

Insights

Three Minute Update - Day in the Life of a Business: Consulting Agreements and Intellectual Property Considerations

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Consulting relationships have become increasingly prevalent in today's growing tech and entrepreneurial economy. Whether for one's main gig or side gig, the utilization of consulting arrangements has been further accelerated by exponential growth in accessible technology platforms, widespread shifts to remote work arrangements, and expanding availability and desirability of self-employment opportunities. While those entering into consulting agreements will find themselves generally excited to jump in and get to work, the parties must carefully consider the terms of the consulting agreement and intellectual property ("IP") implications that may arise during the course of their work together. Whether engaging with an internal consultant, external consultant, or freelance consultant, businesses can avoid potential issues and litigation down the road by evaluating, negotiating, and agreeing upon terms and conditions in the following areas before entering into a consulting agreement.

Carefully Define IP and IP Ownership

Both businesses and consultants benefit from clearly defining IP in consulting agreements prior to commencing the relationship. Definitions of IP may include descriptions of any existing IP owned by the consultant and any IP that may be created by the consultant and whether such created IP will be owned by the business or the consultant. A consulting agreement that articulates what IP is owned by the consultant and what IP will be owned by the business reduces the risk of disagreement over IP. Generally, the inventor, creator, or author of the IP owns the IP. To ensure that a business has rights to the IP that the consultant creates for the business, the consulting agreement should grant ownership of IP produced by a consultant to the business and clearly assign all such IP to the business, or alternately, provide a paid-up license for the business to be able to utilize the IP. The license approach will come into play more often if the consultant provides similar services to multiple businesses utilizing tools and techniques that are proprietary to the consultant.

Work for Hire Clauses

Many businesses hire consultants for more creative aspects of the business, including website design, marketing campaigns, and custom software development. Ordinarily, the person who produces a creative work is the author and owner of the copyright of the work. However, "works made for hire" create an exception to this general rule. When a creative work is defined in an agreement between the parties to be a "work made for hire," the party that hired the individual to create the work is considered both the author and the copyright owner of the work. Therefore, businesses should be sure that consulting agreements for creative work contain a "work for hire" clause so that the business may retain all copyrights to the created works.

Protection of Confidential Information and Trade Secrets

When entering into consulting agreements, businesses should consider the types of information a consultant may need to access during the course of the consulting relationship. Some consulting work may involve exposure to a business's confidential information or trade secrets, and businesses should take appropriate measures to ensure such information is protected. To protect confidential information and trade secrets, businesses should ensure the consulting agreement, or a separate confidentiality agreement or non-disclosure agreement, contains provisions that perpetually protect trade secrets, limit the consultant's access to confidential information and trade secrets outside of the scope of the consulting work, and clearly establish that the protected information may not be shared or used for any purpose outside the scope of the existing consulting relationship. In addition, any trade secrets or know-how developed by the consultant in the course of the agreement should also be protected as confidential. Businesses should ensure that any consultant-developed trade secrets or know-how are either owned by the business or perpetually licensed to the business through a paid-up license.

Other Considerations

In addition to ensuring that consulting agreements appropriately address IP concerns, businesses will also want to ensure that the consulting agreement contains other appropriate and agreeable contract terms. Consulting agreements should include clear fee and payment terms that discuss the structure of the payment and when such payment is due. Payment terms may be structured in a variety of ways, including a fixed-fee for each project, an hourly rate for services, or an upfront deposit for a specified amount of work, with additional charges incurred for future work upon agreement by the parties. Depending on the type of work, some consulting agreements may even include licensing fees or royalties payments from the business to the consultant. These provisions can be complex, and businesses should be sure to fully understand what terms they are agreeing to prior to entering into such an agreement. These agreements can also be structured for a single project or for multiple projects over a period of time. Other contract terms that should be addressed in a consulting agreement include risk allocation provisions, dispute resolution clauses, and termination rights.

A well-drafted consulting agreement can bolster a solid business-consultant relationship by encouraging thoughtful discussion at the beginning of the relationship and clearly defining expectations between the parties. If you or your business would like assistance drafting, reviewing, or negotiating a consulting agreement, please reach out to **Dan Tychonievich**, **Virginia A. Talley**, or any member of our **Business, Acquisitions, & Securities Practice**, and we will be happy to assist.

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