Blog Entry: November 2015

Before rights begin to expire or non-compliant licensees dig themselves too deep of a hole to climb out of, go check up on your partners and make sure they're holding up their end of the bargain.

Why?

- Audits can be revenue producers, not only from the recovery of under-reported historical royalties but from additional future cash flows from reporting errors that have been identified and corrected
- Waiting too long means audit rights may expire, a licensee may not have the financial means to cover a finding that spans several years, licensees may not have retained historical data going back that far, and/or it's not ingrained in licensees that audits are just a normal course of business
- Potential untapped revenue streams may be identified if it's discovered that a specific licensed product category isn't being sold or a specific licensed market isn't being reached. On the flip side, it helps you identify products being sold that either intrude upon the rights of another licensee or that violate distribution channels or territories

Who?

- Start with your larger licensees, focusing on ones with expiring audit rights
- Next, identify licensees that have red flags: chronic late reporting, consistently reporting earned royalties that are approximately in line with minimum guarantees, taking substantial deductions from gross sales, or reporting a period that substantially deviates from historical trends with no logical explanation, just to name a few
- Lastly, identify your remaining high-risk licensees: those reporting multiple distribution channels or countries, newer licensees that have experienced rapid growth, or licensees that have contracts with an abundance of variable terms such as multiple royalty rates or a laundry list of allowable versus non-allowable deductions.

Spielman Koenigsberg & Parker, LLP
CERTIFIED PUBLIC ACCOUNTANTS