

FotoTime Case Study

FotoTime is a small business founded in 1999 by Karl Swierenga, Andrew Pitts, and Jeff Kelling, headquartered in Dallas, TX. FotoTime is a digital photography solutions provider specializing in software that enables consumers to manage the entire lifecycle of their digital photos and video.

FotoTime's lifecycle solutions include FotoAlbum Pro image management software, FotoShare online photo sharing, FotoStudio, and FotoTime store which allows photographers to setup an online store to resell their work. FotoTime delivers its offerings to customers in more than 80 countries through Internet distribution (<http://www.fototime.com>).

Threatened by NPE

As a growing small business, the future of FotoTime was threatened when the company and 70 other companies were sued based on allegations of patent infringement.

The instigator of the litigation, FotoMedia, is a non-practicing entity (NPE), meaning it is a company that offers no services or products and exists solely to initiate patent infringement litigation. FotoMedia set its lawyers' sites on FotoTime and other small businesses and larger companies looking for settlement monies or licensing fees based on overly generic patents issued by the Patent and Trademark Office (PTO).

FotoTime was sued by FotoMedia for infringing on three of their patents.

1. Patent 6018774 – A system for image processing and manipulation for the creation of electronic postcards.
2. Patent 6542936 – A continuation of the above patent, a system for creation of an image display such as an electronic postcard.
3. Patent 6871231 – Method and system for controlling which sets of image metadata are accessible to a user (a menu that pops up after the photo is uploaded to give the user options on what to do to).

High Litigation Costs Force Settlements

Because FotoTime is a small business run by three partners with no resources to fund expensive litigation defense, they had no choice but to settle out of court. The cost of going to court would have put the company out of business; legal fees can cost as much as \$5 million per case. Small companies, like FotoTime, aim to avoid those costly fees and hope the price of settling doesn't put them out of business. Under the current system, litigation costs are more expensive for the defendant because they carry the burden of proving that they did not infringe on the patents.

NPEs Are a Growing Problem

Testimony before the Senate Judiciary Committee in March 2009 detailed the rapid rise of NPEs. According to witnesses:

- NPEs filed 88% of patent suits against America's leading technology companies over the past 5 years.
- Infringement cases against America's leading technology companies have increased 70% over the last five years.

- Licensing fee requests to America's leading technology companies - usually a precursor to litigation – have increased 650% since 2004.

This evidence demonstrates that NPE filings are hampering innovation and job creation in the tech sector and the problem is getting worse. Companies like FotoMedia, created only to purchase patents and licenses and not to create a product or offer services, often target small and financially unstable companies and demand they pay licensing fees, which are usually priced just slightly less than the projected cost of litigation. Companies looking at their bottom line choose to pay the fees because the risks of fighting in court are too great.

Improvements Needed for the Patent System

The current patent litigation system lacks any specific direction from Congress on fairness in calculating damages in legitimate infringement cases. Thus, decisions about the value of highly technical products and services are made by juries and judges with no guidelines to follow. Moreover, the current patent litigation system actually encourages NPE activity and broad litigation because the risks are low for plaintiffs and very high for defendants due to the lack of guidelines for damages. Juries tend to award damages based on the value of the product involved in the infringement.

That system worked well when products had few components and only a small number of patents involved. In today's society it is common for products to have hundreds, if not thousands of patents associated with it. Juries considering an infringement case involving one of those patents could determine damages based on the entire value of the product, rather than the single patent at issue. This leads to overcompensation for infringement and encourages more infringement claims. To compound the problem, juries can triple damages through a willful infringement determination, which is easy to allege, but difficult and expensive to defend.

By making clear damages guidelines for the courts to consider in infringement cases, Congress could provide a meaningful reform that will allow American companies to direct resources to innovation and job creation instead of defending numerous and oftentimes unjust infringement claims. Moreover, reform of both the willfulness standard and the procedure for litigating willfulness claims is essential to restore balance in the litigation process.

Congress can reduce the number of unjustified patent infringement cases by strengthening the PTO and instituting an effective post grant review process. Improving the existing process for challenging questionable patents will lead to better patent quality and will benefit everyone – patent holders, patent users and consumers. Patent reform legislation should establish a new administrative procedure for review of patent decisions so that wrongfully-issued patents can be effectively considered and redressed within the USPTO, rather than in the courts.

In order to prevent more cases like FotoTime, Congress must work to modernize and strengthen the patent system through the Patent Reform Act of 2009. Abuse of the system through unjustified patent infringement cases costs American jobs. Small, medium and large companies suffer an innovation gap because they must divert resources to litigation instead of investing in research and innovation to develop new products and create new jobs. Reform is essential in order to have a balanced patent system that hinders unjustified lawsuits and promotes economic growth.