

**UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA
MIAMI DIVISION**

CASE NO. 12-81022-CIV-GAYLES/TURNOFF

NET TALK.COM, INC.,

Plaintiff,

v.

MAGICJACK VOCALTEC LTD., MAGICJACK
LP, MAGICJACK HOLDINGS CORPORATION,
AND MICHELE BORISLOW, PERSONAL
REPRESENTATIVE OF THE ESTATE OF
DANIEL BORISLOW,

Defendants.

DEFENDANTS' MOTION FOR ATTORNEYS' FEES PURSUANT TO 35 U.S.C. § 285

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magicJack VocalTec Ltd., magicJack LP, and magicJack Holdings Corporation (collectively, “magicJack” or “Defendants”), of West Palm Beach, Florida, respectfully request that the Court declare this case “exceptional” under 35 U.S.C. § 285 and order Net Talk.com Inc. (“netTalk”) to pay magicJack’s reasonable attorneys’ fees in this case.

netTalk should not be permitted to simply walk away from the damages imposed by its baseless suit and litigation misconduct. After netTalk abandoned its two-year, alleged \$200 million case mere months before trial, the Court entered a complete, plaintiff-take-nothing judgment against netTalk and “reserve[d] jurisdiction to determine attorneys’ fees and costs.” Order Granting Mot. to Dismiss, Dkt. 157. Accordingly, Defendants now seek reimbursement of \$2,026,386 in attorneys’ fees, an amount that represents only a portion of the more than \$2.5 million in fees that netTalk forced on Defendants in defense of netTalk’s baseless infringement claims.¹

netTalk has known that its infringement claims were baseless *at least* since the patent-in-suit emerged from reexamination on February 5, 2014, and it is from that date that magicJack seeks its fees. But rather than dismiss its claims then, netTalk strung this case out for over a year longer, pressing into the expensive fact and expert discovery phase and multiplying magicJack’s cost of defense. Indeed, given netTalk’s extraordinary claim of \$200 million in damages—which it also asserted against the Borislow estate, holding up its windup and distribution to family members—Defendants could not simply sit idly by while netTalk refused to dismiss its case. Instead, Defendants were forced to prepare for—and pay for—fact and expert discovery, claim construction, and trial. Meanwhile, netTalk engaged in blatant litigation misconduct: particularly

¹ magicJack’s request does not include the hundreds of thousands of dollars in non-taxable costs and expenses, such as expert witness fees, that it incurred in addition to attorneys’ fees. In addition, magicJack’s request does not include a request for the fees paid to its Florida counsel.

in the final months of the litigation, netTalk repeatedly and willfully ignored court-ordered deadlines and discovery, helped itself to extensions that the Court had not granted, and caused Defendants to incur deposition and expert expenses, all while doing very little to prosecute its own case. netTalk's motivation for its conduct is clear: netTalk wanted to cause magicJack to incur needless expenses while netTalk incurred very little in order to try to force magicJack into a settlement. The patent statute discourages precisely this type of litigation and litigation misconduct by allowing the Court to award fees to the prevailing party, and accordingly, Defendants respectfully request that the Court do so here.

I. BACKGROUND

netTalk filed suit against Defendants² in September 2012, alleging infringement of U.S. Patent No. 8,243,722 ("the '722 patent") by the magicJack Plus devices. Complaint, Dkt. 1. The iconic devices work with computers, adapting "landline" phones to allow phone calls over the Internet, and are generally known as "analog telephone adapters" or "ATAs." The '722 patent is directed to a voice-over-IP ("VoIP") system containing an ATA with two or more Internet access points. Ex. A at col. 2 l.11 – col. 3 l.13.³

Shortly after suit was filed, the United States Patent and Trademark Office ("USPTO") granted a request for *ex parte* reexamination of the '722 patent, finding that there was a substantial new question as to whether the '722 Patent's claims were patentable. *See* Ex. G (order granting reexamination). The Court thus stayed this case, finding that the reexamination

² netTalk also sued Daniel Borislow, magicJack's founder and former CEO, despite his having ended his company involvement long before issuance of the reexamination certificate. Am. Compl. at 8-11, Dkt. 48. Mr. Borislow passed away on July 21, 2014, and the Court thereafter substituted his widow, Michele Borislow. Order on Pl.'s Mot. to Sub. Party, Dkt. 144. As Mr. Borislow was an officer of the company, magicJack paid Mr. Borislow's and his estate's attorneys' fees.

³ All exhibits are attached to the Woo Declaration and Verification, Exhibit 1.

had the potential to simplify the issues. Order on Mot. to Stay, Dkt. 33.

The Court's expectation proved true, as the '722 patent emerged from reexamination with substantially narrowed claims. In order to avoid prior art rejections, netTalk amended each independent claim of the patent, adding at least four entirely new claim limitations. *See* Ex. A, at 2-3 (reexamination certificate; additions set out in italics). One of the new limitations in claim 3—the only claim netTalk asserted was infringed here—requires that the ATA be configured for “*multiple separate and independent internet access connections.*” *See id.* at col. 2, ll.39–40. Claim 3 additionally recited the “*Internet connection provided by the ATA.*” *Id.* at col. 2, l.49. These limitations were among several that substantially altered, and thus narrowed, the scope of the '722 patent, and made clear that the accused magicJack devices could not possibly infringe. Notably, during reexamination, netTalk submitted the sworn affidavit of its expert, Dr. Costas Papadopoulos, who distinguished netTalk's patent claims from a prior-art reference because the claims required the multiple separate and independent internet connections be in the housing of the ATA, while the prior art disclosed “only one internet access point in the housing.” Ex. H ¶ 22 (Papadopoulos affidavit).

After the reexamination certificate issued on February 27, 2014, the Court reopened the case and issued its claim construction order on December 1, 2014. Relying in part on Dr. Papadopoulos's sworn statement (as had the Patent Office), the Court held that the term “multiple separate and independent internet access connections” means “*multiple separate and independent internet access points in the housing of the ATA used by the ATA to place and receive VoIP calls.*” Order on Claims Construction 8, Dkt. 129 (emphasis added). netTalk never proposed a construction of “*Internet connection provided by the ATA.*”

The Court's construction of “*multiple separate and independent internet access*

connections” confirmed what netTalk already knew, or the very least should already have known—Defendants do not infringe the ’722 patent because the two claim elements above are not found in the magicJack Plus. Garry Paxinos, netTalk’s Chief Technical Officer and Rule 30(b)(6) witness, testified that netTalk tested the accused magicJack devices long before filing its complaint, and discovered that when connected to a personal computer (one of the only two ways in which the magicJack devices can be connected), the magicJack devices do not pass any Internet-format packets, but rather operate only as “essentially . . . sound card[s].” Ex. I at 96:25. netTalk thus knew from the outset that the magicJack devices could not possibly meet the claim requirement of *multiple* separate and independent internet access points *in the housing of the ATA* used by the ATA to place and receive VoIP calls, and that the devices could not fulfill the separate claim limitation: “*Internet connection provided by the ATA.*” Ex. A at col. 2 l.49 (emphasis added). Defendants thus sent a letter to counsel for netTalk specifically explaining the baseless nature of netTalk’s claims and requesting that it dismiss its case. Ex. J (12/3/14 Letter from Darryl Woo to Daniel Barsky). But netTalk failed to do so.

After the Paxinos deposition, netTalk’s former counsel moved to withdraw from the case. Mot. to Withdraw, Dkt. 126. In connection with that motion, netTalk sought a 90-day stay to obtain new counsel. *Id.* This request came on the heels of *two other* motions by netTalk to continue the trial date, which as of then was scheduled for late February 2015. *See* Mot. to Abate, Dkt. 102; Mot. for Enlargement and Cont., Dkt. 121. Knowing it had no case, netTalk took no fact depositions of its own, withdrawing depositions of the only two magicJack witnesses it noticed. Ex. K (11/26/14 E-mail from Daniel Barsky to Janet Munn). At the same time, knowing that Defendants had little choice but be prepared to meet the schedule ordered by the Court, netTalk made Defendants’ discovery more difficult by refusing to provide outstanding

discovery, despite the approaching December 10, 2014 fact-discovery cutoff. *See generally* Mot. for Entry of Scheduling Order 4-5 and exhibits thereto, Dkt. 143; Ex. O and attachments thereto (1/7/15 Letter from Stephen Stout to Matthew McAndrews). netTalk's cancellation of depositions and refusal to abide by the Court's schedule for expert reports forced magicJack to incur substantial costs of rescheduling depositions and motions practice that should have been unnecessary. *See, e.g., id.*

After the Court granted the motion to withdraw, but denied the motion for a continuance, and even before new counsel for netTalk announced his intent to appear, netTalk began discussing what it should have done when the reexamination terminated almost a year earlier: stipulating to non-infringement. Indeed, counsel for netTalk represented to the Court that it could not prove infringement under the Court's constructions, while never mentioning that the Paxinos testimony also made it impossible to meet the "*Internet connection provided by the ATA*" limitation, which was not dependent on the claim construction order.⁴ Ex. L at 5:7-17 (1/21/15 Hr'g Tr.). netTalk, however, further delayed stipulating to non-infringement or dismissal until it forced additional expense upon Defendants.

Knowing that Defendants had to continue to prepare to meet its \$200 million claim, netTalk continued to erect roadblocks to Defendants' discovery, which by then had been *ordered* by the Court. On January 21, 2015, the same day that netTalk admitted that it could not prove infringement, the Court *ordered* netTalk to provide *all* outstanding discovery by March 2, 2015. *See* Order on Mot. For Entry of Scheduling Order, Dkt. 145. The Court also set a new trial date for just four months later, June 1, 2015. *Id.* Defendants accordingly continued to pursue

⁴ Matthew Tucker, of Tucker IP Law, entered an appearance on behalf of netTalk. Matthew McAndrews held himself out as netTalk's attorney, and spoke for netTalk at the hearings on January 21, 2015, and February 27, 2015. Defendants thus dealt primarily with Mr. McAndrews (who has yet to enter a formal appearance).

discovery and work on expert reports in order to meet all deadlines and prepare the case for trial. And while netTalk made what later turned out to be empty promises to provide the discovery, it never did provide the discovery ordered by the Court, forcing Defendants to file a motion to compel. *See* Defs.’ Mot. to Compel, Dkt. 152.

Finally, in the face of Defendants’ motion, and the March 2, 2015 deadline to provide all outstanding discovery and serve expert reports, and having caused Defendants to incur as much expense as it could before having to make expenditures of its own to comply with the discovery order and expert report deadline, netTalk at last abandoned its case by issuing a covenant not to sue and by moving to dismiss its own claims. Pl.’s Mot. to Dismiss, Dkt. 154. The Court accordingly dismissed netTalk’s claims with prejudice, almost *three months* after the claim construction order issued and more than a *year* after netTalk’s claims were amended in reexamination to add the “*multiple separate and independent internet access connections*” and the “*Internet connection provided by the ATA*” limitations, which netTalk long ago knew from the Paxinos testing were not practiced by the magicJack devices.

II. LEGAL STANDARD

In patent cases, a “court in exceptional cases may award reasonable attorney fees to the prevailing party.” 35 U.S.C. § 285. Section 285 has long been criticized as being applied too sparingly by courts to provide an effective deterrent to patent cases brought to extract settlements from patent defendants due to the asymmetric nature of such cases.⁵ As commentators have noted, patent cases are relatively easy to bring, but many times more expensive to defend,

⁵ Compare Mark Liang & Brian Berliner, *Fee Shifting in Patent Litigation*, 18 Va. J.L. & Tech. 59, 86 (2013) (pre-*Octane* analysis concluding that “fee awards are rarely awarded” in patent cases), with Amanda L. Major & Jonathan Uffleman, *A Practitioner’s Guide to Post-Octane Fitness Decisions: The New Landscape of Section 285 Attorney’s Fees*, 89 Pat. Trademark & Copyright J. (BNA), Dec. 12, 2014, at 391 (post-*Octane*, noting that “rates of attorney fees awards have increased since the Supreme Court’s decision.”).

especially where, as here, they involve litigation conduct designed to cause defendants undue litigation expense.⁶

In recognition of these principles, the U.S. Supreme Court recently lowered the hurdle for recovery of fees under Section 285: “[A]n ‘exceptional’ case is simply one that stands out from others with respect to the substantive strength of a party’s litigation position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated.” *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756 (2014). This inquiry need only be proven by a preponderance of the evidence. *Id.* at 1758. An exceptionally meritless claim alone can be sufficient to justify an award of attorneys’ fees. *Id.* at 1757 (“But a case presenting either subjective bad faith or exceptionally meritless claims may sufficiently set itself apart from the mine-run cases to warrant a fee award.”). Misconduct during the litigation can provide a separate a basis for declaring a case to be exceptional. *See id.* at 1756; *Oplus Techs.*, 2015 WL 1600056, at *4 (“[W]hen, as here, a court finds litigation misconduct and that a case is exceptional, the court must articulate the reasons for its fee decision.”); *Monolithic Power Sys., Inc. v. O2 Micro Int’l Ltd.*, 726 F.3d 1359, 1366 (Fed. Cir. 2013) (“[L]itigation misconduct alone may suffice to make a case exceptional.”).

III. DEFENDANTS ARE ENTITLED TO THEIR ATTORNEYS’ FEES.

This is an exceptional case. While the Supreme Court in *Octane Fitness* held that an exceptional case finding can be supported by a baseless claim *or* the unreasonable manner in which a case was litigated, the record here shows both bases.

⁶ *See, e.g.*, Jonathan L. Moore, *Particularizing Patent Pleading: Pleading Patent Infringement in A Post-Twombly World*, 18 Tex. Intell. Prop. L.J. 451, 465-69 (2010) (noting that “a patentee and an alleged infringer do not share these costs equally” and that accused infringer can face substantially higher burdens and costs); *see also Oplus Techs., Ltd. v. Vizio, Inc.*, __, F.3d __, No. 2014-1297, 2015 WL 1600056, at *3-*4 (Fed. Cir. Apr. 10, 2015) (identifying various ways in which litigation misconduct caused defendant to incur additional litigation expenses).

A. netTalk's Infringement Claims Are, and Have Been, Baseless.

This case became baseless and thus exceptional no later than when the Court lifted the stay on February 5, 2014, after the '722 patent emerged from reexamination.⁷ At that point, because Mr. Paxinos had long ago tested the magicJack devices and found they were only “sound card[s]” when connected to computers, netTalk knew, or at the very least should have known in light of Dr. Papadopoulos's sworn affidavit, that it could not prove that the accused products contained “*multiple separate and independent internet access connections*,” as required by the '722 patent, and that the magicJack's connection to a computer could not fulfill the “*Internet connection provided by the ATA*” limitation. Rather than dismiss its case immediately, netTalk continued to litigate for over a year before admitting what it had known all along. The Court should hold this case exceptional on that basis alone.

In addition to having a phone jack connection for a “landline” telephone, the magicJack devices contain exactly two kinds of operational connections that allow them to work: a port for an Ethernet cable, and a USB plug to connect to a computer. But, as Mr. Paxinos's testimony reveals, netTalk was fully aware as of at least 2012, when Mr. Paxinos tested the magicJack Plus, that the latter of these is not an internet access connection at all, but a “sound card,” making it impossible that the magicJack devices had “multiple separate and independent internet access points in the housing of the ATA” or that the connection was an “*Internet connection provided*

⁷ As a threshold matter, netTalk admits that Defendants are “prevailing parties” within the meaning of 35 U.S.C. § 285, which looks to “whether there is a ‘judicially sanctioned change in the legal relationship of the parties.’” See netTalk's Opp. to Defs.' Bill of Costs 3, Dkt. 164; *Highway Equip. Co. v. FECO, Ltd.*, 469 F.3d 1027, 1033 (Fed. Cir. 2006) (quoting *Buckhannon Bd. & Care Home, Inc. v. W. Va. Dep't of Health & Human Res.*, 532 U.S. 598, 605 (2001)). Here, netTalk filed a covenant not to sue. See Ex. B. to Pl.'s Mot. to Dismiss, Dkt. 154. “[A]s a matter of patent law, the dismissal with prejudice, based on [a] covenant [not to sue] 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” allowing fees under 35 U.S.C. § 285. *Id.* at 1035.

by the ATA.” Exs. I-J.

netTalk cannot credibly claim that it did not know whether Defendants infringed until the Court issued its claim construction order. As explained above, netTalk’s own expert defined “multiple separate and independent internet access connections” in a sworn statement before the USPTO in a way that precludes infringement. Moreover, the Court’s claim construction could not have saved netTalk’s case, regardless of how that term was construed. Mr. Paxinos’s testimony about his 2012 testing confirms that the USB plug—one of only two possible relevant features of the device—could not be the “Internet connection provided by the ATA” that is separately required by amended claim 3. Neither party requested construction of that separate term, as it is clear on its face. netTalk therefore could not in good faith have believed that the Court’s claim construction order would alter the magicJack devices’ non-infringement. And even when the Court did issue its claim construction order, netTalk did not dismiss its case, but forced Defendants to continue expending money to meet court-imposed deadlines and prepare for trial.

The Federal Circuit recently affirmed an exceptional case finding in similar circumstances, despite applying the stricter pre-*Octane Fitness* standards. *Taurus IP, Inc. v. DaimlerChrysler Corp.*, 726 F.3d 1306, 1327-28 (Fed. Cir. 2013). In *Taurus*, the Federal Circuit upheld an award of attorneys’ fees where the plaintiff “improperly asserted and maintained its positions in the litigation” by advocating baseless claim construction positions and continuing to prosecute its claim after receiving an adverse claim construction order. *Id.* The Court noted that, even though an adverse claim construction alone is generally not enough to render a case exceptional, a party is under an obligation to “continually assess the soundness of pending infringement claims, especially after an adverse claim construction,” and may not “prolong[] litigation in bad faith” *Id.* at 1328.

Such is the case here. netTalk knowingly advocated a baseless claim construction position, and, even after receiving an adverse, case-dispositive order on that very term, continued to prosecute this case until three months before trial. Indeed, since netTalk never requested construction of “*Internet connection provided by the ATA*,” netTalk knew *since Mr. Paxinos’s testing in 2012* that the “sound card” nature of the magicJack precluded its infringement claims. Yet, netTalk prolonged the litigation in bad faith.

B. netTalk made baseless damages claims throughout the litigation.

Separate and apart from its baseless claim of infringement, netTalk made other blatantly unreasonable arguments throughout this litigation. Most notably, netTalk’s outrageous claim of more than \$200 million in damages—an amount so large that Defendants were forced to pursue a comparably robust defense—was based on objectively unreasonable legal theories.

For example, netTalk’s damages claim was based in part on the allegation that magicJack violated netTalk’s “provisional rights” in the ’722 patent, meaning that netTalk sought damages not from the date the patent issued in 2012, but from the much earlier date of June 4, 2009, when the *application* leading to the ’722 patent was published. *See* Am. Compl. ¶ 45, Dkt. 48. The law is absolutely clear, however, that a patentee is only entitled to provisional rights if the claims of the issued patent are *substantially identical* to those in the published patent application, and the accused infringer had actual notice of the published patent application. *See* 35 U.S.C. § 154(d).

Here, there is simply no good-faith argument that the claims in the published application and the claims in the originally issued ’722 patent are substantially identical. A brief comparison of the published claims and the claims originally issued reveals the vast differences between the two. Exs. B (issued patent), C (published application), D (comparison of independent claims in published application and issued patent). The differences are even more apparent when compared with the claims after reexamination. The longest independent system claim in the

published application (claim 1) contains approximately 91 words. In contrast, asserted claim 3 of the reexamined '722 patent contains *364 more words* with dramatically different and additional limitations. Exs. A (reexamination certificate), C (published application), E (comparison of claim 1 of published application and claim 3 of reexamination certificate). No plausible argument can be made that a claim containing 91 words or fewer is “substantially identical” to a claim with *364 more words* that were added during prosecution and reexamination to avoid prior art rejections.

Equally egregious was netTalk’s claim for damages after the original patent was revoked and replaced with the reexamination certificate. Rather than seeking damages from the 2014 date the reexamination certificate issued, netTalk again sought damages from the earlier date, despite the massive alteration of the patent claims by the USPTO. Am. Compl. ¶45, Dkt. 48; Exs. A (reexamination certificate), B (issued patent), F (redline comparison of claim 3 of issued patent and claim 3 of reexamination certificate). But again, the law is absolutely clear that such earlier claimed damages are only permissible where the claims of the reexamination patent are “substantially identical” to the original patent. 35 U.S.C. §§ 252, 307(b). The Federal Circuit has held that claims are not “identical” unless they are “without substantive change.” *See* 35 U.S.C. § 252; *Laitram Corp. v. NEC Corp.*, 163 F.3d 1342, 1346 (Fed. Cir. 1998). There can be no good-faith argument that reexamination claim 3—to which at least four substantive limitations and *130 additional words* were added—is “identical” to the original patent claim. netTalk’s contrary claim was, and is, baseless. *See, e.g., Laitram*, 163 F.3d at 1348 (“[I]t is difficult to conceive of many situations in which the scope of a rejected claim that became allowable when amended is not substantively changed by the amendment . . .”).

Finally, netTalk’s conduct was particularly egregious with regard to its effect on

Mr. Borislow's estate and family. Despite knowledge that Mr. Borislow ceased to be an officer of the company and ended his involvement in its operation long before the reexamination certificate issued, netTalk pressed on with its \$200 million claim *against his estate*.⁸ See Order on Pl.'s Mot to Sub. Party, Dkt. 62. As detailed in the previously submitted affidavit of the widow of Daniel Borislow, Mrs. Michele Borislow, netTalk's unsupportable damages claim would have rendered the estate insolvent by a large margin. See Ex. M, at ¶¶ 4-7. As a result, Mrs. Borislow was unable to make distributions of the estate to her family or legitimate creditors without risking personal liability, or otherwise "move on with life." *Id.* ¶¶ 4-8. netTalk plainly maintained its baseless claim against Mr. Borislow's estate in an attempt to gain leverage against magicJack, and that, too, supports an exceptional case finding. As the Federal Circuit has said, "the appetite for licensing revenue cannot overpower a litigant's and its counsel's obligation to file cases reasonably based in law and fact and to litigate those cases in good faith." *Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1328 (Fed. Cir. 2011).

C. netTalk Has Litigated this Case in an Unreasonable Manner

While netTalk's pursuit of baseless claims of infringement and damages is sufficient by itself to justify an award of attorneys' fees on either ground, netTalk's pervasive litigation misconduct also warrants finding this case "exceptional." See *Octane Fitness*, 134 S. Ct. at 1756. Knowing it had no legitimate claims, netTalk did as little as possible to advance the case while causing Defendants to incur as much expense as possible to meet the threat of its \$200 million claim. netTalk noticed only two depositions of magicJack fact witnesses, but withdrew them

⁸ The sole claim against Mr. Borislow was based on a claim of inducement of infringement, *i.e.*, acts intended to cause another party to infringe a patent. See Order on Mot. to Dismiss 2-3, Dkt. 68 (dismissing claims against Borislow other than inducement). As netTalk's own Complaint makes clear, Borislow's alleged acts giving rise to that claim ceased prior to the February 27, 2014 date of the reexamination certificate. Am. Compl. ¶ 29, Dkt. 48; Def.'s Reply in Supp. of Mot. to Dismiss 7-8, Dkt. 62.

before taking them, and even then, only at the last minute so as to ensure Defendants would have undertaken necessary preparation. At least since netTalk's former counsel sought to withdraw from the case in November 2014, netTalk furthermore multiplied Defendants' costs by being actively uncooperative in completing discovery and forcing Defendants to file motions.

When netTalk's former counsel moved to withdraw on November 25, 2014, netTalk unilaterally canceled the depositions of Takis Kyriakides and Kenneth Hosfeld (both netTalk inventors, executives, and Rule 30(b)(6) designees), refused to provide dates for the deposition of another netTalk corporate witness, Steven Healy, and would not confirm its attendance at the deposition of a third-party prior art witness. Ex. K. Similarly, netTalk wholly failed to respond to Defendants' Fifth Set of Interrogatories, Defendants' Third Set of Requests for Production, and Defendants' First Set of Requests for Admission. Ex. O & Attachs. 4-6. And when discovery closed on December 10, 2014, netTalk still had not provided any other outstanding discovery that it had affirmatively promised to provide, including the most basic documents—such as adequate financial and sales data for netTalk—and a further response to magicJack's Interrogatory No. 16. Ex. O & Attachs. 7-9.

Throughout this time, Defendants were forced to continue to expend resources to meet court-ordered deadlines, including the deadline to complete fact discovery and the deadline to serve expert reports, lest they default on an alleged \$200 million claim.⁹ For example, netTalk caused Defendants to work up expensive expert reports while plainly knowing it would not incur similar expense—a mere three days before the parties were to exchange opening expert reports,

⁹ magicJack hardly could have done otherwise in the face of netTalk's extraordinary damages claim. Technical expert reports cannot be written overnight, and magicJack was forced into the untenable position of either not preparing reports—at the risk that netTalk would serve its own, leaving magicJack in default—or incurring costs that would potentially be unnecessary if netTalk did not proceed with its case.

netTalk announced that it would not serve its reports, forcing magicJack to move for an extension of time to avoid any unfairness. *See* Mot. for Ext. of Time, Dkt. 131; Ex. N (e-mail string between Daniel Barsky and Janet Munn).

Once new counsel for netTalk emerged, magicJack contacted counsel for netTalk, on multiple occasions, regarding scheduling for the remaining discovery. Exs. O-T (correspondence regarding discovery). magicJack moved for a new scheduling order, including a deadline for netTalk to provide all outstanding discovery. Mot. for Entry of Scheduling Order, Dkt. 143. The Court thereupon *ordered* netTalk to provide all outstanding discovery by March 2, 2015 (Dkt. 145), but counsel for netTalk did not provide any substantive response until February 4, two weeks after the Court entered its scheduling order, squandering nearly a third of the time the Court had allotted to complete discovery. *See* Exs. R-U (correspondence regarding discovery). On that day, counsel for netTalk did not provide the ordered discovery but merely called counsel for magicJack and provided a schedule for completing the ordered discovery. Ex. U (2/5/15 e-mail from Stephen Stout to Matthew McAndrews). Yet, none of that discovery was ever provided. netTalk simply ignored the dates by which it had promised to provide the court-ordered discovery. Ex. V (2/19/15 e-mail from Stephen Stout to Matthew McAndrews). And although magicJack had noticed the depositions of netTalk's remaining witnesses in accordance with the schedule provided by netTalk, counsel for netTalk informed counsel for magicJack *the day before the depositions were scheduled to begin* that netTalk would not present any of its witnesses. Ex. W (2/24/15 Letter from Ajeet Pai to Matthew McAndrews). Of course, magicJack's counsel had by then already spent time preparing to take those depositions.

Faced with a looming deadline for providing the Court-ordered discovery and serving opening expert reports, netTalk at last filed a motion to dismiss and attached a covenant not to

sue.¹⁰ This dismissal motion came almost three months after the Court issued its claim construction order, almost two months after netTalk admitted to the Court that it could not prove infringement, and a full year after the Court lifted the stay on claims netTalk knew were baseless. During this time, magicJack was forced to spend time and money on discovery, depositions, claim construction, expert reports, and generally doing the work necessary to litigate the case to completion. Given netTalk's claim for \$200 million in damages, and its refusal to actually dismiss its case (despite its vague suggestions that it might), magicJack could not have done otherwise.¹¹ But those fees could have been avoided had netTalk not prolonged its clearly meritless case, while actively pursuing a course that minimized its own expenditures and caused Defendants to incur the maximum expense possible. The Court should declare this case exceptional and allow magicJack to recover these fees on the separate ground of netTalk's litigation misconduct. *Cf. Oplus Techs.*, 2015 WL 1600056, at *3-*4.

IV. DEFENDANTS' ATTORNEYS' FEES ARE REASONABLE

Defendants seek \$2,026,386 in fees, which are reasonable and in accord with the AIPLA survey.¹² These fees, which were incurred after February 5, 2014, are conservatively calculated and represent a substantial reduction from the fees actually paid by magicJack, because they do

¹⁰ That netTalk would voluntarily dismiss its case, foregoing an appeal, despite a putative \$200 million damages claim, speaks volumes about netTalk's own belief in its case.

¹¹ netTalk, on the other hand, had the luxury of being able to do nothing, as it was in control of its decision not to pursue its case. magicJack by contrast risked defaulting on a putative \$200 million claim, while netTalk could simply stop pursuing its claim, as it did here.

¹² The 2013 *Report of the Economic Survey* published by the American Intellectual Property Law Association (AIPLA), a national organization whose data is often considered in connection with fee motions, indicates an average cost through discovery of \$3.225 million for patent cases in the metropolitan Southeastern United States (including the Miami-Ft. Lauderdale-West Palm Beach area) where more than \$25 million in damages are claimed, rising to nearly \$5.4 million on average for costs through trial. Ex. X at I-131 to I-132.

not include (1) fees for magicJack's respected Florida counsel at Rasco Klock or Akerman LLP, who were substantively involved throughout the case; (2) over a hundred hours of time charged by project assistants and practice specialists that were necessarily incurred but have not been claimed; (3) time billed by attorneys who were less centrally involved; or (4) time spent on certain administrative tasks related to the case that has also been removed. (They also do not include the hundreds of thousands of dollars of out of pocket expenses, such as expert witness fees, that magicJack was forced to incur.)

Defendants seek to recover the fees of the attorneys and support staff¹³ at Vinson & Elkins LLP and Fenwick & West LLP¹⁴ listed below. Each of these individuals was charged at an hourly rate commensurate with their abilities and experience and generally comparable to rates of similar national firms with well-regarded IP practices.¹⁵

As per local rule 7.3(a), a summary of the qualifications, hours reasonably expended,

¹³ Fees for paralegals may be properly included in a request for attorneys' fees. *Richlin Sec. Serv. v. Chertoff*, 553 U.S. 571, 581 (2008). In addition, "the most critical factor [to consider when determining the amount of the fee award] is the degree of success obtained." *Hensley v. Eckerhart*, 461 U.S. 424, 436 (1983). Here, magicJack defeated a \$200 million claim for damages and obtained a complete dismissal with prejudice, as well as a covenant not to sue. "Where . . . a prevailing party has obtained excellent results, his attorney should recover a fully compensatory fee. Normally this will encompass all hours reasonably expended on the litigation" *Mathis v. Spears*, 857 F.2d 749, 755 (Fed. Cir. 1988) (internal citation and quotation marks omitted); see also *City of Burlington v. Dague*, 505 U.S. 557, 562 (1992) (noting a "strong presumption" that a lodestar analysis represents a "reasonable fee.").

¹⁴ Fenwick & West initially served as primary counsel for magicJack. Mr. Woo transitioned to Vinson & Elkins in October 2014, whereupon Vinson & Elkins became primary counsel. Tasks related to transition (including any inefficiencies due to counsel at Vinson & Elkins coming up to speed) are excluded from the fees sought in this motion. Neither firm had a contingent fee arrangement, and each timekeeper was billed at an hourly rate. Vinson & Elkins also applied a one-time discount of \$50,000, which is reflected in the total sought.

¹⁵ As noted by the 2013 AIPLA *Report*, the average hourly billing rate for IP partners in national law practices in the San Francisco area and Texas is \$673 and \$546, respectively, without increases for adjustments due to experience and reputation. The average rates for associates are \$460 and \$391, again without adjustments for experience and reputation. Ex. Z at I-34, I-48.

tasks performed, and effective rate for each timekeeper is provided below. Detailed supporting invoices are attached as Exhibit Y. The verification of Darryl M. Woo is attached as Exhibit 1.

A. Darryl M. Woo – Vinson & Elkins, Fenwick & West (San Francisco)

Mr. Woo is a nationally prominent partner in V&E's San Francisco, California office. The former head of Fenwick & West's litigation department, Mr. Woo was admitted in California in 1981, and has spent most of his career trying intellectual-property and other high-stakes litigation matters. Defendants seek recovery for 189 hours of Mr. Woo's time at an effective rate of \$810 (at Vinson & Elkins), and 378.6 hours of Mr. Woo's time at an effective rate of \$880 (at Fenwick & West), for a total of \$486,258. Mr. Woo generally oversaw the case, planned strategy, revised motions and oppositions, prepared for and took depositions, attended hearings, and the like.

B. Stephen C. Stout – Vinson & Elkins (Austin)

Dr. Stout is a senior associate. He was admitted in Texas in 2007, is a licensed patent attorney, and has spent his career litigating intellectual-property cases with a focus on patent cases. Defendants seek recovery for 281 hours of Mr. Stout's time at an effective rate of \$580, for a total of \$162,980. Mr. Stout spent most of his time working with experts, preparing for depositions, attending hearings, communicating with opposing counsel, and drafting oppositions to motions.

C. Ajeet P. Pai – Vinson & Elkins (Austin)

Mr. Pai is a senior associate. He was admitted in Texas in 2007 and is a licensed patent attorney. Mr. Pai first served as a clerk for the U.S. Courts of Appeals for the Fourth and Federal Circuits. Since then, he has spent his career litigating intellectual-property cases with a focus on patent cases. Defendants seek recovery for 213.5 hours of Mr. Pai's time at an effective rate of \$580, for a total of \$123,830. Mr. Pai spent most of his time working with technical experts,

overseeing discovery, drafting motions and oppositions, and communicating with opposing counsel.

D. Janice L. Ta – Vinson & Elkins (Austin)

Ms. Ta is an experienced associate. She was admitted in Texas in 2010. Ms. Ta first served as a clerk for the Federal Circuit, and since then she has spent her career litigating intellectual-property cases with a focus on patent cases. Defendants seek recovery for 237.6 hours of Ms. Ta's time at an effective rate of \$450, for a total of \$106,920. Ms. Ta spent most of her time working with technical experts, discovery issues, and preparing for Rule 30(b)(6) depositions.

E. Jeffrey Han – Vinson & Elkins (Austin)

Mr. Han is an experienced associate. He was admitted in Texas in 2009 and is a licensed patent attorney. Mr. Han first served as a clerk for the Federal Circuit, and has spent his career litigating intellectual-property cases with a focus on patent cases. Defendants seek recovery for 46.8 hours of Mr. Han's time at an effective rate of \$490, for a total of \$22,932. Mr. Han spent most of his time working with technical experts and reviewing documents for production.

F. Christopher G. Granaghan – Vinson & Elkins (Austin)

Mr. Granaghan is an experienced associate. He was admitted to the Texas bar in 2011. He first served as a clerk for the United States Court of Appeals for the Fifth Circuit, and since then he has spent his career litigating intellectual-property cases with a focus on patent cases. Defendants seek recovery for 171.3 hours of Mr. Granaghan's time at an effective rate of \$435, for a total of \$74,515.50. Mr. Granaghan spent most of his time handling written and document discovery, drafting motions and oppositions, and performing legal research.

G. Puneet Kohli – Vinson & Elkins (Austin)

Dr. Kohli was an associate at Vinson & Elkins with a Ph.D. in Electrical and Computer

Engineering. He was admitted in Texas in 2014. He has spent his legal career litigating intellectual-property cases with a focus on patent cases. Defendants seek recovery for 242.6 hours of Mr. Kohli's time at an effective rate of \$325, for a total of \$78,845. Mr. Kohli spent most of his time working with technical experts.

H. Yvonne Shumaker – Vinson & Elkins (Houston)

Ms. Shumaker is an experienced IP paralegal. Defendants seek recovery for 259.7 hours of Ms. Shumaker's time at an effective rate of \$310, for a total of \$80,507. Ms. Shumaker performed a variety of tasks, including managing documents and files, preparing and finalizing documents for filing and/or service, finalizing document productions, arranging deposition services, corresponding with court reporters and other vendors, and docketing deadlines.

I. Saina Shamilov – Fenwick & West (Mountain View, CA)

Ms. Shamilov is a litigation partner. Ms. Shamilov was admitted in California in 2001 and is a licensed patent attorney. Ms. Shamilov's practice focuses on patent litigation. Defendants seek recovery for 292 hours of Ms. Shamilov's time at an effective rate of \$650, for a total of \$189,800. Ms. Shamilov spent her time taking depositions, preparing for and attending hearings, technical and prior art analysis, and case oversight.

J. Betsy White – Fenwick & West (Mountain View, CA)

Ms. White was an experienced litigation associate at Fenwick & West. Ms. White was admitted to the California bar in 2009 and spent her time at Fenwick & West litigating patent and IP cases. Defendants seek recovery for 511.9 hours of Ms. White's time at an effective rate of \$580, for a total of \$296,902. Ms. White spent her time on discovery matters, communicating with opposing counsel, case coordination, claim construction briefing, and motions practice.

K. Justin Hulse – Fenwick & West (Mountain View, CA)

Mr. Hulse is an experienced litigation associate. Mr. Hulse was admitted in California in

2010 and focuses on patent litigation matters. Defendants seek recovery for 439.3 hours of Mr. Hulse's time at an effective rate of \$455, for a total of \$199,881.50. Mr. Hulse spent his time on discovery, prior art analysis, claim construction, research, and working with technical experts.

L. Earl Mah – Fenwick & West (Mountain View, CA)

Mr. Mah is a litigation associate. Mr. Mah was admitted in California in 2014 and focuses his practice on litigation involving technology clients. Defendants seek recovery for 276.2 hours of Mr. Mah's time at an effective rate of \$310, for a total of \$85,622. Mr. Mah spent his time on prior art matters, claim construction briefing, and document review.

M. Shannon Kumagai – Fenwick & West (Mountain View, CA)

Ms. Kumagai is a litigation associate. Ms. Kumagai was admitted in California in 2013 and focuses her practice on litigation involving technology clients. Defendants seek recovery for 375.7 hours of Ms. Kumagai's time at an effective rate of \$325, for a total of \$122,102.50. Ms. Kumagai spent her time on legal research, discovery matters, and fact investigation.

N. Tonia E. Corwin – Fenwick & West (Mountain View, CA)

Ms. Corwin is an experienced IP paralegal. Defendants seek recovery for 146.1 hours of Ms. Corwin's time at an effective rate of \$310, for a total of \$45,291. Ms. Corwin performed a variety of tasks, including managing files, cite checking, and document preparation & review.

V. CONCLUSION

For the reasons stated above, magicJack respectfully requests that this Court declare this case exceptional and award Defendants their fees pursuant to 35 U.S.C. § 285.

CERTIFICATE OF CONFERENCE

I HEREBY CERTIFY that, pursuant to Local Rule 7.3, on April 2 and April 10, 2015, counsel for the magicJack defendants (including Ajeet Pai and Stephen Stout) met and conferred with counsel for netTalk (including Matt McAndrews and Tony Dowell) in an attempt to narrow the issues before the Court. netTalk disputes that the case is exceptional, as well as several general issues related to entitlement generally, but has informed counsel for magicJack that it will not include objections to specific time entries or the time spent on particular tasks in its response to this motion.

Dated: April 24, 2015

Respectfully submitted,

/s/David Brafman

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**Admitted pro hac vice*

CERTIFICATE OF SERVICE

I hereby certify that on the 24th day of April, 2015, I electronically filed the foregoing document with the Clerk of the Court using CM/ECF. I also certify that the foregoing document is being served this day on all counsel of record or pro se parties identified below in the manner specified, either via transmission of Notices of Electronic Filing generated by CM/ECF or in some other authorized manner for those counsel or parties who are not authorized to receive electronically Notices of Electronic Filing.

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