

# ROYALTY AGREEMENT

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This Royalty Agreement (this "**Agreement**") is entered into as of [EFFECTIVE DATE] (the "**Effective Date**") by and between:

[ROYALTY HOLDER LEGAL NAME], a [STATE] [ENTITY TYPE] / an individual with its [principal place of business / address] at [ROYALTY HOLDER ADDRESS] (the "**Licensor**"); and

[PAYING PARTY LEGAL NAME], a [STATE] [ENTITY TYPE] with its principal place of business at [PAYING PARTY ADDRESS] (the "**Licensee**").

The Licensor and the Licensee are each a "**Party**" and together the "**Parties**."

**Recitals.** The Licensor owns or controls certain intellectual property, product, or other rights described below, and the Licensee wishes to exploit those rights commercially in exchange for ongoing royalty payments to the Licensor based on sales or usage. The Parties enter into this Agreement to set the terms of that arrangement. In consideration of the mutual promises below, the Parties agree as follows.

## 1. Definitions

**1.1 Licensed Property.** "**Licensed Property**" means the intellectual property, product, design, work, or other rights described on **Exhibit A** on which royalties are payable.

**1.2 Licensed Products.** "**Licensed Products**" means the products or services that incorporate, embody, or are derived from the Licensed Property and that are sold, leased, or otherwise commercialized by the Licensee.

**1.3 Net Sales.** "**Net Sales**" means the gross amounts invoiced by the Licensee for Licensed Products, less the following to the extent actually incurred and separately stated: returns and allowances, trade and quantity discounts, sales and use taxes collected, and shipping and insurance charges billed to customers. Net Sales excludes intercompany transfers not intended for resale.

**1.4 Royalty.** "**Royalty**" means the amount payable to the Licensor as calculated under Section 3.

**1.5 Royalty Period.** "**Royalty Period**" means each [calendar quarter / month / other period] during the Term.

## 2. Grant of Rights

**2.1 License.** Subject to this Agreement, the Licensor grants the Licensee a [non-exclusive / exclusive], [non-transferable] license, during the Term and within [the Territory described on Exhibit A], to make, use, market, and sell Licensed Products that use the Licensed Property.

**2.2 Reservation.** The Licensor reserves all rights not expressly granted. Ownership of the Licensed Property remains with the Licensor.

**2.3 Quality and approval.** The Licensee will manufacture and market Licensed Products in a manner consistent with [the Licensor's reasonable quality standards / industry standards], and, where Exhibit A requires, will

submit samples for the Licensor's reasonable approval before commercial release.

### 3. Royalties

**3.1 Royalty rate.** The Licensee will pay the Licensor a Royalty equal to **[RATE, e.g. 5%]** of Net Sales of Licensed Products, **[or as otherwise specified on Exhibit A, e.g. a per-unit royalty of [AMOUNT] per unit sold]**.

**3.2 Minimum royalties.** **[OPTIONAL: The Licensee will pay minimum annual royalties of [AMOUNT], creditable against earned Royalties for that year. If earned Royalties for a year are less than the minimum, the Licensee will pay the shortfall.]**

**3.3 Advance.** **[OPTIONAL: The Licensee will pay a non-refundable advance of [AMOUNT] on signing, creditable against future Royalties.]**

**3.4 Accrual.** A Royalty accrues when a Licensed Product is sold, which means when it is invoiced or shipped, whichever is earlier, or when payment is received, as stated on Exhibit A.

**3.5 No deductions.** Except for the deductions expressly included in the definition of Net Sales, the Licensee will not deduct any costs, fees, or expenses from Royalties.

### 4. Reporting and Payment

**4.1 Royalty reports.** Within **[NUMBER, e.g. 30]** days after the end of each Royalty Period, the Licensee will deliver to the Licensor a report showing, for that period, the units of Licensed Products sold, gross sales, permitted deductions, Net Sales, and the Royalty due.

**4.2 Payment.** The Licensee will pay the Royalty due with each report. Amounts are stated in **[CURRENCY]**. If conversion from another currency is required, it will be at the rate stated on Exhibit A or, if none, the Licensee's customary rate consistently applied.

**4.3 Late payment.** Amounts not paid when due accrue interest at the lesser of **[e.g. 1.5%]** per month or the maximum rate permitted by applicable law, from the due date until paid.

**4.4 Taxes.** Each Party is responsible for taxes imposed on its own income. The Licensee is responsible for sales, use, and similar taxes on Licensed Products. Any withholding required by law will be handled as stated on Exhibit A.

### 5. Records and Audit

**5.1 Records.** The Licensee will keep complete and accurate books and records sufficient to verify Royalties for at least **[NUMBER, e.g. 3]** years after the end of the Royalty Period to which they relate.

**5.2 Audit.** On reasonable written notice and no more than once per year, the Licensor may have an independent accountant examine the Licensee's relevant records during normal business hours solely to verify Royalties.

**5.3 Underpayment.** If an audit reveals an underpayment, the Licensee will promptly pay the shortfall with interest under Section 4.3. If the underpayment for any Royalty Period exceeds **[e.g. 5%]** of the amount due, the Licensee will also reimburse the reasonable cost of the audit.

### 6. Representations and Warranties

**6.1 By the Licensor.** The Licensor represents and warrants that it owns or controls the Licensed Property and has the right to grant the license, and that, to its knowledge, the Licensed Property does not infringe the rights of

any third party when used as permitted.

**6.2 By the Licensee.** The Licensee represents and warrants that it will market and sell Licensed Products in compliance with applicable law and the quality standards in Section 2.3.

**6.3 Disclaimer.** Except for the express warranties in this Section, the Licensed Property is provided "as is," and each Party disclaims all other warranties to the extent permitted by law.

## 7. Indemnification and Liability

**7.1 By the Licensor.** The Licensor will defend and indemnify the Licensee against third-party claims that the Licensed Property, as provided, infringes that third party's intellectual property rights, subject to Section 7.3.

**7.2 By the Licensee.** The Licensee will defend and indemnify the Licensor against third-party claims arising from the manufacture, marketing, sale, or use of Licensed Products, except to the extent covered by Section 7.1, subject to Section 7.3.

**7.3 Limitation of liability.** Except for the indemnification obligations in this Section and a Party's breach of confidentiality, neither Party is liable for indirect, incidental, special, consequential, or punitive damages, and (except for Royalties actually due) each Party's total aggregate liability arising out of this Agreement will not exceed the total Royalties paid or payable in the [NUMBER, e.g. 12] months before the event giving rise to the liability.

## 8. Confidentiality

**8.1 Obligation.** Each Party will keep confidential the non-public business and technical information of the other, including royalty reports and audit results, and use it only to perform this Agreement.

**8.2 Survival.** Confidentiality obligations survive for [NUMBER, e.g. 3] years after termination, and indefinitely for trade secrets.

## 9. Term and Termination

**9.1 Term.** This Agreement begins on the Effective Date and continues for [TERM] unless terminated earlier (the "Term").

**9.2 Termination for cause.** Either Party may terminate on written notice if the other materially breaches and fails to cure within [NUMBER, e.g. 30] days after written notice, including the Licensee's failure to pay undisputed Royalties when due.

**9.3 Effect of termination.** On termination, the license ends and the Licensee will stop making and selling Licensed Products, except that the Licensee may sell existing inventory for [NUMBER, e.g. 90] days subject to continued Royalties and reporting. All accrued Royalties remain payable.

**9.4 Survival.** Sections 4 (for accrued amounts), 5, 6, 7, 8, and 10 survive termination.

## 10. General Provisions

**10.1 Independent parties.** The Parties are independent contractors. Nothing creates a partnership, joint venture, agency, or employment relationship.

**10.2 Governing law and venue.** This Agreement is governed by the laws of the State of [STATE], without regard to its conflict-of-laws rules. The Parties submit to the exclusive jurisdiction of the state and federal courts located in [COUNTY, STATE].

10.3 **Assignment.** Neither Party may assign this Agreement without the other's prior written consent, except to a successor in connection with a merger, acquisition, or sale of substantially all assets, on written notice.

10.4 **Notices.** Notices must be in writing and sent to the addresses above (or as updated in writing) and are effective on receipt.

10.5 **Entire agreement; amendment.** This Agreement, together with its exhibits, is the entire agreement between the Parties on its subject and supersedes prior discussions. It may be amended only by a writing signed by both Parties.

10.6 **Severability and waiver.** If any provision is unenforceable, the rest remains in effect. A Party's failure to enforce a provision is not a waiver.

10.7 **Counterparts and electronic signature.** This Agreement may be signed in counterparts and by electronic signature, each of which is an original and all of which together form one agreement.

**IN WITNESS WHEREOF**, the Parties have executed this Agreement as of the Effective Date.

LICENSOR	LICENSEE
Signature: _____	Signature: _____
Printed name: [NAME]	Printed name: [NAME]
Title: [TITLE / N/A]	Title: [TITLE]
Date: _____	Date: _____

## Exhibit A — Licensed Property and Royalty Terms

Item	Details
Licensed Property	[DESCRIPTION]
Licensed Products	[DESCRIPTION]
Territory	[TERRITORY]
Exclusivity	[Exclusive / Non-exclusive]
Royalty rate / basis	[RATE OR PER-UNIT AMOUNT]
Advance / minimums	[AMOUNTS OR "None"]
Royalty Period	[Quarterly / Monthly / Other]

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Currency / FX / withholding

**[DETAILS]**

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Sell-off period

**[NUMBER] days**

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