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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, Counterclaim-Defendant,
 12 v.

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

Case No. C 06 2361 WHA

**REPLY TO DEFENDANT'S
 COUNTERCLAIMS**

Complaint filed: April 4, 2006

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1 **ALLEGATIONS COMMON TO BLOCKBUSTER'S AFFIRMATIVE DEFENSES AND**
2 **COUNTERCLAIMS**

3 **BACKGROUND**

4 16. Netflix admits that the pleadings in this case are as reflected in the Court's docket.
5 Netflix denies the remaining allegations in Paragraph 16.

6 17. Denied

7 18. Netflix admits that the '450 patent describes a method for renting items to
8 customers. Netflix denies the remaining allegations in Paragraph 18.

9 19. Netflix admits that the '381 patent describes a method for renting movies to
10 customers. Netflix denies the remaining allegations in Paragraph 19.

11 20. Netflix admits that some of the claims of the '450 and '381 patents recite features
12 related to subscription rental and to implementing online subscription rental of items, including a
13 queue of desired items. Netflix denies the remaining allegations in Paragraph 20.

14 21. Denied

15 22. Denied

16 **HISTORY OF NETFLIX'S PATENTS**

17 23. Admitted

18 24. Admitted

19 25. Netflix admits that the '450 patent was issued on June 24, 2003. Netflix denies
20 the remaining allegations in Paragraph 25.

21 26. Netflix admits that it has not filed infringement claims against any other company
22 operating an online DVD rental business. Netflix denies the remaining allegations in Paragraph
23 26.

24 27. Netflix admits that it applied for the '381 patent on May 14, 2003. Netflix admits
25 that it filed the application for the '381 patent, Serial No. 10/438, 727, in the names of Reed
26 Hastings, Marc Randolph, and Neil Duncan Hunt. Netflix denies the remaining allegations in
27 Paragraph 27.
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1 28. Netflix admits that the ‘381 patent issued and that this lawsuit was filed on April
2 4, 2006. Netflix denies the remaining allegations in Paragraph 28.

3 29. Denied

4 30. Netflix admits that it filed the application for the ‘450 patent on April 28, 2000.
5 Netflix admits that it filed the application for the ‘381 patent on May 14, 2003. Netflix admits
6 that the ‘450 patent issued on June 24, 2003. Netflix admits that the ‘381 patent issued on April
7 4, 2006, and that it filed a complaint against Blockbuster for patent infringement on that same
8 day. Netflix lacks sufficient knowledge to admit or deny the remaining allegations in Paragraph
9 30.

10 **NETFLIX’S DUTY OF CANDOR TO THE PATENT OFFICE**

11 31. Netflix admits that certain specific individuals, including the named inventors and
12 the attorneys who prosecuted the patent applications, owed a duty of candor to the Patent and
13 Trademark Office pursuant to 37 C.F.R. § 1.56(c). Netflix denies the remaining allegations in
14 Paragraph 31.

15 32. Netflix admits that Blockbuster has correctly quoted the text of 37 C.F.R. §
16 1.56(c).

17 33. Netflix admits that certain specific individuals, including the named inventors and
18 the attorneys who prosecuted the patent applications, owed a duty of candor to the Patent and
19 Trademark Office pursuant to 37 C.F.R. § 1.56(c). Netflix denies the remaining allegations in
20 Paragraph 33.

21 34. Netflix admits that the duty of candor and good faith owed to the Patent and
22 Trademark Office “exists with respect to each pending claim until the claim is cancelled or
23 withdrawn from consideration, or the application becomes abandoned.” 37 C.F.R. § 1.56(a).
24 Netflix denies the remaining allegations in Paragraph 34.

25 35. Netflix admits that a declaration and power of attorney was submitted to the
26 Patent Office in support of the ‘450 patent application. Netflix admits that the Declaration was
27 signed by Reed Hastings on September 28, 2000, Neil Duncan Hunt on September 29, 2000, and
28

1 Marc B. Randolph on October 3, 2000. Netflix denies the remaining allegations in Paragraph 35.

2 36. Netflix admits that the declaration and power of attorney includes a paragraph that
3 states: "I acknowledge a duty to disclose information which is known to me to be material to
4 patentability in accordance with Title 37, Code of Federal Regulations 1.56."

5 37. Admitted

6 **NETFLIX'S ALLEGED VIOLATIONS OF THE DUTY OF CANDOR**

7 38. Denied

8 39. Denied

9 40. Netflix admits that Netflix CEO and Named Inventor Reed Hastings met with
10 Blockbuster's then-Executive Vice President and General Counsel Edward Stead in or around
11 January of 2005. Netflix denies the remaining allegations in Paragraph 40.

12 41. Netflix admits that certain prior art references were disclosed in connection with
13 the prosecution of the '381 patent that had not been disclosed in connection with the prosecution
14 of the '450 patent. Netflix denies the remaining allegations in Paragraph 41.

15 42. Denied

16 43. Denied

17 **PRIOR ART CONCEALED BY NETFLIX**

18 44. Netflix admits that it was aware of the existence of certain patents purportedly
19 owned by NCR during the pendency of the applications for the '450 and '381 patents. Netflix
20 admits that it was aware of the existence of HBO, Showtime, and TiVo while the applications
21 were pending. Blockbuster's remaining allegations in Paragraph 44 are not sufficiently specific
22 to permit Netflix to admit or deny.

23 45. Netflix admits that NCR holds patents listed in Paragraph 45.

24 46. Denied

25 47. Netflix admits that it was aware of the existence of certain patents purportedly
26 owned by NCR during the pendency of the applications for the '450 and '381 patents. Netflix
27 denies the remaining allegations in Paragraph 47.
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1 48. Admitted

2 49. Netflix admits that it received a letter from NCR on January 7, 2003, and did not
3 disclose the patents identified in that letter to the Patent and Trademark Office. Netflix denies
4 the remaining allegations in Paragraph 49.

5 50. Admitted

6 51. Admitted

7 52. Netflix admits that it did not disclose the NCR patents to the Patent Office in
8 conjunction with the '381 patent. Netflix denies the remaining allegations in Paragraph 52.

9 53. Denied

10 54. Denied

11 55. Denied

12 56. Denied

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14 **NETFLIX'S DECEPTIVE INTENT**

15 57. Denied

16 58. Denied

17 59. Denied

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19 **JURISDICTION**

20 81. Admitted

21 82. Admitted

22 83. Admitted

23 **VENUE**

24 84. Admitted

25 **INTRADISTRICT ASSIGNMENT**

26 85. Admitted

27 **THE PARTIES**

28 86. Admitted

1 87. Admitted

2 **INTERSTATE COMMERCE**

3 88. Denied

4 89. Netflix admits that from approximately April 28, 2000, through the present, it
5 rented and distributed DVDs throughout the United States; that it distributed rental DVDs and
6 received returns of rental DVDs through the United States mails; and that it solicited and entered
7 into DVD rental contracts, obtained DVD rental orders, received payments for DVD rentals, and
8 promoted its online DVD rental service over the Internet. Netflix denies the remaining
9 allegations in Paragraph 89.

10 **RELEVANT MARKET**

11 90. Denied

12 91. Denied

13 92. Denied

14 93. Denied

15 **FIRST COUNTERCLAIM**

16 (Monopolization in Violation of Section 2 of the Sherman Antitrust Act)

17 94. Netflix incorporates by reference all of its responses to paragraphs 16 through 93
18 above.

19 95. Denied

20 96. Denied

21 97. Denied

22 98. Netflix admits that it did not cite any prior art. Netflix denies the remaining
23 allegations in Paragraph 98.

24 99. Denied

25 100. Denied

26 101. Denied

27 102. Denied

28 103. Denied

- 1 104. Denied
- 2 105. Denied
- 3 106. Denied
- 4 107. Denied
- 5 108. Denied
- 6 109. Denied
- 7 110. Denied

8 **SECOND COUNTERCLAIM**

9 **(Attempted Monopolization in Violation of Section 2 of the Sherman Antitrust Act)**

- 10 111. Netflix incorporates by reference all of its responses to Paragraphs 16 through 110
- 11 above.
- 12 112. Denied
- 13 113. Denied
- 14 114. Denied
- 15 115. Denied
- 16 116. Denied
- 17 117. Denied
- 18 118. Denied
- 19 119. Denied

20 **THIRD COUNTERCLAIM**

21 **(Declaratory Judgment as to the '450 Patent)**

- 22 120. Netflix incorporates by reference all of its responses to paragraphs 16 through 119
- 23 above.
- 24 121. Netflix admits that its case against Blockbuster alleges that Blockbuster's
- 25 Blockbuster Online service infringes Netflix's '450 patent and seeks an injunction and monetary
- 26 award based on that contention. Netflix denies the remaining allegations in Paragraph 121.
- 27 122. Denied
- 28 123. Denied

1 124. Denied

2 125. Denied

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FOURTH COUNTERCLAIM

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(Declaratory Judgment as to the '381 Patent)

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126. Netflix incorporates by reference all of its responses to paragraphs 16 through 125
7 above.

8

127. Netflix admits that its case against Blockbuster alleges that Blockbuster's
9 Blockbuster Online service infringes Netflix's '381 patent and seeks an injunction and monetary
10 award based on that contention. Netflix denies the remaining allegations in Paragraph 127.

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128. Denied

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129. Denied

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130. Denied

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131. Denied

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FIRST AFFIRMATIVE DEFENSE

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Blockbuster's claims are barred in whole or in part because they fail to state a claim on
18 which relief can be granted.

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SECOND AFFIRMATIVE DEFENSE

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Blockbuster's claims are barred in whole or in part by the First Amendment to the United
21 States Constitution.

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THIRD AFFIRMATIVE DEFENSE

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Blockbuster's claims are barred in whole or in part by *Eastern R. Conf. v. Noerr Motors*,
24 365 U.S. 127 (1961), *United Mine Workers v. Pennington*, 381 U.S. 657 (1965), and their
25 progeny.

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FOURTH AFFIRMATIVE DEFENSE

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Blockbuster's claims are barred in whole or in part because Blockbuster has not suffered,
28 and will not suffer, antitrust injury or any other injury to a legally cognizable interest.

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FIFTH AFFIRMATIVE DEFENSE

Blockbuster's claims are barred in whole or in part because, to the extent that Netflix engaged in the actions alleged, Netflix's actions are justified as valid business decisions.

SIXTH AFFIRMATIVE DEFENSE

Blockbuster's claims are barred in whole or in part by the unclean-hands doctrine.

SEVENTH AFFIRMATIVE DEFENSE

Blockbuster's claims are barred in whole or in part because Blockbuster failed to mitigate its alleged damages, if any.

EIGHTH AFFIRMATIVE DEFENSE

Blockbuster's claims are barred in whole or in part because its alleged damages, if any, are speculative.

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Dated: October 2, 2006

KEKER & VAN NEST, LLP

By: _____ /s/
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DARALYN J. DURIE
ASHOK RAMANI
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NETFLIX, INC.