

No. 2010-1199, -1344

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UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

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MEDIA QUEUE, LLC,

*Plaintiff-Appellant,*

v.

NETFLIX, INC.,

*Defendant-Cross Appellant,*

and

BLOCKBUSTER, INC.,

*Defendant-Appellee,*

and

GREENCINE HOLDINGS, LLC,

*Defendant.*

Appeal from the United States District Court for the Northern District of  
California in Case No. 09-CV-1027, Judge Susan Illston

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**NETFLIX, INC.'S PETITION FOR INITIAL *EN BANC* HEARING**

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## CERTIFICATE OF INTEREST

Pursuant to Federal Circuit Rule 47.4(a)(1) and Federal Rule of Appellate Procedure 26.1, counsel for Defendant-Cross Appellant Netflix, Inc., certifies the following:

1. The full name of every party represented by us is:

Netflix, 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 us is:

Not applicable.

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

None.

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

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Dated: July 1, 2010



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Deanne Maynard

## TABLE OF CONTENTS

	Page
CERTIFICATE OF INTEREST .....	i
TABLE OF AUTHORITIES.....	iii
STATEMENT OF RELATED CASES .....	vi
STATEMENT OF COUNSEL.....	vii
SUMMARY OF REASONS FOR GRANTING THE PETITION .....	1
I. THIS COURT’S CURRENT STANDARD FOR AWARDING ATTORNEYS’ FEES IN PATENT CASES IMPROPERLY TREATS PREVAILING DEFENDANTS DIFFERENTLY FROM PREVAILING PLAINTIFFS .....	2
A. This Court’s Standard for Attorneys’ Fees Cannot Be Squared with Supreme Court Authority .....	4
B. This Court’s Standard for Prevailing Patent Defendants Is Inconsistent with Other Courts’ Treatment of the Trademark Statute .....	6
C. Requiring Prevailing Defendants to Demonstrate Frivolity Renders Section 285 Superfluous, Contrary to Congressional Intent .....	8
D. The Frivolity Rule Improperly Constrains the Discretion of District Courts.....	10
E. The Current Restrictive Rule Permits Abusive Patent Litigation .....	12
II. THIS COURT SHOULD GIVE DISTRICT COURTS THE DISCRETION TO AWARD FEES WHEN THE PATENTEE’S CASE WAS OBJECTIVELY RECKLESS, OR WHEN THE DEFENDANT VINDICATES AN IMPORTANT PUBLIC INTEREST .....	12
III. THE OUTCOME OF THIS CASE JUSTIFIES THE AWARD OF FEES.....	13
CONCLUSION .....	15

## TABLE OF AUTHORITIES

	Page(s)
<b>CASES</b>	
<i>Aspex Eyewear, Inc. v. Clariti Eyewear, Inc.</i> , 605 F.3d 1305 (Fed. Cir. 2010).....	3
<i>Bilski v. Kappos</i> , 10 C.D.O.S. 7966, 561 U.S. __ (June 28, 2010).....	11
<i>Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation</i> , 402 U.S. 313 (1971).....	5
<i>Brulotte v. Thys Co.</i> , 379 U.S. 29 (1964).....	5
<i>Cambridge Products, Ltd. v. Penn Nutrients, Inc.</i> , 962 F.2d 1048 (Fed. Cir. 1992).....	9
<i>Cardinal Chemical Co. v. Morton Int’l, Inc.</i> , 508 U.S. 83 (1993).....	5
<i>Door Sys., Inc. v. Pro-Line Door Sys., Inc.</i> , 126 F.3d 1028 (7th Cir. 1997).....	6
<i>eBay Inc. v. MercExchange, L.L.C.</i> , 547 U.S. 388 (2006).....	11
<i>Eltech Systems Corp. v. PPG Industries</i> , 903 F.2d 805 (Fed. Cir. 1990).....	3, 4
<i>Festo Corp v. Shoketzu Kinzoku Kogyo Kabushiki Co. Ltd.</i> , 535 U.S. 722 (2002).....	11
<i>Fogerty v. Fantasy, Inc.</i> , 510 U.S. 517 (1994).....	<i>passim</i>
<i>Hall v. Cole</i> , 412 U.S. 1 (1973).....	9
<i>Hartman v. Hallmark Cards, Inc.</i> , 833 F.2d 117 (8th Cir. 1987).....	7

<i>ICU Medical, Inc. v. Alaris Medical Sys., Inc.</i> , 558 F.3d 1368 (Fed. Cir. 2009).....	8, 9
<i>In re Seagate Technology, LLC</i> , 497 F.3d 1360 (Fed. Cir. 2007) ( <i>en banc</i> ) .....	2
<i>KSR Int’l. Co. v. Teleflex Inc.</i> , 550 U.S. 398 (2007) .....	11
<i>Lear, Inc. v. Adkins</i> , 395 U.S. 653 (1969) .....	5
<i>MedImmune, Inc. v. Genentech, Inc.</i> , 549 U.S. 118 (2007) .....	11
<i>Medtronic Navigation, Inc. v. BrainLAB Medizinische Computersysteme GmbH</i> , 603 F.3d 943 (Fed. Cir. 2010).....	9, 12
<i>Morton Salt Co. v. G. S. Suppiger Co.</i> , 314 U.S. 488 (1942) .....	5
<i>National Ass’n of Professional Baseball Leagues, Inc. v. Very Minor Leagues, Inc.</i> , 223 F. 3d 1143 (10th Cir. 2000).....	6, 7
<i>Noxell Corp. v. Firehouse No. 1 Bar-B-Que Restaurant</i> , 771 F.2d 521 (D.C. Cir. 1985) .....	7
<i>Quanta Computer, Inc. v. LG Electronics, Inc.</i> , 553 U.S. 617 (2008) .....	11
<i>Scotch Whisky Ass’n v. Majestic Distilling Co.</i> , 958 F.2d 594 (4th Cir. 1992).....	7, 10
<i>Wedgetail Ltd. v. Huddleston Deluxe, Inc.</i> , 576 F.3d 1302 (Fed. Cir. 2009).....	2, 3, 8
<b>STATUTES</b>	
15 U.S.C. § 1117 .....	6, 10
35 U.S.C. § 285 .....	<i>passim</i>

**OTHER AUTHORITIES**

Federal Rules of Civil Procedure, Rule 11 ..... *passim*

S. Rep. No. 1503, 79th Cong., 2d Sess., 1946 U.S.C.C.A.N. 1386 ..... 4

American Intellectual Property Law Association, Report of the 2009  
Economic Survey (2009)..... 12

## STATEMENT OF RELATED CASES

Pursuant to Federal Circuit Rule 47.5, counsel for Defendant-Cross

Appellant Netflix, Inc. certifies the following:

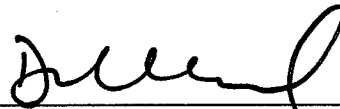
1. No other appeal from the same civil action or proceeding in the lower court or body was previously before this or any other appellate court.
2. No cases are known to counsel to be pending in this or any other court that will directly affect or be directly affected by this Court's decision in the pending appeal.

## STATEMENT OF COUNSEL

Based upon my professional judgment, I believe the issue that Netflix, Inc., raises on cross-appeal requires an answer to one or more precedent-setting questions of exceptional importance:

1. Should this Court revisit the legal standard under 35 U.S.C. § 285, so that district courts will have discretion to award fees in exceptional patent cases on an evenhanded basis to both patentees and accused infringers, as in copyright and trademark cases?

Dated: July 1, 2010



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Deanne Maynard



## SUMMARY OF REASONS FOR GRANTING THE PETITION

The patent at issue is based on and claims a narrow improvement to the prior art Netflix system. The district court correctly found that Netflix does not infringe that patent as a matter of law. But constrained by this Court's precedent, the district court concluded that Netflix had "not met its high burden to show by clear and convincing evidence that Media Queue's claims were brought in bad faith or that the claims were objectively baseless." (A2558.)

Under 35 U.S.C. § 285, "[t]he court in exceptional cases may award attorney fees to the prevailing party." As the Supreme Court held in the analogous copyright context in *Fogerty v. Fantasy, Inc.*, 510 U.S. 517 (1994), plaintiffs and defendants are entitled to equal treatment in obtaining attorneys' fees. But this Court's cases have departed from teachings of the Supreme Court and other circuits' treatment of identical statutory language. District courts have thus been divested of their discretion, rendering 35 U.S.C. § 285 useless to prevailing accused infringers unless the patentee committed inequitable conduct or engaged in frivolous litigation tantamount to a violation of Rule 11 of the Federal Rules of Civil Procedure. Section 285 as applied renders plaintiffs and defendants unequal before the law, and cannot be squared with the Supreme Court's analysis of the copyright statute.

Requiring frivolity or bad faith sets up a bright-line threshold rule for exceptionality, thereby demoting the exercise of judicial discretion to the rank of afterthought. This at odds with the purpose of section 285 and the way other circuits have treated the identical language of the trademark statute.

District courts should have discretion to award fees when a patentee was objectively reckless—that is, filed or maintained a lawsuit with an objectively low likelihood of success knowing or having reason to know that it was likely to lose—or when the court finds that the defendant vindicated an important public interest. Netflix’s motion for fees should have been granted, as it meets both of these tests.

**I. THIS COURT’S CURRENT STANDARD FOR AWARDING ATTORNEYS’ FEES IN PATENT CASES IMPROPERLY TREATS PREVAILING DEFENDANTS DIFFERENTLY FROM PREVAILING PLAINTIFFS**

When the prevailing party in a patent case is a plaintiff, it can obtain fees merely by proving willfulness, that is, by showing that the defendant was or should have been aware of an objectively high likelihood that the plaintiff would prevail.

*In re Seagate Technology, LLC*, 497 F.3d 1360, 1371 (Fed. Cir. 2007) (*en banc*).

A defendant can have a reasonable, nonfrivolous non-infringement argument and still be found a willful infringer, so long as the argument is one a reasonable person would have thought weak. Moreover, whenever there is a finding of willful infringement, the burden shifts to the district court to explain why fees should *not* be awarded. See *Wedgetail Ltd. v. Huddleston Deluxe, Inc.*, 576 F.3d 1302, 1305-

06 (Fed. Cir. 2009) (“after an express finding of willful infringement, a trial court should provide reasons *for not increasing* a damages award or *for not finding a case exceptional . . .*”) (emphasis added).

For prevailing defendants, exceptionality is much more difficult to show. In *Wedgetail*, this Court recited cases limiting the circumstances in which exceptionality could be found, noting that “[i]n the case of awards to prevailing accused infringers, . . . ‘exceptional cases’ are normally those of bad faith litigation or those involving fraud or inequitable conduct by the patentee in procuring the patent.” 576 F.3d at 1305. *Wedgetail* then established this Court’s current standard for a prevailing defendant to obtain fees: “this court has rejected an ‘expansive reading of § 285’ . . . and (absent litigation misconduct or inequitable conduct before the PTO) has permitted the award of attorneys fees to a prevailing accused infringer *only* if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless.” *Id.* (emphasis in original). Thus there must be *no objective basis* for plaintiff’s case, and the plaintiff must *actually* know it. Moreover, both prongs of this extremely exacting standard “must be established by clear and convincing evidence.” *Id.* at 1304; *see also Aspex Eyewear, Inc. v. Clariti Eyewear, Inc.*, 605 F.3d 1305, 1314 (Fed. Cir. 2010).<sup>1</sup>

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<sup>1</sup> The standard adopted by this Court marks a significant departure from prior case law. In *Eltech Systems Corp. v. PPG Industries*, 903 F.2d 805, 810-11 (Fed. Cir. 1990), this Court noted that “there is and should be no difference in the

Even in the rare case in which a defendant could make this showing, the court still has discretion not to award fees.<sup>2</sup> This frivolity standard is almost impossible for accused infringers to meet.

**A. This Court's Standard for Attorneys' Fees Cannot Be Squared with Supreme Court Authority**

The Supreme Court's treatment of attorneys' fees in the copyright context is instructive. Before 1994, copyright law regularly awarded attorneys fees to prevailing plaintiffs, but only rarely to prevailing defendants. *Fogerty v. Fantasy, Inc.*, 510 U.S. 517 (1994), ended that practice. The Court established that copyright plaintiffs and defendants are entitled to equal treatment in obtaining fees, noting that both can vindicate important public interests.

The Supreme Court observed "that the federal fee-shifting statutes *in the patent and trademark fields*, which are more closely related . . . to that of copyright, support a party-neutral approach." *Fogerty*, 510 U.S. at 525 n.12 (citing *Eltech*, 903 F.2d at 811) (emphasis added). The statutes were sufficiently "closely related" that lessons from one should carry over to the others.

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standards applicable to patentees and infringers who engage in bad faith litigation. . . . The balance is not tipped in favor of either side when each is required to prove the other guilty of bad faith litigation by clear and convincing evidence in light of the totality of the circumstances."

<sup>2</sup> This Court also permits the award of attorneys fees based on a finding of inequitable conduct, which is rarely proven.

The Court emphasized the important public purpose served by defendants who successfully defend copyright cases. Because Congress has granted only a limited monopoly to copyright owners, “it is peculiarly important that the boundaries of copyright law be demarcated as clearly as possible.” *Id.* at 527. As a result, “defendants who seek to advance a variety of meritorious copyright defenses should be encouraged to litigate them to the same extent that plaintiffs are encouraged to litigate meritorious claims of infringement.” *Id.*

These considerations apply equally in patent cases. The Supreme Court has long made it clear there is an important public interest in invalidating weak patents. *See Lear, Inc. v. Adkins*, 395 U.S. 653, 670-71 (1969); *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313, 343, 350 (1971). Even when a patent is found not to be infringed, *Cardinal Chemical* held that invalidating a bad patent serves an important public interest. *Cardinal Chemical Co. v. Morton Int’l, Inc.*, 508 U.S. 83, 100-101 (1993).

But defendants do not serve the public interest only by invalidating bad patents. Patentees with valid patents can still harm the public by asserting greater rights than they have in fact been given. *See Brulotte v. Thys Co.*, 379 U.S. 29, 32-33 (1964); *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488, 493 (1942). Turning back overbroad readings of patent claims by their owners thus serves the public interest as well. It protects the notice function that patent claims are

supposed to serve, and protects the freedom to engage in commerce in non-infringing products. *Fogerty*, 510 U.S. at 527.

**B. This Court's Standard for Prevailing Patent Defendants Is Inconsistent with Other Courts' Treatment of the Trademark Statute**

Like section 285, the trademark fees provision provides that “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party.” *See* 15 U.S.C. § 1117. Yet the courts of appeals that have interpreted the identical trademark fees provision have applied a looser and more flexible standard than this Court has applied to its identical patent counterpart.

For example, the Seventh Circuit has held that “bad faith is not the correct standard for determining whether to award attorneys’ fees to the defendant in a Lanham Act case.” *Door Sys., Inc. v. Pro-Line Door Sys., Inc.*, 126 F.3d 1028, 1031-2 (7th Cir. 1997). As that court observed, “a suit can be oppressive because of lack of merit and cost of defending even though the plaintiff honestly though mistakenly believes that he has a good case and is not trying merely to extract a settlement based on the suit’s nuisance value.” *See Hartman v. Hallmark Cards, Inc.*, 833 F.2d 117, 123 (8th Cir. 1987) (affirming “the principle that absence of bad faith is not alone determinative on the Lanham Act fee issue.”).<sup>3</sup>

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<sup>3</sup> *See also National Ass’n of Professional Baseball Leagues, Inc. v. Very Minor Leagues, Inc.*, 223 F. 3d 1143, 1147 (10th Cir. 2000) (“No one factor is determinative, and an infringement suit could be ‘exceptional’ for a prevailing

Indeed, the Supreme Court noted in *Fogerty* that, in trademark, “prevailing defendants are to be treated more favorably than prevailing plaintiffs” because only a fee award can make defendants whole. *Fogerty*, 510 U.S. at 525 n.12 (citing *Scotch Whisky Ass’n v. Majestic Distilling Co.*, 958 F.2d 594, 599 (4th Cir. 1992)). If anything, it should be easier for patent defendants than plaintiffs to obtain fees.

In short, courts considering the most analogous statutes have found that they at the very least must treat defendants equally with plaintiffs. And those courts have not required that a plaintiff’s case be frivolous. The interpretation this Court has given the patent statute diverges greatly from the interpretation its sister circuits have given to identical language adopted by Congress.

**C. Requiring Prevailing Defendants to Demonstrate Frivolity Renders Section 285 Superfluous, Contrary to Congressional Intent**

By allowing the award of attorneys’ fees, the patent statute departs from the general rule of civil litigation that each party must bear its own legal fees. But the frivolity standard effectively makes exceptionality coextensive with Rule 11 of the Federal Rules of Civil Procedure, thereby rendering section 285 superfluous.

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defendant because of (1) its lack of any foundation, (2) the plaintiff’s bad faith in bringing the suit, (3) the unusually vexatious and oppressive manner in which it is prosecuted, or (4) perhaps for other reasons as well.”); *Noxell Corp. v. Firehouse No. 1 Bar-B-Que Restaurant*, 771 F.2d 521, 526 (D.C. Cir. 1985) (“[s]omething less than ‘bad faith,’ we believe, suffices to mark a case as ‘exceptional’”).

This Court's fees standard mirrors Rule 11 almost exactly. "[T]his court has rejected an 'expansive reading of § 285'. . . and (absent litigation misconduct or inequitable conduct before the PTO) has permitted the award of attorney fees to a prevailing accused infringer *only* if both (1) the litigation is brought in subjective bad faith, and (2) the litigation is objectively baseless." *Wedgetail*, 576 F.3d at 1305 (citations omitted). By comparison, the prevailing standard for Rule 11 sanctions: "Before awarding Rule 11 sanctions, 'a district court must conduct a two-prong inquiry to determine (1) whether the complaint [or relevant document] is legally or factually 'baseless' from an objective perspective, and (2) if the attorney has conducted 'a reasonable and competent inquiry' before signing and filing it." *ICU Medical, Inc. v. Alaris Medical Sys., Inc.*, 558 F.3d 1368, 1381 (Fed. Cir. 2009). Notably, if anything Rule 11 appears more easily satisfied than the fees standard. Both require that the claim be objectively baseless; but Rule 11 merely requires the absence of a reasonable investigation. The fees statute, by contrast, has been interpreted by this Court to require subjective bad faith.

As a result, there does not appear to be any circumstance in which a prevailing defendant could be awarded fees under section 285 in which it would not also be entitled to fees under Rule 11. Indeed, cases are increasingly treating the two inquiries as coextensive. *See, e.g., ICU Medical*, 558 F.3d at 1381 (affirming district court decision that treated section 285 and Rule 11 as



coextensive, and therefore found no reason to award fees or analyze the entitlement to fees separately); *Cambridge Products, Ltd. v. Penn Nutrients, Inc.*, 962 F.2d 1048, 1050 (Fed. Cir. 1992).

The Supreme Court has held that even in the absence of an explicit fee-shifting statute, “federal courts, in the exercise of their equitable powers, may award attorneys’ fees when the interests of justice so require.” *Hall v. Cole*, 412 U.S. 1, 4-5 (1973). “Indeed, the power to award such fees ‘is part of the original authority of the chancellor to do equity in a particular situation.’” *Id.* at 5. The Supreme Court drew a clear distinction between the punitive rationale for fees, where bad faith is a requirement, and the public benefit rationale, where it is not. *Id.* at 15.

In its recent decision in *Medtronic Navigation*, this Court addressed the question of the inherent equitable power of courts, limiting that equitable power to circumstances in which “a party has acted ‘in bad faith, vexatiously, wantonly, or for oppressive reasons.’” *Medtronic Navigation, Inc. v. BrainLAB Medizinische Computersysteme GmbH*, 603 F.3d 943, 966 (Fed. Cir. 2010). By requiring a showing of bad faith before fees will be awarded to prevailing accused infringers under section 285, this Court has created a fees rule *more* restrictive than the background equitable powers that were extant when Congress enacted the fees statute.

The frivolity test thus effectively renders section 285 superfluous, at least as to successful patent defendants. Rule 11 applies in all civil litigation. Section 285 is express statutory authority for patent cases; it must mean something more than that courts should apply the same standards they would apply in the absence of section 285.

**D. The Frivolity Rule Improperly Constrains the Discretion of District Courts**

The requirement that prevailing defendants show frivolity also runs afoul of section 285's legislative purpose. Section 285 is designed to give district courts discretion to award attorneys' fees in appropriate cases, while recognizing that fees are appropriate in exceptional cases rather than as a matter of course. The statute thus sets out a standard for case-by-case application. The legislative history of the identical 15 U.S.C. §1117, cited by *Scotch Whiskey*, says just that: the fees statute "provides that attorney fees may be awarded to the prevailing party in actions under the federal trademark laws, when *equitable considerations* justify such awards." *Scotch Whiskey*, 958 F.2d at 599 (emphasis added).

This Court's frivolity requirement has converted that case-by-case standard into a bright-line rule. Denying fees is effectively mandatory in the absence of frivolity when the defendant wins. The Supreme Court has repeatedly emphasized the importance of discretionary standards rather than bright-line rules in patent law. It reversed this Court in *Festo* for adopting an absolute bar to the application

of the doctrine of equivalents, *Festo Corp v. Shoketzu Kinzoku Kogyo Kabushiki Co. Ltd.*, 535 U.S. 722, 738 (2002); in *eBay* for adopting a rule that patentees were automatically entitled to injunctive relief, *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 394 (2006); in *MedImmune* for setting an exclusive test for declaratory judgment jurisdiction, *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127 (2007); in *Quanta* for concluding that method patents could never be exhausted, *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008), and in *KSR* for relying exclusively on a single test for proving obviousness, *KSR Int'l. Co. v. Teleflex Inc.*, 550 U.S. 398, 401-2 (2007). Most recently, it rejected this Court's bright-line "machine or transformation" test for patentable subject matter, saying that "it was not intended to be an exhaustive or exclusive test." *Bilski v. Kappos*, 10 C.D.O.S. 7966, 561 U.S. \_\_, \_\_ (June 28, 2010).

This Court's mandatory scheme in its section 285 jurisprudence is fundamentally inconsistent with an equitable inquiry into the appropriateness of awarding or denying fees to a prevailing accused infringer. District courts cannot enforce such a rule while at the same time make a discretionary judgment about what is equitable.

#### **E. The Current Restrictive Rule Permits Abusive Patent Litigation**

The social costs of this Court's restrictive rule are substantial. Patent litigation is expensive, with attorneys' fees often exceeding \$5.5 million per side.

American Intellectual Property Law Association, Report of the 2009 Economic Survey 29 (2009). This Court's standard means that defendants have little hope to recover that money. Defendants are discouraged from taking cases to judgment even if they are confident they will win; it is normally cheaper to just to settle.

Nuisance-value suits are now a common business model. In the words of Judge Lourie, "[m]any patent suits are brought these days with little chance of success. Appeals to this Court from summary judgments of non-infringement based on claim constructions that are affirmed here are testament to the frequency of non-meritorious claims brought in the district courts." *Medtronic*, 603 F.3d at 967. The fees rule means those who assert weak patents know that they can impose costs on defendants without being at risk of having to pay those costs.

**II. THIS COURT SHOULD GIVE DISTRICT COURTS THE DISCRETION TO AWARD FEES WHEN THE PATENTEE'S CASE WAS OBJECTIVELY RECKLESS, OR WHEN THE DEFENDANT VINDICATES AN IMPORTANT PUBLIC INTEREST**

Section 285 should be applied even-handedly, as Supreme Court precedent, the rule in other circuits, and public policy all require. And it should give real discretion to district courts and not be limited to frivolous or bad faith lawsuits.

At a minimum, the law should require defendants to show no more than plaintiffs must currently show to justify an award of fees. Patent owners can obtain fees if they can show that a defendant was "objectively reckless" in producing an infringing product, even if the defendant had nonfrivolous arguments

in its favor, and even if it believed those arguments in good faith, so long as a reasonable person would have found those arguments weak. Accused infringers too should have an opportunity to persuade the district court to award their attorneys' fees if they can show that the patentee was objectively reckless in filing or pursuing a lawsuit.<sup>4</sup>

But as *Fogerty* shows, prevailing parties should also be entitled to show that they have vindicated an important public interest that will have ramifications beyond the bounds of that case itself. The Supreme Court has recognized one such important public interest: the invalidation of patents. A fees award on the basis of either objective recklessness or the vindication of an important public interest should be within the discretion of the district courts in the first instance.

### **III. THE OUTCOME OF THIS CASE JUSTIFIES THE AWARD OF FEES**

As explained above, proof of objective recklessness or the vindication of an important interest should justify an award of fees to a prevailing defendant. The instant case satisfies *both* of the proposed tests: there was, in this litigation, an obvious, objectively low probability that the plaintiff would succeed; and Netflix's decisive defeat of Media Queue's overclaiming vindicated the important public

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<sup>4</sup> The objective recklessness standard will encompass virtually all cases of inequitable conduct, since, to be guilty of inequitable conduct, the patentee must have acted with intent to deceive.

interest of combating economically harmful and unfounded lawsuits not just against Netflix, but against other defendants as well.

Media Queue's conduct in this lawsuit establishes that the case was objectively reckless. The patentee, a disgruntled Netflix customer, drafted claims to a purported improvement on the admitted prior art Netflix system. His patent explicitly references the existing Netflix service. (*See* A0032-64 (citing Netflix no fewer than eleven times, *e.g.*, A0045, 2:57-60). He used the disclaimer of that subject matter to advance its prosecution. (A2325.)

Once he obtained his patent, he sold it to Media Queue, a non-practicing entity created for the single purpose of the present lawsuit. Media Queue asserted the allegedly novel patent against *preexisting* Netflix features, (A1943, A1944-45.) including those that had been expressly disclaimed in the patent itself. *See* A2322; A0045 at 1:26-28, 1:30-33, 1:57-67; A1589, 11:20-22) And all of this was drawn to the district court's attention in Netflix's fees motion. (A2326-7.) The district court handily rejected Media Queue's arguments on claim construction and summary judgment. It should have been obvious to any reasonable person that Media Queue had a weak case.

In addition, Netflix has vindicated an important public interest in this case. Media Queue did not just sue Netflix for infringement; it asserted the same patent against others. Netflix's decision to litigate the case to judgment rather than settle

furthered an important public interest by preventing Media Queue from improperly expanding the scope of its patent. The more similarly situated accused infringers make the same decision, the less valuable such meritless strike suits will become.

### CONCLUSION

This Court should grant initial rehearing *en banc* to reconsider the issue Netflix raises in its cross-appeal, the legal standard under 35 U.S.C. § 285, so that district courts will have discretion to award fees in exceptional patent cases on an evenhanded basis to both patentees and accused infringers.

Dated July 1, 2010.

Respectfully submitted,



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**CERTIFICATE OF SERVICE**

I, Deanne E. Maynard, hereby certify that on the 1st day of July 2010, I caused two copies of the document listed below:

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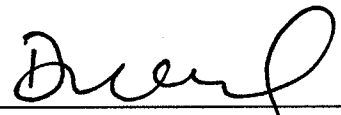
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