



Straight Talk:
IP and Technology Developments
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Lessons from the Facebook Privacy Fiasco

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Facebook is a wildly popular social media site which allows users to share information about themselves, send messages to friends, play games and join common interest groups. It is the most visited site in the U.S., with over 100 million active U.S. users and hundreds of millions of active users worldwide.¹

During the week of April 18, 2010, Facebook made material changes to the way that its users' personal information was classified and disclosed. The changes resulted in complicated privacy settings that confused users, and in some cases, personal data which users had previously designated as private was allegedly made public. As a result, a group of petitioners, including the Electronic Privacy Information Center ("EPIC"), filed a complaint with the FTC requesting that the Commission investigate Facebook to determine whether it engaged in unfair or deceptive trade practices ("Complaint").

Allegations

The Complaint claimed that Facebook violated its own privacy policy, disclosed personal information of Facebook users without consent, and engaged in unfair and deceptive trade practices. Specifically, the Complaint alleged that among other things:

- Facebook made publicly available personal information which users had previously designated as private.²
- Facebook disclosed to third parties information that users designated as available to Friends Only (including to third-party websites, applications, other Facebook users and outsiders who happen on to Facebook pages).³
- Facebook claimed that none of user's information was shared with sites visited via a plug-in (such as the Like button, Recommend button, etc.). However, such plug-ins may reveal users' personal data to such websites without consent.⁴
- Facebook designed privacy settings "to confuse users and to frustrate attempts to limit the public disclosure of personal information . . ."⁵
- Although the Facebook terms which many users accepted indicated that developers would be limited to a 24-hour retention period for any user data, Facebook announced that the limit no longer exists.⁶

Angry End Users

Regardless of whether each of the above allegations is true, it is clear that Facebook's changes to its privacy practices inflamed some of its users. In support of its allegations, the EPIC Complaint included quotes from experts and users about Facebook's privacy practices such as:

"I shouldn't have to dive into complicated settings that give the fiction of privacy control but don't, since they are so hard to understand that they're ignored. I shouldn't need a flowchart to understand what friends of friends of friends can share with others. Things should be naturally clear and easy for me."⁷

"Facebook constantly is changing the privacy rules and I'm forced to hack through the jungle of their well-hidden privacy controls to prune out new types of permissions Facebook recently added. I have no idea how much of my personal information was released before I learned of a new angle the company has developed to give my information to others."⁸

"'Instant Personalization' is turned on automatically by default. That means instead of giving you the option to 'opt-in' and give your permission for this to happen, Facebook is making you 'opt-out,' essentially using your information how they see fit unless you make the extra effort to turn that feature off."⁹

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“Facebook has become Big Brother. Facebook has succeeded in giving its users the allusion [sic] of privacy on a public site, leaving everyone to become complacent about keeping track of the myriad changes going on behind the scenes. The constant changes assure Facebook that you can never keep all your information private.”¹⁰

The Proposed Settlement

The FTC investigated the Complaint and ultimately agreed to a proposed settlement agreement containing a consent order.¹¹ Without admitting liability, Facebook has agreed to a settlement that among other things requires the following:

- Facebook must establish, implement and maintain a comprehensive privacy program designed to: (1) address privacy risks related to the development and management of new and existing product and services for consumers; and (2) protect the privacy and security of covered information.¹²
- Facebook must obtain an independent third-party audit every other year for the next 20 years certifying that the Facebook privacy program meets or exceeds the requirements of the FTC order;¹³
- Facebook is required to obtain express consent from a user before enacting changes that override the user's privacy preferences;¹⁴
- Facebook is required to prevent third parties from accessing user data after the user has deleted (with exceptions for legal compliance and fraud prevention).¹⁵

Lessons from the Complaint and Order

Facebook received significant negative publicity, incurred legal costs and business disruption associated with a government investigation, and will incur compliance costs for the next 20 years as a result of the proposed settlement. Businesses that deal with consumer information would be well advised to learn from Facebook's experience. There are several lessons that businesses can draw from the Facebook privacy fiasco in dealing with data privacy issues.

A. Don't Make Your Customers Angry

Facebook's intentions in making the changes to its privacy settings may have been entirely good. For example, Facebook may have honestly been trying to improve its user experience. However, the changes significantly angered some of its customers. The lesson to be learned here is that intentions don't matter if you anger your customers with your changes. The ultimate user experience may be better, the site may objectively offer more functionality, but none of that matters if users are offended by the process.

Businesses need to achieve innovations and improvements in the use of consumer data with user consent, and without breaking prior promises. Keeping your customers satisfied isn't just good business, it also greatly reduces the likelihood that they will be filing deceptive trade practice complaints with the FTC.

B. Keep the Privacy Settings Simple

Much of the Complaint is dedicated to showing how complicated the Facebook settings are, and many of the quoted user statements underscore that issue as well. Such complexity often leads to errors (such as permitting applications to access personal information of a user through the user's friends). Even when the settings work perfectly, the average person may find such complexity frustrating, leading to angry end users.

It is important to keep privacy policies simple and establish privacy settings so that they can be easily understood by an average user. Informed consent is really only obtained when the user understands the policy or setting to which he or she is consenting.

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C. Consider How Applications Access User Data

When drafting a privacy policy, it is easy to focus on the organization's use of data for internal purposes and with its vendors and subcontractors. However, special care must be taken with use of consumers' data by software applications. For example, it is alleged that Facebook indicated applications only had access to the user information necessary for their operation, when the applications in fact had access to all user information.

In order to accurately describe how applications use consumer data in your privacy policy, you have to investigate the operation of the applications on your site, document that operation, and establish IT policies and procedures governing the use of data by new or modified applications. If you do not take these steps, it is likely that any promise regarding the use of data by applications will become misleading over time as the applications change and are updated.

D. Monitor Linking and Other Advertising Arrangements

Linking and advertising arrangements are the lifeblood of many sites. In order to make accurate statements about the types of data shared in such arrangements, it is necessary to review the contracts to understand what types of user data will be shared through business processes. However, this is not sufficient to ensure that the full use of data is understood. Just as with applications, it is necessary to investigate what data is collected or shared in the process of passing the user to the third party. Similar to applications, it is important to document what user data is permitted to be shared with advertisers and other third parties, and to establish IT policies and procedures to enforce such permitted uses.

E. Don't Make User Data Public Without Consent.

One of the problems many businesses face with privacy policies is that as their business changes, the types of user data that they want to access or use may change as well. However, it is important to remember that no matter what the motive, if you have promised to keep certain elements of user data private in your privacy policy, you should not make it public by default without first obtaining affirmative user consent.

Privacy compliance is difficult in a changing online environment, even for businesses that don't have hundreds of millions of users. The Complaint and Order in the Facebook matter highlight some of the many ways that a business can go wrong in protecting private consumer information. In order to successfully protect such information, a business which deals extensively with consumer data should establish, maintain, update and enforce a comprehensive privacy and security program, which takes into account material risks as well as lessons learned from the experience of other companies, such as Facebook.

For more information, please email IPandTech@andrewskurth.com.

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The America Invents Act—From the Perspective of the Small Business

Brett T. Cooke

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The America Invents Act (“AIA”), the most comprehensive revision of U.S. patent law since 1952, recently became law, although most of its sweeping provisions do not take effect for one or more years, and its effects may lag several years thereafter.

First-to-File Now Replaces First-to-Invent

Among other advantages, the AIA creates a first-to-file patent system in greater harmonization with the patent systems of other countries that replaces the first-to-invent patent system that has been the basis of U.S. patent law since its inception. Proponents of the new first-to-file system say that it eliminates the need for the arcane and rather expensive interference practice that has been used for 200 years in the U.S. to determine who is the first to invent between competing patent applicants. Interference proceedings in the Patent Office were so expensive that smaller businesses could seldom afford or justify the expense. With no chance of another person claiming to be the first inventor and being in an interference proceeding, it has been said that the new U.S. law will provide certainty to small businesses and individual inventors that their inventions will be protected.

New System Is Not a “Pure” First-to-File System

The new U.S. patent system is not a pure first-to-file system, unlike the absolute novelty systems of Europe and most other countries. The new system is a first-to-file system only in situations where no one has publicly disclosed the invention. Because the new U.S. law provides a grace period that allows the inventor to disclose the invention up to one year prior to filing, an inventor who publicly discloses the invention before but files the corresponding patent application after another may still be entitled to the patent. That is, the mere filing of a patent application does not provide any greater certainty to the inventor that another inventor will not end up holding the patent rights than under the old law.

Consider this example. Bob makes an invention in January. Susan independently makes the same invention in February and publicly discloses it in March, for example in a publication or by showing it at a trade fair. Bob files a U.S. patent application for his invention in April. Under the old patent law, Susan’s public disclosure could be cited as prior art against Bob, but Bob could remove Susan’s public disclosure as prior art by demonstrating that his invention occurred prior to Susan’s disclosure. Under the new law, Bob cannot antedate Susan’s invalidating disclosure. Bob has no recourse. Therefore, it is critical for businesses to rapidly identify their inventions and immediately file provisional patent applications to minimize the risk that another’s public disclosure will forever bar any patent rights to their inventions. A non-provisional application can be filed within the year following the filing of the provisional application while claiming the provisional filing date.

Continuing with the above example, assume that Susan files a patent application for her invention in May. Although Bob is the first to invent and the first to file, Susan gets the patent for the invention. Her own disclosure does not bar her from patenting her invention in the U.S., if she files her patent application within one year of her disclosure.

Prior Secret User Rights

In another substantial departure from the old patent law, the AIA introduces prior user rights, which provide a defense to patent infringement for those who have used a process in secret more than one year before another person files a patent application for the invention. Prior user rights are likely to greatly benefit large businesses who can readily exploit technology in secret (e.g., a manufacturing process), giving no benefit of public disclosure, but will likely be less beneficial to the small business.

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New Patent Office Procedures for Invalidating a Competitor's Patent

The AIA also introduces robust new procedures for invalidating patents—post-grant review and inter partes review. Both of these procedures provide alternatives to litigating the validity of a patent in the courts by allowing a party to challenge a patent, relatively inexpensively, before a panel of three technically trained administrative patent judges at the Patent Office. Both procedures allow limited discovery and require a preponderance of the evidence to prove invalidity rather than overcoming a clear and convincing proof burden for invalidity in the courts.

Post-grant review allows a challenge to a patent on the basis of any statutory ground for invalidity. However, post grant review must be sought within nine months of the patent grant date. Thus, for businesses in patent-intensive fields, it is now more important than ever to closely monitor a competitor's patent activities so as not to miss the nine-month deadline. Inter partes review replaces the current inter partes reexamination procedure. Inter partes review procedure becomes available nine months after the patent grant date and limits invalidity challenges to prior art patents and publications.

The effect of post-grant review and inter partes review on the small business is bifurcated. For those businesses who may be accused of patent infringement but who are too small to fund a defense to an infringement lawsuit, the new patent review proceedings may be a true blessing. However, for those small businesses and individual inventors who cannot afford to practice their inventions, post-grant review, and other AIA measures, may weaken their ability to monetize their patents through contingency lawsuits.

Conclusion

Regardless of whether the AIA will ultimately promote or hinder U.S. innovation, having a sound strategy with respect to patents is important for all businesses. Small businesses in particular need competent patent counsel to help them navigate the uncharted waters of the AIA so as to extract the most benefit possible from the U.S. and foreign patent systems consistent with the needs of their business.

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Post-Grant Review Aspect of New Patent Law

Kelly L. Kasha and Sean S. Wooden

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Post-grant review provisions of the new patent law may affect a potential patent infringement defendant's strategies in filing a declaratory judgment (DJ) action.

Under the new patent law, any third party can challenge the validity of an issued patent using either post-grant review under 35 U.S.C. § 321 or inter partes review under 35 U.S.C. § 311. Both proceedings are effective September 16, 2012.

Briefly, under 35 U.S.C. § 321 and 35 U.S.C. § 311, respectively, both post-grant review and inter partes review proceedings can be initiated by anyone "who is not the owner of a patent" by filing a petition with the United States Patent and Trademark Office (USPTO). Post-grant review must be initiated within nine (9) months of the issuance of a patent, and permits *any patentability issue to be raised*, which can be based on any evidence. In contrast, inter partes review cannot be initiated until the later of nine (9) months after a patent issues or after post-grant review is complete. Further, inter partes review is limited to the grounds of novelty or non-obviousness, which can only be supported by patents or printed publications.

While both provisions provide non-litigation tools to a potential patent infringement defendant to challenge the validity of a patent, notably these provisions may significantly affect a DJ action.

A DJ action is typically initiated by a potential patent infringement defendant to secure a more desirable venue (*e.g.*, a venue other than the patentee friendly Eastern District of Texas). However, under 35 U.S.C. § 325 and 35 U.S.C. § 315, respectively, a potential defendant seeking to utilize a DJ action to secure venue will foreclose a later filed post-grant review or inter partes review.

Further, if a potential defendant (or real party in interest) files a DJ action on or after the potential defendant files a petition for post-grant review or inter partes review, the DJ action is automatically stayed until:

- (A) the patent owner moves the court to lift the stay;
- (B) the patent owner files a civil action or counterclaim alleging that the petitioner or real party in interest has infringed the patent; or
- (C) the petitioner or real party in interest moves the court to dismiss the civil action. (35 U.S.C. § 325 (a)(2) and 35 U.S.C. § 315 (a)(2)).

In order to secure both a review by the USPTO and a favorable venue for a DJ action, a potential defendant may file a request for either post-grant review or inter partes review at the same time as filing a DJ action in a favorable district court.

The DJ action will be automatically stayed, and a final decision of the post-grant review or inter partes review will have an estoppel effect on later proceedings raising grounds of invalidity "that the petitioner raised or reasonably could have raised during the post-grant review or inter partes review." (35 U.S.C. § 325 (e) and 35 U.S.C. § 315 (e)).

In summary, a potential patent infringement defendant should consider developing and implementing a comprehensive strategy that utilizes the various tools offered by the new patent law to defend against patent infringement claims. The new post-grant review provisions, in particular, provide a significant new tool that should be wielded. We are always happy to discuss available strategies that fit your particular situation.

For more information, please email IPandTech@andrewskurth.com.

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Taiwan IP Update

Wei Wei Jeang

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National Intellectual Property Strategy Program

Bemoaning the state of patent litigation involving Taiwan's technology companies, TSMC's Dr. Richard Thurston¹ remarked in 2008 that "Taiwan is under siege." After years of seemingly escalating litigation targeting Taiwanese companies², Taiwan's Ministry of Economic Affairs (MOEA) proposed the nation's "National Intellectual Property Strategy Program" in November 2011.

Taiwan's Industrial Technology Research Institute (ITRI, ???), a state-funded quasi-governmental agency situated in Hsinchu, will play a large role. In the first stage of forming an "IP Bank," ITRI established Industrial Technology Investment Corp. (ITIC) as its wholly-owned IP management entity. ITRI will invest NT \$250 million (US \$8.28 million)³ primarily raised from the private sector to set up this management entity. The second stage of the IP Bank involves the formation of an IP Fund Company. The IP Fund Company will raise NT \$900 million to \$1,500 million (US \$29.8 million to \$49.66 million)⁴ to be allocated among three funds: counterclaim fund, deployment fund and virtual fund.⁵ The counterclaim fund will be primarily used for domestic companies' defense against IPR infringement accusations in international patent litigation. The focus of the deployment fund will be on "long-term strategies for potential sectors to prevent international major companies from holding critical patent technologies."⁶ The third fund, the virtual fund, is intended to be used by universities and R&D departments in their patent procurement programs.⁷

Although applauded by many in Taiwan, some Taiwanese scholars have raised concerns about the plan. They question the possible violation of certain World Trade Organization (WTO) provisions relating to joint monopoly because of the Taiwan government's role in ITRI and the IP Bank.⁸ Some also question how patents in the IP Bank will be used by Taiwan's high-tech companies in patent litigation counterclaims. If these patents are "temporarily lent" to the Taiwanese companies for counterclaim purposes, accusations of patent fraud may arise.⁹

Supporters point out that South Korea and Japan had undertaken similar actions to protect their own high-tech industries.¹⁰ As many details of the IP Bank are yet to be ironed out, its policies, operation and ensuing effectiveness will be closely observed.

On other fronts, ITRI has been asserting itself in the U.S. legal system by bringing patent infringement actions against South Korean electronics companies. Pending cases include those brought against LG in the Eastern District of Texas on a number of different patents involving different technologies and products. The Texas Court recently granted motions transferring those cases to California and New Jersey. ITRI's prior settlement of seven patent infringement lawsuits with Samsung Electronics Co. for US \$70 million was criticized by some recently as "unfair" and having an adverse affect on the IPR of Taiwan's electronics companies.¹¹ It remains to be seen how ITRI will manage the balancing act as it pursues lawsuits as a business model to monetize its patent portfolio while proceeding with the IP Bank program. Stay tuned.

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