



About Jay Landrum

Jay Landrum is a member of Silicon Valley Law Group's Corporate & Securities and Intellectual Property Groups. As former General Counsel for a NYSE company and as a former CEO of a health products company, he has extensive experience representing companies in all stages of operation, including organizational matters, licensing, strategic relationship agreements, fund-raising, and merger transactions.

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Licensing Agreements -- 5 Common Pitfalls

A licensing agreement can provide financial opportunities for both the licensor and the licensee, but poorly addressed issues often prevent the intentions of the agreement from being realized. Whether the licensed property is artwork or software, common issues exist, and if unaddressed, they can sometimes be catastrophic:

1. The licensor's failure to set performance expectations

If minimum sales and royalty expectations are not defined, you may get far less than you bargained for. In the worst case, the licensed property is tied up without the licensee providing any meaningful performance whatsoever. As licensor, set initial marketing dates, set minimum sales levels, and set minimum royalty requirements.

2. The licensee's failure to negotiate a right to a contract extension based on performance

As a licensee, you don't want to spend valuable time and money successfully developing the market, only to see your contract term end (quickly followed by the licensor harvesting what you planted). Define what performance will allow you to extend the initial term of the contract for additional time.

3. The licensor's failure to collect an advance on royalties

It's not always easy to convince the licensee to pay an advance on royalties, particularly when the licensee also has to make substantial initial investments in product development and marketing. However, requiring an upfront advance, even if only a small percentage of what the first year's royalties are expected to be, may be the best way to test the licensee's confidence in its sales projections.

4. The licensee's failure to secure exclusivity, however limited

No licensee wants to blaze the trail, only to have the licensor start to license additional licensees based on your success. When you act as a licensee, negotiate exclusivity at the outset, whether it is by product category, geographic territory, distribution channel or by specific accounts. If need be, make it contingent on performance.

5. The licensor's failure to secure auditing rights

Some licensors worry about insulting the licensee by asking for the right to send in a representative to audit the licensee's books and records, but this provision is essential. Without it, you may have to rely on litigation as your only way to get that information, which is both slow and expensive. Ask for it upfront -- by having it, you may never need to use it.

Well defined licenses make for better relationships between licensors and licensees. Let us know if we can help you create agreements that allow for solid understandings on both sides (and less surprises as well).

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