

# InFOCUS: International trade

## Do homework with overseas outsourcing

Outsourcing has become an American way of business. In the past, many foreign markets focused on simple product designs of little value in the U.S.

American companies didn't worry much that foreign contractors would misappropriate valuable intellectual property. But today, sophisticated plans for electronics, computer algorithms and the like are often sent to overseas contractors for design, implementation or production, creating significant risk that valuable intellectual property could be misappropriated.

Foreign demand for such products is significant. Doing business in foreign jurisdictions always creates some risks that cannot be completely mitigated. Nonetheless, if you are outsourcing work to overseas companies, or are considering doing so, there are important steps you can take.

• First, whenever possible, outsource your work only to foreign companies having a real and substantial presence in the U.S. By "real," we mean you should make sure the company with which you are contracting has at least one full-time employ-

ee working 100 percent of the time in the U.S. Make sure that your contractor has a real office – not just a P.O. box or a "co-located" office serving as an address and answering service.

By "substantial," we mean that the more work your contractor actually does in the U.S., the better.

Similarly, the more assets your contractor has in the U.S., the more secure you should feel in tasking the contractor with work to be done overseas.

• Second, we strongly recommend attending to legal technicalities. No matter where work is to be performed, all agreements should specify that they are to be governed by the laws of the U.S., including the laws of a particular state. Agreements should also specify that the venue for any dispute will lie in the U.S. The foreign contractor should further explicitly agree to waive any defense of lack of jurisdiction if you attempt to enforce an agreement against it in U.S. courts.

So, it is important that your contractor will be subject to the jurisdiction of

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the U.S. courts. It is also important that a suit in U.S. courts against your contractor would be able to provide meaningful relief.

In some cases, there may be compelling reasons to contract with an entity that does not do business in the U.S. If so, a well-crafted agreement can provide some protection, but you should proceed with extreme caution if designs or processes provided to such a company could be copied and resold. Even with such an agreement in place, it is wise to disclose only information that is absolutely necessary for the foreign contractor's performance of its duties.

The agreement also should specify that the contractor can use any information that is provided only for fulfilling its obligations

under the agreement.

In our next column, we will discuss using U.S. patent laws to enforce your rights against foreign infringers. In past columns, we have discussed foreign patents, and what you can do to obtain and enforce foreign patent rights. However, outsourced work is commonly performed by companies in places like India and China, where enforcement can be difficult. Therefore, we generally counsel that the best protection is to be very careful about what information you provide to entities overseas.

And when you do conduct business with overseas contractors, the more you can tie them to the U.S., the better off you will be.

■ Attorneys Charles A. Bieneman and Steven R. Hansen practice foreign and domestic patent prosecution, counseling and enforcement at Rader, Fishman & Grauer PLLC, a national intellectual firm with offices in Bloomfield Hills, Washington, D.C., Salt Lake City and Tokyo. Contact Bieneman at [cab@raderfishman.com](mailto:cab@raderfishman.com) and Hansen at [srh@raderfishman.com](mailto:srh@raderfishman.com).