

Legal Concerns of U.S. Clients (and why you should know them)

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Speaker's profile

- I counsel businesses in corporate, securities and commercial matters. These matters include:
 - Organization, governance, mergers and acquisitions of corporations, limited liability companies and limited partnerships, including pooled investment vehicles;
 - Counseling private and public companies in private offering and registration of securities and periodic reporting before the Securities and Exchange Commission; and
 - Advising clients in negotiating, documenting and resolving disputes relating to a wide range of business contracts, including outsourcing and technology development and licensing contracts.
 - I am a member of the bars of the States of New York and Delhi, India.
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Topics

- Why Outsourcing
 - Primary Business Concerns
 - Certain Key Legal Concerns
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Why Outsourcing

□ Focus On Core Competency

■ Thinking –

- Identify core competencies of significance to customers that offer long-term competitive advantage – where one can be best-in-the-world;
- Focus investment and management attention on them; and
- Outsource other activities.

■ Non-core for client is core for vendor

Replace Fixed with Variable Costs

■ Vendor has:

- Economies of scale
- Superior know-how
- Better processes
- Deeper expertise
- Better service measurement methods
- Talent farms

■ Vendor may buy Customer assets

Primary Business Concerns

- Of Customers -
 - Dependence on vendor
 - Difficulty, risks and costs of unwind
 - Loss of control
 - Is there flexibility?
 - Keeping prices competitive
 - An army of employees
 - Rights to intellectual property
 - Data security, privacy
 - Disaster recovery, business continuity
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PRIMARY BUSINESS CONCERNS, Continued

□ Of Vendors –

- Margin
 - Liability
 - Change – the challenge to keep up
 - Managing – really learning it this time
 - Competitive threats and opportunities
 - Is more business coming?
 - Reputation
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Legal Concerns

Universal

- Applicable law & forum; Enforcement
- Confidentiality; Rights to Intellectual Property
- Terminating the deal
- Disaster planning; Business continuation

Country-specific concerns

Applicable Law

- Whose law?
 - Customer's
 - New York law GOL 5-1401
 - Will courts recognize application of U.S. law?
 - India
 - Copyright on work-for-hire by independent contractor vs. employee
 - Default assignment not world-wide
 - Licensee cannot sue for infringement, unless exclusive licensee
 - covenants not to compete
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Forum

- Dispute Resolution Alternatives
 - Negotiation
 - Mediation
 - Arbitration
 - Litigation
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FORUM, Continued

- Arbitration preferred over litigation
 - Judgments less universally enforceable
 - India: U.S. not a “reciprocating country” under Section 44A of Code of Civil Procedure. Suit on the judgment
 - Exclusive litigation forums frowned by many non-U.S. courts
 - Nexus issue
 - India
 - Section 28 of Contracts Act and public policy
 - Exception for arbitrations
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- Right to Equitable Remedies reserved
 - Courts have an role to play where damages not enough, e.g. infringement of IP, breach of confidentiality

 - Right to move Indian courts
 - U.S. court's injunction is not effective
 - Possible to have Indian laws apply to specific aspects of the contract; damages and specific performance
 - But helps to have specific provisions
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Confidentiality

- A good example where equitable remedies are required
 - Risk – unauthorized access or disclosure
 - Expect to see in contracts -
 - Keep information locked in rooms; restrict access to employees with authority, password, badges, keys
 - Requirement to segregate storage
 - Rigorous facilities management and information handling protocol
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Rights to Intellectual Properties

- The next battleground
 - Technology is moving and developing overseas
 - Default rule favors vendor
 - Copyright – author, unless work-for hire or assigned
 - Patent – inventor, unless assigned
 - Absent contractual provisions, client has murky, implied license rights
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INTELLECTUAL PROPERTY THE NEXT BATTLEGROUND, Continued

- Vendor's Position
 - We developed it, we own it
 - We want to re-use it in our business
 - Client's Position
 - We paid for it, it is ours
 - We need it to keep our systems running, now and after you are gone
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INTELLECTUAL PROPERTY, Continued

- How to approach questions regarding rights to IP –
 - Break it down to parts:
 - Who owns what
 - Who should have it
 - Resolve each part separately
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BREAK IT DOWN TO PARTS, Continued

Who Owns What

Vendor

- Pre-existing works – “tool-kit”
- Works created specifically for client
- Works created as a by-product

Client

- Works created by client
- Client’s modifications to vendor’s work
- Client data

Third parties

- Operating systems
 - Application programs; others
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BREAK IT DOWN TO PARTS, Continued

Who Should Have What; Resolve

- Vendor's pre-existing works
 - Vendor's tool-kit; he anyways has it
 - Reasonable for client to seek non-exclusive license

 - Works created for client
 - Client has stronger grounds
 - Client may settle for license if perpetual, irrevocable, assignable, sub-licensable
 - Vendor may settle for "license-back"
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BREAK IT DOWN TO PARTS, Continued

Who Should Have What; Resolve

- Vendor's work by-products
 - Unanticipated solutions and methods
 - Often overlooked
 - Vendor often retains ownership and it becomes part of his tool-kit
 - Client may get license; or vendor may settle for "license-back"
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BREAK IT DOWN TO PARTS, Continued

Who Should Have What; Resolve

Client IP

- Client retains ownership to it's pre-existing works and data
 - Vendor may need a license to use it during the term of the relationship
 - Address changes by client to vendor's work and ownership and license of derived works
- #### Third party software and know-how should be licensed
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BREAK IT DOWN TO PARTS, Continued

Who Should Have What; Resolve

□ Joint Ownership

■ Easy now, uneasy later

- Party prosecuting the patent determines content of patent claims to the disadvantage of the other
 - A joint owner could license the patent to a competitor of the joint owner; latter would have not done that if he were sole owner
 - License scope, rights and restrictions should be negotiated
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RIGHTS TO INTELLECTUAL PROPERTY, Continued

□ Lessons

- Create and protect IP
 - Break it down into parts
 - Be pro-active and negotiate upfront
 - Use a combination of ownership and various forms of license
 - Compromise
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Terminating the Deal

- Take-offs and landings
 - Client wants to construct a deal that comes apart well
 - Minimize business and service disruption
 - Minimize re-inventing the wheel
 - Maximize ability to carry on
 - Vendor wants to construct a deal that does not come apart immaterially
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TERMINATION, Continued

Reasons for termination

- Breach – client's always provide it; vendor's should too for money not paid
 - Convenience – client's provide it; vendors should seek a good price
 - Quasi-breach
 - Vendor change in control, financial condition
 - Vendor's failure to adjust after benchmarking
 - Force Majeure
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