INTELLECTUAL PROPERTY

TAKING IP IN NEW DIRECTIONS

In the past year, two appellate rulings have revisited long-standing IP-related concepts: fair use and damages for lost profits overseas. Together, they could empower IP owners who decide to pursue litigation.

The first of these, in *Oracle v. Google*, revolves around the Java programming language. Starting in 1995, Java was an open-source technology from Sun Microsystems, and as such, it was widely used by software developers in a range of programs over the course of two decades. Sun was eventually purchased by Oracle, which took ownership of Java and added modifications to it.

When Google implemented its Android operating system for its smartphone, it used Java APIs—pieces of software that streamline the connecting of applications. In 2010, Oracle sued Google for copyright infringement over the use of those APIs. Google, for its part, claimed that its utilization of Java was fair use, a common justification in the technology world.

The case gained prominence because of the fundamental role that APIs play in the technology industry. APIs are not the components of a software application that provide the features and functions that people use and that differentiate one software product from another. Instead, they serve the more utilitarian role of enabling one system to communicate easily with another, so that applications, data, and computing services can be shared easily across different systems. APIs make it possible, for example, to click on a Twitter link and go to a website, make airline reservations through a third-party mobile app, access cloud-based applications via computer, or provide seamless online sales across channels.

Typically, software developers write APIs for their applications because they want those applications to work with other systems, and developers have long assumed that they can leverage APIs under fair use. But *Oracle v. Google* calls that assumption into question. After years of trials and appeals, the case came to the Federal Circuit, which, in March 2018, reversed a lower court decision and said that fair use did not apply. Google has indicated that it plans to appeal to the U.S. Supreme Court, and it is widely anticipated that the Court will hear the case.

The ultimate outcome of the lawsuit could have ramifications far beyond the monetary damages involved. "The question of whether fair use defenses for APIs are available to developers and companies will have a tremendous impact on the technology industry," says Arthur Beeman, a partner in Crowell & Moring's Intellectual Property and Litigation groups. And it's not just the technology industry that will be affected. APIs are a key enabler of technology-driven innovation, making it possible to link and combine disparate platforms to create new products and services, build business ecosystems, and implement new business models. More broadly, such innovations often have a far-reaching effect across business and society, prompting some observers to talk about the growing "API economy."

The Federal Circuit's decision appears to essentially close the door on the fair use argument, Beeman says, "and that has been widely viewed as something that will have a chilling effect on development and innovation in the industry. There are a lot of companies that think they are working under the umbrella of fair use, and now they may not be." At the same time, the decision may strengthen the hand of companies with technology-based IP. "This could create a situation where there is enhanced leverage for licensors," he adds. "If you have a copyright on things like APIs and the licensee feels that they can't claim fair use, you have a stronger position in any licensing negotiations."

With the aggressive IP litigation strategies being pursued by some technology companies, GCs will need to assess their risk in light of these developments—and keep a close watch on the case if it goes to the Supreme Court.

KEY POINTS

A Changing Landscape

Two decisions in the past year have upended long-standing IP-related activities.

Less Open Technology?

The fair use defense in software reuse has been thrown into question.

Extended Reach

IP owners can now go after infringement damages based on overseas sales and profits.

"There are a lot of companies that think they are working under the umbrella of fair use, and now they may not be."

—*Arthur Beeman*

DAMAGES AND OVERSEAS PROFITS

In June 2018, the U.S. Supreme Court, in *WesternGeco LLC v. ION Geophysical Corp.*, held that a company could recover patent damages for lost profits overseas—"a tremendous departure from prior case law, which had restricted damages to domestic injury only," says Beeman.

In this case, WesternGeco, a developer of technology used to survey the ocean floor, had sued ION, a competitor, for patent infringement. ION had been manufacturing components for a competing surveying system, which it then shipped to companies abroad that combined the components to create a surveying system that was essentially identical to WesternGeco's. A jury trial found that ION had infringed, and awarded damages of nearly $106 million in royalties and lost profits. ION filed a motion to set aside the verdict, based on the long-standing precedent that U.S. patent law allows damages based only on U.S. sales, not for lost profits in overseas sales. The district court denied the motion, but the Federal Circuit reversed that decision. The Supreme Court agreed with the district court, in large part because the original infringing behavior had taken place in the U.S.

WesternGeco has immediate implications for GCs at manufacturers, pharmaceutical firms, telecom companies, and other companies that have large patent portfolios. "If you are looking at asserting your patents, you will want to factor in the extent to which you can collect profits from overseas as part of your due diligence," says Beeman.

In addition, "the *WesternGeco* case has triggered a great deal of discussion as to how it will affect innovation in the United States and whether it will impact trade relations with certain nations," he says. U.S. manufacturers making or assembling products to be sent overseas, for example, could be at risk of incurring higher infringement-related damages. Observers have noted that this could prompt some U.S. manufacturers to shift production overseas—a possibility that runs counter to the administration's goal of bringing manufacturing back to the U.S. If a shift to overseas production does take place, it could prompt legislative action to change IP law accordingly.

The Supreme Court's *WesternGeco* ruling was intentionally narrow, but it remains to be seen how courts will interpret it going forward. One possible indicator: In October 2018, the district court in Delaware applied it broadly to increase damages in a civil patent case (*Power Integrations, Inc. v. Fairchild Semiconductor International, Inc.*). "Ultimately," says Beeman, "*WesternGeco* raises the stakes in terms of patent damages. The landscape of patent litigation, and how claims are pled and worked up, will be reshaped by this decision."

SURVIVING THE IP AUDIT

Today, more software companies are conducting audits of their customers to ensure compliance with licenses. "This is one way to insert more certainty and predictability into the monetization of their IP," says Crowell & Moring's Arthur Beeman. That means companies are increasingly likely to undergo audits—which can be intrusive and can lead to penalties and even litigation.

There are several steps that can help companies avoid problems, but a key one is to manage communications with the vendor when an audit is underway. "Be clear and firm upfront about what information you will and will not provide," says Beeman. "It's not unusual for vendors to ask for information you don't need to provide under the licensing agreement." In addition, software firms may try to reach employees in various departments to look for information that could be used to increase pressure on the company, so it can be important to restrict such access and centralize communication with the vendor—and to route that communication through counsel. Companies should also make sure that the tests vendors run to audit systems do not collect information that they are not contractually obligated to provide—and that they can review the results before they are released to the vendor.

Prevention can also help. Beeman suggests that companies conduct a self-audit to document what software features are being used in order to make sure they are in compliance with licensing agreements—and proactively address any problems. "It's better to catch these things on your own before an audit and, if necessary, obtain the proper licenses, rather than be surprised by an audit's findings," he says.