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 6 NETFLIX, INC.

7 UNITED STATES DISTRICT COURT  
 8 NORTHERN DISTRICT OF CALIFORNIA

10 NETFLIX, INC., a Delaware corporation,  
 11 Plaintiff,

13 v.

14 BLOCKBUSTER, INC., a Delaware  
 corporation, DOES 1-50,  
 15 Defendant.

Case No. C 06 2361 WHA (JCS)

**NETFLIX'S CASE-MANAGEMENT  
 MEMORANDUM**

Complaint filed: April 4, 2006

16 AND RELATED COUNTERCLAIMS  
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1 Netflix submits this case-management memorandum as requested by the Court in its  
2 April 20, 2007 Request re: Case Management.

3 **(i) Substantive motions expected to be made before the trial to streamline the case**  
4 **(excluding motions in limine directed at evidentiary items).**

5 Netflix believes that this case should present neatly for trial, and only anticipates filing  
6 three pretrial motions other than motions *in limine*:

7 (1) *Motion for summary judgment on Blockbuster's affirmative defense of patent misuse.*

8 As the Court may know, the parties have stipulated that Blockbuster will dismiss its antitrust  
9 counterclaims, and that the parties will thereafter not comment on or seek advantage relating to  
10 any evidence of spoliation. But Blockbuster retains an affirmative defense of patent misuse.

11 Blockbuster's operative answer consists of two conclusory paragraphs, and it is unclear to  
12 Netflix on what basis Blockbuster contends that Netflix has broadened the scope of its patents,  
13 with anticompetitive effect. Netflix intends to file this motion on June 14.

14 (2) *Motion for summary judgment on Blockbuster's affirmative defenses of laches and*  
15 *estoppel on the '381 patent.* Netflix's '381 patent, the newer of its two patents-in-suit, issued on  
16 the day that Netflix filed suit. Netflix is unaware of any basis under which Blockbuster could  
17 sustain an estoppel defense as to the '381 patent. Blockbuster's laches argument on the '381  
18 patent appears to claim prosecution laches, which Netflix will demonstrate is disfavored. Netflix  
19 intends to file this motion on June 14.

20 (3) *Motion to strike prior art.* Depending on the references on which Blockbuster's  
21 validity expert relies, Netflix may move to strike particular references as untimely disclosed, to  
22 the extent the references were not included in Blockbuster's preliminary invalidity contentions  
23 and were impermissibly added to Blockbuster's final invalidity contentions. Of course, should  
24 Blockbuster's expert seek to rely on any references not identified in Blockbuster's final  
25 invalidity contentions, Netflix would move to strike those references too.

26 **(ii) Recommendation regarding whether the same jury should hear the patent and**  
27 **antitrust cases.**

28 Once the Court enters the parties' stipulation dismissing Blockbuster's antitrust  
counterclaims, this question will become moot.

1 (iii) To what extent the jury will need [to] or should hear the inequitable conduct cases.

2 To answer the first portion of the Court’s question, the jury does not *need* to hear  
3 Blockbuster’s inequitable-conduct defense. As the name suggests, inequitable conduct is an  
4 equitable defense, and there is no Seventh Amendment right to jury trial on inequitable conduct.  
5 *Gardco. Mfg. v. Herst Lighting Co.*, 820 F.2d 1209, 1213 (Fed. Cir. 1987).

6 To answer the second portion of the Court’s question—*should* the jury hear the  
7 inequitable-conduct defense—requires more consideration. Trial courts are given wide latitude  
8 in how they choose to try inequitable-conduct defenses:

9 There are a variety of ways in which the district court may choose to handle the  
10 issue of inequitable conduct during a jury trial, as the Federal Circuit has  
11 recognized. Some courts have reserved the entire issue of inequitable conduct  
12 unto themselves; some have submitted special interrogatories to the jury on the  
facts of materiality and intent; and some have instructed the jury to find and  
weigh the facts of materiality and intent and decide the ultimate question of  
inequitable conduct, as in the case at bar.

13 *Hebert v. Lisle Corp.*, 99 F.3d 1109, 1114 (Fed. Cir. 1996). “Absent a clear showing of  
14 prejudice, or failure to achieve a fair trial, the district court's choice of procedure will not be  
15 disturbed.” *Id.*

16 Your Honor has previously held that “[i]ssues regarding inequitable conduct are for the  
17 Court and not the jury” and that “[t]he Court will determine the factual findings with respect to  
18 materiality for inequitable conduct.” *Keytrak Inc. v. Key Register, L.L.C.*, No. C 03-00870  
19 WHA, 2004 WL 2944043, at \*4 (Mar. 30, 2004 N.D. Cal.) (granting motion *in limine* excluding  
20 expert testimony on inequitable conduct from jury trial). *Cf. Intel Corp. v. VIA Tech., Inc.*, 176  
21 F.Supp.2d 991, 999 (N.D. Cal. 2001) (“The defense of inequitable conduct is entirely equitable  
22 in nature, and thus not an issue for a jury to decide.”) (quoting *PerSeptive Biosystems, Inc. v.*  
23 *Pharmacia Biotech, Inc.*, 225 F.3d 1315, 1318 (Fed. Cir. 2000)) (Alsup, J.). Netflix respectfully  
24 suggests that this case presents no reason to deviate from those holdings.

25 Netflix believes that it would conserve judicial resources and be fair for the Court alone  
26 to hear and decide the inequitable-conduct defense, because the inequitable-conduct allegations  
27 are of limited relation to what the parties will otherwise try. There are three different  
28 inequitable-conduct allegations that Blockbuster has indicated it intends to advance: (1) Netflix

1 allegedly failed to disclose any prior-art references to the PTO in prosecuting its earlier patent,  
2 the '450, leaving the patent examiner to uncover what he could; (2) Netflix allegedly later  
3 disclosed too much by “dumping” over 100 references on the PTO in prosecuting its later patent,  
4 the '381, supposedly overwhelming the patent examiner such that he could not reasonably cull  
5 the wheat from the chaff; and (3) in prosecuting both patents, Netflix allegedly failed to disclose  
6 material prior-art patents owned by National Cash Register that had been brought to Netflix’s  
7 attention before the '450 patent issued (“NCR Patents”).

8         While Netflix will demonstrate that none of these allegations is true—let alone sufficient  
9 to prove unenforceability under a clear-and-convincing standard—the allegations also lack any  
10 relation to Netflix’s claims of infringement and willful infringement (and Blockbuster’s non-  
11 infringement defense), because the allegations are distinct from Blockbuster’s accused system  
12 and method.

13         Blockbuster does contend—erroneously, as Netflix will prove—that the NCR Patents  
14 constitute invalidating prior art, but the heart of Blockbuster’s invalidity defense lies elsewhere.  
15 Blockbuster’s two opinion letters on validity rely on references other than the NCR Patents.  
16 Indeed, neither letter so much as mentions the NCR Patents, though both opinion letters purport  
17 to find that at least some claims of each patent are invalid on obviousness grounds (and thus,  
18 were the NCR Patents important, could have relied on their combination with other references).  
19 If two different sets of Blockbuster’s opinion counsel do not view the NCR Patents as  
20 sufficiently important to discuss in their formal, written opinions, surely they are not critical to  
21 Blockbuster’s invalidity defense.

22         It is common for defendants to assert the same prior art in support of both validity and  
23 inequitable-conduct defenses, so this coincidence alone should not justify trying inequitable-  
24 conduct issues with the rest of the case. For example, in *Gardco*, the Court found that the district  
25 court did not abuse its discretion in holding a separate inequitable-conduct trial, despite the fact  
26 that the allegedly withheld art *also* allegedly constituted prior art to the patents. 820 F.2d at  
27 1214.

28         In contrast to the relative unimportance of the inequitable-conduct defense’s key theories

1 to the infringement and validity issues, it would mislead and confuse the jury to try inequitable-  
2 conduct allegations together with the rest of the case. Inequitable conduct is a serious accusation  
3 that a patent's inventors, prosecuting lawyers, or both intentionally sought to mislead a federal  
4 agency to secure a patent. Such allegations, even if unsupported factually, are incendiary, and  
5 can cast a long shadow over witness credibility long before any witness takes the stand. Netflix  
6 is confident that the Court would withstand such influence, but is less confident of the jury's  
7 ability to do so.

8 Netflix thus requests that the Court hear and rule on the inequitable-conduct defense.

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10 Dated: April 30, 2007

Respectfully submitted,

11 KEKER & VAN NEST, LLP

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