

**IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF NEW JERSEY**

GARFUM.COM CORPORATION
Plaintiff,

v.

**REFLECTIONS BY RUTH D/B/A
BYTEPHOTO.COM**

Defendant.

Case No. 1:14-cv-05919-JEI-KMW
Hon. Judge Joseph E. Irenas

**BRIEF IN SUPPORT OF
DEFENDANT'S MOTION FOR
ATTORNEYS' FEES**

MOTION DAY: July 20, 2015

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Defendant Reflections by Ruth submits this brief in support of its motion to for attorneys' fees, pursuant to Fed. R. Civ. P. 54 and Local Rule 54.2.

I. INTRODUCTION

Plaintiff Garfum.com Corporation (“Garfum”) never intended to litigate this case on the merits. Instead, it hoped to use a weak patent, and the pressure of litigation costs, to extract a quick settlement from a vulnerable small business. Garfum’s plan went awry when Defendant Reflections by Ruth unexpectedly fought back and asked this Court to find Garfum’s patent invalid under 35 U.S.C. § 101. Rather than stand by the merits of its case, Garfum unilaterally dismissed its claims with prejudice, rendering Defendant the prevailing party. Defendant now requests that the Court find this case “exceptional” pursuant to 35 U.S.C. § 285 and award attorneys’ fees.

Last year, the Supreme Court reframed the exceptional case standard for awarding attorneys’ fees to the prevailing party in a patent case, expanding the scope of cases in which fee shifting is appropriate. The Supreme Court held that an exceptional case—one in which fees should be awarded—is “one that stands out from others with respect to: [1] the substantive strength of a party’s litigation position (considering both the governing law and the facts of the case)” *or* [2] “the unreasonable manner in which the case was litigated.” *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1751 (2014). This case satisfies both bases for fees.

First, Garfum’s patent—U.S. Patent No. 8,209,618—which issued approximately two years prior to the Supreme Court’s decision in *Alice Corp. Pty. Ltd. v. CLS Bank Int’l*, 134 S. Ct. 2347 (2014), is plainly ineligible under the *Alice* standard. When challenged on the merits, Garfum responded with arguments contrary both to binding case law and to the explicit text of its own patent. Garfum’s lack of confidence in the merits of its case is shown by its choice to abandon its claims just one day after the Court calendared a hearing on Defendant’s motion to dismiss.

Second, Garfum’s strategy in this case was to use the cost of defense to force a quick settlement. Although Garfum knew that its settlement demands vastly exceeded Defendant’s revenue (and thus bore no relationship to any possible reasonable royalty), its demands were much smaller than the anticipated costs of defense. If Defendant had not secured *pro bono* counsel to defend this case on the merits, it would have had no choice but to capitulate to Garfum’s demands. Only an award of attorneys’ fees can deter Garfum and end its campaign of nuisance litigation.

II. FACTUAL BACKGROUND

A. Reflections by Ruth and Bytphoto.com

Defendant Reflections by Ruth is the landscape photography business of Ruth Taylor. Declaration of Ruth Taylor at ¶ 2 (“Taylor Decl.”). It is a small, unincorporated family business and is run as a sole proprietorship. *Id.* at ¶ 3. Ruth and her husband Steve Taylor own the www.bytphoto.com website (Bytphoto).

Id. at ¶ 4. Bytephoto is also unincorporated and the Taylors operate it as part of their photography business. *Id.* at ¶ 5. Bytephoto does not make a profit and the Taylors run the site as a hobby. *Id.*

The Taylors purchased Bytephoto from its original operator in 2009. *Id.* at ¶ 6. Bytephoto has hosted photo competitions decided by user vote since at least 2003. *Id.* at ¶ 8. Indeed, Ruth Taylor first won a competition on Bytephoto in November 2003. *Id.* The Bytephoto website was built using off-the-shelf software. *Id.* at ¶ 7. Specifically, it is built using vBulletin, an Internet forum software package originally released in 2000. *Id.*

Bytephoto is a hobby website that generates very little revenue. In 2013, for example, it generated just \$313 dollars in total revenue. *Id.* at ¶ 9. Of that amount, \$165 came from voluntary donations and \$148 came from Google AdSense. *Id.* While it generates almost no revenue, Bytephoto costs approximately \$1,400 dollars per year to operate, of which \$1,212 constitutes the cost of running the server. *Id.* at ¶ 10.

B. The '618 Patent

Garfum's patent is entitled "Method of Sharing Multi-Media Content Among Users in a Global Computer Network." U.S. Patent No. 8,209,618 ("the '618 patent"). It describes a method for running a competition on a social network. The '618 patent claims priority to a provisional application filed on June 26, 2007. It issued on June 26, 2012.

The claims of the '618 patent take the ancient and well-known concept of a competition by popular vote and describe it in the modern context of computer networks. The claims describe a computer service with user accounts through which users can upload media content—a conventional photo-sharing website. '618 at col. 19:11-19. The content is then categorized by subject matter. *Id.* at col. 19:20-23. The claimed “competitive measurement system” consists of allowing users “to designate a single point” for each round of competition and then ranks the content “based on a summation of points.” *Id.* at col. 19:28-33. Though it is dressed up in the language of patent claims, what Garfum claims to have “invented” is a photo competition by popular vote, albeit one that occurs online.

The '618 patent's specification repeatedly emphasizes that the claimed method for running an online contest may be performed on *any* computer and over *any* network. With respect to the “computer” used in the claims, the patent describes a generic “computer system” with a “processor” and “memory.” *Id.* at col. 6:24-45. The specification also makes it clear that the claimed method can be performed over any kind of computer network. *See id.* at col. 8:23-24 (“as used herein, the term ‘Internet’ refers to any computer network”). And the server apparatus for performing the claimed method is also generic. *Id.* at col. 8:49-54. In short, the patent makes clear that the claimed method can be performed using any generic computer and network.

The '618 patent's specification suggests that “*any* competitive format is contemplated within embodiments of the present invention.” *Id.* at col. 16:13-14 (emphasis added). Formats can include “head-to-head, bracket, open popularity

forum, and the like.” *Id.* at col. 16:14-15. The only limitation on the kind of competition is the claims’ requirement that each user can “designate a single point” to the content and that the result of the competition is then determined based on a “summation” of these points. *Id.* at col. 19:29-33. In other words, the claims require that each round of competition must be determined by a vote from website users.

Defendant’s memorandum of law in support of its motion to dismiss includes a detailed discussion of the specification and claims of the ’618 patent. *See* Defendant’s Brief in Support of Motion to Dismiss at 2-7 (Doc. 18-1) (hereafter “Def. MTD Br.”). As that brief illustrates, the ’618 patent repeatedly and explicitly states that the claimed method can be implemented with generic computer components on a generic network.

C. Procedural History

Garfum filed this action against Reflections By Ruth d/b/a bytphoto.com on September 23, 2014. The Complaint accused the website at www.bytphoto.com of infringing “one or more” claims of U.S. Patent No. 8,209,618. *See* Complaint ¶¶ 10-11 (Doc. 1).

Garfum filed and served this federal patent lawsuit without any prior communication with Defendant. Taylor Decl. at ¶ 11. After being served, Ruth and Steve Taylor attempted to hire an attorney. *Id.* at ¶ 12. They discovered that local intellectual property attorneys would require at least a \$10,000 retainer before being willing to file an appearance in a federal patent litigation matter. *Id.* They

also learned that defending patent litigation through judgment can cost many hundreds of thousands of dollars. *Id.* The Taylors found themselves not able to afford counsel to defend against the suit. *Id.* at ¶ 13. Ruth Taylor had no choice but to represent Reflections by Ruth in this litigation pro se. *Id.* at ¶ 14; *see also* Letter from Ruth Taylor addressed to Judge Irenas, Nov. 18, 2014 (Doc. 10).¹

Though unable to afford counsel to appear on Defendant's behalf and litigate this suit, the Taylors were able to retain local lawyers at Ryder, Lu, Mazzeo & Konieczny LLC to assist them in negotiations with Garfum. *Id.* at ¶ 13. Through counsel, they informed Garfum that Reflections by Ruth, and Bytephoto, did not generate sufficient any profit. *Id.* at ¶ 15.

On November 3, 2014, Defendant's local attorneys sent counsel for Garfum, Austin Hansley, a declaration by Ruth Taylor. *Id.* This declaration, signed under the penalty of perjury, explained that Bytephoto's revenue in 2013 was \$313 (from donations and Google ads). *Id.*, Ex. A, at 2. The declaration also explained that Bytephoto's revenue to date in 2014 was \$487. *Id.* The declaration further noted that Bytephoto's expenses are approximately \$1,400 per year, of which \$1,212 constitutes the cost of running the server. *Id.*, Ex. A, at 3.

Garfum responded on November 14, 2014, with a demand to see Bytephoto's tax returns. *Id.* at ¶ 16. Since the Taylors operate Bytephoto as part of

¹ On November 17, 2014, the Court entered an order informing the litigants that Ruth Taylor could not act on behalf of Reflections by Ruth. *See* Letter Order (Doc. 9). The Court allowed Taylor to represent Defendant pro se after she submitted a letter explaining that Reflections by Ruth is a sole proprietorship.

their Reflections by Ruth photography business, Defendant shared the Form 1040, Schedule C for Reflections by Ruth with counsel for Garfum. *Id.* at ¶ 17.

After sending its financial details to Garfum, Defendant made repeated requests—on November 25th, December 10th, and December 15th—for a response. *Id.* at ¶ 18. Finally, on January 15th, Garfum replied with a \$5,000 demand. *Id.* On February 6, 2015, on the eve of Defendant’s deadline to respond to the Complaint, Garfum lowered its demand to \$2,500. *Id.* at ¶ 19. While very modest by the standards of patent litigation, these demands still outstripped Bytephoto’s tiny revenue.

In February 2015, Ruth and Steve Taylor retained the Electronic Frontier Foundation (EFF) and Durie Tangri LLP to represent Reflections by Ruth in this litigation. *Id.* at ¶ 20. EFF and Durie Tangri, together with local counsel Frank Corrado of Barry, Corrado & Grassi, PC, agreed to represent Reflections by Ruth on a *pro bono* basis. *See* Certification of Daniel Nazer, at ¶ 12; Certification of Joseph Gratz, at ¶ 9; Certification of Frank Corrado, at ¶ 4. This meant Defendant was able to defend against Garfum’s claims on the merits.

On February 13, 2015, Defendant filed a motion to dismiss Garfum’s complaint. This motion argued that all claims of the patent are invalid under *Alice Corp. Pty. Ltd. v. CLS Bank Int’l*, 134 S. Ct. 2347 (2014). Defendant explained that the patent merely claims an ancient, abstract idea—a competition by popular vote—and applies it to the Internet. The motion explained that the Federal Circuit’s recent decision in *Ultramercial, Inc. v. Hulu, LLC*, 772 F.3d 709 (Fed. Cir. 2014), as well as numerous other district court decisions, were directly on point. *See* Def.

MTD Br. at 10-19. Defendant asked the Court to hold all claims of Garfum's patent invalid.

On March 3, 2015, Austin Hansley sent a message to Defendant stating that his "client has reviewed your client's financial information that Reflections sent to us, and believes that even if they pursued their case against your client Reflections by Ruth, that they would not get enough damages to justify continuing the suit." Declaration of Joseph Gratz at ¶ 13, Ex. C, at 1. Hansley stated that his client was therefore "willing to dismiss the case against Reflections with prejudice" in exchange for Defendant dismissing its counterclaims. *Id.* To be clear, Garfum was provided with Reflections by Ruth's financial information many months before it made this offer. It was only *after* Defendant filed a motion to dismiss, and forced Garfum to litigate its case on the merits, that Garfum offered to dismiss its claims.

Defendant responded on March 27, 2015 with an offer that Reflections by Ruth was "willing to forego any payment of fees or costs" if Garfum would stipulate to the invalidity of the patent in suit. *Id.* at ¶ 14, Ex. D, at 1. Defendant noted that if Garfum declined that motion it "reserves the right to seek an award of all fees and costs incurred from the inception of the matter through final judgment." *Id.*

On April 6, 2015, Garfum filed an opposition brief. Plaintiff's Opposition to Defendant's Motion to Dismiss (Doc. 38) (hereafter "Pl.'s Opp. Br."). The opposition brief was accompanied by a purported expert declaration from James Barnett, who graduated from the University of Texas, Dallas, in 2008 with an undergraduate degree in Business Administration. According to his CV, Barnett

has acted as an “expert consultant” in approximately 590 patent cases. *See infra*, Part IV.B (explaining that each of Garfum’s arguments was inconsistent with either binding authority or was contradicted by the explicit text of the ’618 patent).

On April 13, 2015, Defendant filed its reply brief. *See Reply Brief in Support of Motion to Dismiss* (Doc 41) (hereafter “Def. Reply Br.”). Defendant explained that Garfum’s central argument—its claim that the claimed method could not be performed using generic database software—was expressly contradicted by the specification of its own patent. *See Def. Reply Br.* at 11-12 (citing ’618 patent at col. 10:11-22; 55-61). Defendant also explained that Garfum’s argument regarding claim construction was based on authority that had been vacated by the Supreme Court and reversed by the Federal Circuit on remand. *See id.* at 3-4. *See infra*, Part IV.B.

On May 19, 2015, this Court calendared a hearing on Defendant’s motion to dismiss for May 27, 2015. *See Text Order* (Doc. 42). Just one day later, Garfum unilaterally provided Defendant with an irrevocable covenant not to sue and unilaterally moved to dismiss its claims with prejudice and to dismiss Defendant’s counterclaims. *See Motion to Dismiss Plaintiff’s Complaint and Defendant’s Counterclaims* (Doc. 43). Since long-standing Federal Circuit authority holds that a covenant not to sue from the patentee divests the Court of jurisdiction over counterclaims for non-infringement and invalidity, *see Super Sack Mfg. Corp. v. Chase Packaging Corp.*, 57 F.3d 1054 (Fed. Cir. 1995), Defendant informed the Court that Defendant would not oppose Garfum’s motion. Thus, on May 21, 2015,

the Court granted Garfum's motion and dismissed its claims with prejudice. *See* Order (Doc. 45).

III. LEGAL STANDARD

The fee-shifting provision applicable to patent cases, 35 U.S.C. § 285, states “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party.” The Supreme Court recently examined this provision in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014). Under *Octane Fitness*, an exceptional case warranting attorneys’ fees is “simply one that stands out from others with respect to the substantive strength of a party’s litigating position (considering both the governing law and the facts of the case) *or* the unreasonable manner in which the case was litigated.” *Octane Fitness*, 134 S. Ct. at 1751 (emphasis added). The Supreme Court instructed the district courts to “determine whether a case is ‘exceptional’ in the case-by-case exercise of their discretion, considering the totality of the circumstances.” *Id.* The Court may consider “factors such as ‘frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence.’” *Lugus IP, LLC v. Volvo Car Corp.*, No. CIV.A. 12-2906 JEI/J, 2015 WL 1399175, at *4 (D.N.J. Mar. 26, 2015) (quoting *Octane Fitness*, 134 S. Ct. at 1756, n. 6).

In *Octane Fitness*, the Supreme Court unanimously rejected the Federal Circuit’s requirement that a party had to show both subjective bad faith and objective baselessness. 134 S. Ct. at 1758. Further, entitlement to fees under § 285

need only be shown by a preponderance of the evidence (as opposed to the prior clear and convincing evidence standard). *Id.* (“Section 285 demands a simple discretionary inquiry; it imposes no specific evidentiary burden, much less such a high one.”). *Octane Fitness* thus established a “more liberal test” for awarding fees. *Chicago Bd. Options Exch., Inc. v. Sec. Exch., LLC*, No. 07 C 623, 2014 WL 6978644, at *6 (N.D. Ill. Dec. 10, 2014).

IV. ARGUMENT

Garfum never intended to litigate this case on the merits. Instead, it filed this litigation hoping to quickly extract whatever it could from a small business it expected to be unable to defend itself. When surprised by a litigant willing to fight back, Garfum first tried to run away without consequence, and when that did not work, made unreasonable arguments in defense of its patent. Ultimately, rather than stand before this Court and defend its patent, it gave Defendant a covenant not to sue. Only a fee award can properly compensate Reflections by Ruth and deter future abusive litigation by Garfum.

A. The Claims of the ’618 Patent Are Plainly Patent-Ineligible Under the *Alice* Standard.

Garfum’s patent was issued approximately two years before the Supreme Court’s decision in *Alice Corp. Pty. Ltd. v. CLS Bank Int’l*, 134 S. Ct. 2347 (2014). In *Alice*, the Supreme Court held that a patent is invalid if it claims an implementation of an abstract idea using generic and conventional computer technology. Because the claims of the ’618 patent are all directed to abstractions

with (at most) generic computer components, the claims are ineligible under 35 U.S.C. § 101 as a matter of law.

In *Alice*, the Supreme Court set forth a two-part framework for analyzing patent eligibility. The first step is to determine whether the claims are directed to an abstract idea (*i.e.* a “patent-ineligible concept”). 134 S. Ct. at 2355. The claims of the ’618 patent recite the abstract idea of running a photo competition by popular vote. For example, following the recited steps of claim 1 of the ’618 patent, we see the idea of a network “user” submitting “content” for a “competitive format” with a “measurement system” that involves the users designating a “point” for each round of competition and then ranking the content “based on a summation of points.” Like the claims considered in *Ultramercial*, this “ordered combination of steps recites an abstraction[.]” 772 F.3d at 715. The steps simply describe the various stages of conducting a competition decided by popular vote, albeit one that occurs online.

The other claims of the ’618 patent are similarly directed to the abstract idea of running a competition, with minor variations such as having multiple rounds of competition. *See* Def. MTD Br. at 15-17. As in *Alice* itself, the abstract idea claimed by the ’618 patent is a “long prevalent” practice. 134 S. Ct. at 2350. The idea of having a contest and determining a winner by counting votes is an ancient practice, not a patentable invention.

The second *Alice* step considers whether the challenged claims contain “additional elements [that] ‘transform the nature of the claim’ into a patent-eligible application.” *Alice*, 134 S. Ct. at 2355. The ’618 patent flunks this test because its

claims “merely require generic computer implementation [and thus] fail to transform [the] abstract idea into a patent-eligible invention.” *Id.* at 2357. The claims merely ask for generic computer functionality such as “multi-media content,” a “user interface,” and a “computer network.” In addition, the patent’s specification *repeatedly* and *explicitly* states that the claimed method is to be performed using generic computer and network technology. *See* Def. MTD Br. at 3-6, 18-19. It would be difficult to draft a patent that fails this test more clearly.

Ultimately, while *Alice* may be challenging to apply to some patent claims, this is a straightforward case. Any reasonable attorney would have appreciated that the claims of the ’618 patent would not survive a challenge under 35 U.S.C. § 101.

B. Plaintiff’s Opposition Brief Was Contradicted by Binding Authority and the Text of its Own Patent.

Faced with an unexpected challenge to the validity of its patent, Garfum first sought to withdraw its claims. When Defendant refused to dismiss its counterclaim of invalidity, Garfum filed a brief opposing Defendant’s motion.

Although Defendant’s opening brief had argued in detail that the Federal Circuit’s decision in *Ultramercial* was directly on point, Garfum’s opposition failed to even address that decision, let alone distinguish it. Instead, Garfum made two primary arguments. First, it argued that the Court should not decide patent eligibility issues prior to claim construction. *See* Pl.’s Opp. Br. at 13-15. Second, it argued that the claimed method was not implemented on a generic computer because it could not be performed using conventional database software. *See id.* at

7-8; *see also* Declaration of James Barnett at ¶¶ 10, 19.² These arguments were contrary to both binding authority and the explicit text of the '618 patent.

While Garfum insisted that the Court could not decide Defendant's motion prior to claim construction, it did not offer a proposed construction of a single claim term. Nor did Garfum explain how claim construction might help its case. In these circumstances, courts have repeatedly found claim construction unnecessary. *See, e.g., CyberFone Sys., LLC v. Cellco P'ship*, 885 F. Supp. 2d 710, 715 (D. Del. 2012) (because "plaintiff did not explain how claim construction might alter [the court's § 101] analysis . . . the court concludes that it may proceed without the benefit of claim construction."). Garfum's argument ignored a growing body of case law. *See, e.g., DietGoal Innovations LLC v. Bravo Media LLC*, 33 F. Supp. 3d 271, 289-90 (S.D.N.Y. 2014), *aff'd*, 599 F. App'x 956 (Fed. Cir. 2015); *buySAFE, Inc. v. Google Inc.*, 964 F. Supp. 2d 331, 334 (D. Del. 2013), *aff'd*, 765 F.3d 1350, 1351 (Fed. Cir. 2014); *Lumen View Tech. LLC v. Findthebest.com, Inc.*, 984 F. Supp. 2d 189, 191, 196 (S.D.N.Y. 2013); Def. MTD Br. at 7-10 (citing further cases).

While Garfum's argument about claim construction was weak, the central argument in its opposition was frivolous. The opposition brief was accompanied by a purported expert declaration from James Barnett, who graduated from the

² Garfum presented a few other half-hearted arguments. For example, it advanced the absurd and plainly frivolous argument that Defendant's Answer precluded a motion to dismiss. *See* Pl.'s Opp. Br. at 6; Def. Reply Br. at 5.

University of Texas, Dallas, in 2008 with an undergraduate degree in Business Administration. Garfum and its purported expert argued that the patent claims survived the *Alice* test because the claimed method could not be implemented by “conventional database” technology. Pl.’s Opp. Br. at 7-8; Barnett Decl. at ¶¶ 10, 19. But this argument is flatly contradicted by the specification of ’618 patent. It is worth quoting the relevant passages in full:

Databases **194, 197** store software, descriptive data, digital content, system data, and any other data item required by the other components of server apparatus **167**. Databases used as databases **194, 197** are provided as, for example, a database management system (“DBMS”), an object-oriented database management system (“ODBMS”), a relational database management system (e.g., DB2, ACCESS, etc.), a file system, *and/or another conventional database package*. In alternative examples, each of database **194, 197** are implemented using object-oriented technology or via text files that are accessed with a Structured Query Language (SQL) or other tools known to those having ordinary skill in the art. . . .

Databases that are used as database **200** are generally used to manage, organize, and categorize the information that is collected from the users of the interactive portal. These are implemented on, for example, database **194, 197** of FIG. 1, as a DBMS, an ODBMS, a relational database management system (e.g., DB2, ACCESS, etc.) *or another conventional database packages*.

’618 patent at col. 10:11-22; 55-61 (emphasis added). The patent could not be clearer that the claimed method may be implemented using conventional database packages.

Courts have found cases exceptional, and awarded fees, where patent owners have advanced arguments inconsistent with the text of their own patent. *See Lakim Indus., Inc. v. Linzer Products Corp.*, No. 2:12-CV-04976 ODW, 2013 WL

1767799, at *5 (C.D. Cal. Apr. 24, 2013), *aff'd*, 552 F. App'x 989 (Fed. Cir. 2014) (awarding fees where the patent owner presented an position “contrary to all the intrinsic evidence”); *see also Intex Recreation Corp. v. Team Worldwide Corp.*, No. CV 04-1785 (PLF), 2015 WL 135532, at *2 (D.D.C. Jan. 9, 2015) (awarding fees where patent owner advanced argument “directly contradicted . . . the patent specification”). That Garfum’s purported expert supported Garfum’s litigation position does not make it any less frivolous. As the *Lakim Industries* court noted, while reliance on expert testimony “may be reasonable,” it is *not* reasonable “to rely on extrinsic evidence in an attempt to circumvent the otherwise clear language of the [patent].” *Id.* at *4. Garfum’s meritless arguments support an exceptional case finding.

C. Plaintiff’s Strategy in this Case Was to Use the Cost of Defense to Extort Money from a Vulnerable Small Business.

Garfum’s conduct in this case shows that its primary purpose was not to secure a reasonable royalty for infringement of a valid patent. Rather, its hope was to use the cost of defense to extract an undeserved settlement. Indeed, when faced with a challenge on the merits, it made every effort to avoid a determination on the validity of its patent.

Garfum’s conduct is classic nuisance litigation. *See, e.g.,* Colleen Chien & Edward Reines, *Why Technology Customers Are Being Sued En Masse for Patent Infringement and What Can Be Done*, 49 Wake Forest L. Rev. 235, 240 (2014) (noting that “[w]here the merits are weak, mass customer-suit litigation has become a common, but unsavory, tactic for collecting nuisance settlements from

many sources that leverages the high cost of defense for each customer while reducing the risk of a sustained merits challenge”). After Garfum learned that Bytephoto generates essentially no revenues and runs at a loss, it still demanded a \$5,000 settlement. While tiny compared to many patent cases, this demand was outrageous in the context of this litigation. Having seen Bytephoto’s financial information, Garfum knew its demand was equivalent to *ten years* of Bytephoto’s entire revenue. While this settlement demand bore no absolutely no relationship to any reasonable royalty, it makes perfect sense as an estimate of the maximum Garfum thought it could extract from Defendant via the threat of imposing litigation costs.

While Garfum ultimately offered to drop its claims, it only did so *after* Defendant secured *pro bono* counsel and became able to defend itself. On March 3, 2015, Garfum stated that it was willing to dismiss its claims after having “reviewed” Defendant’s financial information. But this statement is self-serving and disingenuous at best. At that time, Garfum had had access to Defendant’s financial information for *months*. It was not Defendant’s financial situation that led to Garfum’s offer, but Reflection by Ruth’s motion to dismiss. Up until that point, Garfum had simply tried to bully Defendant for whatever it could get. This strongly supports an award of fees. *See Bayer Cropscience AG v. Dow Agrosciences LLC*, No. CV 12-256 (RMB/JS), 2015 WL 1197436, at *4 (D. Del. Mar. 13, 2015) (fact that “plaintiff initiated litigation to extract settlements from defendants who want to avoid costly litigation” supports exceptional case finding);

Summit Data Sys., LLC v. EMC Corp., No. CV 10-749-GMS, 2014 WL 4955689, at *5 (D. Del. Sept. 25, 2014) (same).

D. Plaintiff’s Decision to Abandon Its Claims on the Eve of a Hearing Demonstrates Its Lack of Faith in the Merits of Its Case.

Garfum’s confidence, or rather, its utter lack of confidence, in the merits of its case is revealed by its decision to dismiss its claims right before the hearing on Defendant’s motion to dismiss. Only one day after this Court noticed a hearing, Garfum unilaterally submitted a covenant not to sue and moved to dismiss all of its claims with prejudice. In addition to revealing its lack of confidence in its position, the timing of Garfum’s dismissal forced Defendant to incur legal costs preparing a reply brief.

E. Only an Award of Attorney’s Fees Can Deter Future Abusive Litigation.

This is precisely the kind of case where a fee award is needed to deter future abusive litigation. Without deterrence, Garfum would be free to shake down future victims for settlements well below the cost of defense. Numerous judges and commentators have explained that fee awards are needed to deter this kind of conduct. *See, e.g.*, Randall R. Rader, Colleen V. Chien, & David Hricik, Op-Ed, *Make Patent Trolls Pay in Court*, N.Y. Times (June 4, 2013) (noting that judges should look “closely for signs that a patent lawsuit was pursued primarily to take improper advantage of a defendant—that is, using the threat of litigation cost,

rather than the merits of a claim, to bully a defendant into settling”).³ Under *Octane*, the need for deterrence is a legitimate reason to award fees. *See Lugus IP*, 2015 WL 1399175, at *4.

Garfum may argue that its conduct should be excused because it made modest settlement demands. But Garfum’s demands weigh in favor of an exceptional case finding. First, Garfum’s conduct shows that its “motivation was to extract quick settlements that were dwarfed by the costs to litigate.” *Summit Data Sys.*, 2014 WL 4955689, at *5. Second, by targeting a small family business such as Reflections by Ruth, Garfum surely knew it selected a defendant that would not be able to defend the case on the merits.

Similarly, Garfum may point to the fact that it offered to dismiss its claims after Defendant filed its motion to dismiss. Garfum should get no credit for abandoning its nuisance litigation *after* Defendant unexpectedly called its bluff (it is extremely rare for a defendant to secure *pro bono* assistance in a patent case). Garfum relying on its belated offer would be like a pickpocket saying he would not have stolen the wallet if he’d known the police were watching. The offer merely shows that Garfum never expected to litigate the merits of its case.

Ultimately, the *Alice* decision rendered Garfum’s patent worthless except as a tool for a nuisance-litigation campaign. The Court should impose a fee award to ensure that campaign ends here.

³ Available at <http://www.nytimes.com/2013/06/05/opinion/makepatent-trolls-pay-in-court.html>.

F. Defendant is Entitled to Reasonable Attorney’s Fees Calculated Using the Lodestar Method.

If the Court grants this motion, it should award reasonable attorney’s fees to Defendant. The fact that Defendant’s counsel worked *pro bono* does not mean it cannot receive a fee award. It is well-established that a non-profit legal services organization is entitled to receive a prevailing market rate pursuant to attorney fee-shifting statutes. *See Raney v. Fed. Bureau of Prisons*, 222 F.3d 927, 933 (Fed. Cir. 2000) (collecting cases). The Court should calculate fees “pursuant to the ‘lodestar’ approach, which requires multiplying the amount of time reasonably expended by reasonable hourly rates.” *Lugus IP*, 2015 WL 1399175, at *6.

Counsel for defendant have submitted declarations and timesheets explaining the legal fees incurred by Defendant. *See* Certification of Daniel Nazer, Ex. C; Certification of Joseph Gratz, Ex. B; Certification of Frank Corrado, at Ex. B, Certification of Denis Yanishevskiy, Ex. C. As these declarations and exhibits show, counsel for Defendant charge attorney’s fees at hourly rates at or below the prevailing rate for patent litigation. *See Lugus IP*, 2015 WL 1399175, at *6 (approving attorney rates of up to \$895.50 per hour in patent litigation). Defendant has also separately submitted a bill of costs for \$724.

Defendants attorney’s fees, to date, in this case amount to \$72,593. These fees were incurred in the following tasks:⁴

⁴ To be clear, Defendant contends that if the Court grants this motion, it should award all of its attorney’s fees. This information is provided in case it is useful to the Court.

- General case management, correspondence, strategy, and client counseling: \$15,715.
- Preparing Defendant's Motion to Dismiss: \$17,308.
- Preparing Defendant's Answer and Counterclaims: \$2,535.
- Preparing Defendant's reply brief in support of its motion to dismiss: \$20,106.00.
- Preparing Defendant's motion for attorney's fees (through June 22, 2015): \$16,929.

Should Defendant incur further attorney's fees litigating this motion, those fees should be added to the final award. *Lugus IP*, 2015 WL 1399175, at *6, n.5 (noting that a "party seeking attorneys' fees pursuant to 35 U.S.C. § 285 may seek fees for the fee petition itself.").

V. CONCLUSION

For the foregoing reasons, Defendant requests the Court declare this and exceptional case and enter an order requiring Garfum to pay Defendants' fees, in the amount of \$72,593.

Dated: June 22, 2015

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