

**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

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

MOTION DAY: August 17, 2015

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

I. INTRODUCTION

In its opposition brief, Plaintiff presents three arguments contrary to settled law and the undisputed facts of this case.

First, Plaintiff argues that Defendant is not the prevailing party. But long-settled, binding Federal Circuit authority holds that a defendant is the prevailing party when a district court dismisses patent claims with prejudice following a covenant not to sue. *See Highway Equip. Co. v. FECO, Ltd.*, 469 F.3d 1027 (Fed. Cir. 2006).

Second, Plaintiff argues it behaved reasonably in this litigation. But even its own account of the facts shows that its settlement demands bore absolutely no relationship to the revenues of the accused website. Its own statement of facts supports the conclusion that its purpose was to use the cost of defense to extract a quick settlement. In addition, Plaintiff does not even attempt to rebut the claim that it submitted an expert report expressly contradicted by its own patent.

Third, Plaintiff cannot save its case by citing to "implicit" decisions by the USPTO in a separate patent application. The details of a pending, and *ex parte*, proceeding in a different forum with different procedures and standards is of no significance here. The Court should declare this case exceptional and grant Defendant's motion for attorneys' fees.

II. ARGUMENT

A. Defendant is the Prevailing Party Under Well-Established Law.

There is no question that Defendant is the prevailing party in this case. Indeed, the Clerk has already stated that Defendant is the prevailing party under Rule 54. *See* Clerk's Order at 3, June 25, 2015 (Doc. 49) (citing *Mother and Father v. Cassidy*, 338 F.3d 704, 708 (7th Cir. 2003)). Defendant is also the prevailing party for the purpose of an award of attorneys' fees. The Federal Circuit has squarely held that a defendant is a prevailing party under 35 U.S.C. § 285 when a patentee has provided a covenant not to sue and the court has dismissed patent claims with prejudice. *Highway Equip. Co. v. FECO, Ltd.*, 469 F.3d 1027, 1032-36 (Fed. Cir. 2006). This binding authority directly contradicts Plaintiff's argument.

In *Highway Equipment*, the court first found that "the question of the effect of a dismissal with prejudice on 35 U.S.C. § 285 is a matter of Federal Circuit law." 469 F.3d at 1032. It then considered how the Supreme Court's decision in *Buckhannon Bd. & Care Home, Inc. v. W. Virginia Dep't of Health & Human Res.*, 532 U.S. 598 (2001) should apply. The Federal Circuit noted that, under *Buckhannon*, there must be a "judicially sanctioned change in the legal relationship of the parties." 469 F.3d at 1033. The court reasoned that a dismissal with prejudice, accompanied by a covenant not to sue, satisfied this standard because it "extinguished" the plaintiff's ability to sue again on its patent claims. *Id.* at 1035. The court wrote:

[W]e conclude that as a matter of patent law, the dismissal with prejudice, based on the covenant and granted pursuant to the district court's discretion under Rule 41(a)(2), has the necessary judicial imprimatur to constitute a judicially sanctioned change in the legal relationship of the parties, such that the district court properly could entertain [defendant's] fee claim under 35 U.S.C. § 285.

Id. at 1035. This settles the question of whether Defendant is the prevailing party in this case.

Unsurprisingly, since it is the leading authority on this question, numerous courts, including in this District, have followed *Highway Equipment*. See, e.g., *Stretchline Intellectual Properties Ltd. v. H&M Hennes & Mauritz LP*, No. 2:10-CV-371, 2015 WL 789185, at *4 (E.D. Va. Feb. 24, 2015) (“a dismissal of a claim with prejudice is a judgment on the merits”); *Gilead Sciences, Inc. v. Sigmapharm Labs., LLC*, No. CIV.A. 10-4931 SDW, 2014 WL 1293309, at *2 (D.N.J. Mar. 31, 2014) (“Defendants who obtain a voluntary dismissal with prejudice are considered prevailing parties.”); *Dodge-Regupol, Inc. v. RB Rubber Products, Inc.*, 585 F. Supp. 2d 645, 655 n.3 (M.D. Pa. 2008); *Euclid Chem. Co. v. Vector Corrosion Technologies, Inc.*, No. 1:05 CV 80, 2008 WL 4404540, at *3 (N.D. Ohio Sept. 24, 2008); *Newell v. Nagl Mfg. Co.*, No. CIV.A. 04-1875SDW, 2007 WL 2033838, at *5 (D.N.J. July 11, 2007). In each of these cases, the court found that the defendant was the prevailing party where a patent claim was dismissed with prejudice following a covenant not to sue from the patentee.

Plaintiff does not discuss or distinguish *Highway Equipment*. Instead, it cites a handful of inapposite cases. First, it relies on *Buckhannon* itself, arguing that the Supreme Court's decision applies here because plaintiff's dismissal was

“voluntary.” See Plaintiff’s Opposition to Defendant’s Motion for Fees at 11-12 (Doc. 52) (hereafter “Opp’n Br.”). But the Federal Circuit expressly rejected this argument in *Highway Equipment*. See 469 F.3d at 1033 (noting that “the critical focus is not on the defendant’s voluntary change in conduct” but whether there is a judicially sanctioned change in the legal relationship between the parties).

Plaintiff cites *Pragmatus Telecom LLC v. Newegg Inc.*, No. CV 12-1533-RGA, 2014 WL 3724138, at *2 (D. Del. July 25, 2014) in support of its argument that Defendant is not a “prevailing party.” Plaintiff’s reliance on that decision is misplaced, as it has recently been reversed by the Federal Circuit. See *Pragmatus Telecom LLC v. Newegg Inc.*, No. 2014-1777 (Fed. Cir. July 31, 2015) (holding that because the defendant received a covenant not to sue, “the court’s analysis in *Highway Equipment* controls this case, and that Newegg must be regarded as the prevailing party in the underlying litigation.”)¹

In another case cited by Plaintiff, the claim dismissed was for declaratory judgment, not an affirmative claim for patent infringement. *In re Columbia Univ. Patent Litigation*, 343 F. Supp. 2d 35 (D. Mass. 2004). That case has no bearing on situations not centering on the dismissal of declaratory-judgment claims. See *Highway Equip. Co. v. FECO, Ltd.*, No. C03-0076, 2005 WL 936469, at *2 (N.D. Iowa Apr. 22, 2005) (distinguishing *In re Columbia*).

¹ Available at: <http://www.ca9.uscourts.gov/sites/default/files/opinions-orders/14-1777.Opinion.7-29-2015.1.PDF>

Plaintiff also relies on the Fifth Circuit's decision in *Dean v. Riser*, 240 F.3d 505 (5th Cir. 2001). *See* Opp'n Br. at 6. That case considered whether a defendant in a civil rights case was a prevailing party under 42 U.S.C. § 1988. Once again, Plaintiff presents an argument that was expressly considered and rejected in *Highway Equipment*. 469 F.3d at 1036. The Federal Circuit reasoned that the holding in *Dean* "was strongly grounded on the competing policies that undergird 42 U.S.C. § 1988, which are different from the policies that undergird 35 U.S.C. § 285." *Id.* Needless to say, because the Federal Circuit expressly considered and distinguished the reasoning of *Dean* in rendering its binding decision in *Highway Equipment*, the *Dean* case does not support Plaintiff's position.

Finally, Plaintiff cites *HTC Corp. v. Technology Properties Ltd.*, No. 5:08-CV-00882-PSG, 2014 WL 3706617 (N.D. Cal. July 21, 2014). *See* Opp'n Br. at 11. Yet again, Plaintiff cites authority that provides no support for its position. In fact, *HTC* provides a good summary of precisely why Plaintiff is wrong on the question of prevailing party. 2014 WL 3706617 at *3-4 (following *Highway Equipment* and explaining why the patentee's reliance on *Buckhannon* was "misplaced"). The *HTC* court found that the defendant *was* a prevailing party as to those patent claims where the patentee provided a covenant not to sue and the claims were dismissed with prejudice. *Id.*

Defendant is the prevailing party under the binding Federal Circuit decision in *Highway Equipment*, which dealt with an identical situation. Indeed, Plaintiff's failure to discuss that authority, and Plaintiff's citation of case law expressly

considered and rejected in that opinion, may provide an additional basis to find this case exceptional.

B. Plaintiff's Opposition Confirms That It Tried to Use the Cost of Defense to Extort Money from a Vulnerable Small Business.

Plaintiff's presentation of the facts confirms that its case was never anything but a shakedown. The facts show that Garfum never requested a reasonable royalty tied to the revenues of the accused website. Instead, it attempted to use bullying litigation to extract every penny it could from Ruth Taylor's personal landscape photography business. Garfum walked away only after it was unexpectedly confronted with a defendant willing to defend the merits of the suit.

1. Plaintiff Admits Its Demands Bore Absolutely No Relation to the Revenues of the Accused Website.

Garfum filed this claim without any pre-suit communication to Defendant. It claims that it conducted a pre-suit investigation, however, and that its settlement demands were based on this investigation. *See* Opp'n Br. at 7. But even a cursory visit to www.bytephoto.com demonstrates the absurdity of these claims. Bytephoto is a modest hobby website. It does not require its members to pay a fee to join the site or enter contests. The website includes a prominent 'Donate' button asking members for voluntarily financial support.² Garfum provides absolutely no

² All of this is immediately apparent from visiting the website. An archive of how the site appeared shortly before Plaintiff filed its suit is available at: <https://web.archive.org/web/20140811063912/http://www.bytephoto.com/>

evidence or argument to support a reasonable “expectation” that the Bytephoto would have revenues that could justify a \$50,000 demand. *See* Opp’n Br. at 2, 7. The idea that the \$50,000 demand bore any relationship to an expectation about Bytephoto’s revenues is pure nonsense.

Garfum’s demands do make sense, however, as a calculated shakedown based on the anticipated cost of defense. Courts and commentators have noted that opening settlement demands in the \$50,000 range support the conclusion that the plaintiff is leveraging the cost of defense. In *Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1327 (Fed. Cir. 2011), for example, the Federal Circuit found that lawsuits followed by quick demands for either \$25,000, \$50,000, or \$75,000 (depending on the size of the defendant) supported a conclusion that the plaintiff “acted in bad faith by exploiting the high cost to defend complex litigation to extract a nuisance value settlement.” *See also Lumen View Tech., LLC v. Findthebest.com, Inc.*, 24 F. Supp. 3d 329, 336 (S.D.N.Y. 2014) (early settlement demand of \$55,000 supported conclusion that “motivation in this litigation was to extract a nuisance settlement from FTB on the theory that FTB would rather pay an unjustified license fee than bear the costs of the threatened expensive litigation”); Gaia Bernstein, *The Rise of the End User in Patent Litigation*, 55 B.C. L. Rev. 1443, 1457 (2014) (noting that public transit agencies targeted by mass litigation campaign from patent assertion entity “preferred to avoid expensive litigation and have settled for amounts between \$50,000 and \$75,000”).

Plaintiff's counsel is well aware of these realities. As of July 29, 2015, the law firm Austin Hansley PLLC had filed at least 398 patent lawsuits just this year.³ Patent litigation is expensive, even during the initial stages of a case. *See AIPLA, Report of the Economic Survey 2013*, at 34 (July 2013) (reporting that for patent cases with less than \$1 million at stake, defense costs average \$350,000 through the close of discovery). This is why Garfum opened with a nuisance settlement offer of \$50,000: it knew this amount would likely be lower than even the initial cost of defense.⁴

Plaintiff lowered its settlement demands after it received financial information about Reflections by Ruth and Bytephoto. Plaintiff attempts to argue that these subsequent settlement demands were reasonable. *See* Opp'n Br. at 3-4, 7-8. But its opposition ignores the most relevant facts. As Defendant already explained, even Plaintiff's lowest settlement demands vastly exceeded the revenues of the accused site. *See* Brief in Support of Defendant's Motion for Attorneys'

³ This information is available at <https://search.rpxcorp.com> by searching for Austin Hansley PLLC and setting date range of suits filed from January 1, 2015 to July 27, 2015.

⁴ Plaintiff complains that Defendant said it would seek fees in the range of \$70,000. *See* Opp'n Br. at 5. But this amount is reasonable. Indeed, Plaintiff has not disputed Defendant's rates, hours, or lodestar calculation. Defendant's attorney's fees as of its opening brief in support of this motion were \$72,593. *See* Opening Br. at 21. Should the Court grant this motion, Defendant would also request its attorneys' fees for this reply brief. *See* *Lugus IP, LLC v. Volvo Car Corp.*, No. CIV.A. 12-2906 JEI/JS, 2015 WL 1399175, at *6, n.5 (D.N.J. Mar. 26, 2015) (noting that a "party seeking attorneys' fees pursuant to 35 U.S.C. § 285 may seek fees for the fee petition itself.").

Fees at 2-3, 6-7, 16-18 (Doc. 46-6) (hereafter “Opening Br.”). Indeed, this was a central basis of Defendant’s motion for fees. *See id.* Since it has no possible response, Plaintiff simply ignores this fact. Instead, it points to Reflection by Ruth’s overall (yet still modest) revenue. *See Opp’n Br.* at 3. This is no defense of Garfum’s outrageous conduct. Plaintiff is well aware that Reflections by Ruth’s revenue was from her photography business and *not* from the accused website. Defendant informed Garfum that the accused website generated tiny revenues (in the few-hundred dollars a year range) and ran at a loss. *See Opening Br.* at 6; Certification of Ruth Taylor, Ex. A (Doc. 46-4). There is absolutely no legal basis for Plaintiff to make a settlement demand tied to business activity unrelated to the accused website or feature. This is a long-standing principle of law. *See Garretson v. Clark*, 111 U.S. 120, 121 (1884); *HTC Corp. v. Tech. Properties Ltd.*, No. 5:08-CV-00882-PSG, 2013 WL 4782598, at *6 (N.D. Cal. Sept. 6, 2013) (noting that a defendant’s “overall size or revenue” cannot serve “as a check to confirm the reasonableness” of a damages award). Plaintiff’s admission that it targeted Reflections by Ruth’s overall revenue, and not the revenue of the accused website, is an admission that it was seeking to shakedown Ruth Taylor for whatever it could get.

Plaintiff protests that it didn’t want to set a “precedent” of agreeing to dismiss its claims for no payment. *Opp’n Br.* at 3. This ignores Federal Circuit authority that litigation settlements are generally not considered relevant precedent when calculating a reasonable royalty. *See LaserDynamics, Inc. v. Quanta Computer, Inc.*, 694 F.3d 51, 77 (Fed. Cir. 2012) (noting the “longstanding

disapproval of relying on settlement agreements to establish reasonable royalty damages”). Moreover, if Plaintiff did not want to set a precedent of a no-payment settlement then it should have performed a proper pre-suit investigation. If it had done so, it never would have filed federal patent litigation against a tiny, unincorporated hobby website that began running ‘vote for the best’ online photo competitions years before Garfum ever applied for a patent.

2. Plaintiff Elides the Fact that It Dismissed Its Claims Just One Day After This Court Noticed a Hearing on the Merits.

Plaintiff claims that it dismissed this case after it had “run out of options.” Opp’n Br. at 5. This conveniently ignores the timing of Garfum’s dismissal. Plaintiff could easily have provided Defendant with a covenant not to sue *before* it filed its opposition to the motion to dismiss. But it did not. Instead, it filed an opposition brief and expert report arguing that its patent was valid (Doc. 38). Defendant then filed a reply brief pointing out that Plaintiff’s argument was expressly contradicted by the specification of its own patent (Doc. 41). When the Court scheduled an in-person hearing on the motion, Plaintiff immediately dismissed its case (Doc. 43). The timeline shows that Plaintiff actively sought to avoid a ruling on the merits.

Plaintiff also makes the absurd claim that it dismissed its case to avoid litigating against the Electronic Frontier Foundation (EFF) and its supposedly “unlimited resources.” Opp’n Br. at 2, 4. Far from having unlimited resources, EFF is a non-profit organization with only two staff attorneys who devote part of their time to patent issues. *See generally* <https://www.eff.org>. The reality is that when

Reflections by Ruth secured pro-bono counsel, Garfum lost its ability to use the cost of defense to extort a settlement. It never intended to litigate this case on the merits.

C. Plaintiff Submitted An Expert Report Expressly Contradicted by its Own Patent.

Courts frequently find cases exceptional, and thus meriting a fee award, when a party makes unreasonable legal or factual claims. *See, e.g., Intex Recreation Corp. v. Team Worldwide Corp.*, No. CV 04-1785 (PLF), 2015 WL 135532, at *3, - F. Supp. 3d - (D.D.C. Jan. 9, 2015) (awarding fees where patentee submitted “conclusory expert report and advanced flawed, nonsensical, and baseless arguments”). In this case, Plaintiff submitted a memorandum and expert report that were expressly contradicted by its own patent. *See* Opening Br. at 9, 13-16. Defendant’s opening brief in support of this motion identified Plaintiff’s frivolous argument as a major reason justifying a fee award. *See id.* at 15-16 (citing *Lakim Indus., Inc. v. Linzer Products Corp.*, No. 2:12-CV-04976 ODW, 2013 WL 1767799, at *5 (C.D. Cal. Apr. 24, 2013) and *Intex Recreation Corp. v. Team Worldwide Corp.*, No. CV 04-1785 (PLF), 2015 WL 135532, at *2 (D.D.C. Jan. 9, 2015)).

Plaintiff does not even acknowledge, let alone rebut, this argument. Instead, it simply says that it “incorporates by reference” its original opposition to Defendant’s motion to dismiss. *See* Opp’n Br. at 8. But this was the very submission that included the frivolous argument expressly contradicted by its own

patent. Just as it abandoned its claims rather than appear at a hearing on the motion to dismiss, Plaintiff again fails to face up to its unreasonable conduct.

D. “Implicit” Decisions by the USPTO Regarding Other Patent Applications Cannot Save Plaintiff’s Case.

Plaintiff presents a novel defense of the merits of its lawsuit: Rather than discuss the patent in this case and its conduct before this Court, Plaintiff points to proceedings at the United States Patent and Trademark Office (USPTO) regarding a different, and still pending, patent application. *See* Opp’n Br. at 9-11. In that patent application, the examiner recently issued a non-final rejection for double patenting. *See* Garofalo Declaration, Ex. A (Doc. 52-1). Plaintiff argues that because this office action did not discuss 35 U.S.C. § 101, the patent office has therefore “implicitly” endorsed Plaintiff’s position in this case. *See* Opp’n Br. at 9. The Court should ignore this convoluted argument.

The details of a pending, *ex parte* proceeding in a different forum with different procedures and standards are of little significance. *See Ameranth, Inc. v. Genesis Gaming Solutions, Inc.*, No. SACV 11-00189 AG, 2014 WL 7012391, at *8 (C.D. Cal. Nov. 12, 2014) (“the back-and-forth at the USPTO on a related but unissued patent is of very limited relevance”); *see also Ethicon, Inc. v. Quigg*, 849 F.2d 1422, 1428 (Fed. Cir. 1988) (“The two forums take different approaches in determining invalidity and on the same evidence could quite correctly come to different conclusions.”). This is especially true where the USPTO did not even discuss the issues before the Court in this case. Even if the Office had issued a reasoned decision regarding the eligibility of the claims in this case, that would be

a question of law entitled to no deference. *See CyberSource Corp. v. Retail Decisions, Inc.*, 654 F. 3d 1366, 1369 (Fed Cir. 2011) (patent eligibility is a question of law); *Merck & Co., Inc. v. Kessler*, 80 F.3d 1543, 1549-50 (Fed. Cir. 1996) (courts give no deference to the USPTO on questions of law).

E. Plaintiff Does Not Challenge Defendant’s Lodestar Calculations.

Plaintiff does not contest Defendant’s rates, hours, or overall attorneys’ fees. It has therefore waived any objection to Defendant’s lodestar calculation. *See United States v. Eleven Vehicles, Their Equip. & Accessories*, 200 F.3d 203, 211 (3d Cir. 2000) (“the district court may not award less in fees than requested unless the opposing party makes specific objections to the fee request’); *Ongay v. Astrue*, C.A. No. 09–0610, 2011 WL 2457692, at *2 n.3 (D. Del. June 20, 2011) (party must make specific objections to fee requests); *In re Paul*, 141 B.R. 299, 301 (E.D. Pa. 1992) (noting that, in the Third Circuit, a parties “who had an opportunity to contest the accuracy and reasonableness of the fees requested but failed to do so, have waived their right to make such objections”).

F. Only An Award of Fees Can Deter Future Abusive Litigation.

Without deterrence, Garfum would be free to shakedown future victims for settlements well below the cost of defense. Yet Plaintiff urges the Court not to shift fees because it dismissed its claims before the Court had the opportunity to rule on the merits. *See Opp’n Br.* at 7-8. This is an invitation for further abuse. Effectively, Plaintiff seeks a rule whereby it can bring weak claims and use the cost of defense to extract quick settlements. If it is ever challenged on the merit of its claims, it

could simply dismiss its case without consequence. If that were the rule, Garfum and its counsel would have total impunity for further abusive litigation.

III. CONCLUSION

For the foregoing reasons, Defendant requests the Court declare this an exceptional case and enter an order requiring Garfum to pay Defendants' attorneys' fees.

Dated: August 3, 2015

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