

The CEO Refresher

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The Mindful Network

Creating a more mindful
and profitable future!

Legal Issues in Consulting, Licensing, Subcontracting and Software Development

by Robert A. Adelson

As a consultant, entrepreneur, client or professional, you are often dealing with contracts, your own and others. What should you be looking for in your contracts? What makes a good contract?

What terms to include in consulting agreements? Contract and tax issues structuring compensations? Should I hire a subcontractor? How to structure the Relationship? What protections do I need? What terms to include in software development contracts? How to structure milestones and intellectual property rights? How to negotiate VAR and distribution agreement? Terms to include in licensing products and technology?

Making Good Contracts

Contracts should be clear and complete to reduce uncertainty, and cut legal costs to enforce.

The contract should cover:

- Mission – Defining your mission and covering the scope of the contract
- Conditions – Current and relevant variables, contingencies to performance
- Reliance – Setting out warranties and representations that each side relies upon.
- Consideration – Stating what each part contributes regardless of form it takes
- Mutuality – requiring each party to contract to “ante up”
- Commitment – Timing contributions to vulnerability to non-performance is reduced.

Service and Consulting Agreements

Service contracts should set out scope of services, reports, and deliverables in both general terms and with an attachment specific to the job assignment.

There should also be provisions on contractor’s independence and control to enhance likelihood of treatment as an independent contractor (though ever harder under Massachusetts law). Contracts should also set out agreed restrictive covenants – confidentiality, assignment of inventions, non-solicitation, no-raiding and non-competes as negotiated and agreed.

Compensation Arrangements

Contracts need to cover manner of payment whether lump sum by job and assignment, or by time and materials. Where the contract is fixed price, care needs to be taken in conditions for the job with arrangements for adjustment to payment based on change orders in project scope or conditions.

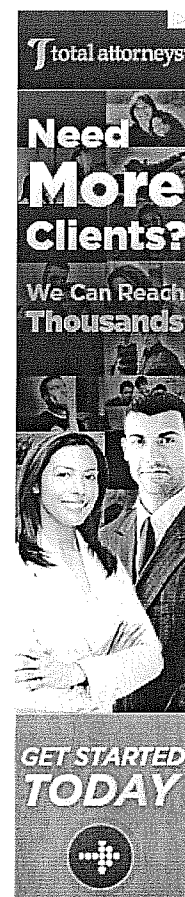
The contractor needs to protect himself or herself to give greater assurance of payment especially in hard times when money is short. An advance should be paid, with collection terms for late payment. If cash is short, rather than lose the work or cut the price too much, part of payment might be made by promissory note or in equity of the purchaser.

Debt or equity terms should be negotiated and spelled out. Immediate issuance of stock with appropriate IRC §83(b) elections can avoid costly tax “surprises” down the road if a company does succeed and the stock becomes more valuable.

Subcontractor Arrangements

Consultants hate to turn away business and if your consulting has reached that level of success, hiring qualified subcontractors to help with work overflow, can be a win-win-win.

Subcontracting can help you retain satisfied clients you might have lost because you lacked



capacity to handle the work. It allows you to leverage your marketing success. It can provide sorely needed work to colleagues who should value you as a source of business.

But here too, in subcontracting a proper contract is needed to assure no poaching of your clients by your subcontractor, clarifying work delivery and compensation terms, including risk on non-payment by your client.

Software & Product Development

These contracts should include accepted specifications, terms of acceptance, milestones for completion and payment. The developer needs to be paid for his work and owner or user needs assurance that at each stage he is receiving a value in case at some stage there is a disagreement or dissatisfaction and termination occurs.

These contracts often require a detailed parsing of intellectual property ownership rights. The developer needs to ownership of his or her software tools. The client his full rights in the product being developed if paid for.

Termination rights, source code escrows, warranties, maintenance and upgrades are also important for the complete agreement.

Technology- Based Licensing and Distribution

Where software, medical device or technology-based products are developed, the developer, consultant or entrepreneur often seeks to use a third party to outsource sale and distribution. Thus, the product, device or software will be licensed with arrangements for distribution with a value added reseller, dealers or other appropriate sales and distribution channels.

Licensing has its own set of issues including scope of license, fields and applications licensed, territory covered. The license also needs to state and the parties often negotiate whether the license is exclusive and length of term or irrevocable.

The License should cover other issues as well: quality assurance, use of trademarks, other IP rights, promotion obligations, quotas and customer service. The license should also then the compensation issues – royalties to be paid up front, over time, based on sales.

Care in Contracts to protect your business

The contracts discussed are important in early stage business. They need to be prepared carefully so that the entrepreneur or consultant has a clear understanding of her or her contractual responsibilities. The contracts also need to provide a degree of protection to the entrepreneur and consultant so that unnecessary risks and liabilities are avoided. Without care, bad contracts can sink a business.

The Author



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