

THE INDIAN JOURNAL OF LAW AND TECHNOLOGY

Volume 2, 2006

**OUTSOURCING IN INDIA: PRACTICAL
APPROACHES TO INTELLECTUAL PROPERTY
ISSUES FROM THE INDIAN COMPANY
PERSPECTIVE**

Wilburn L. Chesser & Steven A. Cohen***

ABSTRACT

International outsourcing transactions by their very nature require some understanding of the laws in multiple jurisdictions on a variety of subjects, including contract law and intellectual property rights law. Such an understanding becomes especially difficult if the systems of law are very different from each other, but it is required nonetheless to ensure that both parties are fully aware of the best ways to avoid liability and maximise their own benefits from the transactions. This article takes the familiar example of US companies outsourcing to India and discusses what the Indian company should be aware of in the context of the intellectual property issues involved, as well as the tactics it can use to maximise the market.

TABLE OF CONTENTS

I.	INTRODUCTION AND OVERVIEW	66
II.	BACKGROUND ON INTELLECTUAL PROPERTY AND CONTRACTS	68
	A. Types of Intellectual Property typically at Issue and Other Considerations	68
	B. The Basics of IP Enforcement: The US Model	70
	C. The Basics of IP Ownership and the Importance of the Contract Terms	73

* Partner, Arent Fox LLP, Washington D.C.; B.A. '86, University of Pennsylvania; J.D. '93, University of Maryland School of Law.

** Partner, Arent Fox LLP, Washington D.C.; B.A. (Hons.) '92, Johns Hopkins University; J.D. '95, New York University School of Law.

III. EVALUATING THE IP PROTECTION OF THE CUSTOMER	79
A. Determining and Limiting the IP Rights of the Customer	79
B. Practical Tools for IP Aspects of the Evaluation	80
IV. PRACTICAL APPROACHES TO MAXIMISING AN OUTSOURCED COMPANY MARKET	83
A. Understanding and Leveraging Potential IP that the Outsourced Company Retains	83
B. The Protection of IP	84
V. CONCLUSION	86

I. INTRODUCTION AND OVERVIEW

Outsourcing has become common in India, and this phenomenon has resulted in overprotection in some countries such as the United States in the form of perceived concerns about intellectual property issues, among other things. The response of the companies outsourcing the development or manufacture of their products to India (the customers) has in many cases included an attempt to control as fully as possible all of the IP involved in the outsourced activity and to shift liability to the company performing the outsourcing service or manufacturing the outsourced good – often a company based in India. This response is often primarily the result of a customer’s familiarity and comfort with, or fears regarding, the intellectual property laws of its home country. This article is intended to provide Indian companies with insight into the types of IP issues at stake in outsourcing and the typical negotiating positions that a customer based in the United States is likely to take with respect to such issues, based on US laws and customs, and to provide practical advice and a decision-making roadmap to Indian companies for responding to a customer’s positions. Through familiarity with the laws and customs of its customers’ home countries, Indian companies will be better equipped to increase their business without alienating customers, while minimising or at least fully understanding and assessing liability risks involved within and outside the contractual relationship between the parties. (Although this article has been written primarily with a focus on issues specific to United States companies as customers, many aspects of the article are equally applicable to outsourcing companies located in countries other than the United States.)

In general, for the Indian company to maximise and protect the value of its own IP, to restrict the ability of the customer to claim rights in what is often properly the

Indian company's IP, and to make best use of appropriate limits on the customer's IP, the Indian company should fully understand and systematically evaluate limitations on IP, risk-shifting and other competitive restrictions in its contracts with customers, and negotiate or limit those provisions prior to entering into the contracts to the extent necessary and possible. The Indian company should have a good understanding, at the time of entering into the contract, of the limits of the customer's IP, what steps the Indian company can take to enhance its IP, and where, throughout the world, the Indian company can take advantage of limits on the IP that it is to protect as well as the limits on the customer's IP.

One can measure the importance to an Indian company of obtaining this information with reference to the Indian company's business intentions. At one extreme, if, for the life of the Indian company, it is likely to have only one customer for the type of good or service which the Indian company will provide, then the Indian company's concerns about IP are likely to be minimal, other than liability concerns for the manufacturing or service activities, if any. At another extreme is an Indian company that performs services or manufactures products for many customers (possibly for competing products for those customers) and/or sells products or performs services on its own behalf, possibly in the countries where its customers are located, as well as possibly in India and other countries.

We shall begin with some basics about IP rights typically at issue, including the limits on such rights and the importance of a full understanding of how ownership and enforcement of such rights may or may not be established and asserted through contracts, especially depending on the law of the country involved.¹ We will then discuss the evaluation of IP for the Indian company and finally suggest practical approaches to maximising the Indian company's use of such information in the context of a worldwide market.

¹ In this article, as an example, we focus primarily on United States law as it applies to such rights and ownership, and provide some basic information on how this law may vary in other countries, especially where the particular technology involved may affect IP protection. The ability of a customer in the United States to dictate the application of United States law to IP rights is limited by the doctrines of "nationality" or "territoriality" and "[d]efining intellectual property rights, and protecting them, is largely within the control of the jurisdiction in which the rights are asserted and the infringement occurs." Douglas E. Phillips, *Selected Legal Issues in International Software Outsourcing*, LICENSING J., Sept. 2002, at http://www.accessmylibrary.com/coms2/summary_0286-26095701_ITM. Nonetheless, in situations where laws conflict or the location for which IP law applies is unclear

II. BACKGROUND ON INTELLECTUAL PROPERTY AND CONTRACTS

A. Types of Intellectual Property Typically at Issue and Other Considerations

When outsourced manufacturing or services are to be performed, savvy customers will try to secure any IP rights involved, both for the product requested for manufacture or service to be performed, and for any new features or variations developed by the Indian company, and associated IP rights.

1. *Utility Patents*

The most common type of intellectual property involved in most products is a “utility” patent, whose purpose is to protect the functional aspects of a technology, such as the components and composition of the device, manufacturing techniques, and software processes.²

2. *Utility Models*

In some countries, additional or alternative protection of manufacturing designs may be made using a type of IP often called “utility models” or “utility designs”. Utility models and designs generally provide weaker protection than utility patents, but are generally more easily and inexpensively obtained.³

3. *Design Patents*

Another type of patent protection that is less expensive, and often less useful, is the design patent. A design patent does not protect any functional aspect of a device, but only its “ornamental appearance”.⁴ Thus, for example, the unique shape or unique ornamental features of a syringe, as long as they are unrelated to its functionality, may be protected by a design patent.

One drawback from the point of view of the holder of the design patent is its limited scope of protection, not only in terms of lack of protection for the functionality

(e.g., a jointly developed invention with inventors for two or more companies in two or more countries), the parties may be able to enter into binding contractual provisions, such as mandatory assignment of rights or use limitations, effectively providing the definition and protection of IP rights for which the parties bargain.

² 35 USC. § 101.

³ Uma Suthersanen, *A Brief Tour of “Utility Model” Law*, 20 EUR. INTELL. PROP. REV. 44, 45 (1998).

⁴ 35 USC. §§ 171–173.

of the device, but also in terms of the potential difference between the patented description and any potentially infringing product. As a result, in most cases, if utility patent protection is available, design patent protection is used only as a supplement. The most common use for design patents is when others are likely to copy the protected product identically (e.g., from a mould exactly or nearly exactly replicating the product), including the ornamental feature protected. Design protection may sometimes be sought as an aspect of protection of a “look” of a product or product line associated with a company, similar to a trademark. However, even relatively minor changes in the “look” of a product will generally eliminate significant concerns about infringement of a design patent.⁵

4. Trademarks and Branding

Another type of IP protection that is useful for many products is trademark (and service mark) protection. Trademarks and service marks can cover names, slogans, and logos, and, occasionally, other unique features associated with products and services. Trademarks and service marks only provide protection for unauthorised or confusingly similar use of the marks themselves, not the underlying products or services. Unlike patents, some trademark or service mark protection can arise even without obtaining registration, although a registered trademark is almost always of more value.⁶

Like trademark protection, a particular look or style of a product or service may also be protectable in some countries, such as the United States, using “trade dress” protection. Trade dress can be registered at the United States Patent and Trademark Office, similarly to trademarks and service marks. Generally, trade dress protection is much less defined than trademark protection and more limited in its usefulness against an accused infringer. As with trademarks and service marks, trade dress infringement can be avoided by avoiding the use of identical or confusingly similar looks for products or services.

5. Copyrights

Yet another type of IP protection potentially useful to some customers and Indian companies, especially those engaged in producing or otherwise using software in their

⁵ ROGER E. SCHECHTER & JOHN R. THOMAS, *INTELLECTUAL PROPERTY: THE LAW OF COPYRIGHT, PATENT AND TRADEMARK* 310–311 (2003).

⁶ Lanham Trademark Act, 15 USC. §§ 1051–1127. The Act guarantees the registrant trademark rights in all parts of the United States, allows the registrant to use the ® symbol, allows the registrant to invoke the assistance of the US Customs service to prevent import of infringing imports from entering the country and registration provides constructive notice to other parties of the registrant’s claim of ownership and the registration can be used in litigation as *prima facie* evidence of the registrant’s ownership of the trademark.

products, is copyright protection.⁷ Copyrights protect against the unauthorised reproduction of “works”, such as documents and software code. Copyright protection, however, does not prevent the use of documents or software that is functionally similar or identical to the copyright protected work, so long as copying from the original or development of a “derivative work” has not occurred; for example, having a programmer produce software code to perform a function, without that programmer copying or otherwise having access to code that has already been developed but is to be replaced, would not give rise to copyright infringement, even if the programmer produces identical code to the code to be replaced. The deliberate development of such similar functioning code while avoiding copyright infringement is often referred to as using a “clean room” technique. Copyrights are not required to be registered in the United States; however, in most cases registration is a prerequisite to filing a lawsuit for infringement.⁸

6. Trade Secrets

One other type of IP protection of potentially limited use to some outsourcing and Indian companies is “trade secret” protection.⁹ Trade secrets include products and information, such as processes, formulae, or other expertise, that are carefully protected by confidentiality agreements and other strongly enforced limitations on disclosure. Because trade secrets may be destroyed by public disclosure, they are among the weakest of protections. In many cases where use of trade secrets is involved, this information may only be disclosed if strong contractual limitations are in place. Of course, the presence of trade secrets in a contractual relationship does not normally prevent the Indian company from developing and using its own trade secrets relating to the product to be manufactured or service to be performed (e.g., in the absence of contractual limitations).

B. The Basics of IP Enforcement: The US Model

Even if the customer has strong IP ownership and other controls and limitations on the IP covering the product or service, such provisions may be virtually useless to the customer if they cannot be enforced. For example, some software is not patentable in India.¹⁰ Even if a product or service is protectable, the customer may not choose to spend the money to obtain sufficient rights in India, or may be unwilling to spend the time and money to protect rights obtained in India. If the Indian company may not

⁷ Copyright Act, 17 USC. §§ 101–810.

⁸ 17 USC. § 411.

⁹ Uniform Trade Secrets Act, 14 U.L.A. 438. The federal law on trade secrets is contained in the Economic Espionage Act, 18 USC. §§ 1831–1839.

¹⁰ PATENTS ACT, section 3(k) (India),

easily determine whether the customer has rights or that the customer is willing to assert these rights, the Indian company's decision on production outside the contract with the customer will involve assessment of risk, which will likely include consideration of the customer's size and assertion history, the technical specifics of the product to be manufactured, in relation to any IP rights protected (and the countries in which such rights are protected), and assessment of the customer's risk tolerance.

In the United States, a company's IP rights and various terms, including any other rights of the parties arising under contracts, may usually be enforced in either state or federal court, depending on the nature of the IP involved. In addition, for some IP issues relating to products manufactured outside the United States and imported into the United States, rights may be enforced through the International Trade Commission (ITC). Understanding the complexities of enforcement of IP rights in the United States can often be important to a proper assessment of risks for an Indian company seeking to produce products outside the scope of the contract, for which the customer may nevertheless attempt to assert IP rights. In many cases, the nature of the United States court involved, as a practical matter, may severely hamper the customer's ability to enforce IP rights and/or contract terms.

IP and contractual issues relating to IP are tried at the federal or state court level, depending on the issue, and in some cases, the location or nature of the parties. The federal courts and the ITC provide exclusive jurisdiction for matters relating to patent infringement. However, contractual issues relating to patents and patent applications, such as ownership issues, are typically tried in state court or in federal courts applying state law.¹¹

In federal court, patent cases typically involve assertions of infringement or non-infringement/invalidity by the parties. Damages may be obtained by the patent holder, if successful, and injunctive relief and declaratory judgments are also common remedies. If infringement is found, damages can be measured for the infringement being either "wilful" or not "wilful." One of the most common defences to an assertion of wilful infringement is that the defendant obtained a non-infringement or invalidity opinion from competent counsel. If the infringement is found to have been wilfully committed, triple damages may be obtained, as opposed to actual damages if the infringement is not found to have been wilful. Damages can be measured in many ways, but commonly can include either a reasonable royalty or lost profits. If a patent holder successfully proves infringement, the patent holder can often obtain injunctive

¹¹ Peter L. Brewer, *Who Owns the Invention?: Addressing Ownership Claims of Employees and Contractors*, 42 TENN. B.J. 22, 24 (2006).

relief in the form of an injunction to prohibit the infringer from selling the product or performing the service or process that is covered by the patent. An accused infringer will typically seek, and be granted if the accused infringer wins, a declaratory judgment that the patent is either invalid or not infringed.¹²

In the ITC, a patent holder can bring suit against any accused infringer that is manufacturing or having manufactured a product outside of the United States for importation into the United States. No damages may be obtained in the ITC. Instead, the patent-holder, if successful, can obtain an order from the ITC instructing the United States Customs Service to prevent the infringing products from being imported into the United States. The products are then seized upon entry into the United States and returned to their country of origin.¹³

Trademarks can be based on common law, state statute, or the Federal Lanham Act.¹⁴ Actions involving trademark infringement under the Lanham Act may be brought in either federal or state court. However, the majority of trademark actions arising under the Lanham Act take place in federal court. While federal registration is not a prerequisite for trademark rights, registration confers key benefits and rights. A federal trademark registrant may bring an action for trademark infringement under the Lanham Act in federal court, while a common-law trademark owner may bring a similar action under the Federal Lanham Act for unfair competition and false designation of origin. Individual states also provide statutory and/or common law grounds for trademark and unfair competition claims.¹⁵

In general, if a trademark has been infringed, a trademark owner may sue to recover: (1) actual damages, including lost profits; (2) the defendant's profits; and (3) attorneys' fees and costs. Damages may be tripled upon a showing of bad faith.¹⁶ Nevertheless, most plaintiffs are generally awarded an injunction against future acts of infringement of their trademark.

Copyright cases must be filed in federal court, as federal courts have exclusive jurisdiction over actions arising under the Copyright Act. In general, a copyright owner may sue to recover: (1) actual damages and any additional profits of the infringer; or (2) statutory damages. In the case of wilful infringement, statutory damages may be awarded up to US\$150,000 per act of infringement. However, it is important to keep

¹² 35 USC. §§ 283–284.

¹³ 19 USC. § 1337.

¹⁴ Lanham Trademark Act, 15 USC. §§ 1051–1126.

¹⁵ SCHECHTER & THOMAS, *supra* note 5, at 550.

¹⁶ 15 USC § 1117.

in mind that the copyright owner's copyright must be federally registered before any infringement occurs in order to recover attorneys' fees and statutory damages from the infringer. For owners of unregistered copyrights, statutory damages and attorneys' fees are not available.¹⁷

C. The Basics of IP Ownership and the Importance of the Contract Terms

IP ownership issues are important to any outsourcing transaction, since they relate to contracts, which are the primary mechanisms by which outsourcing is accomplished. Of key importance with regard to IP ownership in the outsourcing context is understanding how IP may be transferred and the effect of particular language within the contract that is used (or not used) in attempting to transfer ownership.

1. Company-to-Company and Individual-to-Company Assignment Obligations

In the United States, as a general rule, most IP that is created is presumed to be owned by the individual who created the IP, i.e., a person, and not a company or other non-human entity.¹⁸ Often the IP created by an individual is subject to an existing contractual right or other legal right of an entity (such as a customer or employer), and title is transferred to such entity (often immediately) either by terms of the applicable contract or operation of law. Depending on the specific IP involved and the circumstances of the relationship among the parties, presumptions as to ownership can vary.

For example, with regard to patent rights under United States law, an individual at a company who conceives of a new invention, absent any other obligations, would be the rightful owner of that invention.¹⁹ For the company to obtain these rights, a written agreement, such as an employment agreement or an intellectual property agreement must be in place between the company and the inventor, or the company must obtain a later assignment in writing from the individual to the company. An exception to this written assignment requirement applies to individuals who are explicitly "hired to invent" and to those who are officers of the company, thereby being under a fiduciary duty to assign such rights to the company. In the absence of such written agreement or later assignment by the individual to the company, the company will gain only a "shop right" to use the technology for the company's internal purposes.²⁰

¹⁷ 17 USC. § 412.

¹⁸ Brewer, *supra* note 11, at 23.

¹⁹ See RONALD B. HILDRETH, PATENT LAW: A PRACTITIONER'S GUIDE 8-9 (1988).

²⁰ *Id.* at 10-11.

Similarly, assuming United States law applies, when a customer engages an Indian company to perform work on behalf of the customer, individuals at the Indian company are the owners of the technology they develop, absent their assignment to either the Indian company (e.g., through their written employment agreement with the Indian company) or to the customer, if required by contract or other obligation (e.g., the Indian company's employment agreement requires assignment to any entity designated by the Indian company). The assignment obligation can likewise be extended further, such as to consultants and contractors of the Indian company.²¹

In each case, for the customer to ensure that it has all the rights it needs, a chain of assignment obligations must extend by *written* contract terms, assigning all rights in advance and requiring each employed individual to make assignments and each company to make corresponding assignments so that the customer is ultimately the exclusive owner of all rights. To accomplish this properly, the customer's contract with the Indian company may include obligations on the Indian company to ensure that each individual and contractor or other party working on behalf of the Indian company is under an obligation and has correctly assigned rights to the Indian company or will be otherwise obligated to assign the rights directly to the customer. If the customer has failed to ensure this assignment chain, or, in some cases, if the proper assignment language is not used, the customer may be unable to obtain the patent rights under the contract.²²

Under United States law, other types of IP besides patents are also owned by the individual creator of the work, absent obligation to assign these rights or an employment or special contractual relationship under which a contracting or commissioning party is considered the author of the work. For example, under copyright law, a copyrightable work is automatically owned by its author. Works by an employee of a company created within the scope of the employee's duties are considered to be authored by the employer, and thus are owned by the employer upon creation, unless the parties agree otherwise in a signed instrument.²³ Copyrightable works created by a non-employee, such as a contractor, are not automatically considered owned and authored by a contracting or commissioning party, unless the following three conditions are met: (i) the work falls within any of

²¹ See Jerry C. Liu, *Overview of Patent Ownership Considerations in Joint Technology Development*, SYRACUSE SCI. & TECH. L. REP. 1, 4, 7 (2005). Of course, under Indian law, such assignment terms may be superfluous. See PATENTS ACT, section 3(k) (India).

²² See HILDRETH, *supra* note 19.

²³ 17 USC. §§ 101, 201.

nine specific categories,²⁴ (ii) the work was specifically “commissioned” or “specially ordered” (i.e., the creator was paid to specifically create the work), and (iii) there is written instrument signed by the creator prior to the works creation that specifically indicates that the works created under the contract are “works made for hire”.²⁵ Absent the satisfaction of these three conditions, the creator of the work is considered its author, and to transfer ownership to the party for whom the work was prepared, the creator must execute a written document of conveyance.²⁶

2. Ownership of Developments and Limits on the Definition of Developments

Particular issues that are often of importance for ownership and limits on the customer’s options include whether and how the contract defines the IP that is owned or to be owned and how the contract addresses the issue of ownership of “developments”, “improvements” and other “related” IP that arises and to which the contract is applicable. As with the actual language of the assignment terms discussed above, a careful analysis of the words actually used in the contract is key.

For example, in many cases, the customer may not contemplate that intellectual property will be developed by the manufacturer, and therefore will fail to address these issues. Similarly, the contract may simply specify that listed patents and other IP are owned by the customer, and any IP that is developed under the contract would therefore be owned by the company at which the individuals are located who conceive of these developments. Further, even if this second type of provision is included, the product produced may differ, if only subtly, from the original product, due to production requirements or cost issues, for example, and these differences may be

²⁴ The following types of works may fall under the “work for hire” doctrine and may be considered authored by a commissioning party if other conditions are met:

a work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire. For the purpose of the foregoing sentence, a ‘supplementary work’ is a work prepared for publication as a secondary adjunct to a work by another author for the purpose of introducing, concluding, illustrating, explaining, revising, commenting upon, or assisting in the use of the other work, such as forewords, afterwords, pictorial illustrations, maps, charts, tables, editorial notes, musical arrangements, answer material for tests, bibliographies, appendixes, and indexes, and an ‘instructional text’ is a literary, pictorial, or graphic work prepared for publication and with the purpose of use in systematic instructional activities. 17 USC. § 101.

²⁵ *Id.*

²⁶ 17 USC. § 204.

patentable or constitute trade secrets or other IP that may become the property of the Indian company. It is also possible that production techniques may develop that are patentable and not envisioned by the customer. Finally, the customer may intentionally use the Indian company to develop the technology, either from the beginning of product development or based on an initial concept or prototype provided by the customer.

Sometimes the contract will specify that the patents and other IP, as well as “improvements” to these patents and IP are owned by the customer. However, if a patent only covers a product produced by the Indian company for the customer, this language may not cover any manufacturing process technology developed by the Indian company. Also, if the Indian company develops a similar product that is simply different from the customer’s product and not covered by the customer’s patents, such a product may not constitute an “improvement” to which the customer is entitled.²⁷

Broader language that the customer includes may assert ownership of “any IP relating to” the products produced or services performed under the contract, or of “any IP developed” by the Indian company during the course of performance of the contract (note that this last term type may obligate assignment of technology completely unrelated to the products or services that are the subject of the contract). The interpretation of such language can vary significantly in the United States, depending on the jurisdiction involved (e.g., the contract will be interpreted under the state law of the particular state that is found by a court to be applicable for making such interpretation).

3. Other Contract Issues

The contract presented by the customer may also include a number of other terms that directly or indirectly affect IP rights of the Indian company. In many cases, these terms are designed to assist the customer as favourably as possible in collecting damages or obtaining injunctive relief in the event of a perceived breach of the contract.

For example, the contract may specify that it was written and should be interpreted in the English language, as governed by the laws of the country in which the customer is located, such as the United States. The provisions may also require use of arbitration with regard to any disputes under the contract, which is often perceived as more reliable than depending on courts outside the customer’s country. To aid in enforcement, the Indian company may also be required to expressly submit

²⁷ However, the Indian company is cautioned in these cases to look to other terms of the contract that could apply. For example, “non-compete” terms may prevent the Indian company from selling or producing products that compete with the customer’s products.

and consent to the jurisdiction of the courts of the customer with regard to actions for which injunctive relief or enforcement of an arbitrator's decision is sought.

Generally, a contract for the purchase of goods²⁸ between parties of different nations will be governed by the United Nations Convention on Contracts for the International Sale of Goods²⁹ (CISG), unless the contract specifies that it will be governed by other code, such as the Uniform Commercial Code (UCC) of a particular state in the United States. Of particular interest regarding IP, though specific representations and warranties concerning non-infringement may be expressly stated in the contract, the UCC and CISG both provide for warranties that goods sold will not infringe IP rights of third parties. In some cases, the applicable non-infringement warranty provided by the UCC (§ 2-312) may not apply to the Indian company, as the provision only applies to “merchants regularly dealing in goods of the kind”. Article 42 of the CISG, which also provides the purchaser with a warranty of non-infringement, does not place a similar limit on the type of seller to whom the warranty implies. However, the UCC is generally considered to be more favourable to buyers than the CISG in terms of providing for damages and other remedies.³⁰ Thus, a range of risks and circumstances may be involved, depending on whether the customer asserts that the contract will be governed by the CISG or the UCC.

In addition to representations, warranties, and indemnities expressed in the contract with the customer, and any implied warranties provided by the CISG or UCC, the customer may attempt to negotiate arrangements that enhance the customer's ability to enforce and collect against breach of such provisions. For example, arrangements such as insurance, letters of credit and similar mechanisms may be used. If the Indian company owns property in the United States, use of such property as collateral to secure the Indian company's compliance with the contract may be sought. Similarly, if the Indian company has an affiliated entity located in the United States, a guarantee from such affiliate may be required. Additionally, if the customer obtains a right to offset any payment owed to the customer, the credit terms of the purchase of the device being manufactured or service being performed under the contract may include some protection against breach by the Indian company. Finally,

²⁸ The definition of 'goods' under both the CISG and UCC does not include the development of software (which is considered a service), but may include the sale of packaged software products. Joseph Lookofsky, *Digesting CISG Case Law: How Much Regard Should We Have?*, 8 VINDOBONA J. INT'L COM. L. & ARB. 171, 188 (2004).

²⁹ United Nations Convention on Contracts for the International Sale of Goods, Apr. 11, 1980, 1489 U.N.T.S. 3.

³⁰ See Avery W. Katz, *Remedies for Breach of Contract under the CISG*, 25 INT'L REV. L. & ECON. 378, 388–389 (2005).

regardless of contractual arrangements and statutory provisions, the customer may insist on cooperation by the Indian company with regard to performing due diligence on the risk of breach.

4. Other Issues Potentially Affecting Contract Terms and Negotiation Strategy

Obviously, commercial circumstances may greatly affect the Indian company's ability to negotiate such contract terms as described above. For example, one practical issue is simply the size and bargaining power of the customer. Larger size and market share can allow the customer to leverage its agreements to its great advantage. Also, the more the Indian company desires the working relationship, in general, the more the customer can require indemnification, warranties, and other concessions favourable to the customer. In addition, size and market share often dictate the number and quality of competing Indian companies bidding for the contract, thereby often providing additional leverage for IP and other control by the customer through potential competition among the Indian companies.

As a practical matter, despite all of the contractual requirements a customer may obtain with the Indian company, these requirements may be useless to the customer in many situations. For example, if the Indian company is small, in the event that the customer asserts contract provisions, the Indian company may simply default, close up shop, and reopen as a new company. Outsourcing companies may also find it difficult to enforce the contract in India. As a result, the new "rebadged" Indian company may then proceed to (or continue to) manufacture the customer's products for other buyers. In this situation, the customer's only fallback position may then be to assert IP rights. However, if the customer has not obtained sufficient rights in India or other countries to which the product may be sold and/or enforce or has difficulty enforcing these rights in India or other countries in which the product is to be sold and/or manufactured, there may be little risk to the Indian company. The Indian company in this situation should consider, however, that it may have difficulties selling in the customer's country (e.g., the United States) and any other countries where IP rights have been sufficiently protected and may be enforced as a practical matter by the customer.

As briefly alluded to above, another issue potentially affecting IP ownership and liability between the parties is the nature and degree that the customer directs manufacture or performance of services. While a customer may attempt to shift liability (including attorneys fees) through contract provisions, if the customer dictates and approves the specifics of manufacture or performance of services, particularly if the customer has knowledge of (or more specific intent with regard to) patents, the customer may still find itself subject to significant liability concerns and legal costs,

rather than, or in addition to, the Indian company. To address some of these issues, one option that some customers will select is the use of middlemen or consultants to direct manufacture, which potentially adds a layer of liability insulation between the customer and the Indian company. As discussed above, one aspect of such a relationship is the addition of yet another link in the chain of shifting liability and assignment obligations that must be completed for the customer to obtain rights and for liability to be transferred from the customer.

III. EVALUATING THE IP PROTECTION OF THE CUSTOMER

A. Determining and Limiting the IP Rights of the Customer

As discussed above, one decision point for IP rights determination occurs at the time of contract negotiation between the Indian company and the outsourcing manufacturer. The IP issues must be evaluated based on the specific terms used in the contract, considering the relative importance of the need to perform the work, the relationship involved (e.g., whether it is part of an important, long-term relationship), and the specifics of the IP involved (e.g., whether patents have been obtained by the customer and whether any new technology is likely to be developed by the Indian company). The Indian company may also need to consider the terms and its negotiation position in the context of any long-term strategy being developed. For example, if the Indian company plans to produce competing products and will conduct research and development simultaneously with performing contract obligations, surrender of all developed IP to the customer may be unwise.

Of course, as a practical matter, the Indian company may be in a “take it or leave it” situation, in which the customer asserts it will not accept any contract modifications. In this case, the Indian company should first evaluate the contract terms, but also consider putting forth persuasive arguments, despite the asserted position of the customer. For example, in the United States, many software consultants successfully limit IP ownership for a contracting party by arguing that they cannot surrender rights that are necessary for them to consult for other parties. This type of argument has more potential for success for Indian companies that are more in demand and therefore able to decline work for outsourcing companies that are unwilling to negotiate.

Another factor to consider during negotiations is the nature of the technology involved. For example, many types of software are not patentable in India. The agreement by the Indian company to assign all patent rights for such technology to the customer will not give rise to patent liability in India (and many other countries),

and the Indian company is therefore free to duplicate the functionality of such software, so long as other rights are not infringed (e.g., copyright rights).³¹ On a more sophisticated level, for some technologies, it may be possible to determine the potential patentability of the technology or to identify existing old art technology that can be duplicated to perform the same function.

B. Practical Tools for IP Aspects of the Evaluation

The above analysis suggests another aspect of IP that the Indian company may wish to consider: using IP analysis tools to evaluate risks, identify options for exploitation, and identify and protect IP.

1. Patent Searches

Most companies are familiar with the basic idea of the prior art or patentability search. This type of search potentially provides information on the likelihood that a patent will be grantable, based on the prior art. An Indian company may want to conduct this type of search if the company believes it has identified a potentially patentable technology that is not owned by the customer. The results of such searching can also be useful as part of a larger strategy for business development. For example, it may be discovered that a product or service of interest is patented in North America, Europe, and Japan, but not in the remainder of Asia. Such a product or service may thus be a candidate for sale in India or China, free of patent infringement concerns. Of course, the product will also not be patentable for the Indian company in those countries, so competing companies will likewise be able to sell the product in those countries. It is important to know that such a search is not required for filing an application in the United States, and that such searching has potential negative consequences if the United States is a potential country for patent protection by the Indian company. For example, one potentially negative aspect is the requirement in the United States to provide all relevant known or discovered information to the Patent Office. It is possible that the search may uncover prior art that the United States Patent and Trademark Office wouldn't have discovered on its own, thereby potentially reducing the likelihood of obtaining a patent. On the positive side, if a patent is obtained after this information is provided, the patent is theoretically stronger, since the Patent Office has granted a patent even knowing this information, and a presumption therefore exists that the granted patent is valid over this information.

Another possible negative aspect of the prior art/patentability search (as with any type of patent search) is the discovery of a patent that would be infringed if a product were produced that is covered by the patent. While it may at first glance

³¹ PATENT ACT, section 3(1)(j) (India).

appear to those unfamiliar with patent searching that any prior art that negatively affects patentability would give rise to an infringement concern, this conclusion is normally not warranted. The reason for this apparent contradiction relates to the difference between types of searches and what patents cover: the prior art/patentability search generally involves examining the description of the patents and applications only, as well as any other references of interest, such as articles describing technology; infringement analysis, however, involves examination of the claims, which provide the formal legal scope of the patent. Claims by their nature cannot cover the entire scope of what is included in the patent description, and what the patent actually covers is often much less than what is described in the patent. Thus, for example, many references that are highly important to determining patentability will not be relevant to infringement.³²

The concern nevertheless remains that a patent having claim scope that covers a product or service to be produced by the Indian device company will be uncovered. In this case, absent prophylactic action, it is possible that the Indian company could become liable for increased damages for any infringement that occurs. The most common type of prophylactic activity in the event of a patent of concern being discovered is the preparation of a non-infringement or invalidity opinion.³³

Despite all of these concerns, the prior art/patentability search should generally be used, assuming it is warranted in the business context. For example, if conducted early in the process, such a search can help the Indian company make decisions on how and whether to proceed with both manufacturing and patent protection.³⁴ In addition, the search can help with determining the scope of claim coverage in any patent applications filed, and, if potential patents of concern for infringement are discovered, the company may change its product strategy or design, or seek appropriate licenses, for example.

The above discussion lends itself readily to discussion of the second common type of search, called a “clearance” or “freedom to market” search. This type of search, unlike the prior art/patentability search, focuses on the claims of issued patents. The

³² The reverse can also occur. For example, a patent on a seemingly unrelated technology may contain a very broad claim that covers the search product, while the patent itself has little or no effect on patentability.

³³ See Albert P. Halluin, *Incorporation of Parts into the Whole: Avoiding Liability When Incorporating Nanotechnology Improvements* 3, *NANOTECHNOLOGY L. & BUS.* 25, 36 (2006).

³⁴ Of course, if warranted in the context of a negotiation with a customer, such a search may also be useful in assisting the Indian company with understanding its IP rights under a contract. However, the patentability and possible infringement effects may be visited upon either or both the Indian company and the customer.

best outcome of such a search is typically a determination that no patent of concern is identified, and production of the product or performance of the service may proceed with reduced concern of patent infringement. In the event that a patent of concern is uncovered, the Indian company may wish to obtain a non-infringement (possibly also involving a product redesign) or invalidity opinion, if possible, to reduce the potential risk of manufacture.

Another type of search/analysis that many companies use is referred to as a “landscaping” search or analysis. Landscaping is generally similar to both prior art/patentability searches and clearance/freedom to market searches, but is broader in scope than a search for a specific product. The landscaping results can be used for patentability and clearance purposes, to provide greater information on possible claim scope and potential areas of additional product development, and to identify competitors in the technology area. The drawbacks of this type of search/analysis are generally the same as those for the other searches described above.

2. Comparing Products to IP rights

Another step in the Indian company’s process may be evaluation of patents and other IP relative to a product to be produced. For example, if a customer owns a patent, but does not claim rights to developed or related products in its contract with the Indian company, the Indian company may want to develop similar products or improvements on the customer’s technology. An evaluation may be needed of the scope of the customer’s patent and whether a potentially produced product would infringe the patent.

The evaluation of such scope or infringement issues is generally complex and as a general rule requires both legal and technical expertise. Under United States patent law, infringement is measured solely as a function of comparison of the claims of the patent to the product or service potentially covered. Many complications can arise in this analysis, most often relating to the meaning of specific terms in the claims. In many situations, and especially when a close call is involved as to whether infringement is a concern, a legal opinion as to non-infringement or invalidity of the patent in question may be appropriate.³⁵ In the United States, such patent legal opinions are generally expensive, yet only provide “insurance” against wilful infringement of a patent, not complete insulation against being sued. Other options for dealing with a patent of concern include: 1) ceasing (or cancelling plans for) manufacture; 2) licensing

³⁵ There is also no guarantee that a court that later interprets an infringement or validity issue regarding the patent will reach the same conclusion as the attorney rendering such an opinion. However, even if wrong, such an opinion is normally able to support a strong presumption that no “wilful” infringement has occurred.

or buying the patent; 3) “designing around” the prior art; and 4) ignoring the concern and risking greater damages. Clearly, the particular business circumstances will greatly influence which of these options is most practicable.

Of these other options, one that may often be of interest to an Indian company is designing around a patent. The idea of designing around is to evaluate the claims of the patent and to produce a product that deliberately does not meet the requirements of the patent. The degree of “how different” the product is from the claims in the patent can often be varied to a level of comfort for the company. However, in many cases, the design around product is still close enough to the patent to warrant obtaining an opinion, so as to minimise the downside risk if the patent were found to be infringed.

A similar approach may be used when other IP is at issue. For example, if software is to be developed and copyright issues are the concern, a common technique for avoiding infringement in the United States is to produce software having the same or a very similar functionality to the copyrighted software using a technique called “clean-rooming” (as referred to earlier). With clean-rooming, a programmer is provided with functional requirements for the software to be produced, but is prevented from using or even seeing the copyrighted software. The anticipated result is software that performs the same functions as the copyrighted software, but that has not been copied or otherwise can be considered a derivative work of the copyrighted software.³⁶

The tools described above may serve to support the both the Indian company’s analysis of IP issues as part of a relationship with a customer and in the potential development of products and services for other markets.

IV. PRACTICAL APPROACHES TO MAXIMISING AN OUTSOURCED COMPANY MARKET

A. Understanding and Leveraging Potential IP that the Outsourced Company Retains

As alluded to above, several elements of information may help the Indian company with analysing its IP issues.

Firstly, analysis and negotiation of the contract with the customer will provide a baseline of IP limitations. Generally, the more ownership of developed IP that is retained and the less additional restrictions on IP related issues that apply under the

³⁶ Jonathan Owens, *Software Reverse Engineering and Clean-rooming: When Is It Infringement?*, 9 SANTA CLARA COMPUTER & HIGH TECH. L.J. 527, 557–558 (1993).

contract to the Indian company, the more freedom that remains available for the Indian company to develop improvements, manufacturing and other process techniques, and new products and services.

Secondly, consideration of the nature of the technology involved in the analysis of the IP protectability of this technology should be made. For some technologies, simply knowing that no IP protection may be afforded in certain countries (both India and other countries) may be valuable to the Indian company.

Thirdly, to the extent that IP protection may be obtained for the technologies of interest, searching can be used to determine the existence and extent of such protection. This analysis can include both the technical aspects of the protection (e.g., whether the IP covers the developments and new technology of interest) and the geographic range of the protection (e.g., whether protection has been obtained in India and other countries of possible interest for manufacturing or sale).

Fourthly, an assessment can be made of the nature of the customer and its potential level of concern regarding IP and market exploitation by the Indian company. For example, does the customer regularly enforce its IP and contract rights in its home country and elsewhere? How big is the customer, and what is the likely budget and willingness to enforce rights? What are the implications of competing with the customer, either directly or indirectly (e.g., are there long-term implications for the relationship with this or other companies if competition occurs, regardless of IP issues)?

B. The Protection of IP

1. Utility Patent Protection

This type of protection should generally be used as extensively as the business can reasonably afford, to the degree appropriate for the expected sales of a product, as tempered by the nature of the technology and countries involved, as well as what is known about the technology (e.g., prior art). With regard to costs, investment in protection of the technology should be reasonably calculated so as to enable the company to protect the technology, to the extent sales warrant. For example, if the cost of patent protection represents only a few percent or less than one percent of the value of the expected return on the product, it would appear an unusual case that such protection would be unwise.

Strongly weighing in on the decision — and the scope of protection to be obtained (e.g., the number of patents to be obtained relating to the technology) — is the nature of the technology and the scope of the prior art. Just as entering into manufacturing for a product that is already manufactured by many other companies presents potential

upsides and significant downsides from a competition viewpoint, selecting to pursue a technology for which many patents have issued and for which the possible scope of protection is narrow should only be made with careful consideration. However, the company should be aware that the knowledge gained by such searching can sometimes be a double-edged sword, potentially providing the information needed to decide on manufacture, licensing, and IP protection, but also possibly making the company aware of infringement of patents, an increased liability compared to infringement in the absence of knowledge of patents.

2. Design Patent Protection

As is likely apparent from the nature of the protection that design patents afford, while inexpensive, these types of patents should generally only be sought where competitors or unauthorised copiers are likely to precisely duplicate everything about a product, including its ornamental appearance.

3. Trademark and Other Branding Protection

The protection of the Indian company's trademarks, whether words, phrases, or symbols, and other distinctive aspects closely associated with the product, should be fully protected as part of a long-term branding strategy.

4. Copyright and Trade Secret Protection

Copyright, which may be most useful, for example, with protection of software, is limited in that it only protects against actual copying of the work involved. Thus, even if the functionality is reproduced exactly, but without using the medical device company's software or other works, no action will lie for infringement. Trade secret protection, as previously alluded to, should rarely, if ever, be relied upon to protect a product, particularly if the product is made in a country having questionable legal protection for trade secrets.

5. Continuation Strategy

Another potentially useful tool for the Indian company when patenting in the United States is the use of additional patent applications to further cover a product or product line. A continuation or divisional application contains the same description as its parent application, but has different claims (as claims cannot ever cover every aspect of the described invention, this process can occur many times over). A similar type of application, called a continuation-in-part, allows some priority to be maintained to an earlier application, but also to include additional description, such as a new development, feature, or variation of a product. Both types of applications can be useful in providing the Indian company with flexibility in its patent protection in the event that competitors develop features not claimed in the original patent

application. Any of these continuation applications can be filed at any time, so long as another patent application in the chain remains pending.³⁷

V. CONCLUSION

Indian companies that provide outsourcing services can place themselves at an additional competitive advantage if they understand the laws and customs of their customers. Customers in the United States typically negotiate on the basis of the United States' legal structure, which provides a broad array of protections and contractual options for the parties. As in any negotiation, the market and bargaining power of the parties will be paramount in determining the risks and advantages to the Indian company and the customer. However, by understanding a customer's expectations, and being prepared to address issues such as ownership, liability and IP protection (as such issues would be addressed under the laws of such customer's home country), an Indian company will be in the best position to increase its business, while protecting itself from risk based on misinterpretation of contractual provisions or a misunderstanding of applicable law. Thus, a working knowledge of the law and practice as discussed above is key to efficient management of the customer's intellectual property rights management by outsourcing service providers in India.

³⁷ 35 USC. § 120.