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18 TOMORROWNOW, INC.

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

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

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

**DEFENDANTS' MOTION TO
EXCLUDE EVIDENCE RELATED
SOLELY TO CONTRIBUTORY
INFRINGEMENT**

1 **I. INTRODUCTION**

2 Plaintiffs seek to admit evidence that is related solely to contributory infringement.
3 Defendants stipulated to this claim and this Court ordered that evidence may only be presented
4 for limited context or in support of the remaining issue of damages. *See* ECF No. 952.
5 Defendants have not objected to all of the evidence of contributory infringement that Plaintiffs
6 seek to admit based on the Court's order. However, Plaintiffs keep trying to admit new evidence
7 beyond providing context, and argue that it is relevant by categorizing it as an element of a
8 hypothetical license analysis. Plaintiffs are incorrect as a matter of law that such evidence may
9 factor in to an analysis of the fair market value of a copyright. Further, because Plaintiffs have
10 already presented their erroneous legal argument to the jury, Defendants seek a limiting
11 instruction to correct the jury's faulty understanding of the proper factors to consider in
12 determining a hypothetical license.

13 **II. ARGUMENT**

14 Plaintiffs seek to admit evidence of contributory infringement under the guise of evidence
15 relating to Defendants' alleged willingness to risk litigation. *See* Exhibit A (Oracle's Responses
16 to Defendants' Objections to Evidence); Exhibit B (Power point slide from Plaintiffs' opening).
17 Such evidence, properly characterized as evidence of purported willful infringement, has no
18 place in a calculation of a hypothetical license fee. It is irrelevant and inadmissible under Rule
19 401 of the Federal Rules of Evidence.

20 First, evidence regarding a party's willingness to infringe, or similarly, fear of impending
21 infringement litigation, "cannot logically represent part of the fair market value of a license
22 authorizing such use." *Barrera v. Brooklyn Music*, No. 9331 (RLC)(KNF), 2004 U.S. Dist.
23 LEXIS 12450, at *15 (S.D.N.Y. June 30, 2004) (rejecting argument that fair market value award
24 should be increased based on infringer's desire "to avoid the need to resort to litigation") (rev'd
25 on other grounds). If willingness to risk infringement were a proper basis for increasing a
26 hypothetical license fee, every damages award based on such hypothetical negotiations would fail
27 to reflect actual market value of the property infringed since a damages award necessarily follows
28

1 an *infringement* suit. Thus, an argument that such evidence is relevant removes all usefulness
2 from a hypothetical license as an indicator of *fair market value*.

3 Second, evidence of willful infringement is not admissible for purposes of determining
4 actual damages in the form of a hypothetical license under copyright law. In *Stehrenberger v.*
5 *Reynolds Tobacco Holdings*, 335 F. Supp. 2d 466, 468 (S.D.N.Y. 2004), the court found that
6 evidence of willful infringement “does not define a fair and reasonable license fee, but represents
7 concepts of punishment for infringement.” The court went on to hold that this component
8 “form[s] no part of ‘actual damages’ under the statute.” *See id.* Plaintiffs seek to increase their
9 damages award by conflating a compensatory measure of damages with evidence that would
10 support an award of punitive or statutory damages. “Copyright infringement is a strict liability
11 wrong.” *Faulkner v. Nat’l Geographic Soc’y*, 576 F. Supp. 2d 609, 613 (S.D.N.Y. 2008). Thus,
12 in determining a hypothetical license fee, “there is no proper role for proof of willfulness.” *Id.*

13 Plaintiffs’ assertions that the evidence in question proves Defendants’ willingness to
14 infringe, and is therefore probative of objective fair market value, misconstrues hypothetical
15 license case law. Plaintiffs rely on three patent infringement cases—*Georgia-Pacific*, *Gyromat*,
16 and *Pentech*—for their contention that evidence of willingness to infringe is evidence of the value
17 of Oracle’s intellectual property. *See* Exhibit A. *Georgia-Pacific* and *Gyromat* do not support
18 Plaintiffs’ argument that evidence of risk of infringement may be used to calculate fair market
19 value, and *Pentech* does not track with the Southern District of New York’s current position on
20 this issue. Thus, Plaintiffs’ argument that the evidence is relevant is unsupported.

21 The “substantial risks and costs” that *Georgia-Pacific* discusses have to do with business
22 risks rather than risk of litigation. *See Georgia-Pacific Corp. v. U.S. Plywood Corp.*, 318 F. Supp.
23 1116, 1131 (S.D.N.Y. 1970). The court explained that because the product had proven profitable,
24 the risk of bringing it to market would be at a low level such that a party would be willing to pay
25 a substantial licensing fee. *See id.* Evidence that the product would be profitable, and therefore
26 worth more to a licensor, is wholly distinct from evidence of a party’s subjective knowledge
27 regarding the possibility and risk of infringement.

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1 Similarly, the *Gyromat* court discussed business risk, rather than a party's willingness to
2 risk infringement, in determining whether there was a demand for the product at the time of
3 infringement. *See Gyromat Corp. v. Champion Spark Plug Co.*, 735 F.2d 549, 552 (Fed. Cir.
4 1984). In addition, *Gyromat* discussed risk in the context of a *lost profits* analysis. There, the
5 evidence was relevant because one of the factors in a four-part test for lost profits is the question
6 of whether there is a demand for the product and thus, less of a risk for the licensing party with
7 regard to profitability. *See id.* Thus, Plaintiffs case support is wholly inapposite.

8 Plaintiffs also cite a 1996 Southern District of New York case indicating that willingness
9 to risk litigation may evidence fair market value. *See Pentech Int'l, Inc. v. Hayduchok*, 931 F.
10 Supp. 1167 (S.D.N.Y. 1996). However, the Southern District has made clear in more recent
11 precedent that evidence of willfulness may *not* be considered in determining a reasonable royalty.
12 *See Faulkner*, 576 F. Supp. 2d at 613; *Stehrenberger*, 335 F. Supp. 2d at 467-68; *Barrera v.*
13 *Brooklyn Music*, 2004 U.S. Dist. LEXIS 12450, at *15. Thus, Plaintiffs fail to support their
14 contention that evidence of alleged willingness to risk litigation is relevant to a calculation of a
15 hypothetical license. Plaintiffs' evidence is thus inadmissible under Rule 401 of the Federal
16 Rules of Evidence.

17 Finally, assuming that the evidence offered by Plaintiffs actually proved knowing risk of
18 infringement, even were evidence of such knowledge a relevant factor in a hypothetical license
19 calculation, the evidence Plaintiffs seek to admit is unfairly prejudicial to Defendants and thus
20 inadmissible under Rule 403 of the Federal Rules of Evidence. If the jury is presented with
21 numerous pieces of evidence of Defendants' alleged willfulness, their view of Defendants will be
22 inevitably tainted without Plaintiffs having established anything about objective, fair market
23 value. The *Faulkner* court refused to allow evidence of willful infringement because "[i]ts only
24 function would be in service of an attempt by plaintiff to prejudice the jury's assessment of
25 damages . . . by portraying defendants in an unflattering light." *See Faulkner*, 576 F. Supp. 2d at
26 613. This Court should similarly exclude evidence that will serve only to disparage Defendants
27 rather than to guide the jury in determining the value of the copyrights at issue.
28

1 **III. CONCLUSION**

2 Plaintiffs' chosen measure of damages takes place in a hypothetical world where no
3 infringement exists and all activity is authorized. This calculation serves as an objective measure
4 of fair market value of the intellectual property and does not allow for evidence of subjective
5 beliefs or individual risk assessment. Thus, purported evidence of Defendants' subjective beliefs
6 as to risk of actual infringement is entirely irrelevant and will serve only to confuse and prejudice
7 the jury.

8 For these reasons, Defendants move to exclude all evidence regarding Defendants' alleged
9 willingness to risk infringement that Plaintiffs seek to introduce as evidence of actual damages.

10 Further, due to Plaintiffs' failure to accurately construe legal standards, the jury has likely
11 been given a false impression of what evidence they are to consider in determining a hypothetical
12 license fee. *See* Exhibit B (inaccurately listing "SAP's willingness to risk assume risk of
13 infringement liability" as an *admission of value* for purposes of determining actual damages).
14 Defendants therefore request a limiting instruction to explain to the jury that they may not take
15 evidence of Defendants' alleged willfulness into account when determining what licensing fee is
16 representative of fair market value.

17
18 Dated: November 4, 2010

JONES DAY

19
20 By: /s/ Tharan Gregory Lanier
21 Tharan Gregory Lanier

22 Counsel for Defendants
23 SAP AG, SAP AMERICA, INC., and
24 TOMORROWNOW, INC.

EXHIBIT A

No.	Date	Exhibit No.	Description of Exhibit From Exhibit List	Objection (Party and Brief Statement)	Response (Party and Brief Statement)
1	11/4/2010	PTX 0009	Email from James Mackey to Arlen Shenkman re TomorrowNow meeting next week	FRE 401-403 - Exhibit is not relevant, unfairly prejudicial, confusing and a waste of time, as it is only relevant to contributory infringement (not damages) and goes beyond what is necessary to provide appropriate context pursuant to the Court's October 28, 2010 Minute Order (ECF No. 952)	This document is probative of the value Defendants placed on Oracle's intellectual property prior to and at the time of the acquisition of TomorrowNow (and the hypothetical license negotiation), as it goes to Defendants' awareness of the infringement and the risk of liability. See, e.g., <i>Georgia-Pacific</i> , 318 F. Supp. 1116, 1123, 1131 (S.D.N.Y. 1970) (decision to "assume substantial risks and costs in order to make and sell" the infringing product indicates infringer "would have been willing to pay a substantial royalty"); <i>Gyromat Corp.</i> , 735 F.2d 549, 552 (Fed. Cir. 1984) ("decision to risk infringement liability" indicates the value it placed on the patented features"); <i>Pentech</i> , 931 F. Supp. 1167, 1175 (S.D.N.Y. 1996) ("the fact that [the defendant] would risk the expense of a law suit implies the product is valuable"). The probative value as to damages outweighs any prejudice to Defendants. Moreover, the testimony appropriately provides context for Oracle's claims, as it relates to basic facts the jury is entitled to hear in order to understand to what conduct t
2	11/4/2010	PTX 0014	Email from John Zepecki to Arlen Shenkman, Torsten Geers, James Mackey re TN Overview	FRE 401-403 - Exhibit is not relevant, unfairly prejudicial, confusing and a waste of time, as it is only relevant to contributory infringement (not damages) and goes beyond what is necessary to provide appropriate context pursuant to the Court's October 28, 2010 Minute Order (ECF No. 952)	See # 1 above, incorporated by reference here. Specifically, this document is relevant to SAP's knowledge of the potential risk of litigation by Oracle at the time of the TomorrowNow acquisition re risk of legal liability needing to be called out more explicitly in Board presentation.

No.	Date	Exhibit No.	Description of Exhibit From Exhibit List	Objection (Party and Brief Statement)	Response (Party and Brief Statement)
3	11/4/2010	PTX 0035	Email from Thomas Ziemmen to Lars Lamade re Risk Management for TN?!	FRE 401-403 - Exhibit is not relevant, unfairly prejudicial, confusing and a waste of time, as it is only relevant to contributory infringement (not damages) and goes beyond what is necessary to provide appropriate context pursuant to the Court's October 28, 2010 Minute Order (ECF No. 952)	See # 1 above, incorporated by reference here. Specifically, this document is relevant to SAP's knowledge of the potential risk of infringement during its risk management process. "I think we have a general Portfolio Risk with TN, since the whole business model is based on a marginal legal area."
4	11/4/2010	PTX 0108	Email from John Zepecki to Arlen Shenkman re TN meeting Tuesday	FRE 401-403 - Exhibit is not relevant, unfairly prejudicial, confusing and a waste of time, as it is only relevant to contributory infringement (not damages) and goes beyond what is necessary to provide appropriate context pursuant to the Court's October 28, 2010 Minute Order (ECF No. 952)	See # 1 above, incorporated by reference here. Specifically, this document is relevant to SAP's knowledge of the potential risk of infringement during its due diligence process.
5	11/4/2010	PTX 0226	Email from Florence Henemann to Florence Henemann re TNow info/guideline update	FRE 401-403 - Exhibit is not relevant, unfairly prejudicial, confusing and a waste of time, as it is only relevant to contributory infringement (not damages) and goes beyond what is necessary to provide appropriate context pursuant to the Court's October 28, 2010 Minute Order (ECF No. 952)	Oracle withdraws this exhibit.
6	11/4/2010	PTX 0430	Mandy Wheeler appointment reminder re updated with Thomas	Defendants' Motion in Limine No. 9 -- reference to EBS and Hyperion	Oracle agrees to redact references to EBS and Hyperion and has sent an exhibit with proposed redactions.
7	11/4/2010	PTX 1723	FRE 1006 Summary - Top 10 Environments Used to Support Multiple Customers (Referenced on page 91 of Appendices to Mandia Report - Review of SAP TN - Supplemented on 5/12/10)	FRE 703; FRE 403; Hearsay; Improper summary under FRE 1006; No foundation	Oracle withdraws this exhibit.

No.	Date	Exhibit No.	Description of Exhibit From Exhibit List	Objection (Party and Brief Statement)	Response (Party and Brief Statement)
8	11/4/2010	PTX 1792	SAP-TN CD binders and other media in custody of Jones Day	Overly broad, imprecise, and unduly burdensome; To the extent Oracle intends to offer any specific media or data as an exhibit, Defendants request immediate identification of the media and reserve all rights associated with such identification and exchange	Please identify specific media to which you object.

EXHIBIT B

What Factors Show How Valuable And Important The License To Oracle's Copyrighted Property Would Be To SAP?

What factors that existed at the time demonstrate the value of the license that SAP took?

- 1. scope and duration** of the license
- each party's **need** for the copyrighted property
- SAP's willingness to **assume risk of infringement liability** is an admission of value
- 4. competitive relationship** of the parties
- 5. goals and business plans** related to the copyrighted property
- expected **financial benefits** or **impacts** to each party
- other non-financial factors