ninth Circuit to decide whether willful infringers are precluded from deducting overhead

1 expenses from gross revenues attributable to infringement. *Kamar*, 752 F.2d at 1331. Still, the
2 Ninth Circuit expressed disagreement with the plaintiff's interpretation of *Sheldon*, finding that
3 the Second Circuit's decision "does . . . not disallow all overhead" expenses.⁶ *Id.* at 1331. Since
4 the Ninth Circuit's decisions in *Kamar* and *Frank Music* (*see infra*), the Second Circuit now has
5 confirmed that even willful infringers may deduct expenses in calculating profits. *Hamil Am.,*
6 *Inc. v. GFI*, 193 F.3d 92, 107 (2d Cir. 1999), *cert. denied*, 528 U.S. 1160 (2000) (holding, post-
7 *Sheldon*, that accused infringers, whether willful or not, may deduct expenses).

8 As in *Kamar*, the Ninth Circuit in *Frank Music* also did not hold that willful infringers
9 may not deduct expenses in an infringer's profits calculation. 772 F.2d at 515. In affirming the
10 district court's finding that the infringement was not willful, the Ninth Circuit never reached the
11 issue of whether a willful infringer should be denied certain deductions. *Id.* Although the *Frank*
12 *Music* court noted in *dicta* that overhead expenses "may be deducted from gross revenues to
13 arrive at profits, at least where the infringement was not willful, conscious, or deliberate," this
14 passing reference was not a holding of the case. *Id.* (citing *Kamar*, 752 F.2d at 1331). Further,
15 the court's reliance on *Kamar* in support of this comment was misplaced in any event because
16 *Kamar* did not hold that a willful infringer cannot deduct expenses.

17 Ultimately, the only court in the Ninth Circuit ever to squarely address whether a willful
18 infringer is precluded from deducting expenses held that a willful infringer can deduct overhead
19 in calculating profits. *ZZ Top*, 70 F. Supp. 2d at 1168. There, the court correctly observed that
20 there is no statutory basis for denying a deduction of overhead costs as punishment to a willful
21 infringer, since: (1) Section 504(b) of the Copyright Act allows plaintiffs to recover only profits,
22 not gross revenues; (2) not permitting the defendant to deduct overhead expenses effectively
23 serves as an "affirmative punishment" of defendants; and (3) Congress specifically addressed
24 punishment of willful infringers under Section 504(c) of the Act, which deals with statutory
25 damages. *Id.* (citing 17 U.S.C. §§ 504(b)-(c)). The court also noted that *Frank Music* and *Kamar*

26 ⁶ An independent reading of *Sheldon* confirms that it did not hold that willful infringers
27 are automatically precluded from deducting expenses in an infringer's profits analysis. *See* 106
28 F.2d at 51, 54 (commenting in apportionment analysis, not deductible expenses analysis, that
"plagiarist may not charge for his labor," and finding that willful infringer could deduct overhead
expenses as long as they "assisted in the production of the infring[ing] [product]").

1 merely left open the possibility that deducting overhead expenses may be precluded if the
2 infringement is intentional, but did not hold and did “not mandate or even endorse such a
3 preclusion.” *Id.* at 1169. Based on this reasoning, the court concluded that willful infringers may
4 deduct overhead expenses from infringer’s profits under Section 504(b). *See id.*

5 No Ninth Circuit case holds that willfulness precludes deducting expenses.⁷ As a result,
6 Oracle’s claim that Defendants admitted to willful copyright infringement is irrelevant. To
7 prevent Clarke from opining on deductible expenses and permit Oracle and its expert to advance a
8 new infringer’s profits claim that no longer deducts expenses would double both experts’
9 infringer’s profits calculation, effectively imposing double damages as punishment for the alleged
10 willful infringement—an effect that contravenes Section 504(b)’s plain language.

11 Allowing Defendants to offer evidence to prove their deductible expenses not only is
12 required by law, but also is fair. As Oracle recognizes, Clarke carefully calculated Defendants’
13 expenses to establish to a statistical certainty that he deducts only expenses that are “related to”
14 the accused infringing revenues. Pl.’s MIL No. 5 at 16. In measuring only “variable” expenses
15 incurred in producing the accused revenues, Clarke eliminates concerns that permitting deduction
16 of overhead expenses could produce a windfall to a defendant, effectively permitting ill-gotten
17 revenues to offset overhead expenses that a defendant would have incurred even without the
18 infringing revenues. *See, e.g., Frank Music*, 772 F.2d at 515-16 (holding that defendant may
19 deduct expenses that “actually contributed to the production” of infringing work).

20 **B. Oracle May Not Reverse Its Approach on Deducting Expenses.**

21 Although Oracle argued throughout the case that Defendants engaged in willful
22 infringement, *see, e.g.*, ECF No. 182 (Third Am. Compl.) ¶ 121, it never posited that Defendants
23 cannot, as alleged willful infringers, deduct expenses in calculating infringer’s profits. ECF No.
24 747 (Joint Prop. Jury Instr.) at 80 (for infringer’s profits instruction, not offering language
25 regarding ability of willful infringers to deduct expenses). Instead, as described in detail in

26 ⁷ Although one court outside this Circuit, without independent analysis, erroneously
27 interpreted *Frank Music* as holding that willful infringers may not deduct overhead expenses, *see*
28 *Saxon v. Blann*, 968 F.2d 676, 681 (8th Cir. 1992), Oracle cites no authority (and Defendants
have not located any) to support its claim that willful infringers are prohibited from deducting
expenses altogether.

1 Defendants' Motion *in Limine* No. 1, Oracle and its expert repeatedly offered an infringer's
2 profits calculation that deducts expenses from gross revenues according to the 50 percent profit
3 margin originally computed by Clarke. ECF No. 1142 (4/26/12 Defs.' MIL No. 1) at 2-4, 10-12;
4 *see also* Pl.'s MIL No. 5 at 16 ("Meyer also measured a profit margin . . .").

5 Having consistently advocated an infringer's profits claim that deducts expenses from
6 gross revenues, Oracle is judicially estopped from now reversing course entirely by arguing that
7 Defendants, as alleged willful infringers, may not seek to deduct their expenses at all. ECF No.
8 1142 (4/26/12 Defs.' MIL No. 1) at 9-12; *Hamilton v. State Farm Fire & Cas. Co.*, 270 F.3d 778,
9 782 (9th Cir. 2001) (citations omitted). Further, where both Oracle and Meyer failed to disclose,
10 without justification and to Defendants' detriment, an infringer's profits claim comprising "only
11 the gross revenue" attributable to infringement, Pl.'s MIL No. 5 at 16, such claim now is untimely
12 and subject to automatic exclusion under Rule 37 of the Federal Rules of Civil Procedure. ECF
13 No. 1142 (4/26/12 Defs.' MIL No. 1) at 5-9, 11-12; Fed. R. Civ. P. 37(c)(1).

14 **VII. CONCLUSION**

15 For the reasons above, Oracle's motions should be denied.

16 Dated: May 10, 2012

JONES DAY

17 By: /s/ Tharan Gregory Lanier
18 Tharan Gregory Lanier

19 Counsel for Defendants
20 SAP AG, SAP AMERICA, INC., and
21 TOMORROWNOW, INC.