

Legal Briefs: Top Outsourcing Lawyers Give Advice to Buyers



Michael S. Mensik

Q. Under What Conditions Should A Client Not Outsource Due Solely To Intellectual Property Concerns?

Michael S. Mensik, Partner, Baker & McKenzie LLP

The client should not outsource due solely to concerns about losing control of its intellectual property if those concerns overwhelm all other considerations. That may be the conclusion where the client's technology is truly unique, strategic and difficult to guard against "leakage," whether due to its nature or other circumstances. Even then, however, other factors may tip the balance in favor of outsourcing, such as cost, bandwidth, speed-to-market, talent set or other considerations.

Some of the questions I'd be asking: Is your IP really "unique" and "strategic?" Is what your service provider will create "unique" and "strategic?" Can you effectively control your provider? Even if you get the right words on a signed written document, can you enforce those words in fact, at least in those parts of the world that are most relevant? What are the other factors driving the look at outsourcing, and how do they weigh in the balance?



Richard Raysman

Richard Raysman, Partner, Brown Raysman Millstein Felder & Steiner, LLP

For many companies, to remain competitive, it is imperative that they retain the "knowledge capital" to build on the existing IP and add new types of Intellectual Property.

Companies should not outsource parts of their core competencies that make them competitive. They should also not transfer employees who have developed methodologies which give the company a competitive advantage. These employees are needed to develop additional IP and will not be nearly as effective if they are transferred to an outsourcing vendor.

If a company has decided on outsourcing and there are confidential methodologies involved, the outsourcing vendor should not be a company which may at some time in the future compete with the outsourcing customer. To avoid the competitive scenario, an outsourcing agreement can permit a customer to terminate without penalty if the outsourcing agreement is assigned by the vendor to another company within the same competitive space.

David Guedry, Partner, Hughes & Luce, LLP

I don't think there is any one factor related to IP concerns that should automatically result in a company's decision to not out-



David Guedry

source. If you are dealing with a reputable, financially stable, and agreeable supplier, IP concerns should not prevent you from undertaking an otherwise beneficial outsourcing transaction. While there is some additional risk resulting from exposing your IP to a provider, that risk does not have to be appreciably greater than exposing it to your own employees. That said, following is a list of IP-related factors to be considered when contemplating outsourcing:

- The IP constitutes your core business or is a critical trade secret
- The business risk from loss of control of the IP would be significant (e.g., you have a unique product or process based on proprietary design, or the IP provides critical advantage in a competitive commodity industry where there is a low barrier to entry)
- The IP relates to national security (weapons systems, encryption software)
- You have limited ability to police IP infringement and enforce your rights (due to contractual, financial, or geographic limitations)
- The provider is unwilling to assign to you the rights to IP developed by the provider in the course of providing services
- The provider's confidentiality, security and IP protection safeguards don't meet your needs or requirements