



Make a licensing agreement work for your nonprofit

Licensing your not-for-profit's name to a for-profit company can provide a valuable new revenue source — but it can also be risky. If you're considering a licensing arrangement, ensure that the partnership really will generate funds and, possibly more important, a positive impression of your brand.

Success . . . and controversy

When licensing arrangements work, both charities and companies can experience significant benefits. AARP and UnitedHealthcare, the ASPCA and Crum & Forster Pet Insurance Group, and Share Our Strength and American Express have all successfully executed profitable licensing arrangements.

But such arrangements can also cause controversy. In the 1990s, the Arthritis Foundation licensed its name to a line of Johnson & Johnson analgesics called Arthritis Foundation Pain Relievers in return for at least \$1 million per year. But many groups complained that the arrangement compromised the charity's objectivity.

Preventing unwelcome surprises

To ensure a license arrangement doesn't become a public relations problem, thoroughly research any potential partner's business and products and the backgrounds of its principals. Also confirm that your mission and values align. If you determine that a potential licensee's products or services have the potential to undermine your brand, take a pass — no matter how high the promised royalties.

Work with your attorney to include certain provisions in any license agreement. Specify how the licensee can use your name and brand, mandate quality control standards and detail termination rights. And realize that signing the agreement doesn't end your responsibility — you'll need to actively monitor the licensee's use of your name and intellectual property throughout the agreement period. If it sounds like all this will require additional staff time, you're right.

In fact, the resource-intensive nature of licensing leads some nonprofits to outsource the work. Outsourcing allows your organization to focus on its mission, but you'll probably pay upfront fees, a monthly retainer and a percentage of the royalties your consultant secures. So it's important to crunch the numbers and make sure your license arrangement is worth this expense and effort.

Compliance matters

Nonprofits enjoy a royalty exclusion that generally exempts licensing revenues from unrelated business income taxes (UBIT). But certain arrangements can jeopardize this. You *can't* receive compensation based on your licensee's net sales — only on gross sales. And you must play a passive role, meaning you don't actively provide services to the licensee. Contact us for more information.

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