

# **PATENTQUARTERS™**

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## **Are Social Networks Patentable?**

*by Ryan P. O'Connor*

I am not a big fan of Facebook. I do have an account, but I hardly ever log in. When I heard there was a movie about Facebook, particularly about the purported theft of the idea, I was interested to learn more about the real story. I have not yet seen the movie *The Social Network* but I think that even if it is not entirely accurate, the movie is an opportunity for the public to be exposed to how inventions happen and are ultimately commercialized.



A core issue here is who owns the intellectual property behind Facebook. It has been an evolving story from the time of initial conception of the invention to the present day, as Facebook has recently been buying patents to build their own IP portfolio.

Cameron and Tyler Winklevoss drive much of the drama in *The Social Network*. Along with their Harvard classmate, Divya Narendra, they contend that Mark Zuckerberg stole their idea for a social network based at Harvard. Claiming that Zuckerberg used their code for their social network—Harvard Connection and later ConnectU—the Winklevoss twins sued Facebook and received a reported \$65 million in a settlement.

I do not know the details of the initial agreements between Zuckerberg and the Winklevoss twins. If Zuckerberg was hired to write code to support the social web site, and the agreement obligated him to assign his IP rights to the start-up entity, then perhaps Zuckerberg did “steal” the idea. Was there a non-compete agreement or understanding to prevent Zuckerberg from starting up a separate web site? What if he did not use the computer code directly but instead improved it in some way, thus representing new IP, and utilized that for a new social-networking site?

There are many possible scenarios that may or may not have been covered by legal agreements. The strongest legal protection that could have been enforced by the true inventors was a **patent**. This is so because in the absence of any obligation to assign, the inventors of a patent are inherently the owners of the patent, under United States law. One of the intriguing questions about this story is why the Winklevoss twins did not file a patent application. They could have filed a provisional patent application early on to protect themselves.

A typical response to this question, when I review blog posts and the like, is that Facebook (and social networking in general) is just not patentable. This is simply not true. A current search at the USPTO shows that Facebook owns at least 7 granted patents and 11 published patent applications.

Facebook is building their patent portfolio both by inventing and by acquiring patents. Facebook bought the entire Friendster portfolio of social-networking patents earlier this year. The patents and patent applications had been transferred to MOL Global when it bought Friendster for about \$39.5 million late last year. Facebook then negotiated with MOL to buy the patents in a deal that included advertising, a partnership for payments for virtual goods, and cash, and was valued at \$40 million. The Friendster patents, which date back to the early days of social networking, are broad. They cover things like making connections on a social network, friend-of-a-friend connections through a social graph, and social-media sharing. Friendster had received its first patent back in 2006.

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At \$40 million, the Friendster patents are one of Facebook's largest acquisitions ever, on par with its FriendFeed deal. However, that money is trivial if there's any chance MOL or someone else would have used the patents against Facebook. Especially with a huge IPO somewhere in its future, it was important that Facebook remove the possibility that someone else had the rights to the intellectual property behind its core technology. The \$40 million to buy these core patents, and the \$65 million to settle the lawsuit with the Winklevoss twins, together represent less than 1% of the market value of Facebook—at least \$10 billion by several estimates, possibly \$30 billion or more. The fees paid to strengthen their patent portfolio appear to be a bargain, relative to their market value and ability to dominate the social-networking industry with intellectual property.

Which brings us back to the question of whether a provisional patent application could have been filed by Cameron and Tyler Winklevoss and Divya Narendra, early on. It's possible the full concept had not been fully developed yet, or that they did not believe the idea was subject to patent protection, or even that they desired to try to retain the programming code as a trade secret. It's also possible they did not want to incur legal expenses associated with preparing and filing a patent application. Or, perhaps they were simply unaware of their rights as inventors. These are only some of the many possible reasons why inventors do not file patent applications.

Notably, a patent application could have been filed by the Winklevoss twins after Zuckerberg launched Facebook! The inventors had one year after the first public use, sale, or offer for sale to file for U.S. patent protection. Why didn't they file? Even if Zuckerberg was also named as an inventor, there would have been shared ownership. An early Facebook patent could have easily been worth ten times the \$65 million settlement amount.

Many people question whether social networking should even be patentable at all. In my view, social-networking systems, methods, and apparatus certainly qualify for patent protection if they meet the standards of patentability (utility, novelty, nonobviousness, and enablement). The Supreme Court in *Bilski* recently ruled that business-method patents are still eligible for protection by patents, especially when tied to a computer and/or computer network.

I reviewed the prosecution history of one of Facebook's patents (U.S. Patent No. 7,797,256, issued 14-Sep-2010) and I see that Facebook had to overcome rejections due to subject-matter eligibility, in addition to overcoming prior art. To make some of the claims patent-eligible, they just amended some of the steps as being performed by a computer. The claims of this patent are not especially broad; the first claim takes up an entire page.

The value of Facebook, pre-IPO, is quite debatable. There is no question that the value is not just in the patents but also their brand (including trademarks), speed to market, and even a bit of luck. It is interesting that their valuation can be so high with relatively low revenues, which are apparently about \$1 billion/yr. But true economic value considers the potential revenue, and it would seem Facebook has some type of business plan to bring in large revenues (likely via advertising and related activities). Their value, whatever it proves to be, is protected by their growing patent portfolio. With their patents, Facebook enjoys the ability to exclude competitors *and* they ensure that others do not own patents that could be enforced against them. Protecting their own right to practice is essential to avoid the threat of a shutdown of Facebook, similar to what almost happened to the BlackBerry a few years ago.

A clear lesson of this story for any inventor is to file provisional patent applications very early, even if you are not exactly sure what is the invention or what may prove to be the commercially successful embodiments. The USPTO filing fee is only \$110 for small entities to file their own provisional applications. Or, contact us to help you protect what is yours, and make sure you reap the rewards in case it turns into something big! **PQ**

## USPTO Considers How to Deploy Humanitarian Technologies

The United States Patent and Trademark Office (USPTO) is considering pro-business strategies for incentivizing the development and widespread distribution of technologies that address humanitarian needs. One proposal being considered is a fast-track *ex parte* reexamination voucher pilot program to create incentives for technologies and licensing behavior that address humanitarian needs. Because patents under reexamination are often the most commercially significant patents, a fast-track reexamination proceeding would allow patent owners to more readily and less expensively affirm the validity of their patents. Therefore, the opportunity to utilize a voucher for a fast-track reexamination proceeding could provide a valuable incentive for entities to pursue humanitarian technologies or licensing.

Organizations may be eligible for the program if they engage in IP practices that qualify as either humanitarian use or humanitarian research. "Humanitarian use" would comprise four principles: subject matter, effectiveness, availability, and access. "Humanitarian research" would comprise two principles: significance and access.

The USPTO is requesting comments from the public regarding this proposal. To be ensured of consideration, written comments must be received on or before November 19, 2010. No public hearing will be held. Written comments should be sent by electronic mail to [HumanitarianProgram@uspto.gov](mailto:HumanitarianProgram@uspto.gov). Comments may also be submitted by mail addressed to: Mail Stop Comments—Patents, Commissioner for Patents, P.O. Box 1450, Alexandria, VA 22313-1450, marked to the attention of Joni Y. Chang. **PQ**

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## USPTO Launches Second Peer To Patent Pilot

On October 25, the USPTO began a second Peer To Patent pilot program with New York Law School's Center for Patent Innovations. The new, one-year pilot will expand on the previous pilot program—which was limited to software and business methods applications—to also include applications in biotechnology, bioinformatics, telecommunications, and speech recognition.

The Peer To Patent pilot program, begun in 2007, opens the patent examination process to public participation in the belief that such participation accelerates the examination process and improves the quality of patents. Under the pilot program, inventors can opt to have their patent applications posted on the [www.peertopatent.org](http://www.peertopatent.org) website. Volunteer scientific and technical experts then discuss the applications and submit prior art they think might be relevant to determining if an invention is new and non-obvious, as the law requires. After the review period, the prior art is sent to the USPTO patent examiners for their consideration during examination.

In the first Peer To Patent pilot, more than 600 items of prior art were submitted for 189 applications and more than 2,700 registered peer reviewers from over 140 countries participated. In a survey of USPTO patent examiners with a Peer To Patent application, 73 percent of those who responded said they thought the program would be helpful if implemented into regular office practice. During the two years the Peer To Patent was running as a pilot, examiners used art found by peer reviewers in approximately 20 percent of the applications reviewed.

The Peer To Patent pilot is one of several open-government innovations the USPTO is undertaking to collaborate with the public. In June 2010, the USPTO announced a collaboration with Google to make bulk patent and trademark data available online to the public for free. In September 2010, the USPTO launched a Data Visualization Center ([www.uspto.gov/dashboards](http://www.uspto.gov/dashboards)) on its website that shares key patent metrics.

For more information about Peer To Patent, visit [www.peertopatent.org](http://www.peertopatent.org). **PQ**

## O'Connor & Company Celebrates Pro Bono

We are participating in the 2010 National Celebration of Pro Bono ([www.celebrateprobono.org](http://www.celebrateprobono.org)). "Pro bono" refers to free legal and consulting services provided to individuals or entities that are generally unable to afford the services. In the Patent Bar, one of our ethical requirements is that "A practitioner should assist the legal profession in fulfilling its duty to make legal counsel available" (37 C.F.R. §10.30 Canon 2).



In the past, we have provided pro bono work in the form of mentoring in business-plan competitions, advising in the Cleantech Open, and providing various no-cost consultations. As part of our participation of the National Celebration of Pro Bono this year, we are setting aside an entire business day for pro bono consultations. On **Friday, November 19**, Ryan O'Connor, a founding partner of O'Connor & Co., will be available from 8 AM to 6 PM ET by telephone at 952-472-9884 for calls with anyone, whether or not a current client, at NO COST. Confidentiality guidelines will be discussed in the calls.

Questions are welcome on patent law, IP strategy and commercialization, and ways to reduce legal fees associated with IP protection, for example. If the line is busy, leave a message and your call will be returned. Or, send Ryan an e-mail at [RPO@OConnorCompanyPLLC.com](mailto:RPO@OConnorCompanyPLLC.com) ahead of time if you would like to set up a specific slot to talk on Nov. 19. **PQ**

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