
UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

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

**PRINCIPAL AND RESPONSE BRIEF OF DEFENDANT-CROSS
APPELLANT NETFLIX, INC.**

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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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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 THE ISSUES

1. (a) Did the district court correctly construe the claim term “a set of notification rules” to mean “a set of rules governing the transmittal of notifications about queue status sent to the subscriber”?

(b) Did the district court correctly conclude that Media Queue failed to raise a genuine issue of fact of infringement of the “notification rules” limitation?

(c) Should this Court affirm on the alternative ground that Media Queue failed to raise a genuine issue of material fact of infringement under a broader construction of “notification rules”?

2. (a) Did the district court correctly conclude that the claim term “a separate set of queue replenishment control rules” must govern the *addition* of playable media titles to a subscriber’s queue?

(b) Did the district court correctly conclude that the claim term “a separate set of queue replenishment control rules” must govern whether to *automatically* add playable media titles to the subscriber’s rental queue?

(c) Did the district court correctly conclude that Media Queue failed to raise a genuine issue of fact of infringement of the “queue replenishment control rules” limitation?

3. (a) Did the district court correctly construe the claim term “authorized by the subscriber” to mean “elected by the subscriber after the

subscriber is presented with a choice among multiple options,” and correctly conclude that Media Queue failed to raise a genuine issue of material fact of infringement of the “authorized by the subscriber” limitation?

(b) Should this Court affirm on the alternative ground that Media Queue failed to raise a genuine issue of material fact of infringement, even if the term is construed without the “multiple options” requirement?

4. Should this Court affirm on the alternative ground that the claim terms “a set of notification rules” and “a separate set of queue replenishment control rules” are indefinite?

5. (a) 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?

(b) Does the outcome of this case justify the award of fees to Netflix?

INTRODUCTION

The patent at issue claims as its purported invention a narrow improvement to the prior art Netflix system for renting movies to customers. Before he filed for his patent, J. Nicholas Gross, the named inventor, had been a longtime subscriber of the Netflix service, and was well aware of its features. Apparently, Mr. Gross became frustrated when using the Netflix service because “he found himself without any new movies” after his rental queue of movies became empty.

(Principal Brief of Plaintiff-Appellant Media Queue LLC (“M.Q. Br.”) at 6.)

Because of his experience, Mr. Gross imagined a new and improved Netflix that would allow subscribers to control what sorts of notifications they would receive when their queues needed replenishment, and whether their rental queues would be automatically “replenished” after running low. As the patent reflects, the allegedly “unique” feature of Mr. Gross’s invention is the “Queue Control Options” interface that includes “a set of subscriber queue control options.” These options allow the subscriber to control what happens when his or her rental queue “runs dry,” including an auto-replenishment option in which the service automatically adds a movie to the queue.

Netflix does not use Mr. Gross’s purported invention. Each of the patent claims requires the use of “notification rules for the subscriber rental queue” and “a separate set of queue replenishment control rules.” Each set of rules must be

“authorized” by the subscriber. The district court correctly concluded that these terms require that the subscriber be able to select rules governing: (1) what notices the subscriber receives about the status of the rental queue, and (2) whether the rental queue is automatically replenished. Netflix’s subscribers do not have such control. They cannot select automatic queue replenishment, nor can they tailor queue notifications to their individual preferences. Accordingly, the district court correctly found that Netflix does not infringe as a matter of law.

The district court erred, however, in denying Netflix’s motion for attorneys’ fees. 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, however, a prevailing defendant, no less than a prevailing plaintiff, is entitled to fees “in exceptional cases.” This Court should revisit the legal standard for attorneys’ fees to treat prevailing defendants the same as prevailing plaintiffs. Under an evenhanded approach, district courts would have discretion to award attorneys’ fees when a patent owner 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. Both circumstances are present in this case, justifying an award of fees to Netflix.

STATEMENT OF THE CASE AND THE FACTS

Netflix operates an online, subscription-based movie rental service that allows users to receive DVDs by mail at their homes. (A1782-83 ¶ 3.) Netflix users enroll in a subscription plan that allows them to “check out” between one to eight DVDs at a time. (A1783 ¶ 4.) Netflix users choose the DVDs they would like to receive by visiting the Netflix website and setting up a list of movies to be shipped. (*Id.*) This list of selected movies is called the subscriber’s rental “queue.” (*Id.*) Once the subscriber returns a movie, Netflix sends the subscriber the next available title from his or her queue. (*Id.*) Netflix subscribers can choose from more than 100,000 titles in Netflix’s DVD library to add to their queues, and from a separate library of more than 12,000 titles that can be watched instantly by streaming video. (A1782-83 ¶¶ 3-4.)

Netflix began offering this subscription-based plan in the fall of 1999. (A1783 ¶ 4.) Netflix was awarded U.S. Patent No. 6,584,450 for its innovations on June 24, 2003 (“the ’450 patent” or “Hastings patent”); this patent is expressly referenced on the face of Media Queue’s U.S. Patent 7,389,243 (“the ’243 patent”). (A1542; A1575-1602.)

A. The '243 Patent

By his own account, in 2003, John Gross was a “frustrated” Netflix subscriber. (A1099.) The reason for Mr. Gross’s frustration: “[A]fter realizing that he had not received a movie in what felt like months, Mr. Gross logged on to his Netflix account and noticed he hadn’t manually altered his queue so he was not receiving movies he was entitled to under his subscription plan.” (A1099-1100.)

As a result, Mr. Gross envisioned a supposedly improved version of Netflix that would “automatically ensure[] that [the subscriber’s] preference queue is never allowed to completely run ‘dry’ so to speak.” (A0047, 5:60-62.) He filed a patent application, which eventually issued as the '243 patent. When that application was filed, Netflix had already been providing its subscription-based rental service for several years. (A1783 ¶ 4.) Indeed, the '243 patent’s “Background” section describes the Netflix system, acknowledging it as prior art. (A0045, 1:22-67.) As the Examiner explained during prosecution, general-purpose systems for providing notifications to customers were also well known in the art. (A0333 (stating that the prior art Elston patent “discloses an automatic customer notification system that notifies customers of a business or other entity of the fact that an event has occurred that involves that business or entity”).)

The '243 patent makes clear that Netflix permits users to engage in “an interactive online session” in which the user “select[s] a number of titles, and then

prioritize[s] them in a desired order for shipment within the selection queue.” (A0045, 1:29-32.) “After the movie title selection session is over, the system proceeds to ship the desired titles in the order requested by the subscriber.” (*Id.* at 1:43-45.) “Under the Netflix terms of service, the system places a limit on the number of outstanding titles that a subscriber may have at any one time.” (*Id.* at 1:57-59.) “Additional titles in the rental selection queue are only shipped to the user after the system logs a returned item from that same user.” (*Id.* at 1:63-65.)

The '243 patent asserts that the Netflix service suffers from certain “limitations” upon which the patent improves. According to the patent, “from a fundamental perspective, the Netflix system . . . do[es] not permit any significant user interaction, control, or monitoring of selections presented in a rental queue.” (*Id.* at 2:57-60.) The patent identifies several purported limitations of Netflix, including:

- “[W]hile the [Netflix] system automatically ships the next items in the rental queue it fails to notify the subscriber when the rental queue is empty, near-empty, or perhaps contains less desirable selections than those that the user would otherwise select if they were aware of more recent available titles” (*id.* at 2:1-6); and
- “[T]he Netflix system . . . does not give subscribers any flexible degree of control over their rental selection queue or shipments. For example,

subscribers are not given an option of whether a particular title in the rental queue should be shipped; it is automatically shipped, even if they may have changed their minds.” (*id.* at 2:19-26)

The patent purports to overcome these limitations by describing an “intelligent queue monitoring” system, which the patent labels the “auto-notify + auto select/ship” system. (A0034; A0051, 13:23-27; *see also* A0032, Abstract; A0052, 16:55-67 (stating that while most software components described in the specification are “essentially the same as those found in a prior art system,” the “Intelligent Queue Monitor Module” and “Queue Status Notification Module” are among the “new software components of the present invention”).) The purpose of this “intelligent queue monitoring” system is to solve the perceived limitation in the prior art, where “subscribers run the risk of being ‘title less’ for several days.” (A0045, 2:18.)

Rather than require a subscriber to “constantly monitor [his or her] own rental queue to make sure it is stocked with selections for shipping” (A0045, 2:14-17), the ’243 patent provides that the subscriber would have the option to ensure that items are always available in the queue for shipment. (A0046, 3:5-13 (“[O]bject [of the invention] is to implement an intelligent queue monitoring system that allows subscribers/purchasers to define policies and rules to be used in determining what actions should be taken with respect to particular items in such

queue, and at what times.”); A0039, Fig. 4 (showing the steps of the “Auto-notify /Auto-Ship Process”).) Depending on the options selected by a subscriber, the subscriber would be notified that the queue needed replenishment (auto-notify) or would have the queue automatically replenished by the system (auto select/ship).
(*Id.*)

The specification describes embodiments for implementing these objectives, alternatively referring to them as the Auto-Notify/Auto-Ship, Auto/Notify + Auto Select/Ship, or Auto Notify Auto Ship + Auto Recommend system. (A0052, 15:31-32; *see also* A0034-40.) As a central component of these embodiments, the subscriber is presented with choices whereby he or she “either elects a number of default values, or begins the process of configuring particular parameters to be used in a queue monitoring system.” (A0052, 15:33-35.)

Figure 2 of the '243 patent, shown below, is instructive:

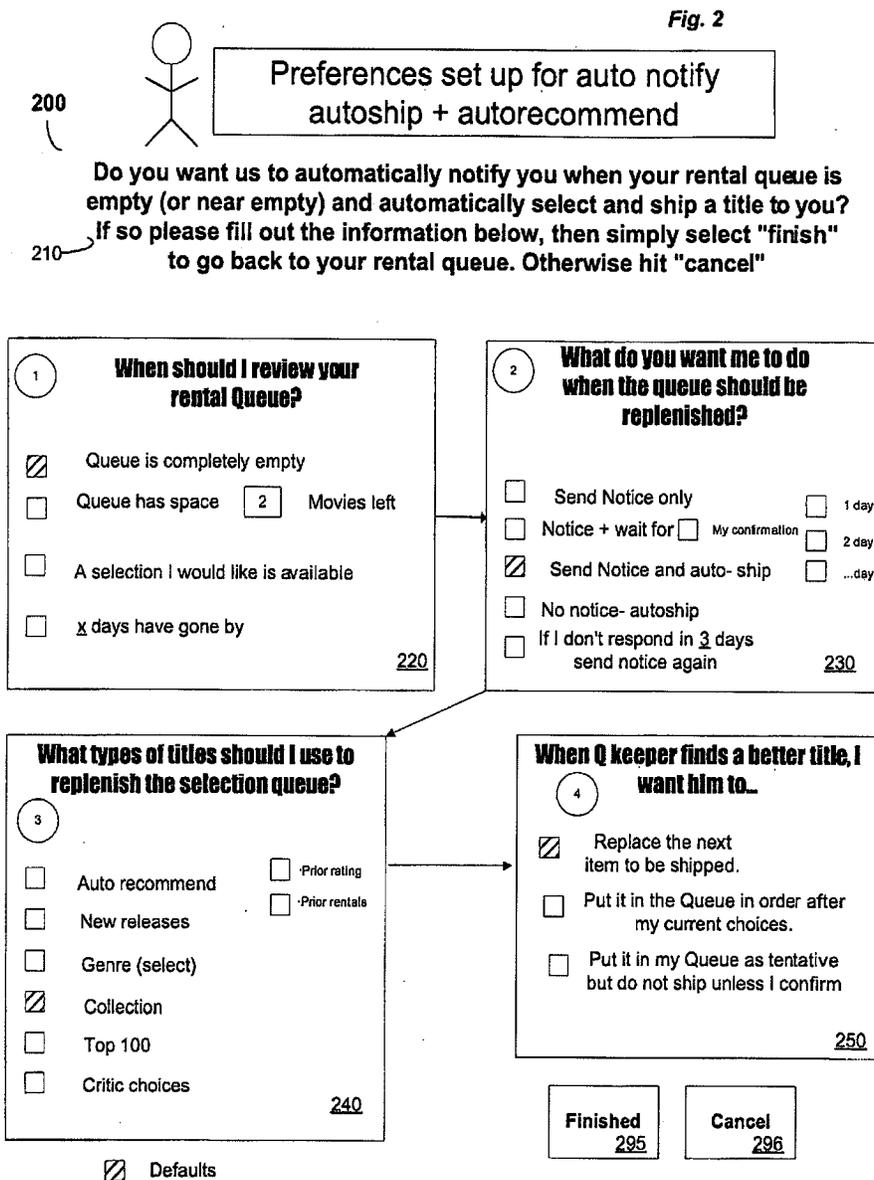


Figure 2 provides the interface that allows “users/subscribers to set up queue monitoring control parameters, queue notification parameters, queue replenishment parameters and other queue control options.” (A0048, 7:36-40.) Preference display area 220 sets a first parameter by presenting a “queue trigger threshold question” to the subscriber. (*Id.* at 8:23-25.) The subscriber may then choose from among the “threshold options,” which determine when the queue monitoring logic reviews the subscriber’s queue (*e.g.*, when a predetermined number of items remain in the queue). (*Id.* at 8:25-37.) The second parameter is shown in preference display area 230, which “is used to specify options for ‘what’ the system should do when the so-called triggering threshold is met” (*e.g.*, send a notice, send a notice and wait for confirmation, send a notice and automatically ship a title, or do not send a notice and automatically ship). (A0049, 9:28-30.) According to the specification, these options are “notification options.” The third parameter is shown in preference display area 240, which “is used to specify options for ‘how’ the system should replenish or supplement the Subscriber Selection Queue 110.” (*Id.* at 10:5-7.) A fourth parameter is shown in preference display area 250 and “provides additional levels of queue management control.” (*Id.* at 10:41-42.)

This setup process is the only method described by the ’243 patent that allows the subscriber to authorize the rules that the system employs. The

specification further explains that a typical subscriber experience starts with the subscriber configuring rental queue preferences, including the various options noted above in connection with Figure 2. (A0051, 13:33-35.)

B. The Claims

The '243 patent claims methods “of electronically notifying a subscriber to a content provider of activity in a subscriber rental queue associated with the subscriber.” The claims include “a set of notification rules for the subscriber rental queue” and a “separate set of queue replenishment control rules,” each of which must be “authorized by the subscriber.” The “computer” uses these rules to “monitor” the subscriber queue to “determine” if the queue should be altered. If the computer determines that such an alteration is necessary, and if the notification rules require it, the computer sends an electronic notification to the subscriber.

C. The District Court Proceedings

Media Queue LLC is an Oklahoma corporation formed shortly before this litigation commenced. Media Queue initiated this patent infringement action against Netflix and other defendants in the Eastern District of Oklahoma, a venue with “at best, random and minimal” connections to the dispute. (A2316.) The Oklahoma court found that Media Queue had engaged in “apparent efforts to maneuver the facts to establish venue in” that district, and transferred the action to the Northern District of California. (A2318.)

After transfer, Netflix informed the district court and Media Queue that it intended to seek early summary judgment of non-infringement, on the ground that its system lacked both “notification rules” and “queue replenishment control rules” that had been “authorized by the subscriber,” as required by the asserted claims. (A1067.) At Media Queue’s request, the court postponed Netflix’s summary judgment motion to hear it with plenary claim construction proceedings. (A1076.)

The parties filed claim construction briefs, and Netflix moved for summary judgment. (A1096; A1288; A1376; A1523.) Netflix supported its motion with declarations and exhibits establishing the ways that Netflix’s system operates, and showing why the claims, correctly construed, do not read on Netflix’s system. (A1540-1807.)

Media Queue continued to litigate the case based on its broad view of the claims. Although Media Queue’s appellate brief characterizes the district court proceedings as “abbreviated” and based on “a limited record” (M.Q. Br. 9-10), Media Queue did not resist Netflix’s summary judgment motion by filing a declaration under Federal Rule of Civil Procedure 56(f). Indeed, Media Queue did not contest any of the facts regarding Netflix’s system; it opposed summary judgment solely on its argument for broader constructions of the claims. (A1938-48.)

The parties briefed several claim construction issues, but all parties agreed that three issues were potentially dispositive. In particular, Media Queue stipulated that if the court agreed with defendants' proposed constructions of "notification rules," "queue replenishment control rules," and "authorized by the subscriber," the court should grant summary judgment and need not construe additional terms. (A2221-22.)

1. The District Court's Claim Construction

The district court resolved the three key claim construction disputes, and granted summary judgment of non-infringement.

Notification Rules: Media Queue contended that the claimed "set of notification rules for the subscriber queue" could mean *any* rule relating in any way to notification. In its infringement contentions, for example, Media Queue maintained that Netflix's "Facebook Connect" feature—which allows users to be notified when friends have recommended a movie—constituted such a notification rule, even though the rule had nothing to do with the subscriber's queue.

The court adopted a construction of the term "notification rules" that took into account the claim as a whole, and the specification. The court noted that "it is evident from the claim language and the intrinsic evidence that the notification rules are about the subscriber's queue status, and not any notification." (A0016.)

The court therefore construed the term to mean “a set of rules governing the transmittal of notifications about queue status sent to the subscriber.” (*Id.*)

Queue Replenishment Control Rules: Media Queue asserted that this claim term should be construed to mean *any* rule related in any way to the “refilling” of a queue. Based on the language of the claims, the district court found that “‘a separate set of queue replenishment control rules’ refers to a set of rules that is used by a computer to determine whether to add media titles to the subscriber queue.” (A0018.) The court further held that the computer, not the subscriber, must be able to add titles to the queue and that there must be an option under which such replenishment occurs automatically. (A0019-20.) The court concluded that its construction was required by the claims, the specification, and the prosecution history. (*Id.*)

Authorized by the Subscriber: Finally, the district court rejected Media Queue’s contention that the rules could be “authorized by the subscriber” even where the subscriber takes no action but simply “permits” the rules to be used. Media Queue claimed that, under its construction, merely signing up for the Netflix service constituted infringement. (A1946.) Based on the intrinsic evidence, the court found that the claims required the affirmative selection of a particular rule, not mere acquiescence. (A0021.)

2. The District Court's Summary Judgment Order

Applying the claim constructions, the district court entered summary judgment of non-infringement. Media Queue had asserted that several Netflix features constituted the claimed “notification rules” and “queue replenishment control rules” that had been “authorized by the subscriber.” The district court found that none of the accused Netflix features satisfied the claimed elements, correctly construed.

Account Hold, Netflix Friends–Movie Notes, and Facebook Connect: Media Queue pointed to three Netflix features that supposedly corresponded to “notification rules” authorized by the subscriber. Netflix’s “Account Hold” feature allows a subscriber temporarily to place his or her subscription on hold for vacation or other reasons. (A0024.) The “Netflix Friends–Movie Notes” feature “allows the subscriber to receive email notifications about movie recommendations from friends.” (*Id.*) “Facebook Connect” similarly allows a subscriber to “receive notifications containing information on movies rated by friends and links that allow the subscriber to add the rated movies to his or her rental queue.” (*Id.*)

The court found that Media Queue “presented no evidence that the accused features of Netflix’s system control notifications about the status of the subscriber’s rental queue,” and therefore none could constitute a claimed “notification rule.” (*Id.*)

User Profiles: Media Queue contended that Netflix’s “User Profile” feature included queue replenishment control rules. Netflix permits “subscribers to create up to four profiles for each subscriber account. . . . [A] subscriber [can] divide DVD allotments for different profiles defined within the subscriber’s account.” (A0025.) A subscriber can also “specify maturity levels for different profiles defined within his or her account so that parents may restrict their children from adding certain material to their queue, for example.” (*Id.*) Finally, a subscriber can choose whether to include Blu-Ray movies as part of the subscriber’s account. (*Id.*)

The district court found that none of Media Queue’s contentions established infringement, because none of the accused Netflix features includes rules used to “govern whether to automatically add media titles to the subscriber rental queue.” (*Id.*)

Subscription Plans: Media Queue asserted that queue replenishment control rules could be found in Netflix’s subscription plans, which “allow a subscriber to designate how many titles the subscriber can check out at one time and/or how many titles the subscriber can receive per month, for example.” (A0026.) As with the other Netflix features, this aspect of Netflix’s service does not govern whether to automatically add titles to the subscriber queue. As a result, the court found that the feature did not constitute a queue replenishment control rule. (A0027.)

Terms of Use: Finally, Media Queue asserted that Netflix's Terms of Use, which are posted on Netflix's website and govern customers' use of the Netflix service, constituted "notification rules" and "queue replenishment control rules." The district court found that any "rules" within the Terms of Use were not "authorized by the subscriber" as required by the claims. (A0023-24; *see also* A0026.)¹

3. Motion for Fees

Following the grant of summary judgment, Netflix moved for a finding of exceptional case and an award of attorneys' fees. (A2320-66.) Netflix based its motion on Media Queue's continued pursuit of an infringement case with no reasonable possibility of success. Media Queue attempted to find infringement in features that were concededly part of Netflix's service before the '243 patent was filed, and indeed, that are admitted prior art in the '243 specification itself. In addition, Media Queue's infringement position directly contradicted statements

¹ In this appeal, Media Queue also refers to its belated allegation that "Netflix News' implicates notification rules in the Netflix system." (M.Q. Br. 12 n.7; *see also id.* at 37.) Neither Media Queue's opposition to Netflix's summary judgment motion (A1929-50) nor its sole declaration in opposition (A1951-2007) included any allegations concerning Netflix News. Rather, these allegations stem from unauthenticated demonstrative exhibits shown to the district court at the hearing on summary judgment that were not evidence in the summary judgment record. (A2120-41.) As a result, counsel for Netflix objected to their use at the hearing. (A2183-84.) The district court declined to rule on the objection, as it found that summary judgment was proper in any event. (A0027 at n.9.)

made to the Patent Office during prosecution. (A2325-28.) Netflix had provided early notice to Media Queue that the infringement allegations were baseless, yet Media Queue's principal, himself a patent litigator, was undeterred. (A2323, 3:12-17; A2548, 5:1-3.)

The district court, relying on the current "bad faith" standard for awarding fees to prevailing accused infringers, held that the case was not exceptional. The court noted that Media Queue had alleged "due diligence" in filing and pursuing its litigation, that Netflix did not prevail on its indefiniteness arguments, and that neither party received the exact claim constructions it had sought. (A2556-59.) Because the court found the case not exceptional, it never reached the second, discretionary step in the fees analysis. (*Id.*)

SUMMARY OF THE ARGUMENT

The district court correctly construed three key claim limitations present in every asserted claim, and found as a result that Netflix does not practice the claimed invention. In particular, the court construed the claim terms “a set of notification rules,” “a separate set of queue replenishment control rules,” and “authorized by the subscriber.” The district court considered undisputed evidence about the Netflix service, and correctly determined that none of the accused Netflix features constituted the claimed “set of notification rules,” the claimed “separate set of queue replenishment control rules,” and that several of the accused features had not been “authorized by the subscriber.” Accordingly, Netflix was entitled to summary judgment of non-infringement.

I. The district court correctly construed the claim term “a set of notification rules” as rules that govern the transmittal of notifications about the status of the rental queue. The claim language, specification, and prosecution history all establish that the claimed “notification rules” govern not just any notifications, but notifications about the subscriber’s queue status. As the abstract of the invention makes clear, the purported invention is directed to “[a] notification system method . . . for alerting subscribers to a status of their rental queues.” (A0032.) Media Queue did not introduce any evidence that Netflix possessed such

notification rules. Thus, summary judgment of non-infringement should be affirmed.

Even if the claim term were construed more broadly, however, Netflix would still not infringe the claims as a matter of law. All of the asserted claims include the additional limitations that the user be notified regarding “activity in a subscriber rental queue,” and that the claimed notification rules be “for the subscriber rental queue.” (A0058.) The features accused by Media Queue of satisfying the “notification rules” limitation do not meet these additional limitations. Accordingly, this Court can affirm on an alternative non-infringement ground.

II. Summary judgment to Netflix is also appropriate, as the district court concluded, on the independent ground that the accused features do not constitute “a separate set of queue replenishment control rules.” The court correctly construed this limitation as limited to rules that govern the *addition* of items to the queue, the plain meaning of “replenishment.” Media Queue itself advocated to the district court that term “replenishment” be given the meaning of its synonym, to “refill” the queue. The court also correctly concluded that the “queue replenishment control rules” must govern whether to *automatically* add items to the queue. The plain language of the claims, as well as the specification, compel this meaning. Indeed, the patent describes the purported invention as a set of parameters chosen

by a subscriber so that “the system automatically ensures that [the subscriber’s] preference queue is never allowed to completely run ‘dry’ so to speak.” (A0047, 5:60-63.) The prosecution history removes any remaining doubt, as the patentee characterized the “queue replenishment control rules” limitation as “directed to alternative techniques by which a user can set up a set of rules which *automatically cause a modification to a subscriber rental queue.*” (A0640 (emphasis added).)

Media Queue offered no evidence of a Netflix feature governing whether to automatically add items to a subscriber’s queue. Media Queue stipulated at the hearing that it had no evidence that Netflix employed such a feature. (A2221 (“If you agreed with them on queue replenishment control in requiring automatic addition, as best I know, we don’t [meet] that”).) Accordingly, the judgment of non-infringement should likewise be affirmed.

III. The district court correctly found non-infringement by certain of the accused Netflix features on the additional ground that they did not constitute rules “authorized by the subscriber.” The court construed this claim term to require that the subscriber elect the rule after being presented with a choice among multiple options. This construction is compelled by the intrinsic evidence, which makes clear that the claimed rules must be elected by the subscriber. Indeed, user selection of the rules governing the user’s queue is central to the purported invention. The patent describes subscriber selection as the feature that is “unique

to the present invention,” and as the feature that overcomes the limitations of the prior art Netflix system. (A0047, 6:41-46.) The court thus correctly construed the term “authorized by the subscriber” to require an affirmative subscriber election.

IV. As shown in Part II of the brief filed by Defendant-Appellee Blockbuster, which part Netflix adopts and incorporates by reference, this Court also can affirm the judgment on the entirely separate ground that the claim terms “notification rules” and “queue replenishment control rules” are not sufficiently definite. The claims are therefore invalid under 35 U.S.C. § 112 ¶ 2.

V. The district court erred in denying Netflix’s motion for attorneys’ fees. Under 35 U.S.C. § 285, “[t]he court in exceptional cases may award attorney fees to the prevailing party.” This statutory language requires that prevailing plaintiffs and defendants be treated alike. Under this Court’s precedent, however, district courts have lacked discretion to grant fees to prevailing defendants 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. This reading of section 285 creates an inequality between plaintiffs and defendants in the award of fees, and cannot be squared with the Supreme Court’s analysis of the copyright statute.

Requiring frivolity also sets up a bright-line threshold rule for exceptionality, thereby demoting the exercise of judicial discretion to a mere

afterthought. The frivolity requirement is therefore at odds with both the purpose of section 285 and the way courts in other circuits have treated the identical language in the trademark statute.

The requirement of frivolity also makes section 285 superfluous. Rule 11 gives federal courts the power to sanction frivolous litigation in every civil case. An interpretation of section 285 that is coextensive with Rule 11 renders it a nullity.

Finally, the social costs of this restrictive interpretation of section 285 are substantial. Patent litigation is extremely expensive, with attorneys' fees often exceeding \$5 million for a company accused of infringement. And litigation costs are distributed asymmetrically: the rise of contingent-fee patent-plaintiffs' attorneys means that plaintiffs can often impose costs on defendants that they do not bear themselves.

Under an evenhanded application of section 285, district courts would have discretion to award attorneys' fees when a patent owner 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. Both circumstances are present here. Netflix's motion for attorneys' fees should have been granted.

ARGUMENT

I. THE DISTRICT COURT CORRECTLY GRANTED SUMMARY JUDGMENT ON THE GROUND THAT NETFLIX DOES NOT USE “NOTIFICATION RULES”

A. The District Court Correctly Construed the Claim Term “Notification Rules” to Require Notification Rules About Queue Status

The district court correctly ruled that the claim term “a set of notification rules” means “a set of rules governing the transmittal of notifications about queue status sent to the subscriber.” (A0016.) That construction is compelled by the claim language, as well as the specification and the prosecution history.

The language and structure of the asserted claims establish that the notification rules govern not just any type of notification, but notifications concerning the status of the subscriber rental queue. Both of the asserted independent claims (claims 13 and 23) begin with the following language: “A method of electronically *notifying a subscriber* to a content provider of *activity in a subscriber rental queue* associated with the subscriber.” (A0058 (emphasis added).) Both claims continue by requiring, as the first step of the method, “defining a set of notification rules *for the subscriber rental queue.*”

(*Id.* (emphasis added).)

In subsequent steps, a computer uses the notification rules and a separate set of “queue replenishment control rules” to monitor the queue to determine if the

queue should be altered. (*Id.*) If the monitoring step determines that the queue must be altered, then a notification is sent to the subscriber “in response to an affirmative determination . . . that such notification is necessary based on” the notification rules. (*Id.*) Thus, the claimed methods provide that notifications are sent only after the computer monitoring the queue determines that the queue should be altered. These requirements cannot be met by just any type of notification—the notification must be about the status of the queue.

The specification confirms this conclusion. The '243 patent does not purport to invent an online video rental system or a general-purpose notification system. Such systems were already known in the prior art. Rather, the abstract describes the patent as limited to a much more specific system: “[a] notification system method . . . for alerting subscribers to a status of their rental queues.”

(A0032.) Indeed, the patentee was particularly concerned with what he perceived to be a limitation of the Netflix system: “it fails to *notify* the subscriber when *the rental queue* is empty, near-empty, or perhaps contains less desirable selections.”

(A0045, 2:1-6 (emphasis added).)

While the “Summary of the Invention” section of the patent lists several objects “of the present invention,” the only object directed to notifications states the following:

A further object is to provide a notification system that alerts and informs subscribers/purchasers of the status of items in a rental/purchase queue[.]

(A0045, 3:10-12.)

The embodiments described in the specification also support the district court's construction. For instance, Figures 3A and 3B, which are the only electronic notifications exemplified in the patent, are limited to information about the status of the queue. (*See* A0036 (“Your shipping queue is empty or near empty”); A0037 (“Per your request we are placing a new title in your queue for shipping.”).) The structure responsible for sending the messages of Figures 3A and 3B is called the “Queue Status Notification Module.” (A0053, 18:46-55.)

In addition, all of the notification options discussed in Figure 1 involve the status of the subscriber queue. (*See, e.g.*, A0034 (“When queue is completely empty, Send notice and autoship”)). The specification describes that figure as the “Subscriber Queue Status Interface.” (A0034; A0046, 4:28-31.) It includes a “Queue Control Options display area” which is described as “unique to the present invention.” (A0047, 6:41-43.)

The preference setup display in Figure 2 similarly provides the subscriber with several options for customizing the notification and queue replenishment control rules. (A0035.) Each of these options involves either notifying the subscriber about queue status or automatically replenishing the queue. (*Id.*)

Media Queue contends that “the specification contemplates the existence of notification rules that are ‘for the subscriber rental queue,’ but not strictly ‘about queue status.’” (M.Q. Br. 16.) But the two examples cited by Media Queue do not support its assertion.

Media Queue’s first example relies on the following passage from the specification:

In response to the subscriber selecting Notification Option #3 [“No notice—autoship”], the system will skip any official notification to the subscriber, and simply select a new title to be inserted into [the queue.]

(A0049, 9:54-59.) According to Media Queue, because the passage discloses a rule that is “used to determine whether to send any sort of notification at all,” the passage contains an example of a notification rule that does not govern notifications about “queue status.” (M.Q. Br. 16.)

But, viewed in context, the “official notification” referenced in the passage is plainly a notification about queue status. The “No notice—autoship” option described in the passage is part of a set of options presented to the user in Figure 2, Box 230. (A0035.) Figure 2 asks the user: “Do you want us to automatically notify you when your rental queue is empty (or near empty) and automatically select and ship a title to you?” (*Id.*) Box 230 asks: “What do you want me to do when the queue should be replenished?” (*Id.*) Hence, as the figure itself indicates, the options presented to the subscriber in Figure 2, including the “No Notice—

Autoship” option, specify whether the subscriber wants to receive a notification *about the status of his or her queue*. Far from supporting Media Queue’s position, the passage in fact confirms that the claimed notification rules govern notifications about queue status.

Media Queue also points to Figure 3B as another example that allegedly supports its argument, citing the specification’s discussion of “notices of movies that may be of interest to the subscriber.” (M.Q. Br. 17; *see also* A0050, 12:14-20.) According to Media Queue, this is not a notice about the status of the subscriber queue. (*Id.*) Again, however, the example shows just the opposite. As indicated above, Figure 3B does not simply provide movie recommendations to the subscriber. Rather, the notice informs the subscriber that the system has changed the queue by automatically adding a title to it: “Per your request we are placing a new title in your queue for shipping.” (A0037.) Thus, Figure 3B in fact is a queue status notification.

Unable to show error based on the specification, Media Queue seeks refuge in the doctrine of claim differentiation. (M.Q. Br. 17-19.) According to Media Queue, claim 1 specifies a set of notification rules and the sending of an electronic notification. (*Id.*) Claim 11 narrows claim 1 by adding the limitation that “said notification includes an indication of a status of the subscriber rental queue.” (A0058.) Media Queue argues that the “notification rules” must therefore be

construed to be broader than rules concerning notifications of queue status.

(M.Q. Br. 19.)

As this Court has recognized, however, claim differentiation does not “trump the clear import of the specification.” *Edwards Lifesciences LLC v. Cook, Inc.*, 582 F.3d 1322, 1332 (Fed. Cir. 2009) (“[C]laim differentiation is a rule of thumb.”); *see also, e.g., ICU Medical, Inc. v. Alaris Medical Sys., Inc.*, 558 F.3d 1368, 1376 (Fed. Cir. 2009) (“[T]his doctrine is not a rigid rule but rather is one of several claim construction tools.”); *Netcraft Corp. v. eBay, Inc.*, 549 F.3d 1394, 1400 n.1 (Fed. Cir. 2008) (claim differentiation “is just one of many tools used by courts in the analysis of claim terms.”). Applying that flexible approach, this Court has held in several cases that “the presumption created by the doctrine of claim differentiation . . . will be overcome by a contrary construction dictated by the written description or prosecution history.” *Regents of Univ. of Cal. v. DakoCytomation Cal., Inc.*, 517 F.3d 1364, 1375 (Fed. Cir. 2008) (citation omitted).

For example, in *Nystrom v. Trex Co.*, 424 F.3d 1136 (Fed. Cir. 2005), the patentee argued that the claim limitation “board” should be construed broadly because another claim contained the limitation “wood decking board.” *Id.* at 1143. This Court noted that “[t]hroughout the written description, Nystrom consistently used the term ‘board’ to describe wood decking material cut from a log.” *Id.* As a

result, there was “nothing in the intrinsic record to support the conclusion that a skilled artisan would have construed the term ‘board’ more broadly than a piece of construction material made from wood cut from a log.” *Id.* at 1144-45. Here, as in *Nystrom*, the specification only describes “notifications” about queue status, in keeping with the replenishment purpose of the invention. The claim differentiation argument does not overcome the plain language of the asserted claims and the consistent description of the specification.

B. The District Court Correctly Granted Summary Judgment Because Media Queue Did Not Raise a Genuine Issue of Material Fact of Infringement of the “Notification Rules” Limitation

Applying its claim construction, the district court correctly concluded that Media Queue failed to raise a triable dispute of fact as to whether Netflix infringed the “notification rules” limitation. On appeal, Media Queue’s only argument to the contrary is its assertion that it “showed an example of ‘Netflix News’ that included information regarding the subscriber’s queue.” (M.Q. Br. 37.) But Media Queue introduced no evidence about “Netflix News” in its opposition to the summary judgment motion. *See Canada v. Blain’s Helicopters, Inc.*, 831 F.2d 920, 925 (9th Cir. 1987) (holding that where documents are not “authenticated by and attached to an affidavit” such documents “may not be relied upon to defeat a motion for summary judgment”). As the district court found, Netflix was entitled to summary judgment in any event, because Media Queue “did not raise a triable

factual dispute as to whether Netflix employs ‘queue replenishment control rules.’”

(A0027 n.9; *see* Part II, *infra*.)

C. In the Alternative, Summary Judgment Should Be Affirmed Because Media Queue Has Not Raised a Genuine Issue of Material Fact of Infringement Even Under a Broader Construction of “Notification Rules”

Media Queue makes essentially no attempt to establish that it could have prevailed under its own construction of “notification rules.” It asserts that “Netflix’s summary judgment arguments quickly fail under a proper claim construction,” citing without explanation eighteen pages from the demonstrative exhibits its counsel displayed during the district court hearing. (M.Q. Br. 36 (citing A2124-41).) Contrary to this assertion, the evidence submitted by Media Queue in fact demonstrates that there is no triable issue on infringement, even under Media Queue’s proposed construction.

In particular, each asserted claim contains two additional claim limitations, neither of which the accused features infringe as a matter of law. First, each of the asserted claims is limited to “[a] method of electronically notifying a subscriber to a content provider of *activity in a subscriber rental queue*.” (A0058 (emphasis added).)² Second, all of the asserted claims require that the notification rules be

² This language from the preamble of the claims is limiting on the claims. The ’243 patent does not purport to invent either a general-purpose notification system or an online video rental system; it is limited to a method for “alerting subscribers to a status of their rental queue.” (A0032.) As a result, the preamble

“for the subscriber rental queue.” (*Id.*) Even assuming the district court erred by requiring notification rules to be about “queue status” (and it did not), the accused features—Account Hold, Netflix Friends–Movie Notes, and Facebook Connect—still fail to meet all of the claim elements.

The “Account Hold” feature permits “a subscriber to temporarily place his or her subscription on hold for vacation or other reasons.” (A0024.) Whether or not this feature deals with “queue status,” it does not constitute a notification rule “for the subscriber rental queue.” The “Account Hold” feature also does not govern notifications of “activity in a subscriber rental queue.”

Similarly, the “Netflix Friends–Movie Notes” and “Facebook Connect” features allow users to receive notifications when their friends have recommended or rated a movie. (*Id.*) Nothing in these features constitutes a notification rule “for the subscriber rental queue.” Nor do these features have any connection to electronic notifications concerning “activity in a subscriber rental queue.”

language is limiting. *Corning Glass Works v. Sumitomo Elec. USA, Inc.*, 868 F.2d 1251, 1257 (Fed. Cir. 1989) (“The effect preamble language should be given can be resolved only on review of the entirety of the patent to gain an understanding of what the inventors actually invented and intended to encompass by the claim”). The preamble language is also “meshed with the ensuing language in the claims.” *Pitney Bowes, Inc. v. Hewlett-Packard Co.*, 182 F.3d 1298, 1306 (Fed. Cir. 1999). Indeed, Media Queue acknowledges that the preamble helps elucidate the meaning of the claimed “notification rules.” (M.Q. Br. 16-17 (relying on the preamble in evaluating claim scope).)

As a result, even if Media Queue could show that the district court erred in its construction, the accused Netflix features would still not infringe the asserted claims, and the summary judgment of non-infringement should be affirmed.

Granite Mgmt. Corp. v. United States, 416 F.3d 1373, 1378 (Fed. Cir. 2005)

(“An appellee may rely upon any ground supported by the record for affirmance of the judgment, whether or not the lower court relied on that ground.”).

II. THE DISTRICT COURT CORRECTLY GRANTED SUMMARY JUDGMENT ON THE GROUND THAT NETFLIX DOES NOT USE “QUEUE REPLENISHMENT CONTROL RULES”

The district court correctly construed the claim term “a separate set of queue replenishment control rules” to mean “a set of rules (distinct from the set of notification rules) governing whether to automatically add playable media titles to the subscriber’s rental queue.” (A0021.) The district court’s construction was based on the plain meaning of the claim term, as confirmed by the specification and prosecution history.

Media Queue contends that the district court erred in two ways in construing this term. Media Queue contends that the claimed “queue replenishment control rules” (1) need not actually control queue *replenishment* but can instead simply *reorder* items in the queue; and (2) are broad enough to encompass a system where the subscriber alone is responsible for adding items to the queue. Media Queue is wrong on both counts.

A. The District Court Correctly Ruled that “Queue Replenishment Control Rules” Must Control Replenishment of the Queue, Not Merely Reordering of the Queue

Media Queue argues on appeal that the district court erred by construing the term “queue replenishment control rules” as limited to the addition of items to the queue. (M.Q. Br. 20-21.) According to Media Queue, “queue replenishment control rules must be broad enough to also permit changes to the order of items and not be limited to addition of items in the queue.” (*Id.*) This new proposed construction is contradicted by Media Queue’s own proposed construction below, and is not supported by the intrinsic evidence.

In the district court, Media Queue proposed that the claim term should be construed to mean rules relating to the “refilling” of the queue. (A1105-07; A1834.) Just like its synonym “replenishment,” the word “refilling” means adding items, not merely shuffling the order of any items remaining in the queue. Media Queue cannot complain about a construction that it advocated below. *See Key Pharms. v. Hercon Labs. Corp.*, 161 F.3d 709, 715 (Fed. Cir. 1998) (“Ordinarily, doctrines of estoppel, waiver, invited error, or the like would prohibit a party from asserting as ‘error’ a position that it had advocated at the trial.”).

In any case, the district court was correct in construing “queue replenishment control rules” as limited to rules that govern the “addition” of items to the queue. The claims specify that the computer uses both the notification and

queue replenishment control rules to monitor the queue to “determine if a composition of such rental queue should be altered through additions of playable media titles and/or ordering of playable media titles in the subscriber rental queue should be altered” (A0058, claim 13) or to “determine if a composition and/or ordering of playable media titles in the subscriber rental queue should be altered.” (*Id.*, claim 23.) Although this language would permit a computer to alter the order of the queue, it does not in any way specify that such reordering constitutes “replenishment.” To the contrary, when the claims refer to reordering, it is always in contrast to changing the “composition” of the queue by adding items.

The specification fully supports the plain meaning of the term “replenishment.” Although the term “queue replenishment control rules” does not appear in the specification (other than in the claims), the words “replenish” and “replenishment” appear several times. In each case, these words are used according to their ordinary meaning of “adding,” which in the context of the patent involves the addition of items to the queue. For example, display area 240 in Figure 2 begins with the question “What types of titles should I use to replenish the selection queue?” (A0035.) As the patent explains, this display area is used to specify how the system should “supplement” the queue: “A fourth preference display area 240 is used to specify options for ‘how’ the system should replenish or supplement the Subscriber Selection Queue 110.” (A0049 at 10:5-11.)

Media Queue cites to various portions of the specification discussing reordering items in the queue, and suggests that these portions of the specification should inform the meaning of “queue replenishment control rules.” (M.Q. Br. 26.) Media Queue neglects to mention, however, that *none of these portions of the specification use the term “replenishment”* to describe reordering items in the queue. (See A0048, 8:61-67 (discussing whether certain items should “bump” other items, without using the word “replenish” or “replenishment”); *id.* 8:42-56 (discussing permitting the user to “swap” titles, without using the term “replenish” or “replenishment”).) Nothing in the specification supports giving “replenish” any meaning other than its ordinary meaning.

Any doubt regarding the meaning of “replenish” is removed by the prosecution history. During prosecution, the patentee differentiated his invention by asserting that a prior art Hastings patent (describing Netflix’s system) did not demonstrate “replenishment.” The patentee explicitly stated: “In the Hastings system, . . . titles are taken out, but there is no ‘replenishment’ shown or suggested.” (A0640-41 (emphasis in original).)

“A patentee may not state during prosecution that the claims do not cover a particular device and then change position and later sue a party who makes that same device for infringement.” *Springs Window Fashions LP v. Novo Indus.*, 323 F.3d 989, 995 (Fed. Cir. 2003). The fact that the Examiner did not rely on

Mr. Gross's statements in allowing the claims at issue does not alter this result. *See Springs Window Fashions*, 323 F.3d at 995; *Laitram Corp. v. Morehouse Indus.*, 143 F.3d 1456, 1462 (Fed. Cir. 1998). Rather, it is proper for a court to restrict the scope of claims based on statements made in prosecution, even if the examiner found these statements unconvincing. *Springs Window Fashions*, 323 F.3d at 995 ("Because an examiner has the duty to police claim language by giving it the broadest reasonable interpretation, it is not surprising that an examiner would not be satisfied with the applicant's insistence that particular claim language distinguishes a prior art reference, but that a court would later hold the patentee to the distinction he pressed during prosecution.") (citation omitted).³

Not only did Mr. Gross make this argument during the original prosecution of the '243 patent; he has repeated and emphasized the argument in the currently pending reexamination of the '243 patent. As recently as May 12, 2010, Mr. Gross asserted that replenishment is limited to adding items to the queue:

The citation from Hastings identified by the Examiner, even in its broadest sense, has nothing to do with this

³ Media Queue cites *Lemelson v. General Mills, Inc.*, 968 F.2d 1202 (Fed. Cir. 1992) for the proposition that it "should be allowed to rely on the PTO's view that queue replenishment control rules include changes to the order of items in the queue." (M.Q. Br. 25.) But Media Queue misinterprets *Lemelson*. There, the Court found that *the patentee* could not "later shift his stance 180 degrees" from his position before the Patent Office. *Lemelson*, 968 F.2d at 1207-08. Thus, *Lemelson*, like *Spring Window Fashions*, actually supports Netflix's position that the patentee is held to representations made during prosecution.

“queue replenishment” concept All that is happening is that they are being sent more movies from the selection queue, which is in effect the opposite of “replenishment.”⁴

Thus, during current prosecution of the reexamined '243 patent, the patentee continues to assert that the term “replenishment” involves adding items to the queue. These representations confirm that the district court’s construction is correct.

B. The District Court Correctly Ruled that “Queue Replenishment Control Rules” Must Govern Whether to Automatically Add Items to the Queue

The district court likewise correctly construed “queue replenishment control rules” as rules governing whether to *automatically* add items to the queue. The plain language of the term “queue replenishment control rules” means that the “rules” must “control” the “replenishment” of the subscriber’s queue. According to the language of the claims, subscribers must authorize rules that govern computer-controlled replenishment.

⁴ See Reexam # 95/000469, May 12, 2010 Declaration of J. Nicholas Gross, ¶ 19 (emphasis in original); see also April 6, 2010 (Revised) Amendment A & Response to Office Action at 53. These documents are publicly available on the PTO’s “PAIR” website, <http://portal.uspto.gov/external/portal/pair>, by entering the reexamination number (95/000469) in the “Control Number” field, and selecting the “Image File Wrapper” tab. See *Standard Havens Prods., Inc. v. Gencor Indus., Inc.*, 897 F.2d 511, 514 n.3 (Fed. Cir. 1990) (filings in reexamination proceeding are public records that may be judicially noticed).

The specification confirms that for purposes of Mr. Gross's invention, "replenishment" of the queue is performed by the computer system itself, not by the subscriber:

- "A fourth preference display area 240 is used to specify options for 'how' *the system* should replenish or supplement the Subscriber Selection Queue 110" (A0049, 10:5-7 (emphasis added));
- "recommender should work in the background, seamlessly and without extensive burdensome participation by the subscriber so that *the queue is automatically replenished*" (*id.*, 10:28-31 (emphasis added));
- "Additional replenishment options are based on various categories of selections available at the media service provider. Thus, a subscriber can ask that any *automatic selection* be restricted to one or more, particular categories, such as a New Release, a particular genre, a particular collection, from the top 100 most popular choices, from a Critic's choice selection, etc." (*id.*, 10:32-38 (emphasis added));
- Recommendations are "used by a Queue Control Monitor 726 to replenish/modify/update a subscriber delivery queue 723" (A0053, 18:19-24); and

- “the present invention could similarly operate to review a subscriber’s selection queue, make recommendations, and replenish a Subscriber Selection Queue with suggestions” (A0057, 25:46-53).

These uses of the term “replenishment” are completely consistent with the specification’s description of Mr. Gross’s purported invention: a set of parameters chosen by the subscriber so that “the system automatically ensures that [the subscriber’s] preference queue is never allowed to completely run ‘dry’ so to speak.” (A0047, 5:60-63.)

During prosecution, the patentee confirmed that the patent claims are directed to automatic modifications of the rental queue. At one point, the Examiner rejected several claims on the ground of indefiniteness, including then pending claim 7, which ultimately issued as claim 13 of the ’243 patent. (A0651-52.) As claims 13 and 23 do now, those rejected claims had limitations requiring a “separate set of queue replenishment control rules” used to monitor the subscriber rental queue, and a “trigger event to be used in determining when said subscriber rental queue should be modified.” (A0508-10.)

Faced with the Examiner’s rejection, Mr. Gross responded with an amendment that he stated made the claims perfectly clear: “it should be apparent now that these [claims] are directed to alternative techniques by which a user can set up a set of rules which *automatically cause a modification to a subscriber*

rental queue.” (A0640 (emphasis added).) Eventually, after further amendment, the Examiner allowed the claims. This exchange confirms that the queue replenishment control rules govern the automatic addition of items to the rental queue. *800 Adept, Inc. v. Murex Sec., Ltd.*, 539 F.3d 1354, 1365 (Fed. Cir. 2008) (using statements made during prosecution “as support for the construction already discerned from the claim language and confirmed by the written description”); *see also Chimie v. PPG Indus.*, 402 F.3d 1371, 1384 (Fed. Cir. 2005) (noting that claims should be construed consistent with the prosecution history).

On appeal, Media Queue focuses on the word “can,” arguing that “Mr. Gross was discussing a capability of the system as opposed to a requirement.”

(M.Q. Br. 31.) Media Queue ignores, however, that this discussion was directed to the meaning of the claim term “queue replenishment control rules,” which is unquestionably a limitation of the claims. Thus, even if Mr. Gross were only addressing a system “capability,” that capability is required by the claims. As the district court recognized, an infringing system must at least provide an *option* for automatically adding items:

Although a subscriber may choose not to benefit from the automatic queue replenishment feature, the subscriber still has to be presented with this option, and a computer must determine whether the subscriber has selected this option.

(A0020.) Thus, as the district court found, the claims require that the subscriber

authorize rules governing *whether* to automatically add items to the queue.

Media Queue cites to several examples from the specification where “the system may merely alert the subscriber to the queue deficiency.” (M.Q. Br. 30.) These examples are fully consistent with the district court’s construction. In each such example, the subscriber has selected an option determining whether the system will automatically add items to the queue. (*Compare* A0048, 8:42-56 (discussing Figure 2 “Threshold Option #1” cited by M.Q. Br. 29-30) *with* A0048-49, 8:57-9:28 (discussing additional threshold options including automatic additions to the queue); *compare* A0051, 14:6-7 (discussing Figure 4 step 435, cited by M.Q. Br. 30) *with id.*, 14:15-20 (discussing step 445, in which the queue is automatically updated).)

Having failed to find support for its construction in the intrinsic evidence, Media Queue again relies on the doctrine of claim differentiation. Media Queue points to unasserted claim 1, which specifies that the “set of notification rules and/or set of queue replenishment control rules include a user configurable option with a first choice to automatically trigger a modification of the subscriber rental queue, and a second choice which does not trigger a modification of the subscriber rental queue.” (A0057, 26:28-34.) According to Media Queue, “[t]his language is very similar to the district court’s interpretation of the automatic aspects of ‘queue replenishment control rules.’” (M.Q. Br. 28.)

But the doctrine of claim differentiation creates at most a rebuttable presumption that no claim in a patent should be read in a manner that would make an entire claim superfluous. *See Free Motion Fitness, Inc. v. Cybex Int'l, Inc.*, 423 F.3d 1343, 1351 (Fed. Cir. 2005). Nothing in the construction of “queue replenishment control rules” would render claim 1 superfluous, because there are many other differences between claim 1 and claims 13 and 23. Moreover, this Court has repeatedly recognized that sometimes the best reading of claim language requires finding the same idea reflected in different language.

That the patentee chose several words in drafting a particular limitation of one claim, but fewer (though similar) words in drafting the corresponding limitation in another, does not mandate different interpretations of the two limitations, since “defining a state of affairs with multiple terms should help, rather than hinder, understanding.”

Kraft Foods, Inc. v. Int'l Trading Co., 203 F.3d 1362, 1367-68 & n.2 (Fed. Cir. 2000) (holding that “protecting back panel” meant a back panel that was “relatively stiff,” even though another claim expressly claimed a “back panel comprising a flat relatively stiff planar”); *see also Seachange Int'l, Inc. v. C-COR, Inc.*, 413 F.3d 1361, 1375 (Fed. Cir. 2005) (holding “network for data communications” meant “point-to-point two way channel interconnection,” even though that phrase was expressly used in another claim). Here, the doctrine of

claim differentiation cannot justify rejecting the district court's construction of "queue replenishment control rules."

C. As the District Court Correctly Concluded, Media Queue Offered No Evidence that Netflix Uses Queue Replenishment Control Rules

The district court correctly concluded that Media Queue failed to establish a dispute of fact as to whether Netflix employs "queue replenishment control rules." Media Queue pointed to "User Profiles," which "enabl[e] a subscriber to divide DVD allotments for different profiles defined within the subscriber's account," and "enabl[e] a subscriber to specify maturity levels for different profiles[.]" (A0025.) Media Queue also pointed to Netflix's subscription plans, which "allow a subscriber to designate how many titles the subscriber can check out at one time and/or how many titles the subscriber can receive per month[.]" (A0026.) As the district court found, these features do not govern whether to automatically add media items to the queue. Media Queue does not contend otherwise on appeal.

Moreover, none of these features have anything to do with reordering of items within the queue. Thus, even if Media Queue could show that the claim term encompassed reordering, summary judgment would still be proper. *Granite Mgmt. Corp.*, 416 F.3d at 1378; *Brice v. Sec'y of Health and Human Servs.*, 240 F.3d 1367, 1372 n.2 (Fed. Cir. 2001).

III. THE DISTRICT COURT CORRECTLY RULED THAT A SUBSCRIBER’S ACT OF USING NETFLIX’S SERVICE DID NOT CONSTITUTE DEFINING A SET OF RULES “AUTHORIZED BY THE SUBSCRIBER”

The district court correctly construed the claim term “authorized by the subscriber” to mean “elected by the subscriber after the subscriber is presented with a choice among multiple options.” (A0021-22.) Within the context of the ’243 patent’s claims, that means that the subscriber must *choose* “a set of notification rules” and “a separate set of queue replenishment control rules.” As the court below concluded, the subscriber is not presented with a meaningful choice if the subscriber merely “permits” or “sanctions” a set of rules predetermined by the system. (A0021; A0023-24.)

A. The Specification Demonstrates that User Selection of the Rules Governing the Queue Is Central to the Invention

The specification repeatedly emphasizes that user selection is a key aspect of the invention. The first two “objects of the present invention” listed are:

(1) overcoming the identified “limitations of the prior art,” including the supposed “limitation of the Netflix system . . . that it does not give subscribers any flexible degree of control over their rental selection queue or shipments” (A0046, 3:3-4; A0045, 2:20-23); and (2) providing “an intelligent queue monitoring system that allows subscribers/purchasers to define policies and rules to be used in determining

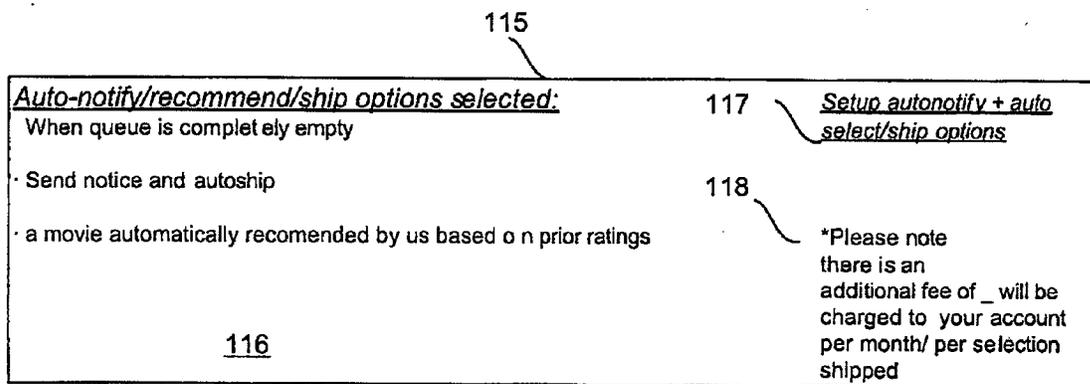
what actions should be taken with respect to particular items” in the queue.

(A0046, 3:5-9.)

Consistent with these objects of the invention, all of the embodiments in the specification provide the subscriber with choices among multiple options.

As shown in Figure 1 below, the system provides a display area that “identifies a set of subscriber queue control options in place for a subscriber, as well as links to additional features by which the subscriber can add or modify such options.”

(A0034; A0047, 6:42-45.)



The display area has a “queue control setup link” that “allow[s] a subscriber to alter or modify subscriber queue control options.” (A0047, 6:61-63.) This opens the “queue control electronic interface” of Figure 2. (A0048, 7:35-43.) The interface provides multiple options to allow “users/subscribers to set up queue monitoring control parameters, queue notification parameters, queue replenishment parameters and other queue control options.” (*Id.*)

These subscriber-selected options are central to Mr. Gross’s purported invention. As the very first step in using the system, the “subscriber configures his/her preferences” by either “elect[ing] a number of default values, or begin[ning] the process of configuring particular parameters to be used in a queue monitoring system.” (A0051, 13:32-35; A0052, 15:33-35.)

Media Queue’s attempt to give the term “authorized” a broader meaning is inconsistent with the specification. The patent does not merely mention subscriber selection as one of many possible embodiments of the invention; it characterizes this feature as “unique to the present invention.” (A0047, 6:41-46.) The patent identifies the relevant prior art—Netflix’s system—and criticizes it for lacking options for subscribers to select the rules that would govern their queue. All of the disclosed embodiments are directed to subscriber selections that control the management of the subscriber’s queue. Under such circumstances, the claims should be read as limited to the use of subscriber selection:

Where the specification makes clear that the invention does not include a particular feature, that feature is deemed to be outside the reach of the claims of the patent, even though the language of the claims, read without reference to the specification, might be considered broad enough to encompass the feature in question.

SciMed Life Sys. Inc. v. Advanced Cardiovascular Sys. Inc., 242 F.3d 1337, 1341 (Fed. Cir. 2001). Just as in *SciMed*, the patent here “explains that the prior art . . .

‘suffer[s] from several disadvantages.’” *Id.* at 1342. And, as in *SciMed*, the patent here describes user selection as part of “the present invention.” *Id.* at 1343 (“[T]he characterization of [a feature] as part of the ‘present invention’ is strong evidence that the claims should not be read to encompass the opposite structure.”); *see also Edwards Lifesciences*, 582 F.3d at 1330 (“[W]hen the preferred embodiment is described in the specification as the invention itself, the claims are not necessarily entitled to a scope broader than that embodiment.”) (citations omitted).

Media Queue’s argument that allowing subscriber selection is merely a preferred embodiment (M.Q. Br. 34-35) “flies in the face” of the specification’s statements that “define ‘the invention’” as selection of queue parameters. *SciMed*, 242 F.3d at 1344; *see also Toro Co. v. White Consol. Indus.*, 199 F.3d 1295, 1300-01 (Fed. Cir. 1999) (finding that a claim required a particular configuration where the specification described the importance of the configuration and did not disclose others).

The district court therefore correctly determined that the claim term “authorized by the subscriber,” read within the context of the claims and the specification, requires affirmative selection of the parameters that govern notifications and automatic queue replenishment. *See Microsoft Corp. v. Multi-Tech Sys., Inc.*, 357 F.3d 1340, 1351-52 (Fed. Cir. 2004) (construing a claim as

requiring a feature because it was “central to the functioning of the claimed invention”); *accord Alloc, Inc. v. ITC*, 342 F.3d 1361, 1369-70 (Fed. Cir. 2003).

B. This Court Can Affirm on the Alternative Ground that Media Queue Has Not Raised a Genuine Issue of Material Fact of Infringement Even If “Authorized by the Subscriber” Does Not Require Selection from a Group of Options

Media Queue’s brief on appeal criticizes the district court’s construction of the term “authorized” as requiring selection from a group of options. (*See, e.g.*, M.Q. Br. 33-35.) As shown above, the district court committed no error in this aspect of the claim construction. Any such error, however, would not require reversal.

If the “multiple options” language were removed from the court’s construction, the remaining construction would still require rules “elected by the subscriber.” Below, Media Queue offered no evidence that Netflix subscribers make an affirmative “election” of the Terms of Use. To the contrary, the undisputed evidence established that a Netflix user *must* accept the Terms of Use as is. (A0023.) Accordingly, the judgment should be affirmed, even if this Court were to adopt Media Queue’s proffered construction.

Moreover, according to the plain language of the claims and specification, the notification and queue replenishment control rules must be authorized by a *subscriber*. The Terms of Use cannot be authorized by a subscriber because at the time of acceptance, an individual is not yet a subscriber. As the district court

observed, “someone who chooses not to accept the Terms of Use would not be a ‘subscriber’ of Netflix’s services.” (*Id.*) Accordingly, agreeing to Netflix’s Terms of Use cannot constitute authorization of the notification and queue replenishment control rules, even under a broader construction of “authorized.”

IV. ALTERNATIVELY, THE CLAIM TERMS “NOTIFICATION RULES” AND “QUEUE REPLENISHMENT CONTROL RULES” ARE INDEFINITE

The summary judgment can also be affirmed on the independent ground that the claims are invalid as indefinite under 35 U.S.C. § 112 ¶ 2. Netflix joins Part II of the brief filed by Defendant-Appellee Blockbuster on that issue.

V. THE DISTRICT COURT ERRED IN DENYING NETFLIX’S MOTION FOR ATTORNEYS’ FEES

Relying on this Court’s precedent, the district court denied Netflix’s motion for fees, concluding that Netflix had not shown that this litigation was objectively baseless and brought in bad faith. This Court should revisit the appropriate legal standard for a prevailing defendant, so that those who successfully defend an infringement suit are placed on equal footing with prevailing patentees.⁵

Section 285 of Title 35 provides: “[t]he court in exceptional cases may award attorney fees to the prevailing party.” This statutory language does not differentiate between prevailing plaintiffs and defendants. Yet this Court has

⁵ Pursuant to Rule 35 of this Court’s rules, Netflix is filing, concurrently with this brief, a petition that this issue be initially heard *en banc*.

applied section 285 in a manner that makes it substantially more difficult for prevailing defendants to obtain fees. As the Supreme Court held in the copyright context in *Fogerty v. Fantasy, Inc.*, 510 U.S. 517 (1994), plaintiffs and defendants are entitled to equal treatment in obtaining attorneys' fees. This Court's section 285 precedent runs afoul of this important principle.

This Court should revise the standard and hold that a district court has wide discretion in evaluating a fees motion, and that among the ways a prevailing defendant can obtain fees is to show that (1) the patentee was objectively reckless in filing or pursuing a lawsuit, or (2) the defendant vindicated an important public interest that will have ramifications beyond the bounds of that case itself. Netflix's motion for fees should have been granted, as it meets both of these tests.

A. 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*).

Plaintiffs do not have to prove that the defendant's arguments were frivolous.

Indeed, 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, when there is a finding of willful infringement, the legal framework adopted by this Court effectively shifts the burden 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) (“While a finding of willful infringement does not mandate that damages be increased or that attorneys fees be awarded, 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* for the purpose of awarding attorneys fees.”) (emphasis added).

As an empirical matter, defendants are frequently found to have willfully infringed and are thus often required to pay plaintiffs’ attorneys’ fees. Kimberly A. Moore, *Empirical Statistics on Willful Patent Infringement*, 14 Fed. Cir. B. J. 227, 232, 237 (2004) (finding that in 664 cases where willfulness was tried and decided between 1983 and 2000, “[w]illfulness was found in 67.7% of the jury trials and 52.6% of the bench trials” and that “[a]ttorney fees generally accompany enhanced damages for willfulness”).

For prevailing defendants, however, exceptionality is much more difficult to demonstrate. In *Wedgetail*, this Court provided an extensive recitation of 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 1304-05. *Wedgetail* then established this Court’s current standard for a prevailing defendant to obtain fees: “[M]indful of the limited circumstances in which an award of attorney fees is appropriate . . . 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.” *Wedgetail*, 576 F.3d at 1305. Under this standard, 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).⁶ And even in the rare

⁶ The standard adopted by this Court in *Wedgetail* marks a significant departure from prior case law. In *Eltech Systems Corp. v. PPG Industries*, 903 F.2d 805, 811 (Fed. Cir. 1990), this Court noted that “there is and should be no difference in the 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.”

case in which a defendant could establish this standard, all that results is that the district court has *discretion* to award fees.⁷

The *Wedgetail* standard—that a defendant must demonstrate the lack of any objective basis for plaintiff’s case, and that the plaintiff actually knew it—is the same as requiring a showing that plaintiff’s case was frivolous. *Wedgetail*, 576 F.3d at 1304-05. This frivolity standard is almost impossible for accused infringers to meet. As a result, courts applying this standard are unlikely to award fees even in cases involving obviously weak patent claims.

1. 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 demonstrates that this Court has adopted too stringent a standard for prevailing defendants in patent cases. Before 1994, copyright law regularly awarded attorneys’ fees to prevailing plaintiffs, but only rarely to prevailing defendants. *Fogerty* ended that practice. The Court established that plaintiffs and defendants are entitled to equal treatment in obtaining attorneys’ fees in copyright cases, in

⁷ This Court also permits the award of attorneys’ fees based on a finding of inequitable conduct. Inequitable conduct is rarely proven, however, as it requires proof not only of a material misstatement or omission to the PTO but also an affirmative intent to deceive. The standard remains significantly higher than the corresponding standard for willfulness, which can be found on the basis of a negligent state of mind, and which, unlike inequitable conduct, is a continuing obligation.

significant part because victories by intellectual property defendants as well as plaintiffs can vindicate important public interests.

Although *Fogerty* was based upon 17 U.S.C. § 505, which differs from section 285, the Supreme Court held that plaintiffs and defendants must be treated evenhandedly in part because “the federal fee-shifting statutes *in the patent and trademark fields*, which are more closely related [than the Civil Rights Act] 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). Thus, despite the differences in the patent, trademark, and copyright statutes, the Court found them sufficiently “closely related” that lessons from one should carry over to the others.

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 with equal force in patent cases. The Supreme Court has long made clear the important public interest in invalidating weak patents. *See Lear, Inc. v. Adkins*, 395 U.S. 653, 670 (1969) (abrogating licensee

estoppel because of the “important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain”); *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313, 343, 350 (1971) (reaffirming that “[a] patent by its very nature is affected with a public interest. . . . [It] is an exception to the general rule against monopolies and to the right to access to a free and open market. The far-reaching social and economic consequences of a patent, therefore, give the public a paramount interest in seeing that patent monopolies spring from backgrounds free from fraud or other inequitable conduct and that such monopolies are kept within their legitimate scope.”). The Supreme Court has recognized that, even when a patent is found not to be infringed, 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) (“Where the patent is used as a means of restraining competition with the patentee’s sale of an unpatented product, the successful prosecution of an infringement suit even against one who is not a competitor in such sale is a

powerful aid to the maintenance of the attempted monopoly of the unpatented article, and is thus a contributing factor in thwarting the public policy underlying the grant of the patent.”).

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. The Supreme Court’s reasoning in *Fogerty* is instructive. In that case, the defendant did not invalidate the copyright, but prevailed at trial on non-infringement, after denial of its summary judgment motion. The Court nonetheless found a fee award appropriate. “[A] successful defense of a copyright infringement action may further the policies of the Copyright Act every bit as much as a successful prosecution of an infringement claim by the holder of a copyright.” *Fogerty*, 510 U.S. at 527.

2. This Court’s Standard for Prevailing Patent Defendants Is Inconsistent with Other Courts’ Treatment of the Trademark Statute

The fee provision in the trademark statute is identical to the patent statute. *See* 15 U.S.C. § 1117 (providing in relevant part that “[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party.”); 35 U.S.C. § 285 (same). Indeed, the trademark statute was copied directly from the patent statute, and the legislative history of the trademark fees statute makes explicit

reference to the fact that “[t]he federal patent and copyright statutes expressly provide for reasonable attorney fees” S. Rep. 93-1400, 1974 U.S.C.C.A.N. 7132, 7135.

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 patent counterpart. *See, e.g., Door Sys., Inc. v. Pro-Line Door Sys., Inc.*, 126 F.3d 1028, 1031-2 (7th Cir. 1997) (“[B]ad faith is not the correct standard for determining whether to award attorneys’ fees to the defendant in a Lanham Act case. . . . [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.”); *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.”).⁸

⁸ *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 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’”).

Indeed, the Supreme Court in *Fogerty* noted 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 (4th Cir. 1992)). If anything, it should be easier for patent defendants than patent plaintiffs to obtain fees.

In short, courts considering the most analogous statutes have found that, at the very least, that defendants and plaintiffs must be treated equally. And those courts have not required that a plaintiff’s case be frivolous. This Court should similarly interpret the language of the patent statute.

3. Requiring Prevailing Defendants to Demonstrate Frivolity Renders Section 285 Superfluous

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 has the effect of making exceptionality coextensive with Rule 11 of the Federal Rules of Civil Procedure, thereby rendering section 285 superfluous.

This Court’s legal standard for proving fees under section 285 tracks the basic standard for 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). Although these standards are very similar, this articulation of the Rule 11 standard appears to set a *lower* bar than the *Wedgetail* interpretation of the fees statute. Both standards require that the claim be objectively baseless. Rule 11 merely requires the absence of a reasonable investigation, while the fees statute, by contrast, has been interpreted by this Court to require subjective bad faith.

As a result, there appears to be no circumstance in which a prevailing defendant could be entitled to fees under section 285 in which it would not also be entitled to fees under Rule 11.⁹ And 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

⁹ While it is true that a violation of Rule 11 does not always lead to an award of fees, the same is true of section 285. The finding that a case is exceptional merely gives the court discretion to award fees; it does not compel it.

separately); *Cambridge Prods., Ltd. v. Penn Nutrients, Inc.*, 962 F.2d 1048, 1050 (Fed. Cir. 1992).

This Court's restrictive approach to attorneys' fees has even abrogated the equitable power that district courts already possessed under the common law. 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' . . . and federal courts do not hesitate to exercise this inherent equitable power whenever 'overriding considerations indicate the need for such a recovery.'" *Id.* at 5.

In discussing the scope of that equitable power, the Supreme Court drew a clear distinction between the punitive rationale for awarding fees, where bad faith is a requirement, and the public benefit rationale, where it is not. "[A]lthough the presence of 'bad faith' is essential to 'fee-shifting' under a 'punishment' rationale, neither the presence nor absence of bad faith is in any sense dispositive where attorneys' fees are awarded to the successful plaintiff under the 'common benefit' rationale . . ." *Id.* at 15. *See also Chambers v. NASCO, Inc.*, 501 U.S. 32, 45-46 (1991) (permitting fee awards in the absence of bad faith when a prevailing party benefits a group of other non-parties).

In its recent decision in *Medtronic Navigation*, this Court limited the inherent equitable power of the courts 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, this Court has created a fees rule that is even *more* restrictive than the traditional equitable powers extant when Congress enacted the patent 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 specific to patent law; it must mean something more than that courts are to apply the same standards they would have applied if section 285 did not exist. This Court should not interpret section 285 in a way that renders it of no effect.

4. 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 15 U.S.C. §1117, cited by *Scotch Whisky*, 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.”

S. Rep. 93-1400, 1974 U.S.C.C.A.N. 7132, 7137 (emphasis added).

This Court’s frivolity requirement has converted the case-by-case standard into a bright-line rule. A finding of exceptionality is practically mandatory where a plaintiff wins on willfulness; by contrast, denying fees is effectively mandatory in the absence of true frivolity when the defendant wins. Thus, the award or denial of fees, which is supposed to be discretionary, has become largely mandatory.

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.*, 535 U.S. 722, 738 (2002) (“we have consistently applied the doctrine [of equivalents] in a flexible way, not a rigid one”; reversing rigid rule for prosecution history estoppel); 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) (rejecting both the district court’s and this Court’s categorical rules regarding the grant of injunctive relief in favor of “the equitable discretion of the district courts . . . [S]uch discretion must be exercised consistent with traditional principles of equity, in patent disputes no less than in other cases governed by such standards.”);

in *MedImmune* for setting an exclusive test for declaratory judgment jurisdiction, *MedImmune, Inc. v. Genentech, Inc.*, 549 U.S. 118, 127 (2007) (rejecting bright-line test for declaratory judgment jurisdiction); 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, 401-02 (2007) (“The TSM test captures a helpful insight Helpful insights, however, need not become rigid and mandatory formulas”). Most recently, the Supreme Court 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 fairness of denying fees to a prevailing accused infringer. District courts cannot at the same time enforce such a rule and make discretionary judgments about what is really fair.

5. The Current Restrictive Rule Permits Abusive Patent Litigation

The social costs of this Court’s restrictive rule are substantial. Patent litigation is extremely expensive, with attorneys’ fees often exceeding \$5.5 million per side. American Intellectual Property Law Association, Report of the 2009

Economic Survey 29 (2009). The strict standard this Court has adopted means that defendants cannot expect to recover that money even if the patentee knowingly sues on a weak patent. As a result, defendants are discouraged from litigating a case to judgment even if they are quite confident they will win; it is normally cheaper to settle with the plaintiff than to pay more in attorneys' fees just to invalidate the patent.

Asserting weak patents against numerous defendants in hopes of a nuisance-value settlement has become a common business model. The result has been that, 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 restrictive fees rule is part and parcel of that business model based on litigation abuse. The business of asserting weak patents is profitable only because those who assert weak patents know that they can impose costs on defendants without being at risk of having to pay those costs.

B. This Court Should Revisit the Section 285 Standard to Permit District Courts Discretion to Award Fees to Prevailing Defendants When the Patentee’s Case Was Objectively Reckless, or When the Defendant Vindicates an Important Public Interest

The concerns articulated above point the way towards an interpretation of section 285 that is consistent with Supreme Court precedent, the rule in other

circuits, and sound public policy. That interpretation should be evenhanded, recognizing that defendants as well as plaintiffs can vindicate important interests. It should give real discretion to district courts to consider the facts of each case. And it should not be limited to frivolous lawsuits.

The logical way to achieve these goals is to give district courts real power to consider the equities of each case in deciding whether to award fees. Both the history of the statute and recent Supreme Court precedent suggest that case-by-case evaluations, not bright-line rules, are appropriate in a circumstance such as this.

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.¹⁰

¹⁰ 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.

As *Fogerty* makes clear, however, weak cases are not the only possible basis for an award of fees. Prevailing parties should also be entitled to persuade a district court that they have vindicated an important public interest that will have ramifications beyond the bounds of the case itself, either by setting a precedent or by relieving others of the burden of similar litigation. The Supreme Court has recognized one such important public interest: the invalidation of patents. *See Lear*, 395 U.S. at 670-71; *Blonder-Tongue*, 402 U.S. at 343, 350; *Cardinal Chemical*, 508 U.S. at 100-01. But proof of non-infringement can also vindicate important public interests in appropriate cases, as it did in *Fogerty*.

The award of fees on the basis of objective recklessness or the vindication of an important public interest should be within the discretion of the district courts in the first instance. Freed from the constraints of the frivolity requirement, those courts will be best positioned to develop the facts that may support an award for either reason.

C. 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

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: "Thus, from a fundamental perspective, the Netflix system (and other prior art systems like it) do not permit any significant user interaction, control or monitoring of selections presented in a rental queue").) He then opportunistically used the disclaimer of that subject matter to advance its prosecution. (A2325.)

Once he obtained his patent, the patentee then tried to sell his patent to Netflix. When he failed, he sold the patent to Media Queue, a nonpracticing entity created for the single purpose of the present lawsuit. After an abortive attempt to bring the case in Oklahoma, a forum that had nothing to do with the dispute,¹¹ Media Queue then asserted the allegedly novel patent against *preexisting* Netflix features, including those that had been expressly disclaimed. For instance, Media

¹¹ Media Queue's principal had his father sign up for codefendants' service in Oklahoma the same month the lawsuit was filed—he was the only subscriber in the district. (A2305-06 at 27:25-28:10.)

Queue alleged that Netflix's subscription plans contained the allegedly novel "queue replenishment control rules":

A Netflix subscriber is permitted to make a selection of subscription plans from multiple options. . . . The option selected determines how many movies the subscriber can have out at one time and determines whether to limit the number of movies the subscriber can receive in a month. . . . Thus, a Netflix's [sic] subscriber's plan plainly contains a set of queue replenishment control rules.

(A1944-45.) This Netflix feature was indisputably part of the prior art, and had been expressly disclaimed in the Media Queue patent.¹² Media Queue also accused Netflix's practice of shipping titles in order of availability of satisfying the same limitation (A1943), even though this feature was also unquestionably present in the prior art Netflix service. (See A1589, 11:20-22 ("if a particular customer's first choice is not available, or already rented, then the item having the next highest priority can be rented to the particular customer").) And all of this was drawn to the district court's attention in Netflix's fees motion. (A2326-27.) Media Queue's

¹² (See A2322; A0045 at 1:26-28, 1:30-33, 1:57-67 ("One such popular website is maintained by Netflix®, where subscribers can search, review and select movie titles (in DVD media format). . . . During an interactive online session, a subscriber can select a number of [titles], and then prioritize them in a desired order for shipment within the selection queue. . . . Under the Netflix terms of service, the system places a limit on the number of outstanding [titles] that a subscriber may have at any one time (typically, a function of the level of service agreement, with more \$\$/month resulting in more titles). . . . This happens automatically, so the user does not need to return to the Netflix website to request the shipment."))

assertion of a patent claim against the features that were clearly preexisting demonstrates its bad intent.

The district court handily rejected Media Queue's arguments on claim construction and summary judgment. Moreover, had Media Queue somehow prevailed on claim construction, there is little question that the claims so broadened would have been invalid, because by the plaintiff's own admission in prosecution they would have tread on the prior art. And in any event claim construction was merely the first argument Netflix raised; it had many others in reserve. While the district court never had the opportunity to rule on invalidity in this case, Netflix should not lose its opportunity to recover its attorneys' fees merely because it pursued and won on only one of the many possible grounds for defeating the suit. Such a rule would encourage unnecessary litigation on ancillary issues.

In addition, Netflix has vindicated an important public interest in this case. The facts of this case are simple and are not subject to reasonable dispute. The patentee explicitly drafted his patent to claim a purported improvement on the admitted prior art Netflix system. Unable to sell his patent to Netflix, he sold it to a nonpracticing entity created for the single purpose of the present lawsuit. This entity then accused previously existing elements of Netflix's service of satisfying the elements of this patent that the patentee had explicitly told the USPTO were novel. Indeed, the accused features of Netflix's service (if terms of use can

reasonably be considered to be a “feature”) were not simply disavowed in prosecution; they were explicitly discussed and distinguished in the very specification of the patent itself.

Further, 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. When Netflix chose to fight this case rather than settle, it reduced the expected value of all such cases. The more that similarly situated accused infringers make the same decision, the less valuable such meritless strike suits will become. But as the law stands today, all that stands between the Media Queues of the world and their nuisance-value settlements is Netflix’s willingness to stand on principle. This Court should revisit its interpretation of the patent fees statute so that when the next Media Queue decides to impermissibly expand the scope of its patent monopoly, district courts will at least have enough discretion to make them bear the cost of their own conduct.

CONCLUSION

The district court correctly construed the claim terms “notification rules,” “queue replenishment control rules,” and “authorized by the subscriber,” and correctly applied those constructions to grant Netflix’s summary judgment motion.

In addition, this Court can affirm on the alternative ground that the claims are indefinite and therefore invalid under 35 U.S.C. § 112, ¶ 2.

The district court erroneously denied Netflix's motion for attorneys' fees. This Court should revisit the standard for finding a case exceptional under 35 U.S.C. § 285 so that it applies in an evenhanded way to prevailing plaintiffs and defendants. Under the appropriate standard, Netflix is entitled to its fees.

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Respectfully submitted,



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CERTIFICATE OF COMPLIANCE

1. This brief complies with the type-volume limitation of Federal Rule of Appellate Procedure 28.1(e)(2)(B), because it contains 16,316 words, excluding the parts of the brief exempted by Federal Rule of Appellate Procedure 32(a)(7)(B)(iii) and Federal Circuit Rule 32(b).

2. This brief complies with the typeface requirements of Federal Rule of Appellate Procedure 32(a)(5) and the type style requirements of Federal Rule of Appellate Procedure 32(a)(6), because it has been prepared in a proportionally spaced typeface using Microsoft Word 2003 SP2 in Times New Roman 14 point font.

Dated: July 1, 2010


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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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