2016-1683

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

NET TALK.COM, INC., a Florida corporation,

Plaintiff-Appellee,

v.

MAGICJACK VOCALTEC LTD., an Israel limited partnership, MAGICJACK HOLDINGS CORPORATION, a Delaware corporation, fka YMax Holdings Corporation, MAGICJACK LP, a Delaware limited partnership,

Defendants-Appellants,

MICHELE BORISLOW, Personal Representative of Estate of Daniel Borislow,

Defendant.

Appeal from the United States District Court for the Southern District of Florida in Case No. 9:12-cv-81022, Hon. Darrin P. Gayles.

BRIEF FOR PLAINTIFF-APPELLEE

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CERTIFICATE OF INTEREST

Pursuant to Federal Rule of Appellate Procedure 26.1 and Federal Circuit Rule 47.4, counsel for Plaintiff-Appellee, Net Talk.com, Inc., certifies the following:

1. The full name of every party or amicus represented by me is:

Net Talk.com, Inc.

2. The name of the real party in interest (if the party named in the caption is not the real party in interest) represented by me is:

Not applicable.

3. All parent corporations and any publicly held companies that own 10 percent or more of the stock of the party or amicus curiae represented by me are:

None.

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this Court are:

Matthew G. McAndrews and Kyle D. Wallenberg of NIRO McANDREWS, LLC represent Plaintiff-Appellee for this appeal and represented Plaintiff-Appellee in the District Court;

Matthew Sean Tucker of TUCKER IP represented Plaintiff-Appellee in the District Court; and

Eric C. Christu, Joseph R. Englander, and Daniel J. Barsky of SHUTTS & BOWEN LLP represented Plaintiff-Appellee in the District Court.

Dated: October 6, 2016

/s/ Matthew G. McAndrews
Matthew G. McAndrews

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STATEMENT OF RELATED CASES

Pursuant to Federal Circuit Rule 47.5, no other appeal in or from the same civil action in the lower court was previously before this or any other appellate court, and no case pending in this or any other court will directly affect or be directly affected by this Court's decision in this appeal.

COUNTERSTATEMENT OF THE ISSUES

1. Whether this Court should affirm the District Court's sound exercise of its discretion in denying magicJack's Motion for Attorneys' Fees where, from a position of great familiarity and after two and a half years of experience with the case, the District Court:

   A. applied the correct legal standard as set forth in *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014) (Appx4; Appx6-9);

   B. expressly "consider[ed]" and "evaluat[ed] the totality of the circumstances" (Appx17; Appx19);

   C. expressly found, after a lengthy discussion of each of magicJack's alleged factual grounds for entitlement to "an exceptionality designation under §285" – including discussion of netTalk's infringement claim, damages claim, and litigation conduct (Appx10-14) –, that, "[b]ased upon these facts, the Court

is not persuaded that this case deserves an exceptionality designation" (Appx14);

D. expressly found that netTalk's "claims were not frivolous or objectively unreasonable" (Appx2);

E. expressly found that "[t]he infringement claims advanced by [netTalk] in this case were not so baseless as to support a fee award" (Appx15);

F. expressly found that netTalk's "conduct during the litigation was not objectively unreasonable" (Appx2);

G. as part of the totality of the circumstances it "consider[ed]" and "evaluat[ed]," discussed netTalk's efforts to resolve the case shortly after the District Court issued its unfavorable claim construction order and netTalk retained new counsel to evaluate that order (Appx14; Appx17);

H. before affirming and adopting the magistrate judge's Report and Recommendation that magicJack's Motion for Attorneys' Fees be denied, "review[ed] the [magistrate judge's] disposition *de novo*" pursuant to Rule 72(b)(3) of the Federal Rules of Civil Procedure (Appx1); and

I. before affirming and adopting the magistrate judge's Report and Recommendation that magicJack's Motion for Attorneys' Fees be denied, and as part of its consideration of the totality of the circumstances of this case, "carefully reviewed the written submissions, the record, and the applicable law" (Appx2), which written submissions included magicJack's ten-page objections to the magistrate judge's Report and Recommendation, including specific, additional arguments concerning all three of magicJack's alleged grounds for relief under §285 – namely, netTalk's infringement claim, damages claim, and litigation conduct (Appx2594-604).

COUNTERSTATEMENT OF THE CASE

A. netTalk's Original Complaint Against magicJack

On September 21, 2012, netTalk filed its original complaint in this action, alleging that magicJack and its codefendants infringed netTalk's U.S. Patent No. 8,243,722 B2 ("the '722 Patent"), entitled "VoIP Analog Telephone System." (Appx70-80; Appx1753.) The '722 Patent broadly relates to Analog Telephone Adapters ("ATAs") that enable telephone connectivity over the Internet using conventional analog telephones. (Appx1758 at 2:27-35.) The transmission

technology that facilitates voice communications over the Internet is commonly referred to as Voice over Internet Protocol ("VoIP"). (Appx1758 at 1:37-39.)

netTalk and magicJack are competitors in the VoIP market and each company sells or otherwise provides its customers with ATAs for use with its respective VoIP service. (Appx71 ¶2; Appx73 ¶16; Appx74 ¶19.) netTalk specifically accused magicJack's ATA, known as the "magicJack Plus," of infringing the '722 Patent. (Appx74 ¶19.)

B. magicJack's Unsuccessful Bid to Invalidate the '722 Patent Through Reexamination

On or about September 14, 2012, Daniel Borislow, the founder and a former corporate officer of magicJack, requested that the United States Patent and Trademark Office ("PTO") initiate an *ex parte* reexamination of claims 1-3 of the '722 Patent on the alleged grounds that certain prior art references bore on the validity of those claims. (Appx152; Appx161 ¶23.) On November 14, 2012, less than two months after netTalk filed its original complaint, the PTO granted Mr. Borislow's request and initiated an *ex parte* reexamination proceeding. (Appx152.) Then, just one month later, on December 18, 2012, the District Court stayed the case pending the PTO's disposition of the *ex parte* reexamination proceeding. (Appx152-55.)

The *ex parte* reexamination proceeding remained pending in the PTO for fourteen months, until February 27, 2014, at which time the PTO issued a

reexamination certificate, designated as U.S. Patent No. 8,243,722 C1 ("the '722 Reexam Patent"). (Appx1749.) In the reexamination proceeding, the PTO did not invalidate claims 1-3 of the '722 Patent over prior art as requested by Mr. Borislow. (Appx1750.) Instead, the PTO "determined [claims 1-3] to be patentable" based on amendments made to independent claims 1 and 3 during the reexamination proceeding. (Appx1750 at 1:17-20.) Only claim 3 was at issue in the lower court proceedings – that was the sole claim netTalk asserted against magicJack. (Appellants' Br. at 5.)

C. Amended Claim 3

As amended during the reexamination proceeding, claim 3 reads in its entirety (amended text shown in italics):

> 3. A Voice over Internet Protocol (VoIP) telephone system that enables VoIP telephony and facsimile services allowing a user to gain access to telephone connectivity between an analog handset telephone and the [I]nternet, said system having multiple separate and independent [I]nternet access connections for connecting to the [I]nternet, each separate [I]nternet connection selectable by the user comprising:
>
> an analog telephone for transmitting and receiving sound; an analog telephone adapter (ATA) comprising a rigid housing, said housing containing a central processor, a non-transitory storage medium, a memory source, a network interface card (MC), said ATA housing having at least one USB port, an Internet input, and a telephone port;
>
> said analog telephone connected to said ATA telephone port for transmission and receipt of electronic signals from the ATA;

said ATA being configured *for multiple separate and independent [I]nternet access connections wherein each of the separate internet connections is selectable by the user*,

said ATA providing plug-in-play functionality, wherein the plug-in-play functionality allows the ATA to auto configure to use an Internet access connection selected by the user; and

wherein the plug-in-[p]lay functionality allows the ATA to auto configure to use an internet access connection without a computer connection; and

wherein the Internet connection provided by the ATA comprises a multi-port plug-in-play approach, to optionally be connected by a user to either a first [I]nternet access connection or a second different [I]nternet access connection and to a switched telephone network through the [I]nternet such that it can transmit and receive telephone calls from other telephone handsets[;]

without the analog telephone being wired through a PSTN,

wherein the ATA automatically detects a type of [I]nternet connection selected by the user, which connection is automatically detected without a computer connection; and

wherein the ATA auto configures to operate using the user selected Internet connection;

said system having said first [I]nternet access connection including said ATA connected to a computer, a USB cord connected to said computer and to said USB port in said analog telephone adapter, a modem connected to said computer, and said modem connected to said [I]nternet;

said system having said second different [I]nternet access connection including said ATA connected to a USB electronic plug adapter, a USB plug cord connected to said USB plug adapter and said analog telephone adapter (ATA) USB port, an Ethernet cord, a router connected directly or indirectly to said Ethernet cord, said analog telephone adapter connected to said Ethernet cord, said modem

> connected to said [I]nternet, said analog telephone adapter powered by said USB plug adapter; and
>
> whereby a user of said analog telephone can call other telephone handset users over the [I]nternet using said first [I]nternet access connection or said second [I]nternet access connection using said ATA.

(Appx1750-51 at 2:22-3:13 (italicized text in original).)

D. magicJack's Phantom Claim Limitations

In challenging the District Court's discretionary ruling denying its Motion for Attorneys' Fees, magicJack makes the conclusory leap that because netTalk knew that there were "no Internet format packets going back and forth between the magicJack Plus and the PC," it must also have known that "there was not, and could not be any infringement of the Reexamined Patent because there was no 'Internet connection provided by the ATA.'" (Appellants' Br. at 8 (quoting Appx1829, Appx1832-33, Appx1750 at 2:49).) During oral argument on magicJack's Motion for Attorneys' Fees, its counsel put a finer point on just how narrowly magicJack was reading the "Internet connection provided by the ATA" limitation: "[T]he claim [advised][1] that the Internet connection be provided by the ATA, and that's

[1] magicJack appears to have included a preliminary version of the Transcript of Hearing on Motion for Attorneys' Fees in the Appendix, which transcript includes a parenthetical "inaudible" notation between the words "the claim" and "that." netTalk reviewed what it believes to be an updated version of the final transcript and confirmed that the complete clause as transcribed reads "[a]gain, the claim *advised* that the Internet connection . . . ." (Emphasis added.)

regardless of whether you're using the USB plug or the ethernet plug. In both situations, whether you're using either one, the Internet connection must be provided by the ATA." (Appx2551 at 18:12-16 (emphasis added).) Thus, magicJack seeks to read into amended claim 3 limitations requiring (1) an "Internet format packet" exchange between the ATA and a PC and (2) a *direct* Internet connection provided by the ATA, even when a user uses a USB plug to connect the ATA and a PC.

Neither of the extraneous claim limitations magicJack seeks to graft into amended claim 3 appear in the plain language of the claim or are otherwise supported by the specification of the '722 Patent. Further, these limitations directly contradict additional express elements of the claim.

1. Claim 3 Does Not Recite or Require an Internet Format Packet Exchange Between the ATA and a PC

Neither the original nor amended versions of claim 3 recite anything at all about "Internet format packets," let alone any such packets that "go[] back and forth between" an ATA and a PC. (Appx1760-61 at 6:54-8:13 (Original Claim 3); Appx1750-51 at 2:22-3:13 (Amended Claim 3).) Indeed, the specification of the '722 Patent makes no reference to "Internet format packets" that originate from an ATA or are transmitted back and forth between an ATA and a PC. (Appx1753-61.) Instead, the specification's only two refererences to "packets" appear in the context of describing transmissions over the Internet itself or other "packet-switch" or "IP [i.e., Internet Protocol]" networks, rather than describing packets transmitted by or

to a component device of the subject VoIP analog telephone system such as an ATA or PC. (Appx1758 at 1:37-39, 1:48-50.)

Further, the District Court did not construe any limitation of amended claim 3 to require the exchange of "Internet format packets" between an ATA and a PC. (Appx1148-60.) Notably, the District Court's 13-page Order on Claim Construction did not even include the words "format" or "packet." (*Id.*)

2. Claim 3 Does Not Recite or Require a *Direct* Internet Connection Provided by the ATA Where the ATA is Connected to a PC With a USB Plug

Notwithstanding magicJack's argument to the contrary, neither the original nor amended versions of claim 3 recite or require a *direct* Internet connection provided by the ATA where the ATA is connected to a PC with a USB cord. (Appx1760-61 at 6:54-8:13 (Original Claim 3); Appx1750-51 at 2:22-3:13 (Amended Claim 3).) Indeed, the express language of amended claim 3 directly contradicts magicJack's position on this issue. Specifically, with respect to amended claim 3's "Internet connection provided by the ATA" limitation, the claim recites in context (amended text shown in italics as in original):

> *[T]he Internet connection provided by the ATA comprises a multi-port plug-in-play approach,* **to optionally be connected by a user to either** a first [I]nternet access connection or a second different internet access connection and to a switched telephone network through the [I]nternet such that it can transmit and receive telephone calls from other telephone handsets[;]
>
> * * *

> said system having said first [I]nternet access connection including said ATA connected to a computer, a USB cord connected to said computer and to said USB port in said analog telephone adapter, a modem connected to said computer, and said modem connected to said [I]nternet;
>
> said system having said second different [I]nternet access connection including said ATA connected to a USB electronic plug adapter, a USB plug cord connected to said USB plug adapter and said analog telephone adapter (ATA) USB port, an Ethernet cord, a router connected directly or indirectly to said Ethernet cord, said analog telephone adapter connected to said Ethernet cord, said modem connected to said [I]nternet, said analog telephone adapter powered by said USB plug adapter

(Appx1749-51 at 2:22-3:13 (italicized text in original) (bold and underlined emphasis added) (colored highlighting added).)

Thus, amended claim 3 more than supports a reasonable argument that the "Internet connection provided by the ATA" can include *indirect* connection of an analog telephone user's call over the Internet by the ATA through an "ATA-PC-modem-Internet" connection. Indeed, this configuration is expressly recited as one of two options for a user to "transmit and receive telephone calls" over "a switched telephone network through the [I]nternet." Amended claim 3's recited structure of this "first [I]nternet access connection" is highlighted in yellow above. Again, using this "first [I]nternet access connection" configuration, the ATA provides its users Internet connectivity for making telephone calls by linking (1) the ATA to a computer with a USB cord, (2) the computer to a modem, and (3) the modem to the Internet. (Appx1750 at 2:63-67.)

With the "optional," "second different [I]nternet access connection," amended claim 3's recited structure (highlighted in light blue above), the ATA provides its users Internet connectivity for making telephone calls through a more direct link than the first option. Unlike the first option, which includes the use of a computer, the second option removes the computer from the combination of components and instead provides the direct connection of the ATA to an Ethernet cord, then, in turn, to other network components and the Internet. (Appx1751 at 3:1-8.)

Even more fundamentally, amended claim 3 expressly *defines* the "Internet connection provided by the ATA" as "compris[ing]" the indirect and (more) direct Internet access connection configurations described above. In sum, and in the context of the '722 Patent and amended claim 3, it is the ATA – or, in view of netTalk's infringement theory, the magicJack Plus – that "allow[s] a user to gain access to telephone connectivity between an analog handset telephone and the [I]nternet." (Appx1750 at 2:23-25.) netTalk's counsel made this very point during oral argument on magicJack's Motion for Attorneys' Fees:

> The clause was, ["]wherein the Internet connection provided by the ATA,["] which, of course, is the acronym that my colleague discussed with you. He spoke of USB or Ethernet connection. Of course, there is still a good faith infringement claim, not just a plausible one, not one that is dangling by a thread.
>
> * * *
>
> Why is there a plausible infringement position [with respect to the claim element] ["]wherein the Internet connection provided by the ATA["]?

> After Mr. Paxinos and his colleagues tested the unit, the MagicJack unit, back in 2012, they determined that it was a sound card. But we are talking about Voice over IP. That's the acronym you see, the VoIP, Internet Protocol.
>
> Voice as a means of data that's being conveyed . . . through the accused unit[.] [T]he accused unit is facilitating that connection to the Internet. That's not a frivolous argument. It wasn't the subject of debate or claim construction, and it's the argument that my clients pressed.

(Appx2577-78 at 44:11-45:6.) In "considering" and "evaluating" the totality of the circumstances of this case, the District Court reviewed this among the other arguments netTalk presented in opposing magicJack's Motion for Attorneys' Fees. (Appx4 ("The Court has reviewed the written and oral arguments, the record, the applicable law, and is otherwise duly advised of the premises."). The district court judge reviewed the same arguments and materials, as well as magicJack's 10-page litany of objections to the magistrate judge's Report and Recommendation, before affirming that Report and Recommendation, denying magicJack's fee motion, and entering final judgment. (Appx2 ("The Court has carefully reviewed the written submissions, the record, and the applicable law and, for the following reasons, the Objections are overruled.").)

E. Resumption of the Litigation Based on Amended Claim 3

In anticipation of the PTO's issuance of a reexamination certificate with respect to the '722 Patent, the District Court lifted its stay of litigation on February

5, 2014. (Appx5.) As discussed above, the '722 Reexam Patent issued on February 27, 2014. (Appx1749.)

On March 20, 2014, netTalk filed an amended complaint in this action, alleging that magicJack and its codefendants infringed the Reexam '722 Patent. (Appx156-70.) In its amended complaint, netTalk specifically accused the magicJack Plus of infringing the '722 Reexam Patent. (Appx161 ¶24; Appx162 ¶25.)

F. The Claim Construction Process and Hearing

After netTalk amended its complaint, the parties proceeded with the claim construction process and briefing, which culminated in a claim construction hearing on August 29, 2014. (Appx1148-50.) Although the parties initially disagreed on the number of claim terms requiring construction, by the time of the claim construction hearing, only eight claim terms remained in dispute. (Appx1150 (listing disputed claim terms).) In its Motion for Attorneys' Fees, magicJack relied on netTalk's construction of, and infringement contention with respect to, just one of those claim terms – namely, "multiple separate and independent internet access connections." (Appx1728.) Accordingly, netTalk's discussion in this section of its brief will be limited to that claim term.

In their respective claim construction briefs and at the claim construction hearing, the parties argued the following constructions of the claim term "multiple separate and independent internet access connections":

Plaintiff [netTalk]: the ATA can be connected to the Internet either directly or indirectly, with the ability to use several means of connective [sic, "connectivity"] to establish telephone communications.	**Defendants [magicJack, et al.]:** multiple separate and independent internet access points in the housing of the ATA used by the ATA to place and receive VoIP calls.

(Appx1155.)

As shown above, netTalk argued that this claim term allowed for either direct or *indirect* connection between the ATA and the Internet. In its claim construction submissions, netTalk presented multiple well-reasoned and plausible arguments in support of its proposed construction of this term. (Appx274-77 (netTalk's quotation of the '722 Reexam specification and inclusion of Figures 5-8 of the patent in support of its argument that the ATA can be connected to the Internet directly or indirectly); Appx667-69 (netTalk's reply arguments in support of its proposed construction of this claim term); Appx2230 (netTalk's citation of same in opposition to magicJack's Motion for Attorneys' Fees).)

Similarly, netTalk presented reasoned and credible arguments rebutting the lynchpin of magicJack's proposed construction of "multiple separate and independent internet access connections" – the Papadopoulus affidavit. Specifically, netTalk explained how magicJack was seeking to read the relevant excerpt of the

Papadopoulus affidavit too narrowly and out of context. (Appx667-68; Appx2230-31 (netTalk's citation of same in opposition to magicJack's Motion for Attorneys' Fees).).)

Finally, at the August 29, 2014 claim construction hearing, netTalk presented numerous strong arguments concerning its proposed construction of "multiple separate and independent internet access connections." (Appx840-44 (netTalk's expert witness testimony supporting its "direct or indirect" argument for this claim term); Appx926-28 (netTalk's further argument concerning support for its proposed construction in the patent's specification and drawings); Appx2230 (netTalk's citation of same in opposition to magicJack's Motion for Attorneys' Fees).) At the same hearing, netTalk also explained why magicJack was mistaken in its reliance on the Papadopoulus affidavit:

> The next term is "multiple separate and independent internet access connection." I have already showed the Court how plaintiff says it should be interpreted. We have taken that directly out of the specification.
>
> You heard the testimony of Mr. Koperda that when you attempt to import what defendants are saying this term should be construed as, you wind up with a ridiculous result, one that's not set forth in the patent. Specifically, first, when you read Mr. Papadopoulos' affidavit – sorry – declaration, to be precise, he does not say that the '722 device has these features. He says this piece of prior art has certain features.
>
> He says nothing about what's included in the '722 patent.
>
> This is exactly why, Your Honor, the case law says you have to be careful when you rely on declarations and things from the prosecution

> history, because you are basically an outsider looking in trying to see what it says.

(Appx926 at 155:5-22; Appx2231 (netTalk's citation of same in opposition to magicJack's Motion for Attorneys' Fees).)

G. The District Court's Unfavorable Claim Construction Ruling

On December 1, 2014, the District Court issued its claim construction order. (Appx1148-60.) In that order, the District Court adopted magicJack's proposed construction of "multiple separate and independent internet access connections." (Appx1155.) Thus, the District Court construed this claim limitation to mean "multiple separate and independent internet access points *in the housing of the ATA* used by the ATA to place and receive VoIP calls." (Appx1155 (emphasis added).) The parties did not ask the District Court to, and the District Court did not, construe the other claim limitation on which magicJack premised its Motion for Attorneys' Fees – namely, the "Internet connection provided by the ATA" limitation. (Appx1148-60.)

As discussed below, the District Court's December 1, 2014 claim construction undermined netTalk's infringement theories with respect to the accused magicJack Plus.

H. netTalk's Prompt Effort to Resolve the Parties' Dispute Following the Unfavorable Claim Construction Ruling

Almost immediately after retaining substitute counsel on January 1, 2015, netTalk determined that the District Court's claim construction requiring that there be "multiple separate and independent internet access points *in the housing of the ATA*" undermined netTalk's infringement positions with respect to the "multiple separate and independent internet access connections" and "Internet connection provided by the ATA" claim limitations. Indeed, on January 10, 2015 – just nine days after they were retained –, netTalk's new counsel contacted and proposed to magicJack's counsel a schedule and process for stipulating to judgment in favor of magicJack and/or staying the case pending an appeal to this Court to avoid unnecessary expense to the parties and waste of judicial resources. (Appx2223; Appx2579 at 46:9-20.)

As a temporary, practical impediment to netTalk's efforts to resolve the litigation in light of the District Court's unfavorable claim construction, its new lead counsel underwent spine surgery on January 28, 2015, less than a month after being retained. (Appx2580 at 47:7-24.) Notwithstanding, less than two months after netTalk retained its new counsel, and after counsel underwent and recovered from his January 28, 2015 spine surgery, netTalk issued a covenant against suit in favor of magicJack and its codefendants, then filed a motion to dismiss based on that covenant. (Appx1618.) Notably, netTalk's agreement to forego any infringement

claims based on the '722 Patent as to any of Defendants' past or existing products not only spared the parties the expense of further proceedings in the District Court, but also foreclosed the need for a potential appeal to this Court on the substantive issues of claim construction, infringement, and validity.

On February 27, 2015, the District Court granted netTalk's motion to dismiss based on its covenant against suit in favor of magicJack and its codefendants. (Appx1710.) netTalk's covenant against suit, and the dismissal based on that covenant, occurred less than three months after the District Court issued its claim construction order, less than two months after netTalk retained new counsel, and just one month after new counsel had spine surgery. On June 18, 2015, the District Court entered final judgment in this case, reserving jurisdiction to determine magicJack's motion for fees and costs. (Appx29.)

I. magicJack's Motion for Attorneys' Fees

On April 24, 2015, magicJack filed it Motion for Attorneys' Fees. (Appx1718-41.) In that motion, magicJack sought a fee award under section 285 on three alleged grounds: (1) that netTalk's infringement claims were baseless; (2) that netTalk's damages claims were baseless; and (3) that netTalk litigated this case in an unreasonable manner. (Appx1721-22; Appx1728-1735.) In support of its infringement and damages arguments, magicJack presented just over two pages of written argument for each in its opening brief. (Appx1728-1730 (argument

concerning netTalk's infringement claims); Appx1730-1732 (argument concerning netTalk's damages claims).) magicJack devoted about three pages to its claim concerning netTalk's litigation conduct. (Appx1732-35.)

On May 11, 2015, netTalk filed its response in opposition to magicJack's Motion for Attorneys' Fees. (Appx2219-35.) On May 20, 2015, magicJack replied to netTalk's opposition, presenting less than three additional pages of argument concerning netTalk's infringement and damages claims. (Appx2463-66.) magicJack did not address netTalk's alleged litigation misconduct in its reply brief. (Appx2459-68.)

J. The District Court's Rulings on magicJack's Motion for Attorneys' Fees

The District Court *twice considered* and *twice rejected* magicJack's request for attorney fees in this case. First, the magistrate judge issued a Report and Recommendation that the fee motion be denied. Then, after reviewing *de novo* the record, the parties' respective briefs, the magistrate judge's Report and Recommendation, and magicJack's objections and further arguments in response to the Report and Recommendation, the district court judge affirmed and adopted the Report and Recommendation and overruled magicJack's objections to the same.

1. The Magistrate Judge's Report and Recommendation

On August 18, 2015, the magistrate judge heard oral argument on magicJack's Motion for Attorneys' Fees. (Appx2534-91.) On November 20, 2015, the

magistrate judge issued a 25-page Report and Recommendation, recommending "that [magicJack's] Motion for Attorneys' Fees Pursuant to 35 U.S.C. § 285 be DENIED" and granting magicJack $14,063.78 in costs as the prevailing party. (Appx4, Appx27 (internal citation omitted).)

The Report and Recommendation included a detailed discussion of all three of magicJack's alleged grounds for entitlement to attorney fees, the parties' respective arguments as to each of those grounds (as presented in the parties' written submissions and at oral argument), and the magistrate judge's exceptionality analysis and determination based on the law, the record, and the parties' arguments. (Appx10-19.) The magistrate judge acknowledged the "totality of the circumstances" facet of the exceptionality analysis *three times* in his Report and Recommendation. He did so once in the "Legal Standard" section of the report (where the magistrate judge set forth the legal "framework" of his analysis) (Appx8), and twice in the "Analysis" section of the report, where the magistrate judge noted that he "consider[ed]" and "evaluat[ed]" "the totality of the circumstances" in finding that magicJack failed to meet its burden of demonstrating that this case is exceptional and that magicJack is entitled to a fee award under section 285 (Appx17; Appx19).

2. magicJack's Written Objections to the Report and Recommendation

On December 4, 2015, magicJack filed 10 pages of written objections to the magistrate judge's Report and Recommendation. (Appx2594-2604.) Therein, magicJack objected to, and presented additional argument concerning, each of the three alleged grounds on which it premised its Motion for Attorneys' Fees. (*Id.*) magicJack also argued that the magistrate judge erred in applying *Octane*'s exceptionality standard for "faulting magicJack for not moving for discovery sanctions." (Appx2604.)

magicJack's objections asked the district court judge to "reject the Report's findings of no exceptional case, grant magicJack's motion, and award magicJack its requested fees of $2,026,386." (Appx2604.)

3. The District Court Judge's Affirmance and Adoption of the Report and Recommendation

On February 9, 2016, the district court judge entered an order affirming and adopting the magistrate judge's Report and Recommendation, overruling magicJack's objections to the Report and Recommendation, and denying magicJack's Motion for Attorneys' Fees. (Appx1-3.) In this order, the district court judge explained that he had "*carefully* reviewed the written submissions, the record, and the applicable law. . . ." (Appx2 (emphasis added).) The district court judge also expressly invoked *Octane*'s "new and more lenient standard" for exceptionality,

and acknowledged that courts are to make the determination "in the case-by-case exercise of their discretion, considering the totality of the circumstances." (Appx2 (quoting *Octane Fitness*, 134 S. Ct. at 1756) (internal quotations omitted).)

In addition to adopting the magistrate judge's lengthy exceptionality analysis, findings, and determination, the district court judge independently added:

> The Court, in its discretion, does not find that this is an exceptional case. Plaintiff's claims were not frivolous or objectively unreasonable. [*Octane Fitness*] at 1756 n. 6 (listing nonexclusive list of factors that courts may consider in determining whether to award fees including "'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.'") (citation omitted). In addition, Plaintiff's conduct during the litigation was not objectively unreasonable. As a result, Defendant is not entitled to fees under the Patent Act.

(Appx2.)

On March 8, 2016, magicJack filed its notice of appeal. (Appx2611.)

SUMMARY OF THE ARGUMENT

The District Court properly exercised its discretion in finding that nothing about netTalk's infringement claims, damages claims, or litigation conduct in this case warrants a finding of exceptionality under section 285. This is a mine-run patent infringement case in which netTalk advanced good faith claim construction positions and pursued legitimate infringement theories until receiving an unfavorable claim construction ruling on December 1, 2014. In light of that adverse ruling, netTalk quickly assessed the strength of its claims, voluntarily issued a

covenant against suit in favor of magicJack, and dismissed its case in less than *three months'* time.[2] Although netTalk could have pursued a good faith appeal of the District Court's claim construction ruling that undermined two of netTalk's important infringement contentions (the two on which magicJack premised its fee motion), it instead chose to conserve the parties' and judicial resources and focus its attention on further developing its patent portfolio. netTalk's conduct in this case simply does not meet the exceptionality threshold required to support a fee award. In the sound exercise of its discretion, the District Court got this one right.

With its 60-page opening appeal brief and 2,600-page appendix, magicJack urges this Court to turn the *Octane* and *Highmark* standards on their head by effectively conducting a *de novo* review of the District Court's exceptionality findings and a mini-retrial of every aspect of netTalk's alleged conduct. This Court's task, however, is more straightforward in light of the new exceptionality standards. This Court should affirm the District Court's ruling unless it is clear that that ruling

[2] This brief, three-month period doesn't really do justice to netTalk's good faith efforts to resolve this case after the claim construction ruling. For the first month following the District Court's December 1, 2014 claim construction order, netTalk was without counsel in the midst of the yearend business and holiday season. Then, after retaining new counsel on January 1, 2015, netTalk's efforts were unavoidably interrupted when its lead counsel underwent spine surgery on January 28, 2015. Notwithstanding, commencing with new counsel's January 10 (pre-surgery) discussion with magicJack's counsel about options to resolve the litigation, netTalk worked diligently toward that end, issuing its covenant against suit and dismissing its claims by February 27, 2015.

was "based … on an erroneous view of the law" or this Court is "left with a definite and firm conviction that the district court erred in its assessment of the evidence." *Site Update Solutions, LLC v. Accor N.A., Inc.*, 639 Fed. Appx. 634, 637 (Fed. Cir. 2016).

The District Court recited and then applied the correct legal standards in finding that netTalk's claims were neither frivolous nor objectively unreasonable, that netTalk's litigation conduct was not objectively unreasonable, and that, therefore, in "the totality of the circumstances . . . an award of fees for an 'exceptional' case under § 285 of the Patent Act [is] inappropriate here." (Appx19.) Further, there cannot be any conviction (let alone a firm one) that the District Court improperly assessed the multiple layers of evidence in this case. Both the magistrate and district court judges reviewed the parties' voluminous written submissions (including magicJack's opening, reply, and objection briefs), heard lengthy oral argument on claim construction and attorney fee issues, witnessed firsthand the litigation conduct of the parties and their counsel, and provided a detailed assessment of that evidence in determining that this case is not exceptional. The District Court's denial of attorney fees should not be disturbed.

ARGUMENT

A. Legal Standards

1. This Court's Standard of Review of the District Court's Discretionary Exceptionality Determination

As the Supreme Court held in *Highmark Inc. v. Allcare Health Management System, Inc.*, 134 S. Ct. 1744 (2014), "an appellate court should apply an abuse-of-discretion standard in reviewing all aspects of a district court's § 285 determination." *Id.* at 1749. En route to that holding, the Court explained:

> [T]he text of the statute [§ 285] "emphasizes the fact that the determination is for the district court," which "suggests some deference to the district court upon appeal," 487 U.S., at 559, 108 S.Ct. 2541. As in *Pierce*, "as a matter of the sound administration of justice," the district court "is better positioned" to decide whether a case is exceptional, *id.*, at 559–560, 108 S.Ct. 2541, because it lives with the case over a prolonged period of time. And as in *Pierce*, the question is "multifarious and novel," not susceptible to "useful generalization" of the sort that *de novo* review provides, and "likely to profit from the experience that an abuse-of-discretion rule will permit to develop," *id.*, at 562, 108 S.Ct. 2541.

Id.

Thus, in the case at bar, the District Court's discretionary exceptionality determination should be accorded due deference. This is especially so in light of the "prolonged period of time," *id.*, the District Court lived with this case and the great familiarity the court has with the issues and the conduct of the parties and their counsel. *Site Update*, 639 Fed. Appx. at 637 (Fed. Cir. 2016) ("Although reasonable minds may differ, the district court ruled from a position of great familiarity with the

case and the conduct of the parties, and it determined that Site Update's tactical blunders and mistakes do not warrant fees under 35 U.S.C. § 285."). A district court's discretionary exceptionality determination should be affirmed on appeal unless this Court "believe[s] that the district court based its ruling on an erroneous view of the law" or is "left with a definite and firm conviction that the district court erred in its assessment of the evidence." *Id.*.

2. The District Court's Exceptionality Standard

With limited exceptions, the American Rule – which provides that prevailing litigants in the United States ordinarily are not entitled to attorney fees – applies to all cases and is intended to give a party its day in court without "be[ing] penalized for merely defending or prosecuting a lawsuit." *Summit Valley Indus. v. United Bhd. of Carpenters & Joiners*, 456 U.S. 717, 724 (1982). Section 285 of the Patent Act, a statutory exception to the American Rule, provides for the recovery of attorney fees in patent cases in very limited circumstances: "[t]he court in *exceptional cases* may award reasonable attorney fees to the prevailing party." 35 U.S.C. § 285 (emphasis added).

In *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749 (2014), the Supreme Court clarified the "exceptional case" standard, adopting a more flexible approach that more closely comports with the language of section 285 than the standard courts had previously applied under this Court's decision in *Brooks*

Furniture Manufacturing v. Dutailier International, 393 F.3d 1378 (Fed. Cir. 2005). In *Octane*, the High Court confirmed that, absent independently sanctionable conduct, an "exceptional" case must "stand[] out from the 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*, 134 S. Ct. at 1756 (parenthetical in original). In so holding, however, the Court explained that, consistent with the ordinary meaning of the term "exceptional," circumstances warranting an award of fees under section 285 will be "uncommon," "rare," "not ordinary," "out of the ordinary course," "unusual," "special," or "not run-of-the-mill." *Id.* Further, district courts are to make this exceptionality determination "in the case-by-case exercise of their discretion, considering the totality of the circumstances." *Id.*

Post-*Octane* decisions from this Court and district courts confirm that although the Supreme Court rejected earlier "precedent under § 285 that required both a showing of subjective bad faith and objective baselessness to find a case exceptional," *Checkpoint Sys., Inc. v. All-Tag Sec. S.A.*, 572 Fed. Appx. 988, 989 (Fed. Cir. 2014), "objective reasonableness remains a relevant factor" in assessing whether attorney fees should be awarded pursuant to § 285. *Biax Corp. v. Nvidia Corp.*, 626 Fed. Appx. 968, 971 (Fed. Cir. 2015). As this Court has held, "under *Octane Fitness*, the district court must consider whether the case was litigated in an

unreasonable manner as part of its exceptional case determination, and that *district courts can turn to our pre-Octane Fitness case law for guidance*." *SFA Systems, LLC v. Newegg Inc.*, 793 F.3d 1344, 1349 (Fed. Cir. 2015) (emphasis added) (affirming district court's denial of attorney fees under § 285). Further, as one of this Court's judges observed while presiding by designation over a district court case, the thrust of the post-*Octane*, "totality of the circumstances" exceptionality analysis remains on the *Brooks Furniture* factors, including objective reasonableness or baselessness:

> The predominant factors to be considered, though not exclusive, are those identified in *Brooks Furniture*: bad faith litigation, objectively unreasonable positions, inequitable conduct before the PTO, litigation misconduct, and (in the case of an accused infringer) willful infringement.

Stragent, LLC v. Intel Corp., 6:11-CV-421, 2014 WL 6756304, at *3 (E.D. Tex. Aug. 6, 2014) (Dyk, Circuit Judge, by designation).

In denying a defendant's motion for fees under section 285, another of this Court's judges sitting by designation explained that "to warrant an award of fees," a defendant "must show that [the plaintiff's] positions (individually or taken as a whole) were frivolous or objectively baseless" and that "[t]he 'exceptional case' finding turns mainly on whether the claim is plausible or objectively baseless." *DietGoal Innovations LLC v. Chipotle Mexican Grill, Inc.*, 2:12-CV-00764-WCB, 2015 WL 1284826, at *2, *4 (E.D. Tex. Mar. 20, 2015) (Bryson, Circuit Judge, by

designation) (parenthetical in original). *See also TransPerfect Global, Inc. v. MotionPoint Corp.*, C 10-2590 CW, 2014 WL 6068384, at *8 (N.D. Cal. Nov. 13, 2014) (although defendant "asserted some frivolous arguments and filed some frivolous motions during this litigation," the district court denied plaintiffs' motion for attorney fees under section 285 because defendant's counterclaims were not "objectively baseless"); *Small v. Implant Direct Mfg. LLC*, 06 CIV. 683 NRB, 2014 WL 5463621, at *4-5 (S.D.N.Y. Oct. 23, 2014) *aff'd* 609 Fed. Appx. 650 (Fed. Cir. 2015) (denying defendant's motion for an award of fees pursuant to § 285 – although plaintiff's "arguments regarding the '945 Patent were insufficient to save her patent from invalidity, they were not objectively baseless"); *Calypso Wireless, Inc. v. T-Mobile USA Inc.*, 2:08-CV-441-JRG-RSP, 2015 WL 1022745, at *4-5 (E.D. Tex. Mar. 5, 2015) (denying defendant's motion for attorney fees pursuant to § 285, in part because plaintiffs' theory of infringement based on the construction of the patent term-at-issue was not objectively baseless).

Courts applying *Octane* have also denied attorney fees under section 285 in cases such as this one, where the losing party in the district court proceedings received an unfavorable claim construction ruling. *See, e.g., Site Update Solutions, LLC v. Accor N.A., Inc.*, 5:11-CV-3306-PSG, 2015 WL 581175, at *12, 15 (N.D. Cal. Feb. 11, 2015) *aff'd* 639 Fed. Appx. 634 (Fed. Cir. 2016) (denying defendant's § 285 motion under the "totality of the circumstances" and observing that plaintiff's

"claim construction, while incorrect, is not so contrary to the 'governing law and the facts of the case' that it makes this case 'one that stands out from others'" – even if defendant "could show that its website did not infringe the asserted patent, the fact that [plaintiffs] made 'infringement contentions [that] lack merit' is not 'by itself … enough to render a case "extraordinary." Patent litigants often disagree about whether a plaintiff has viable infringement contents after an adverse claim construction and one side is usually wrong.'"); *Howlink Global LLC v. Centris Info. Services, LLC*, 4:11CV71, 2015 WL 216773, at *6 (E.D. Tex. Jan. 8, 2015) (denying defendant's § 285 motion because defendant "failed to show how Plaintiff's claim was exceptional 'from mine-run cases to warrant a fee award'": "Plaintiff's claim construction argument regarding its interpretation of the terms was certainly reasonable. Although the Court did not ultimately adopt Plaintiff's construction, there is nothing to suggest that Plaintiff made its arguments in bad faith or frivolously."). As this Court has explained, "[S]imply being wrong about claim construction should not subject a party to sanctions where the construction is not objectively baseless." *iLOR, LLC v. Google, Inc.*, 631 F.3d 1372, 1380 (Fed. Cir. 2011).

Thus, under the Supreme Court's *Octane* decision, attorney fees are not to be assessed as "a penalty for failure to win a patent infringement suit," but are appropriate only "in extraordinary circumstances." *Octane*, 134 S. Ct. at 1753.

Octane certainly did not abrogate the "American Rule . . . that each party to a lawsuit generally pays its own lawyers' fees, no matter who wins." *Stragent*, 2014 WL 6756304, at *1.

B. The District Court Twice Applied the Correct Legal Standard

In this case, magicJack literally had two ample bites at the exceptionality apple and lost on both. First, magicJack argued its fee motion to the magistrate judge through its opening and reply briefs (Appx1718-35; Appx2459-68), then during lengthy oral argument (Appx2534-91). Second, the district court judge considered *de novo* not only the complete record as presented to the magistrate judge on the attorney fee issue, but also magicJack's detailed objections to, and further argument concerning, the magistrate judge's Report and Recommendation. (Appx2594-604; Appx1-2.) It is clear from the magistrate judge's Report and Recommendation, as well as the district court judge's order affirming and adopting the Report and Recommendation and overruling magicJack's objections to the same, that the District Court applied the correct legal standard in making its exceptionality determination in this case.

Recognizing the "recent changes in this area of the law" resulting from *Octane*, the magistrate judge set forth a three-page legal "framework" for the exceptionality analysis in his Report and Recommendation. (Appx6-10.) Within this framework, the magistrate judge discussed at length the exceptionality standard

set forth in *Octane* (Appx7-8) as well numerous post-*Octane* district court and Federal Circuit cases in which the new standard has been applied (Appx8-9). In setting forth his legal framework, the magistrate judge quoted the primary holding of *Octane* that "an 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.'" (Appx7-8 (quoting *Octane*, 134 S. Ct. at 1758).) The magistrate judge further noted that "[f]actors relevant to the [new exceptionality] inquiry include: 'frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the cse) and the need in particular circumstances to advance considerations of compensation and deterrence.'" (Appx8 (quoting *id.* at 1756).) Finally, the magistrate judge observed that, in making an exceptionality determination, "[c]ourts must engage in a 'case-by-case exercise of their discretion, considering the totality of the circumstances.'" (Appx8 (quoting *id.* at 1755-56).)

Similarly, in affirming and adopting the magistrate judge's Report and Recommendation, and in considering and overruling magicJack's detailed objections to that report, the district court judge independently set forth the *Octane* standard, noting the primary inquiry, the factors to consider, and the fact that the inquiry involves a "case-by-case" exercise of discretion based on the "totality of the circumstances." (Appx2 (quoting *id.* at 1756).)

There is no support for magicJack's suggestion that the District Court's exceptionality determination was "based on an erroneous view of the law," *Site Update*, 639 Fed. Appx. at 637.

C. The District Court Properly Considered the Totality of the Circumstances

magicJack argues that the District Court erred because it failed to consider the alleged exceptionality of this case under the totality of the circumstances as required by *Octane*. (Appx57-59.) In so arguing, however, magicJack parses isolated statements by the District Court and ignores the District Court's broader analysis and express and repeated confirmation that it had, in fact, considered the totality of the circumstances in reaching its conclusion. magicJack has not demonstrated that the District Court abused its discretion on this ground.

The District Court expressly refers to the "totality of the circumstances" inquiry *four times* in its rulings denying magicJack's fee motion. The magistrate judge noted the required inquiry once in the "Legal Standard" section of his Report and Recommendation (Appx8) and then twice in reaching his conclusions concerning magicJack's three alleged grounds justifying a fee award (Appx17; 19). Indeed, the Report and Recommendation invokes the "totality of the circumstances" consideration in connection with both the District Court's express finding that magicJack has failed to meet its burden of establishing that this case is exceptional (Appx17) as well as the separate finding that an award of fees is "inappropriate here"

(Appx19). Similarly, the district court judge's order affirming and adopting the Report and Recommendation expressly recites the "totality of the circumstances" consideration as a necessary part of its analysis. (Appx2.)

That the District Court in fact considered the "totality of the circumstances" is manifest from the detailed analysis in the Report and Recommendation, the voluminous record the magistrate and district court judges analyzed before making the exceptionality determination, and the fact that the District Court had, over the course of two and a half years, developed an intimate familiarity with the parties, their litigation conduct, and the strength of their claims and arguments. In addition to the volumes of other information considered by the District Court, the district court judge presided over a six-hour claim construction hearing, asking numerous questions concerning the parties' respective positions and heard extensive argument and evidence in support of the same. (Appx772-951.) Similarly, in addition to the volumes of other information he considered, the magistrate judge asked questions of, and heard detailed argument from, the parties' counsel during a two-hour oral argument on magicJack's fee motion. (Appx2534-91.)

Further, as discussed in detail in sections D and F of netTalk's Counterstatement of the Case, the totality of the circumstances considered by the District Court in this case also included careful consideration of netTalk's numerous good faith claim construction arguments, which, until the District Court's adverse

claim construction ruling, supported netTalk's infringement contentions as to the "multiple separate and independent internet access connections" and "Internet connection provided by the ATA" claim limitations. (*Supra* at 7-12, 13-16.)

The District Court's close involvement with the parties, their counsel, and the contested issues in this case over a two-and-a-half-year period is precisely what makes the District Court, "as a matter of the sound administration of justice," "better positioned" to decide whether this case is exceptional. *Highmark*, 134 S. Ct. at 1749 (internal quotations omitted). magicJack seems to urge some unwieldy and unreasonable standard under which district courts faced with exceptionality determinations would literally have to present a matrix setting forth every permutation and combination of alleged grounds for a fee award, and then apply some special formulaic "totality of circumstances" analysis. But that is much more than *Octane* and its progeny require.

D. NetTalk's Litigation Conduct Does Not Render This Case Exceptional

In two separate sections of its appeal brief, magicJack argues that the District Court abused its discretion by finding that netTalk's litigation conduct – of which the District Court had become familiar over the course of two and a half years – was not objectively unreasonable so as to support an exceptionality finding. (Appellants' Br. at 30, 48-57.) Here, magicJack merely seeks to relitigate an issue to which the District Court gave due consideration in refusing to find this case exceptional.

As discussed in detail in section H of netTalk's Counterstatement of the Case above, after receiving the District Court's unfavorable claim construction ruling, netTalk moved with great dispatch to bring this litigation to an end – and did so less than three months after the December 1, 2014 claim construction order issued. (*Supra* at 17-18.) The District Court correctly found that netTalk's litigation conduct – independently, or as part of the "totality of circumstances" considered by the magistrate and district court judges – did not warrant an exceptionality finding.

E. The District Court Properly Exercised Its Sound Discretion in Finding That netTalk's Infringement Contentions Were Not Objectively Unreasonable

The District Court provided a reasoned analysis in support of its conclusion that netTalk "set forth a good faith argument with respect to the interpretation of the phrase, 'multiple separate and independent internet access connections.'" (Appx16.) In so concluding, the District Court noted that "[s]uch push and pull over the scope of claim language is common in patent litigation." (*Id.*) Although the District Court concluded that netTalk's argument with respect to the "Internet connection provided by the ATA" limitation "was weak and, possibly, meritless," the Court determined that that fact was insufficient to support an exceptionality finding. (Appx17.) Further, the District Court clearly considered its conclusion in this regard as part of the "totality of the circumstances" to which it referred just a few sentences later in its opinion. (*Id.*)

Notwithstanding the District Court's conclusion concerning netTalk's "Internet connection provided by the ATA" limitation argument, which the Court already found to be insufficient to support a fee award, netTalk respectfully submits that there is more than good faith support for its position on this issue as discussed in section C of its Argument and section D of its Counterstatement of the Case above.

Throughout its appeal brief, magicJack asserts that netTalk's employee, Garry Paxinos, admitted that the magicJack Plus did not infringe original and amended claim 3's "Internet connection provided by the ATA" limitation. (*See, e.g.*, Appellants' Br. at 27 ("netTalk admitted" the "Internet connection provided by the ATA" limitation "could not be infringed by the accused magicJack").) But, neither Mr. Paxinos, nor any other netTalk representative, ever made any such admission. As discussed at length above, and as netTalk's counsel explained to the District Court at oral argument, as part of the VoIP communication system of which the magicJack Plus was a part, the product clearly served as the front-end component that indirectly *provided* analog telephone users with Internet connectivity for their voice calls. (Appx2577 at 44:11-45:6 ("Voice as a means of data that's being conveyed . . . through the accused unit[.] [T]he accused unit is facilitating that connection to the Internet. That's not a frivolous argument.").)

F. The District Court Properly Exercised Its Sound Discretion in Finding That netTalk's Damages Claim Was Not Objectively Unreasonable

magicJack argues that the District Court abused its discretion by failing to address netTalk's damages claim. (Appellants' Br. at 42-48.) But this ignores the detailed discussion of the parties' respective damages arguments set forth in section I(B)(2) of the magistrate judge's Report and Recommendation. (Appx13-14.) Contrary to magicJack's argument, the Report and Recommendation specifically addressed netTalk's damages arguments. (Appx13 ("Plaintiff argued that the re-examined claims were not substantively changed from the original claims. Plaintiff argued further that claim construction, which Order did not issue until December 1, 2014, bore on the issue of provisional rights.").)

More importantly, however, in the very next sentence after the magistrate judge's discussion of the parties' damages arguments, the Report and Recommendation concludes that "[b]ased upon these facts, the Court is not persuaded that this case deserves an exceptionality designation." (Appx14.) Thus, contrary to magicJack's refrain that the District Court failed to consider exceptionality in the context of the "totality of the circumstances," that is precisely what the District Court did. Indeed, the District Court's assessment of "these facts" refers to the Court's detailed, five-page discussion of the parties' arguments concerning each of magicJack's alleged grounds for a fee award – in sum, the

"totality of the circumstances." The District Court did not abuse its discretion in finding that netTalk's damages claim failed to support an exceptionality finding.

G. The District Court Did Not Require That magicJack Prove Exceptionality by Clear and Convincing Evidence

magicJack's argument that the District Court somehow applied a clear and convincing standard to magicJack's evidence of alleged exceptionality is without merit. After considering magicJack's written objections to the magistrate judge's Report and Recommendation, in his order affirming and adopting the magistrate judge's report, the district court judge expressly referred to *Octane*'s "new and *more lenient* standard for determining when a patent case is considered exceptional." (Appx2 (emphasis added).) And, as discussed elsewhere above, the district court judge fully invoked the *Octane* standard – not a more rigorous vestige from pre-*Octane* precedent – in making its ultimate exceptionality determination in this case. (*Id.*)

Further, the magistrate judge's Report and Recommendation cites to and quotes from numerous post-*Octane* cases that apply the more relaxed standard established by *Octane*. (Appx8-12.) Indeed, the Report and Recommendation summarized the holding of this Court's post-*Octane* opinion in *SFA Sys.*, 793 F.3d 1344, observing that "[t]he issue is whether Plaintiff's position was tenable and made in good faith, not whether it was ultimately successful." (Appx12.) Similarly, the Court agreed that "for a case to be dismissed before trial to be designated

exceptional, evidence of the frivolity of the claims must be reasonably clear without requiring a 'mini-trial' on the merits for attorneys' fees purposes." (Appx12 (quoting *Charge Lion LLC v. Linear Tech. Corp.*, No. 6:12-CV-00769 (E.D. Tex. Aug. 25 2014).) In any event, in making exceptionality determinations, "district courts can turn to [this Court's] pre-*Octane Fitness* case law for guidance." *SFA Sys.*, 793 F.3d at 1349. The District Court did not err with respect to magicJack's burden of proof in this case.

H. The District Court Did Not Require magicJack to Have Previously Sought Sanctions to Be Entitled to a Fee Award Under § 285

magicJack argues that the magistrate judge misconstrued or misapplied the *Octane* standard by "apparently [finding] it necessary that defendants first had sought discovery, Rule 11 or other sanctions as a prerequisite to an exceptional case finding. . . ." (Appx21.) But, that is not what the magistrate judge's Report and Recommendation said, nor is it what the magistrate judge required. Instead, at the end of a lengthy analysis of netTalk's alleged litigation conduct, at the end of the magistrate judge's discussion of all three alleged grounds for a fee award, and directly above the magistrate judge's explanation that he had "evaluat[ed] the *totality of the circumstances*," the Report and Recommendation merely "*notes* that the Defendants did not seek sanctions for the alleged discovery violations" and that "no

party was sanctioned for discovery abuses or otherwise" over the course of the entire case. (Appx19 (emphasis added).)

This hardly rises to the level of requiring magicJack and its codefendants to have sought sanctions as a prerequisite to a fee award. Instead, the lack of any sanctions over the course of a two-and-a-half-year proceeding serves as just one of many considerations in the District Court's evaluation of the totality of the circumstances in this case.

CONCLUSION

For the foregoing reasons, the Court should affirm the District Court's denial of magicJack's Motion for Attorneys' Fees.

Date: October 6, 2016

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that on October 6, 2016 the foregoing **BRIEF FOR PLAINTIFF-APPELLEE** was electronically filed with the Clerk of the Court using the CM-ECF System and served upon the following counsel of record via email:

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CERTIFICATE OF COMPLIANCE WITH FRAP 32(A)(7)(B)

The undersigned hereby certifies that this brief complies with the type-volume limitation of Federal Rules of Appellate Procedure 32(a)(7)(B).

1. The brief contains 9,179 words, excluding the parts of the brief exempted by Federal Rule of Appellate Procedure 32(a)(7)(B)(iii).

2. The brief has been prepared in a proportionally spaced typeface using Microsoft Word in 14 point Times New Roman font.

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