



## 7 Negotiating and Drafting Tips for Licensors

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It seems that a day doesn't go by without an [announcement of another licensing deal](#). Licensing has become a driving force in the furniture industry, but if licensors want to succeed they need to be mindful of the many pitfalls to avoid. My next post will discuss tips for licensees.

1. **Defensive Strategies for Low Sales and Royalties:** If the licensee markets the product poorly, the licensor will have little to show for his or her efforts. Defensive drafting provisions include an upfront payment, additional milestone payments during the term of the agreement, minimum royalties, declaring a termination of the license if certain thresholds are unmet; and converting the license to a non-exclusive grant if certain targets are unmet.
2. **Define What Products May Be Sold and Where:** Licensors must ensure that the licensee is the best suited candidate to commercialize a particular product line in a specific territory. Follow Kathy Ireland's [lead](#) and carefully delineate what type of products the licensee may sell, which can be broad (all upholstery) or narrow (only leather upholstery), and in what territory (worldwide, U.S. only, etc.)
3. **Protecting Your Intellectual Property (IP):** The licensor's reputation and brand are its most valuable asset. Licensors may want to review and approve prototypes, finished products and any modifications, and agree on procedures for handling defective merchandise. Licensors should also have the right to review and approve advertisements and promotional material bearing the trademark.
4. **Defining Net Sales.** Besides the fame, glory and bragging rights, licensors want to get paid, so give particular attention to the definition of Net Sales which will dictate the payment of royalties. Net sales should be paid quarterly and based on written reports that reflect the invoice price billed to third parties less freight, credits for returned merchandise and customary trade allowances actually granted. Avoid deductions such as bad debt and marketing expenses.
5. **Audit Rights.** Most Licensees are honest, but mistakes happen. Licensor should have the right to audit the books and records of the licensee at least once per year. The audit would be at licensor's expense unless the audit uncovers an underpayment of a certain percentage of royalties (for example, 5%).
6. **Advertising and Marketing.** It's all about sales, so how do you motivate a licensee to do the right thing. Consider obligating the licensee to exhibit the licensed products at specific markets and trade shows. It's to the benefit of the licensor to help promote the products, but the

number of events and time devoted to promotion services should be agreed upon in advance and expenses paid by the licensee. There should also be specific guidelines for the licensee's use of the licensor's name, image and likeness.

7. Consequences of Termination. All good things eventually end, sometimes voluntarily and sometimes not. If the license agreement expires or either party terminates the license, all rights to the IP should revert to the licensor, licensor should stop manufacturing new products, and there should be a short "sell-off" period for licensee's existing products. Certain obligations of the licensee should continue after the termination of the agreement such as the licensor's right to audit, indemnification by licensee, and confidentiality provisions.

8. Bonus Tip: In our experience, problems in a licensing relationship often stem from a poor initial "fit" or the parties' unreasonable expectations. Like any long term relationship, licensors should carefully choose their significant other and consider the licensees' particular business and commercial strengths and weaknesses with respect to the particular product, as well as its culture and reputation with other licensors. Licensor and licensee should also work together on a business plan and monitor it periodically to avoid surprises.

As always, please share your thoughts at [Jerry FT Blog](#) or email me at [jcohen@ctswlaw.com](mailto:jcohen@ctswlaw.com).

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