

Beware the Patent Trolls

By Marc Rachman and Andrew Keisner

Companies that develop websites are being hit with patent infringement claims more than ever before. By now, almost every website development company realizes that such an increase in patent infringement allegations is a real and serious problem.



If this is not an issue your company has already faced, it almost certainly will be in the near future.

The trend is the result of both an increasing number of business-method and software patents being issued, and the increased frequency with which they are being used aggressively. Older business-method and software patents are being purchased and used by those who believe that they can turn a quick profit by extracting money from companies whose activities are covered by one or more patents.

It used to be somewhat typical for a website development company to agree to indemnify its client with respect to the services it provides for all potential intellectual property claims by third parties, thereby lumping patent claims together with trademarks, copyrights, rights of publicity and trade-secrets claims. This was not a risky practice in the past because issues concerning patents were few and far between.

Over the past several years, however, website developers have continuously received more and more claims alleging patent infringement, and even more requests from their current and former clients who are demanding that those website developers defend and indemnify them

against patent infringement allegations. Recently, website developers and their clients have been hit with claims for such common online technologies as drop-down menus, geo-location of retail stores, photo manipulation, product placements and simple SMS to HTML technology.

Since website developers' risk can flow from more than just direct infringement, they are in a uniquely vulnerable position. Therefore, understanding some of the key differences between patents and other types of intellectual property becomes critical to today's developers and website development companies.

The new reality of patents

The risk of patent infringement claims is not as easily dealt with as other forms of intellectual property for numerous reasons. First, patents are prolific and can contain extremely broad claims, so much so that any type of relatively new technology is likely to be at least arguably covered by one or more patents.

Second, patents are not easily searchable. In addition to patent applications being held in secrecy for eighteen

months, the sheer volume of patents and the ability to define terms within a patent itself makes searching for patents extremely difficult. Third, patent rights are long-lasting, while technology is fast-changing. What may seem like a basic website functionality to a developer might be potentially covered by a patent issued years ago.

Fourth, patent litigation is costly and the associated risks with infringement allegations are not realistically insurable. Indeed, a 2009 survey by the American Intellectual Property Association found that the median cost of legal fees for patent lawsuits involving claims between \$1 million and \$25 million was \$1.5 million before trial.

How to protect yourself

Website development companies should consider what they can do to lessen their exposure given the current landscape. If possible, developers should resist taking on patent infringement responsibility in their agreements. To the extent that a website development company is forced to assume such risk, however, it may try to limit liability — perhaps confining it to patents previously known or with a monetary cap on potential damages.

Website development companies might also consider using various off-the-shelf components that come with their own indemnification obligations in their consumer contracts in order to help spread the risk associated with specific components. Moreover, since Web development companies sometimes only create part of a website, whenever a website development company receives a letter from a current or former client about an allegation of patent infringement, it should immediately work with both its lawyers and the individual or individuals who created the website to determine whether it was actually the company's deliverables that included the allegedly infringing functionality.

As a final resort, a website development company assuming the risk of indemnifying a client concerning allegations of patent infringement should consider raising its prices to cover the risks as they are now understood. Particularly in light of the increasing number of companies whose entire business model is to purchase patents they can use to sue other companies, the cost of dealing with such allegations is a reality of the modern world in which website developers do business.

Changes on the horizon?

Notably, a glimmer of hope has emerged with the signing into law on September 16, 2011 the most significant and sweeping reform to the U.S. patent system since the 1952 Patent Act — the Leahy-Smith America Invents Act (AIA).

See you in court

The rate at which patent infringement allegations are made today is staggering, and many of them border on the ridiculous. To see some of the more high-profile suits making their way through the courts right now, please visit <http://wsm.co/sVjejn>

Among the many changes to be implemented is for the Comptroller General of the United States to conduct a study on “the consequences of litigation by non-practicing entities, or by patent assertion entities” and to report to Congress the findings of that study within one year after the AIA was enacted.

Hopefully, the study and report will not be restricted to only filed lawsuits (i.e. “litigation”), because many companies resolve such matters pre-litigation to save on attorneys’ fees.

Another aspect of the AIA that is important for website development companies is a new method of challenging “covered business method patents”. The AIA will allow the validity of such patents to be challenged in the patent office after such patents have already been issued, based on other patents, written publications, and/or business methods already known in the industry.

“Re-examinations”, which has been the traditional procedure in the patent office of challenging the validity of an already issued patent, could only use other patents or publications to challenge validity. Accordingly, once this additional type of post-issued validity challenge is available, website development companies receiving letters concerning allegations of patent infringement may have an additional tool to help them in dealing with such matters.

Unfortunately, the AIA is far away from helping to change the current vulnerable landscape for Web development companies. Even if a report to Congress does lead to changes that lessen the burden of non-practicing entities for Web developers, it could be years before that actually occurs.

Other portions of the AIA have received far more publicity, such as changing the United States from a “first-to-invent” system to a “first-to-file” system. But those changes will primarily impact companies filing patent applications rather than those — like most website development companies — that are simply trying to continue running their businesses with as little impact as possible from this unfortunate new reality. ■

Marc Rachman is a partner and co-chair of the Intellectual Property Litigation Group at Davis & Gilbert LLP, and C. Andrew Keisner is a Litigation and Intellectual Property Associate at the firm.