IP/TECH UPDATE: Court Tosses Oracle's $1.3 Billion Jury Award in Copyright Case Against SAP

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A United States District Court judge has vacated a jury's award of $1.3 Billion in damages in a copyright infringement case between software giants Oracle and SAP. The Court rejected the jury's use of a "hypothetical license" as a basis for damages, and instead ruled that damages should be limited to the profits lost by Oracle and gained by SAP as a result of the infringement.

Oracle sued SAP in March 2007 for software copyright infringement. By the time of the November 2010 jury trial, SAP admitted the infringement, and the jury's only task was to determine the amount of damages to be awarded to Oracle. The jury returned a verdict awarding $1.3 Billion, based on its estimation of a hypothetical fair market value license between Oracle and SAP for the infringed software products. SAP challenged the award through post-trial motions (a procedural step before appeal). SAP argued that in this case the hypothetical license measure of damages was "unreasonable and unduly speculative" because Oracle had never licensed the infringed software in the past, and never would license the software to SAP. Without any evidence of actual "benchmark" licenses, SAP argued that the jury should not have speculated about the terms of a hypothetical license.

The District Court agreed with SAP. The Court observed that the Copyright Act allows infringement plaintiffs to recover either statutory damages or actual damages. Actual damages are based on the "loss in the fair market value of the copyright," which can be measured by *either* the plaintiff's lost profits *or*, in appropriate cases, a retroactive license fee quantifying "the value of the use of the copyrighted work to the infringer." The retroactive license fee is normally used in "situations where the infringer could have bargained with the copyright owner to purchase the right to use the work," and the fee represents "what a willing buyer would have been reasonably required to pay a willing seller for the plaintiff's work." Normally, a copyright plaintiff seeking to impose a retroactive license fee must present evidence of past licensing history, including "benchmark licenses" for the infringed work (or comparable works) so the jury can arrive at an "objective, non-speculative license price."

But here, the Court held that Oracle failed to present any evidence supporting the jury's license fee award. Oracle executives testified that Oracle had never previously licensed the copyrighted works. Damages experts for both Oracle and SAP agreed that no comparable "benchmark licenses" existed. Further, the evidence showed that Oracle and SAP "would never have agreed to a license" for the infringed work. The Court rejected Oracle's argument that upon proof of infringement, lost license fees should be "presumed." The Court also dismissed the "self-serving testimony" by Oracle executives "regarding the price they claim they would have demanded in an admittedly fictional negotiation."

After striking the jury's award, the Court gave Oracle until September 30, 2011 to accept a reduced award of $272 Million – the maximum amount of demonstrated profits lost by Oracle and gained by SAP as a result of the infringement. If Oracle does not accept the reduced amount by September 30, the Court will hold a new trial on damages.

Regardless of whether Oracle accepts the reduced award or opts for a new trial, the Court's decision reflects an important point for future copyright infringement plaintiffs: never presume an entitlement to a "hypothetical" retroactive license fee, especially without solid benchmark transactions. If the evidence of a hypothetical license is merely speculative, plaintiffs should focus instead on proving lost profits.