IGDA Contract Walk-Through

- Second Release -

September 25, 2003

www.igda.org/biz

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The IGDA Business Committee

The International Game Developers Association is the independent, non-profit association established by game developers to foster the creation of a worldwide game development community. The IGDA's mission is to build a community of game developers that leverages the expertise of our members for the betterment of the industry and the development of the art form.

The IGDA Business Committee's mandate is to empower the development community with business knowledge and in the process allow developers to make better games.

The goals of the Business Committee are as follows:

- Enable developers to build stronger, more successful companies
- Provide knowledge and business support resources
- Increase the perception of game development as a credible business and raise the profile of game developers as viable companies
- Improve the publisher/developer relationship
- Improve the retailer/developer relationship

Additional information on the IGDA and the IGDA Business Committee can be found at:

http://www.igda.org/biz/
http://www.igda.org/committees/business.php
http://www.igda.org/committees/business_members.php

Introduction

Welcome to Round 2 of the IGDA Contract Walk-Through!

The IGDA Business Committee Contract Walk-Through is designed to assist developers to better understand dev contracts and the issues they contain.

Each article is written by a lawyer with experience in negotiating game development contracts.

Each article focuses on only one issue in a way that helps a developer understand it, negotiate it, and live with it in the context of his or her dev contract.

And each article is annotated with real-life-experience comments from developers who have dealt with these issues in managing their own contracts.

Since the first release of the Contract Walk-Through was published on-line in May 2003, over 1000 developers have downloaded the file from igda.org.

This second release covers topics suggested by the IGDA Business Committee. Some of these, such as moral rights and equitable remuneration ("rental rights"), are rarely understood by American developers – yet can be important considerations when working with European publishers or American publishers who publish in Europe.

A third release of the Contract Walk-Through is anticipated for March 2004, around the time of the Game Developers Conference. If you have comments on this, or an issue you'd like to see covered, drop us an email at biz@igda.org, subject "Contract Walk-Through". The primary objective of the lawyers working on the Contract Walk-Through is to provide a service to the developer community. Your input can help us to better achieve this goal.

In reading the Contract Walk-Through, it should be remembered that this is presented for general informational and educational purposes and is not intended to replace legal advice. Every situation is unique and developers are always best served by working alongside their own experienced legal counsel.

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Breach and Material Breach

by Jim Charne

Introduction

In a perfect world, all contracts are negotiated in good faith between two parties having equal bargaining power, all obligations are fully performed, and no one has to deal with the consequences of breach. Unfortunately, things do not always go as planned. Understanding the ramifications of breach and material breach can be important for a developer who is facing the prospect of a deal "going south."

Sample Clause

Here is an example of a real breach clause from a development contract:

> *"Failure to get a Notice of Approval from Publisher or receipt of a Final Notice of Non-Approval (as defined below) from Publisher shall be deemed a material breach of this Agreement by Developer."*

Discussion

For purposes of our discussion, here are two definitions of "breach":

"Breach" as in "breach of contract" means the failure, without legal excuse, to perform *any promise* that forms the whole or part of a contract. (*Emphasis* added.)

Its cousin, the more severe "material breach," means a failure to perform an agreed contract term that is *an essential element of the agreement*; a breach that causes or is likely to cause *substantial harm* to the non-breaching party (such as costs or losses that significantly exceed the contract value); a breach that substantially deprives or is likely to substantially deprive the non-breaching party of a *substantial* benefit it reasonably expected under the contract; or any breach that the parties agree in the contract will be treated as material. (*Emphasis* added.)

The remedy for a garden-variety (non-material) breach is a lawsuit to recover damages.

The law of damages is extremely complicated – but as a general concept, the nature and extent of damages must have been reasonably foreseeable at the time the contract was entered into, and actually suffered by the non-breaching party as a direct result of the breach. Damages that would not be reasonably foreseeable are regarded as remote or speculative and are generally not subject to recovery. Despite the breach, the contract continues in effect and both sides have an ongoing obligation to perform.

When a breach is a "material breach," the stakes increase dramatically. Remedies for material breach include the non-breaching party's right to cancel the contract and refuse to perform its further obligations. Because of the potentially grave consequences of a material breach, contracts typically provide a "notice and cure period" in which the material-breaching party may cure (remedy) the material breach following receipt of a written notice that describes the purported breach.

Many development agreements suffer from “breach creep.” Garden-variety breaches that might not otherwise provide for much in the way of provable damages, are elevated to material breach status. Because the last clause of the definition of “material breach” states that a material breach can be any breach that the parties agree is material, even the most minor deviation from the requirements of an agreement could have severe consequences. “Breach creep” is a strategy employed nearly exclusively by publishers to gain leverage over developers.

For example, in the sample clause above, any failure by Developer to secure a written “Notice of Approval” from Publisher constitutes “material breach.” The Publisher has greatly increased the stakes for a relatively minor omission by the developer, and provided itself with an easy exit out of an agreement. Treated as a simple breach, Developer’s failure to obtain these documents is certainly of little consequence in the course of game development and may result in no real damage to Publisher. (And in fact, any failure to obtain the document is caused solely by the failure of the publisher to issue it!)

Late delivery of milestones, even by one day, is frequently treated as a material breach. There’s no doubt that late delivery is a breach (for which there is a remedy – the non-breaching party’s actual damages); and the cumulative effect of multiple late deliveries, when all facts are known, may constitute a material breach. But to label such a breach as “material” so early in the process is extremely speculative and appears to be used solely to gain leverage over the developer.

Conclusion

What can a developer do to guard against this exposure? **<MD>**

Read your contracts closely and be on the lookout for all designations of material breach. Ask yourself whether these circumstances meet the criteria set forth in the first three clauses of the definition above. Weigh whether you are ready to suffer the risk of material breach in the event of such circumstances. Consider whether any designated “material breach” could be cured within the cure period provided in the agreement (if any). Make certain that any failure designated as a “material breach” is truly something within your control. Try and negotiate the most extreme of the material breach clauses so you are not at risk of severe consequences for minor breaches.

Consider what breaches by the publisher can constitute material breach from the developer’s perspective. Examples may include failure by the publisher to provide required materials/assets on time; failure to review and approve milestones on time; failure to provide written approval as

Mike Dornbrook

After many contracts with many publishers, I’ve concluded that the developer is always going to be exposed here, and that the best solution for us has been to protect ourselves in any sort of termination. I have always been involved with fairly innovative products (as opposed to ports or licenses), and there has always been exposure on what constitutes an acceptable deliverable. The lawyers could never agree – we always ended up at the mercy of the publisher – an acceptable deliverable was one the publisher deemed acceptable. Since any publisher could use this to put us into material breach at any time, with many dire results, I took a different tack. We explicitly give the publisher the right to terminate the contract at any time, solely at their discretion. However, we retain rights in termination for any reason (and the publisher must pay for all work completed, plus the next milestone). They have a choice between finishing the project with someone else (and paying us pro-rata royalties depending on % work we completed), or we get the rights back (and they get their advances refunded IF we get another publishing deal for the title). This gives the publisher the freedom they need to get out of a deal with which they’re unhappy, but protects us against a publisher taking advantage of their contractual power to screw us out of royalties.

required in many development contracts; and failure to make advance payments, or provide royalty accountings and royalty payments, as and when due.

Analyze the risk of all potential material breaches called out in the contract. Is the cure period sufficient? Perhaps additional time can be provided. If the other side is not prepared to negotiate this issue, be certain you understand the nature of all potential material breaches identified in the agreement and the risk as you work to undertake to perform the agreement.

Marketing Guarantees

by David S. Rosenbaum

Introduction

"Marketing Guarantee" is a term often bandied about in negotiating development and publishing agreements. Broadly speaking, a marketing guarantee obligates a publisher to undertake certain minimum activities and/or expenditures in marketing a game.

Sample Clause

As much as I wanted to reprint a "sample clause", the fact is there isn't a clause that stands out as a paradigm for the game industry. Most development agreements don't provide for marketing guarantees and those that do vary considerably in scope. In fact, the "typical" marketing related clause reads as follows:

> *Publisher has not made and does not hereby make any representation or warranty with respect to the quantity of sales (if any) of the Game which Publisher may sell. Developer recognizes and acknowledges that the sale of video or computer game products is speculative and agrees that Publisher's judgment and the judgment of its subsidiaries and affiliated companies with regard to the sales of any of its products and with regard to the marketing, promotion, advertising and exploitation of the Game shall be binding and conclusive upon Developer.*

Discussion

Attend any developer's conference and you are likely to hear how a particular game was great, but failed to sell because the publisher did a poor job of marketing. **<MM>** This phenomenon is not unique to the game industry. Just ask any movie producer or recording artist. So developers ask for marketing guarantees and publishers say "no", on the theory that the expenditure of millions to develop a game is incentive enough for a publisher to devote the marketing resources that it believes are appropriate for the task, which for the publisher, is to recoup its investment in the game.

> **Matias Myllyrinne**
>
> In some cases this may even be true ;-)

In most cases, e.g., where the game is being developed as a "work-for-hire" for the publisher, the discussion ends as described above. Where the developer is retaining ownership of the game and/or providing a substantial amount of the development financing, or there are a number of publishers bidding for a particular title, then a marketing guarantee is often as key a topic of negotiation, as are royalty rates, release commitments and advances. However, a word of caution: a marketing guarantee is not a guarantee of sales success.

These are the principal questions to ask:

1. **What is the target audience for the game?** If the target audience requires quality of marketing over quantity of dollars, then the developer needs to focus on the types of marketing activities rather than the minimum spend by the publisher. What if the game is intended to get an "M" rating from the ESRB? I encourage you to read any article about the many on-going legal challenges by the industry against

federal, state and local laws designed, in the post-Columbine era, to regulate the marketing of video games to minors and read the web-pages of industry organizations, such as the ESRB, on what the industry is trying to do to fend off those who attack the marketing of all entertainment products to children as irresponsible. So, to avoid being criticized for marketing violent games at children, retailers won't carry certain rated products and broadcasters may only accept ads for broadcast during certain parts of the broadcast day, e.g., after 10PM or after Midnight. The critical question to ask may not be how much will be spent, but whether the publisher understands the target audience and has experience in marketing games to that audience, in the face of competitive and regulatory pressure.

2. **How much will be spent and when?** Developers often assume that a game failed because the publisher didn't spend enough money or do enough to market the game. If a publisher, by agreement, spends $2 million to market a game, and sales of the game are still disappointing, the publisher isn't in breach. When compared to books, music and movies, the "shelf life" of most video games is short, unless the game sells well enough to qualify for a budget re-release or "classic" status by the hardware manufacturer. From the developer's point-of-view, the marketing guarantee should be spent during the period starting before the initial release and during the first three months of release. On the other hand, if the publisher's sales forecast indicates that a title may sell well enough to be a "classic", then it is understandable that a publisher willing to provide a marketing guarantee won't want to be limited in the time period in which such funds must be spent, but will want the flexibility to spend its marketing money as and when it sees fit.

3. **What will the marketing guarantee be spent on?** An agreement which merely requires the Publisher to spend *$X* to "market the Game" does little to assure that the Game will reach its intended target audience. Finding the right mix of expenditures depends on publisher and developer both understanding the intended target audience for the game and how best (read as "efficiently"), to reach that audience. Some examples: **<MJ><MM>**

- Publishers spend hundreds of thousands of dollars to show off their games at trade shows such as E3. If the developer's game is to be featured prominently in the publisher's E3 show booth, a portion of the publisher's overall E3 expense will, for financial purposes, be allocated to each game displayed; that allocable portion of an E3 expense could come within a contractual minimum marketing expenditure.

- Publishers are constantly conducting and paying for focus-group testing.

- Publishers spend millions of dollars to produce packaging and point-of-purchase displays, to develop dedicated web-pages, and to purchase consumer advertising on TV and in newspapers

Miles Jacobson

Another ranch of marketing that is often ignored by developers is trade marketing. It costs money to put games onto the shelves of most major retailers – not only do they get a "file discount" and, in many cases, full "s.o.r." (sale or return), but often there are charges for chart positions, charges for window displays, charges for racking in certain areas of the store. Often 40%-50% of the entire marketing budget is spent on trade marketing. The publisher will also count any "mailshots" as marketing costs, whether direct to consumer, or done through retailers to their own lists.

There are lots of different types of marketing initiatives that you can do that cost nothing, and many that even make you money. It's worth talking to the person at your publisher who is responsible for OEM deals (where your game is "given away" with another product at a lower dealer price but a guaranteed number of units) as they are normally most keen to market the game in different ways (newspaper/magazine promotions, cereal promotions, even fast food promotions)

Matias Myllyrinne

Internal/transfer pricing needs to be regulated. For example, if divisions or subsidiaries of the Publisher are used in marketing efforts, the Publisher's rights to include these into marketing budget should be limited or excluded. If this is not done a Publisher has a loop hole (i.e., to transfer money inside the company and rack this up as costs).

and magazines.

All of the above examples are undeniably legitimate marketing expenses which may, or may not translate into sales success. Not every expenditure is a direct expenditure on behalf of a game by a publisher. A publisher's marketing department serves all the publisher's games and, for financial purposes, a publisher willing to spend *$X* on marketing will include in *X*, a proportionate amount of its marketing overhead which is allocated among all its titles.

4. **What approvals will the developer/licensor have?** The tension between production talent and marketing executives is legendary. Each side always assumes that it can do the other's tasks better. Should the developer then have approval over marketing activities? On this question, the benefit of the doubt always goes to the publisher – after all, it's the publisher's money that is being spent to develop and market the game. Will a publisher consult with a developer on the marketing plan? Perhaps, but developers and marketers work on different schedules which adds to the tension; when a publisher is ready to focus on marketing a game, the developer may likely be immersed in completing a milestone and won't be available to consult when the publisher is most amenable to developer input and neither can be prevented from staying on schedule. There is much at risk for all parties. **<RM>**

> **Ray Muzyka**
>
> A useful fallback to getting approvals on the marketing is to have something to the effect that the publisher agrees to reasonably consult with the developer on marketing and promotion.

5. **What is the remedy for failure to spend the required marketing guarantee?** Re-read the "typical" clause set forth above. Also, most contracts also contain a clause which provides that neither party shall be liable to the other for any incidental, consequential, special, or punitive damages of any kind arising from the breach of the agreement, even if any other party has warned or been warned of the possibility of any such loss or damage. This means no claims for lost profits due to a breach of a marketing guarantee.

Conclusion

A marketing guarantee is a useful measurement for a developer in a position to obtain one from a publisher, but it is not a guarantee of sales success. It is useful to determine whether a publisher will be the best partner to bring the game to its intended target audience. **<MJ>**

> **Miles Jacobson**
>
> Work with the publisher on marketing the game as closely as you possibly can, particularly if it is your own IP. Who knows the market for your game better than the people who are actually making

Accounting and Audit Provisions

by David Anderson

Introduction

Having a hit title is great. Receiving accurate royalty statements and actually receiving royalties is even better.

Sample Clause

Most standard development agreements do not impose strong accounting requirements on the publisher and frequently attempt to restrict the developer's ability to check on the accuracy of the information provided.

> *Statements of royalties payable to Developer will be provided within sixty (60) days following the end of each calendar quarterly period in which a Product is commercially shipped under this Agreement (commencing with the first calendar quarterly period during which the Product has been released) for that preceding quarterly period, together with payment of accrued royalties, if any, earned by Developer under this Agreement, less all advances payable under this Agreement. Publisher shall maintain books of account relating to the royalty payments to be made by Publisher pursuant to this Agreement. Such books of account shall be in sufficient detail so as to allow for verification of the royalties actually paid. Developer may, at its expense, have a reputable certified public accountant reasonably acceptable to Publisher audit these books solely for the purpose of verifying the accuracy of royalty payments and royalty statements during normal business hours upon fifteen (15) business days prior written notice to Publisher, but no more frequently than once a year and not later than one (1) year after the date the statement was rendered. Each royalty statement rendered by Publisher pursuant to this Agreement will be conclusively binding on Developer and not subject to any objection unless Developer gives Publisher specific notice of Developer's objection to the statement and its reasons for such objection within twelve (12) months after the date the statement was rendered.*

Discussion

The first thing to notice is that the publisher never describes what the statement looks like. Publishers differ on how much information they are willing to disclose, and they will rarely agree contractually to provide a certain level of specificity or detail. For instance, some developers request that the statement include such information as the number of units sold, gross revenue, net revenue, reserves, royalty earned, unrecouped advances, etc. However, rather than contractually agreeing to provide all of this information, most publishers will usually inform the developer that the developer will get the same form of royalty report as every other developer (which frequently contains much of the information listed in the previous sentence). If pressed hard enough most publishers will provide a "sample" for review, but will also usually state that any particular statement will only be "substantially similar" to the sample. Even though it is just a sample, it is usually a good idea to request **<RM>** that a sample royalty report is

> **Ray Muzyka**
>
> Definitely worth asking for both a sample statement as well as good audit rights – these audit rights can be very important in the event of a dispute over royalties owed.

attached to the finished as an exhibit. There's no guarantee that the publisher will agree to it, but there is no harm in asking.

So what type of information does a royalty report provide? It varies by publisher, but generally it would be fair to say, "Not much." For instance, it is not uncommon for a statement to simply indicate the units sold, the "gross" revenue generated from those units, the "net" revenue generated after deductions (without necessarily providing a breakdown of the deductions), the royalty earned based on the net revenue, the reserve, and the amount of royalties to be paid or amount of the advance that is still unrecouped. It should be noted that it is rare for publishers to provide summaries on a country by country basis of their own accord. It is also usually difficult to get them to agree to provide that type of information, and oddly enough, there is usually a fairly simple explanation. A lot of publishers simply do not keep country by country records of sales. While they may be able to eventually provide the information, it is much too cumbersome and time consuming for them to agree to provide to developers. And in fact it is often something a publisher strongly resists when it is dealing with a licensor such as a movie studio.

Since the publisher isn't going to go out of its way to provide the developer with detailed information, the developer needs to try to build some protections into the agreement to be able to confirm that the statements are accurate.

The first thing to notice with the sample provision above is that it provides for a statement within sixty (60) days after the end of each calendar quarter. Sixty days is a long time, and while it is where most publishers will start (although some will try to only account twice a year), most will agree to provide statements (and payments more quickly). In a perfect world, publishers would all agree to thirty (30) days, but few will agree to less than forty-five. One thing to bear in mind when a publisher states, "we can't give you a statement any faster," they can. You can be assured that Warner Bros., Disney, Fox and the like don't wait sixty days to receive a statement and royalties.

The next language to focus on is, "Developer may, at its expense, have a reputable certified public accountant reasonably acceptable to Publisher audit these books solely for the purpose of verifying the accuracy of royalty payments and royalty statements during normal business hours upon fifteen (15) business days prior written notice to Publisher, but no more frequently than once a year and not later than one (1) year after the date the statement was rendered." It may be one sentence, but there's a bunch of issues to consider.

First, only a "reputable certified public accountant reasonably acceptable to the Publisher" may audit the books. Accountants are not inexpensive; if possible, try to get the publisher to agree to also allow a representative from the developer to audit in the alternative. **<MM>** "Reasonably acceptable to the Publisher" is an interesting choice of language that a developer would be wise to try to get eliminated in its entirety. Another common requirement is that the accountant "not be working on a contingency basis." The publisher will argue that a CPA working on contingency would be more likely to find errors that didn't exist since his pay is based on what he/she finds. Lastly, this sentence provides that the developer can't audit more than once a year and not later than one year after the statement was rendered. More than once a year is generally acceptable. Audits are expensive and the chance of the average developer being able to afford to audit more than

Matias Myllyrinne

Unless the developer is in a very poor financial position, a CPA should do the auditing. Personal note: I have an MBA in Finance and have worked in internal audit roles for 2 years in my previous career. Yet, I would be happier crunching numbers offsite before an audit and pointing the auditors to where the possible smoke was coming from. Auditing is a task not to be taken lightly. A good accountancy department at the Publisher's end will run loops around a layman should they want to – some areas are simply gray and GAAP is a matter of interpretation.

more than once a year is slim.

However, the requirement that the audit has to be performed within one year after the statement was rendered is very onerous. For one, it should be based on when the statement was received not rendered. The use of the language "rendered" almost encourages the publisher to send the statement to the wrong address. This is further reflected in the language of the final sentence which provides that statements become "conclusively binding" unless specific objections are made within twelve months of the statement being rendered. Thus in order to prevent a statement from being conclusively binding (i.e., not capable of being challenged) the developer must give specific notice of its objections. However, often to give specific objections an audit is needed. The publisher is providing the developer with four statements a year, but the right to audit is only once a year, thus by the time the fourth statement is rendered, it is likely that a year has passed since the first statement was rendered (and often the first quarter after release of the game will be the quarter with the most activity). As you can see, a publisher often doesn't go out of its way to allow a developer a lot of leeway to review the publisher's books. You snooze you lose. Try to strike the "conclusively binding language." Ask for more time. Start by asking for three to four years; don't settle for less than eighteen to twenty-four months from when the statement is "received" not rendered. **<MD>**

Mike Dornbrook

I've also asked for and received the right to audit further back in the event that an audit reveals a substantial (over 10%) discrepancy.

The last couple of things to mention are issues that don't appear in the sample (probably) because the publisher chose not to include them. Namely, who pays for the audit and interest on underpayments?

Usually (but not always), a publisher will agree to pay for the costs of an audit if the audit discloses an underpayment of 5% to 10% of the amount due. Five percent is fairly rare, ten percent seems much more common. The other thing to notice is what the percentage is calculated on. Ask for it to be based on what the publisher showed was earned (not what was actually due) since it will usually be a lower number. With respect to interest on underpayments, some publishers simply refuse to pay it, some will (but only if you ask for it). So ask. But don't be too aggressive with the interest rate since the more aggressive you are the more it is going to upset the publisher. In light of current interest rates, a reasonable interest rate to request is between five and ten percent per annum. **<MM>**

Matias Myllyrinne

No! Interest rates are floating and changes in the economy can be drastic. A 5% interest rate my not even account for inflation and the publisher may retain higher rates of interest from liquid risk free instruments, not to mention that the fact that a publisher's cost of capital may be substantially higher. What you want here is an interest rate tied to a market rate i.e. Euribor (3month) or Libor plus 5% … this is the minimum I would advocate and would prefer to go to the "+7-10%" range. The only time when this kicks in is when the publisher does not pay what is due – it will be hard for them to argue against it in "good faith".

The accounting and audit provisions of a development agreement can be critical if the developer creates a hit game, and every attempt should be made to get the accounting and audit language in the agreement as favorable as possible during the negotiation process since it will often be too late after the first million units are sold and the developer still hasn't received a royalty. Sure the definition of "net receipts" is important, but it's meaningless if the development agreement doesn't provide the developer with adequate protections to be able to confirm that the royalty statements are accurate.

Assignment and Sublicensing

by Don Karl

Introduction

If a developer or publisher wants to transfer some or all of its rights under a development agreement to a third party, the development agreement determines whether, and to what extent, either party may assign or sublicense its rights. An "assignment" is the permanent transfer of the entire agreement - all rights and all obligations - to a third party. A "sublicense" involves the transfer of some but not all of a party's rights – generally, but not necessarily, for a limited term.

Sample Clause

The following is a typical clause on the transfer of rights under a development agreement:

> *Developer may not assign this agreement including, without limitation, by merger, acquisition, reorganization or change of control of Developer or sale of all of or substantially all of the assets of Developer, to any third party without the prior written consent of Publisher, which may be granted in Publisher's sole discretion. Any attempted or purported assignment without such required consent shall be void and a material breach of this agreement. Publisher may grant, assign or sublicense this agreement or any of its rights or obligations herein to any third party. Subject to the foregoing, this agreement shall bind and inure to the benefit of the parties and their respective successors and permitted assigns.*

Discussion

Assignment

"Assignment" means the outright transfer of an agreement. If a developer assigns all rights and obligations under a development agreement to a second developer, the second developer becomes responsible for doing the work and has the contractual relationship with the publisher. However, a publisher expects that the developer with whom it has negotiated a development agreement will develop the game – not another developer. A publisher has a strong interest in restricting a developer's right to assign the development agreement since the publisher is relying on the developer's team to create the game. Most developers would agree.

However, it is important to look at the definition of assignment to determine whether any other action that a developer might take could be an "assignment". The clause above contains an expansive definition of "assignment" which includes acquisitions and similar corporate transactions (mergers and reorganizations). The publisher's concern is that it will be working with a "different" developer or even a direct competitor if the developer is acquired or sells its business. However, this concern is substantially addressed if the developer becomes part of a larger company and if the development team continues on the project. The clause above also classifies a "change of control" as an assignment. A "change of control" usually means that a majority of the ownership of the developer has changed. A change of control occurs in most types of acquisitions; in addition, a change of control also may result from an investment in a developer. A developer faced with an assignment clause that defines "assignment" to include corporate transactions and changes of control should attempt to exclude situations where the developer's business – and development team - remain intact and are able to continue on a project.

Developers often request that any restrictions on assignment terminate on acceptance of the gold master or when the developer has fulfilled its obligations to deliver updates and correct bugs. The developer argues that once it has performed these obligations, its only remaining obligation is (hopefully!) to receive royalty checks. This may only be important to a developer that desires to assign the royalties to third parties (for example, a development team) or to use the royalty stream as collateral.

A development agreement sometimes permits assignment by a developer, but only with the consent of the publisher. In that case, it is preferable to provide that the publisher's consent "will not be unreasonably withheld or delayed" (rather than granted "in the publisher's sole discretion" as in the sample clause above). This gives the developer some comfort that the publisher will agree to an assignment of the agreement unless the publisher has legitimate business reasons for withholding consent.

With respect to assignment by a publisher, most developers would characterize the developer/publisher relationship as a two-way street and argue that a developer should not have to work with a publisher that it had not chosen. Unfortunately, a publisher rarely agrees to limit its ability to assign an agreement. Further, the laws of most states permit assignment of an agreement unless the agreement states otherwise. If the agreement is silent, you should assume that it is assignable.

Sublicensing

"Sublicensing" is the license or transfer of certain specified rights to third parties, usually for the purpose of exploitation of those rights in different territories. The right to sublicense appears in virtually all publishing agreements - in the assignment clause (as in the sample above) or in the clause granting or licensing rights to the publisher.

A developer expects that its publisher will handle the sale and distribution of a game in the publisher's principal territories. The developer does not want the publisher to transfer those obligations to another publisher. However, a blanket restriction on a publisher's right to sublicense may not be appropriate since sublicensing distribution rights in a territory to a company that is experienced in that territory may make sense for both the publisher and the developer.

More importantly, sublicenses affect the economics of the publisher/developer arrangement. Sublicenses create issues for both developers and publishers with respect to the determination of revenues and the calculation of royalties. The amount of revenues received by the publisher from a sublicensee will be less, due to distribution fees and expenses, than if the publisher directly undertook distribution. If a developer's royalty is based on revenues that the publisher receives or earns, the developer must understand that sublicensing may reduce revenues, which in turn reduces royalties. This obviously is not an issue with a per unit royalty.

A publisher will usually agree to pay royalties only on revenues that are actually "received". Both a publisher and developer have a mutual interest in maximizing revenues received from sublicensees. However, if a sublicensee is an affiliate of the publisher (for example, a foreign subsidiary that handles distribution in a foreign territory), there may be business reasons for a publisher to allow revenues to remain with the affiliate rather than cause those revenues to be paid to the publisher. To avoid the situation that the publisher never "receives" those revenues, the agreement should cover revenues received by both the publisher "and its affiliates". In the alternative, a developer can negotiate to have royalties from sublicensees paid as a fixed percentage of its publisher's receipts (at a much larger percentage than the standard domestic royalty since the publisher assumes none of the risk associated with publishing the game in the sublicensee's territory), or calculated based on revenues received "at source" rather than revenues that are simply "received" by the domestic publisher.

Negotiating an appropriate royalty for revenues from sublicensees is only half of the battle - the verification of the information received by the publisher from its sublicensees is also very important. Ideally, the audit and reporting rights that the developer has negotiated with the publisher should be available to the developer for sales by sublicensees. However, most publishers will allow a developer at best to have access to the reports the publisher receives from sublicensees but will not grant any additional audit or information rights.

Finally, don't forget that a developer's grant of rights to a publisher (whether for distribution or sublicensing) will include rights that the developer obtained from third parties (such as rights to technology, audio files or other work created by independent contractors). A developer should make sure that it has the right to grant those rights to the publisher!

Continuing Rights

by Don Thornburgh

Introduction

In the extremely competitive market of developers seeking game projects, one of the most valuable avenues to getting a leg up on the competition, or protecting your existing publisher relationship, lies in the concept of “continuing rights”. In layman’s terms, this is getting one gig and getting your foot in the door for future gigs at the same time. Sometimes referred to as a “first look” provision, the right of first negotiation puts a developer first in line to bid on future projects. Its sometimes sister clause is the right of refusal, which adds some punch by giving the developer the right to step into the shoes of a third party to whom the publisher seeks to give the project. These rights are important with respect to work for hire projects, and even more so when it is the developer's intellectual property that is being exploited by the publisher.

These “continuing rights” encompass a broad spectrum of related rights, ranging from having the developer having no follow-up rights at all, to getting royalties from future work done with the intellectual property or using the engine created by the developer, to having the right to do future work, to outright ownership and full control of the intellectual property. This article will focus on just some of the fundamental concepts.

Basic Terminology

“Right of first negotiation” – For proposed titles falling within the prescribed categories (sequel, spin-off, add-on pack, etc.), the publisher must present it to you first, before taking bids or negotiating with third party developers. Such negotiations must be in “good faith”, meaning that the terms should be in line with the existing relationship, industry norms and a general standard of reasonableness.

“Rights of refusal” – A right of *first* refusal says that you must have passed on the development deal before it can be offered to anyone else. A right of *last* refusal says that any deal struck with another developer cannot be completed unless the same deal is offered to you with the same pricing and terms. If you refuse, the publisher is then free to engage the other development house. This latter concept often is referred to as “matching rights”. **<RM>**

Ray Muzyka

Obviously the right of last refusal is more powerful and it’s more common to see a publisher with that right than a developer. These continuing rights are part of a spectrum of related rights, that range from no follow-up rights, to the right to do future work (rights of first/last refusal), to royalties from future work done in the IP or using the engine created by the developer, to outright ownership and full control of the IP by the developer. As mentioned below, at a minimum the developer should have the right to receive a royalty if their technology is reused for derivative works. Another point to consider is how first and last rights work if a publisher takes the development of a derivative product internally.

Sample Clauses

1. Right of First Negotiation: Prior to engaging any third party to render development services in connection with any add-on pack, sequel or spin-off title related to the Game (a “Project”), Publisher will negotiate in good faith with Developer for the provision of such services on mutually acceptable terms. If such negotiations do not result in an agreement as to the material terms of such engagement within ten (10) business days, Publisher may commence negotiations with third parties, subject to Developer's right of refusal, as described below.

2. Right of First and Last Refusal: Prior to engaging any third party to render development services in connection with a Project, Publisher will provide Developer with written notice of the proposed terms thereof, and Developer shall have the opportunity to be engaged on those terms. If the parties cannot enter into an agreement within ten (10) business days, Publisher may enter into an agreement with a third party for the provision of those services on terms and conditions no less favorable to such third party than those last offered to Developer.

Scope

As demonstrated in the sample clause, it is important for the subject matter of the continuing rights to be as broad as possible. At a minimum, a developer should seek to have the clause be applicable to (1) add-on packs (2) sequels, and (3) spin-offs. It is sometimes possible for a hot developer to get a first look at other titles as well, even if unrelated to the current project.

Selling the Concept to the Publisher

If your publisher is not in the habit of granting continuing rights, try to focus their attention on the advantages to *their* bottom line, rather than yours. Working with the same developer for add-on packs and related titles has some obvious cost-saving advantages in that the developer already has the source materials, development tools, game engines and other resources. In addition to the cost advantages, there may be aesthetic gains from having the same team handle the project in that the game's look and feel will be consistent with the original in the case of add-on packs, and consistent, but hopefully also improved, in the case of sequels and spin-offs. Your best argument to the publisher is that they need not have a third party "re-invent the wheel", when they can give the project to you and get right to work on a new race car. Also, if it is your intellectual property, then coming to you first and trying to work out a deal with you may actually be the most cost effective thing a publisher can do as opposed to turning you into a licensor who is requiring content and technology licensing fees.

If you don't want to rely on your powers of persuasion, there are other ways to tilt the balance of power in your favor. For example, having a defined royalty in the original agreement for the use of your engine or your intellectual property can be an effective backstop to the rights of first and last refusal (and persuasive to the publisher since it might be more cost effective to have the developer do all of the follow-up work than to both pay the original developer for the engine, or other intellectual property, as well as a new developer's royalties.

Close the Loopholes

Changed Terms – Perhaps the most important detail for developers to include in these clauses is a "changed terms" provision. Let's say your company has a right of last refusal on sequels to a game you developed. A year later, the publisher announces a sequel and begins taking bids and proposals from developers. Another developer seriously underbids you, and the publisher chooses that company. Pursuant to your right of first refusal, you have the right to match the deal terms and take the project. The numbers are too low to cover your development costs, however, so you pass. A month later, you learn that the developer informed the publisher that their bid did not include some key elements, which adds another $250,000 to the budget. At that level, the project becomes workable for your company, so you examine the terms of your original contract. What you want to find there is a "changed terms" clause, stating that if you pass on an opportunity, but any material deal point changes before development begins, you get a second chance to take the deal. In many cases, the changed terms might not be something as obvious as budget. The material change might be anything from the introduction of valuable licensed content, the decision to include additional platforms, or even a significant change to the project schedule.

Sample Clause

> **3. Changed Elements:** In the event that a Project has been disapproved by Developer pursuant to paragraph 2 hereof, or in the event that a Project shall have been approved by Developer, but Developer and Publisher fail to reach agreement with respect to the terms of such Project, then if, before any agreement has been reached with a third party, there shall be a material changed element in the Project, then, before submitting the Project to a third party, Publisher shall re-submit the Project to Developer, and all of the provisions of paragraph 2 above shall apply. Publisher shall re-submit such Project pursuant to these procedures every time that there is a material changed element.

Conclusion

When closing a development deal, continuing rights are gravy. Don't expect to get them, but if the publisher is amenable to the idea, make it count by getting a first look, a right of last refusal and the right to reconsider if there are changed terms.

Termination Clauses

by Thomas H. Buscaglia, Esquire

Introduction

The termination clauses in a typical Developer/Publisher Agreement relate to the various procedures and assignments of rights between the parties if that Agreement ends prior to the normal completion of all conditions of that contract. Generally there are two types of termination that can occur by either the Publisher or the Developer; terminations for *convenience* and terminations for *cause*. A termination for *convenience* is just that, a termination of a contract by one or both of the parties not because of a fault by the other party by merely because they desire to end the contractual relationship. A termination for *cause*, on the other hand, is a termination when one of the parties has failed to meet their contractual obligations and the other party has elected to exercise their right to end the relationship as a result.

Sample Clause

The termination provisions, as do most other provisions in any Developer/Publisher Agreement, vary a great deal based on the relative bargaining power of the Developer. With that in mind, let's take a look at what these termination provisions might look like:

1 Termination

1.1 PUBLISHER will have the right at any time to terminate this Agreement upon ten days advance written notice from PUBLISHER to DEVELOPER, with or without cause, it being the intention of the parties to permit PUBLISHER to terminate further Software Development if PUBLISHER, for whatever reason, determines that further Software Development is not advisable or in the best interests of PUBLISHER **<RM>**

Ray Muzyka

It would be unusual for a developer to obtain termination rights for convenience unless they own the IP and are effectively licensing it to the publisher - especially if the developer is receiving any advances from the publisher.

1.2 In the event that the Agreement is terminated by PUBLISHER without cause, or by DEVELOPER with cause, all rights of ownership that have been granted, transferred or assigned to PUBLISHER by DEVELOPER under the terms of this Agreement will return to DEVELOPER immediately. PUBLISHER also agrees to pay DEVELOPER the Advance Payment corresponding to the Milestone Deliverable that the DEVELOPER is currently working on and the next following Advance Payment. PUBLISHER shall not be liable for any other claim or damage of any kind, including without limitation any expectation or compensatory damages. If DEVELOPER subsequently sells the Game to another publisher, all Advance Payments shall promptly be refunded to PUBLISHER.

1.3 In the event that the Agreement is terminated by PUBLISHER with cause, that is, if DEVELOPER defaults in a material way in the observance or performance of any of its obligations under this Agreement and such default remains un-remedied thirty (30) days after written notice requiring such default to be remedied, all Intellectual Property that has been transferred or assigned to PUBLISHER by DEVELOPER under the terms of this Agreement will remain the exclusive property of PUBLISHER. PUBLISHER shall have the right to retain a third party to complete the

Program for the purpose of commercial release and to otherwise fully exploit PUBLISHER'S rights pursuant to this Agreement, without further payment of any kind to DEVELOPER. Except as otherwise provided in Section 9(b), below, PUBLISHER shall have no other claim against DEVELOPER for any damage or loss of any kind, either in contract, tort, equity, by statute or otherwise.

1.4 In the event that PUBLISHER defaults in any payment after acceptance of any Milestone Deliverable, DEVELOPER will have the right to terminate this Agreement if PUBLISHER has not remedied the default within thirty (30) days following written notification thereof. Termination of this Agreement due to PUBLISHER's failure to cure such default will be deemed a termination for cause.

1.5 If, prior to the commercial release of the Game, if PUBLISHER or DEVELOPER (1.) become the subject of a voluntary petition in bankruptcy or any voluntary proceeding related to insolvency, receivership, liquidation or comparable proceeding or any assignment for the benefit of creditors, or (2.) become the subject of an involuntary petition in bankruptcy or any involuntary proceeding related to insolvency, receivership, liquidation or comparable proceeding or any assignment for the benefit of creditors which is not dismissed within sixty (60) days, (the"Bankrupt") then the other party to this Agreement (the "Non-Bankrupt") shall have the right to terminate this Agreement. A termination under his provision will be deemed a termination for Cause.

1.6 The parties shall have the right to terminate this Agreement at any time upon mutual consent, and on such terms as the parties may agree to in writing.

Discussion

The termination clause sets out ways that the contract can be terminated and what occurs. Clauses relating to a termination for *convenience* will attempt to put the non-terminating party in the same position that he would have been in had the contract not been terminated. Similarly, terminations for *cause* tend to seek to place the non-breaching party in the same position they would be in had the other party not breached the contract. This way the party that causes to the termination bears the responsibility for it. So, the consequences of a termination for *convenience* by the Publisher or for *cause* by the Developer have the same or very similar result. And the consequences of a termination for *convenience* by the Developer or for *cause* by the Publisher have the same or very similar result.

Termination for Convenience by Publisher

The Publisher may wish to terminate a Developer contract based on business reasons that have nothing to do with the Developer or the game that it is working on. Unfortunately, few developers simultaneously work on multiple games, so the loss of the game results an immediate loss of a cash flow and can have disastrous economic consequences on the Developer. As a result of the potential financial hardship on the developers, publishers will generally agree to contract terms that will help lessen the detrimental economic impact on the Developer if they terminate the development contract for *convenience*.

Some of the provisions that should be included in a termination for *convenience* by the Publisher include the following:

1. The reversion of any and all intellectual property rights from the Publisher back to the Developer (if they have been conveyed); and,
2. Payment for both the then current milestone and the next pending milestone advances to help lessen the detrimental economic impact on the Developer.
3. In the event the Developer enters into a contract with another publisher to publish the game, all advances are repaid to the Publisher. **<JM>**

> **Joe Minton**
>
> Push hard for more than this. Unexpected time between contracts is one of the biggest killers of development studios. Try to be creative here. For example:
>
> (i) a kill fee that escalates with each accepted milestone;
> (ii) a large reduction in the kill fee if the publisher signs up another project along similar financial terms within 30 days;
> (iii) if advances have been backended on the project, try to get the milestones defined as equal payments in the contract, with certain portions of the early payments not due until the later payments 'make them up' or all due immediately if the contract is killed
>
> While the contract will specify 'all', in reality you would likely be able to cut a better deal since the publisher would be happy to recoup at least some of their losses.

In this way the Developer gets his game back and will have enough money to cover their overhead and retain their full staff until they can locate another publisher interested in their property. And since the terminating Publisher will recover its advances if a new publisher picks up the game, this becomes a potential "win-win" situation.

Termination for Convenience by the Developer

They are much less common, there are some instances where a developer would desire to terminate the contract for *convenience* and it should be taken into account in the Agreement. The Publisher, as a non-terminating party, receives the benefits under these provisions. Should a developer wish to terminate for *convenience*, it would normally be required to waive any claim of ownership in the IP (assuming there is an IP transfer) and return the unused portions of any advances that they had received. In addition, it is not uncommon that the Developer would be required to pay back a substantial portion or all of the advances and related expenses. This is especially appropriate if the Developer owns and retains the IP.

Termination for Cause by the Developer

The most obvious reason for a Developer to wish to terminate for *cause* is for a non-payment of advances. However, there may also be other situations that would result in a termination for *cause*. For example, a Publisher's failure to meet other contractual obligations related to the promotion or marketing of the game, or the Publisher filing or being forced into Bankruptcy, could also trigger a termination for *cause*. Usually a termination for *cause* provision will include a "cure" period in which, after a breach has been declared, the breaching party has a specific period of time within which to cure the breach prior to the termination clause becoming effective. Once effective, termination for *cause* by the Developer would have similar provisions to a termination for *convenience* by the Publisher in that the intellectual property, if assigned, reverts back to the Developer. There may also be additional compensation due under the Agreement equal to the amount of the next due advance.

Termination for Cause by the Publisher

Termination of *cause* by the Publisher occurs when the Developer fails to meet its obligations under the Agreement. This would usually be as a result of a severe slippage or the inability of the Developer to deliver a product of sufficient quality to obtain the Publisher's approval of a deliverable. Just as with the termination for *cause* by the Developer, there will usually be a cure period. If the declared deficiency is not cured within that period, the Developer would suffer the loss of all rights in the project and also lose any further payments under the Agreement. However, a Developer could retain a percentage **<JM>** of their royalties based on the pro-rata completion stage of the game upon termination, if the Publisher ultimately releases the title.

Joe Minton

We've been able to get this as a standard part of all of our contracts.

Conclusion

Understanding the different results attached to the various scenarios that could result in the early termination of the Developer/Publisher Agreement is an important step for any Developer in understanding their rights and obligations under that Agreement. I hope this helps.

Brands

by Alex Chapman

Introduction

Good brands are integral parts of successful games businesses and ownership of the brand should often be considered as carefully as game code when negotiating contractual terms.

Sample Clause

> *All right, title and interest in and to all characters, settings, story lines, titles, themes, dialogue, catch phrases, locations, concepts, rules, names, likenesses, designs, trade marks, trade names and trade dress relating to and embodied in the Products shall belong to and vest in Publisher together with all Intellectual Property Rights subsisting therein.*

Discussion

Substantial investment is made in games brands, from the initial concept (including characters) through to its marketing such as in the title and logos. This not only improves the game but also creates further opportunities through merchandising and sequels. However it also leads to a greater likelihood of others copying and taking unfair advantage of that success.

As between developers and publishers this should give rise to a number of questions, especially regarding ownership and rights of use but also enforcement. However in practice these issues are often dealt with as an afterthought or developers simply do not consider the implications of handing over their brand.

Original Properties

Developers are right to focus on retaining rights in the game engine and ensure that they get paid for the work they do. **<MM>** However, down the line it is the brand that may be the most valuable asset and the most difficult to rebuild if someone else owns it, i.e. the publisher. Also, if the brand is owned by a publisher it may take development in-house, or engage another developer to make "your" game. It is also the brand or brands (including the characters) in which the merchandising rights such as film and t-shirt deals exist. **<RM><EB>**

Matias Myllyrinne

Be sure to define technology broadly – to include internal tools and possible "content pipeline" solutions…

Also, very rarely are merchandising deals actually lucrative. Naturally this will depend on the game and its potential, but as a rule of thumb paraphernalia such as shirts, mugs or toys will help to build the brands power but will provide little extra profit per se. Merchandising rights and "vetos" therefore are important to the developer in the sense that they allow for protection of the integrity of the brand, consistency and hence long term value.

Ray Muzyka

It's also critical to remember that the brand of your company is also very important. Is your logo on the box, in the game, and used in marketing and promotion?

Ed Bartlett

If you really must allow the publisher ownership of your original property, be sure to retain a legally binding interest in its future iterations through sequel rights, etc.

Bear in mind if you are lucky (or clever) enough to keep your property, the publisher will invariably want similar warranties. Much of a publisher's profit is made through long-term exploitation of 'hits' and so why would it spend significant time and effort building up your brand only for you to take it to a different publisher once it is successful?

Therefore developers should pay real attention to who owns the brand and how it brand is used and protected. This includes obtaining and determining who owns relevant trade mark registrations, deciding what goods and services the publisher may use the brand for, who controls merchandising and what rights of approval the developer has if it is the brand owner.

It is also important that a balance is struck between what the publisher needs to successfully publish the game and what the developer needs to maintain the value of its brand and its business. The publisher will argue that it is its marketing that builds the brand, however the developer will be aware that it is its design, characterization and development that ultimately determines whether it is popular. **<EB>**

In fact both bring important skills to the mix.

Publishers need certain rights of use and enforcement throughout their publishing activity they also need reassurances that the rights they have allow them to do what they need to do. This can be achieved by granting an exclusive license solely in relation to the publishing of the game, securing relevant trade mark registrations and giving warranties – and where the game title is unsuitable allowing for consultation on an alternative. Developers should have safety nets in this though, including rights of approval and consultation.

Sample: **<MJ>**

> *All right … [as above] … shall belong to and vest in Developer together with all Intellectual Property Rights subsisting therein.*
>
> *Developer hereby grants to Publisher an exclusive right and license to use the Brand solely for the purpose of publishing, promoting, advertising and marketing the Products during the Term.*
>
> *Publisher shall only make use of the Brand for the purposes authorized in and by this Agreement and, in particular, shall not use the Brand in any way which would tend to allow it (or part thereof) to become generic, lose its distinctiveness, become liable to mislead the public, or be materially detrimental to or inconsistent with the good name, goodwill, reputation and image of Developer nor shall Publisher claim any right title or interest in the Brand or the goodwill subsisting therein, all of which shall accrue to Developer.*

Ed Bartlett

If you are the owner of the brand, and it is already deemed commercially successful (i.e. the previous version sold more than 500k units) then be sure to capitalize on that strong position and demand a significant guaranteed marketing figure, detailed breakdowns of how and where the marketing money will be spent, developer sign-off on all marketing materials, etc.

Miles Jacobson

If you see a clause like the one above in a proposal from a publisher, run away VERY VERY fast indeed! The biggest mistake that we made as a developer was agreeing a clause like the one above in the early days, which has completely impeded our freedom as a developer. 11 years later, and many contracts later, we managed to claw back the majority of the IP, but have still had to wave bye bye to the name of the game we have been making for all of those years.

If a publisher really wants to sign your game, they will let you keep the IP. If they don’t let you keep it, you have to have in the back of your mind that they might try and stitch you up in the future. If they own the IP, they can get any other dev team to make the game (to a lesser quality, perhaps, but possibly at a lesser cost as well), and everything that you’ve worked on for years will be out of the window.

The only downside from not letting the publisher own the IP is that they might not push it as hard commercially in other avenues, but this can be a good thing as well. Offer to give the publisher a share in the merchandising rights for the term of the agreement, and both parties can win – put pressure on them to exploit the rights to get their share, but also be looking for opportunities for the IP yourself. The days of sitting in a bedroom coding a game seem to have died, so developers HAVE to look at the commercial side of their businesses as well. It’s amazing how much extra revenue can be generated from the stupidest little idea, and, if you have a good web community, they’ll be snapping your arm off for merchandise and the like.

Here, the developer will own the brand and the publisher may use the brand to publish the game. Exclusivity in the brand relates to its publishing only and the developer therefore reserves all other rights for itself. It is important however that control is exercised over how the brand is used - especially in advertising - and so provisions are included for this purpose. In the final agreement it is likely that the approval process will be more comprehensively defined and a number of assurances will be given by the developer.

Third Party Properties

The position described above is however reversed in relation to third party properties such as "Harry Potter" or the publisher's own property. The publisher (or its licensor) will, in this case, retain the rights and exercise controls but should be asked for warranties in a similar way to those described above.

The Law

If the agreement doesn't address these issues then developers can also find themselves in a difficult position, unless they have crystallized their rights through trade mark registration.

Unlike copyright trade mark rights do not necessarily belong to the person that has created the mark but to the person who uses it in a trade mark sense.

A trade mark can be literally anything capable of graphical representation, used to identify goods or services. In most countries a registration system giving owners statutory rights which mean they can theoretically stop others in that country using:

- identical marks for identical goods or services;
- identical or similar marks for identical or similar goods or services where there is a likelihood of confusion or association;
- identical or similar marks for different goods or services if the registered mark is well known and suffers damage.

The protection for 'unregistered' trade marks varies from country to country and to prevent the use of an unregistered brand, owners must rely on 'passing off' or 'unfair competition' laws. These are more difficult actions to pursue, since parties often have to own goodwill in the brand concerned. For developers this can be a real problem, since even though they created and built the brand, they are not actually using it – the publisher is. As a result a developer could quite unwittingly give away its rights without the support of a trade mark registration or formal agreement.

Conclusion

The issue of brands and games is an important and difficult one to address. Publishers will continue to insist on ownership of the brands that their developers create and many developers will continue hand them over. Such is the nature of this business.
<JM><MM>

Joe Minton

It is very, very hard to bring a completely new IP to a publisher and expect them to fund development of it for millions of dollars and to also allow the developer to keep the IP. However, if you are in the position of having a game partially or largely done, it becomes easier and easier to keep these rights the less that the publisher needs to invest in development.

Matias Myllyrinne

It is ambitious and beneficial for young teams to strive to keep ownership of their brand – however, developers will be hard pressed to maintain ownership of the IP. Developers should strive to keep the brand ownership and offer publishers sequel rights (matching or offer of first refusal) in return.

Any rights that can be retained should be retained. If that means lower royalties then that short term gain should be weighed against the long term benefit of building an asset base within your business. The asset base might start with code but you can rebuild code. Rebuilding a brand is far more difficult.

Milestone Provisions

by Trevor Fencott

Introduction

A "Milestone" refers to a defined subset of the work involved in developing a game. Typically, Milestones are tied to the acceptance of specific deliverables such as the game technical demo, alpha, beta and gold master. However, milestones may also be tied to events such as concept approval from the applicable console manufacturer. A full project milestone schedule is generally attached as an appendix to a development contract and lists the time for delivery, a description of the event or deliverable and the milestone payment due to the developer upon completion.

Sample Clause

The following is a developer-friendly clause for the acceptance of milestones synthesized from an actual development contract:

> *1. Upon receipt of a Milestone or the Work from Developer, Publisher, in its sole discretion, shall review, test and evaluate the Milestone or the Work for conformity with the creative and functional requirements for such Milestone or Work contained in the applicable Statement of Work.*
>
> *2. Publisher shall then provide Developer with Approval or Feedback within five (5) business days of receipt of the Milestone or Work. Absence of Approval or Feedback within five (5) business days shall release the corresponding Milestone Payment to Developer, but shall not constitute Approval. In such an event, upon receipt of Feedback, Developer shall remedy any deficiency as described in Section 3, below.*
>
> *3. Developer shall have five (5) business days to make all requested revisions and to correct such defects, if any, and return the work to Publisher for retesting, review and reevaluation.*
>
> *4. The foregoing procedure shall be repeated until Approval or until Publisher, in its sole discretion, and after no fewer than three such submission cycles, elects to terminate the applicable Statement of Work or this Agreement under Section X, below.*

Discussion

Milestones are of critical importance to developers as they determine when, and for what, a developer gets paid during game production, and often whether a project is terminated. In the author's experience, milestone related issues for the developer fall into four categories: (i) clarity of deliverables and the project milestone schedule; (ii) delays; (iii) milestone acceptance procedures; and (iv) console manufacturer milestones.

Project Milestone Schedule

Since a publisher is often drafting the development contract, it is generally true that, in the case of ambiguity, local laws and rules of contractual interpretation favor the developer. However, the single most important factor in the legal enforceability of a milestone is clearly documenting the intention of the parties.

In the author's experience, milestones in development contracts sometimes do not receive proper attention. Developers should raise the issues of deliverables and the project milestone schedule very early in the negotiation process. **<JM>** Some publishers may prefer the flexibility afforded them by overly broad milestone definitions. **<EB>** However, this can lead to "feature creep" (see below) which strains the resources of the developer. Developers should have extensive contact with the publisher's external producer from an early stage in negotiation to ensure that deliverables are clearly documented.

Critical misunderstandings as to what is required in a deliverable in order to have a milestone approved (e.g. a requirement that the deliverable be able to run on a platform debug station) can be avoided by making sure that the two parties are speaking the same language. A good external producer can translate the publisher's commercial expectations into technical language understood by the developer. Developers should set reasonable timelines for the project milestone schedule.

Ed Bartlett

This is rarely the case in the current climate. To sign any kind of decent deal for a AA or AAA PC or console title you really MUST be prepared with as accurate a schedule and costing as you can muster. Publishers increasingly want to see some form of technical design on top of this, detailing everything from version control methods through to a development risk analysis. This kind of detail will help increase your chances of a smooth and quick signing.

Joe Minton

Publishers have market timelines to meet, and often aim for a November or March release. However, it is extremely unwise for developers to commit to an unrealistic schedule of deliverables for the sake of getting a contract signed. Missed milestones and subsequent development delay are some of the leading factors in project termination and commercial game failure. **<EB>**

Delays

Since a publisher is typically bearing most of the financial risk and market timing is important, it is reasonable for them to hold a developer to the milestone schedule agreed to by the parties. It is also reasonable for a publisher to request remedies for non-compliance including monetary penalties, project termination, and in extreme cases, lawsuits for breach of contract. However, there are a number of instances in which delays are beyond the control of the developer, and for which it is appropriate that the milestone schedule be adjusted accordingly. For example: third-party licensor approvals, delays in publisher quality assurance turnaround and change requests (discussed below).

Certain game development deals involve third-party approvals (typically, from a third-party brand licensor) that are beyond the immediate control of the publisher. It may be useful for a developer to request that the milestone schedule be adjusted for delays in such external approvals.

Acceptance Procedures

After submitting a deliverable to a publisher, a developer typically has 30 days to perform any corrections the publisher deems necessary for acceptance of the deliverable. A publisher will likely have a number of remedies, including project termination, if the deliverable is still deficient at the end of that period.

Timely feedback from the publisher is essential, and so the acceptance provisions detailed above are suggested rather than a blanket 30 day re-submission period. Occasionally, during the acceptance period, publisher feedback may include changes not detailed in the development contract (e.g. different features). This is commonly referred to as "feature creep". Both parties should guard against feature creep by ensuring that the development contract contains provisions for "change requests". **<JM>**

Change request provisions should allow the developer the option of refusing to implement the change if it materially affects the overall project schedule, and in the event the developer agrees to implement the change the language should ensure both that the developer is compensated for the extra work and that the timing for subsequent deliverables is adjusted accordingly. Changes that involve the addition of new game features or unanticipated requests that require a significant additional investment of the development team's time (e.g. three or more team development days) should be covered by a well-drafted change request provision. **<TS>**

Joe Minton

Recently we have started to use change request forms for changes initiated both externally and internally. This provides a formal system of making sure all stakeholders sign off on project modifications and are not later surprised by a change or by something missing. This also helps to establish a pattern of using the forms which we believe will result in better success of mitigating and charging for changes.

Tom Sloper

Normally, these are requests for changes in timing of deliverables, or omission of features, rather than an addition of new features. For instance, a developer will sometimes deliver a milestone that is missing one or more deliverables, and may include one or two deliverables that were originally scheduled to be in a later milestone. The developer wants to get the milestone payment even though the delivered build doesn't match the contractual description, line item for line item. To cover these without requiring a contract amendment, language stating that "*a small number of reasonable, small, and mutually agreeable deliverable substitutions are permissible*" could be included.

Even use of terminology can cause problems with milestone acceptance. It should be avoided to use terms like "alpha" and "beta" without defining those terms. Developers and publishers sometimes define these terms differently. And it's undesirable to have a milestone payment withheld by the publisher producer's superiors simply because a milestone definition uses the term "alpha" and the milestone delivery doesn't fit with the superior's understanding of "alpha," or because the publisher's QA department doesn't sign off on the delivery being in accord with its definition of "alpha." It is often useful to use the terms "alpha" and "beta" in a milestone for big-picture considerations, so one way to avoid problems is by means of language such as the following: "*This milestone is referred to herein as 'Developer's Alpha' for purposes of milestone payments under this contract only. Milestone is deemed payable upon acceptance of the line item deliverables described herein, and such payment shall not be unreasonably withheld. Use of the term 'alpha' herein does not constitute a condition of milestone payment.*"

Console Manufacturer Milestones

There are two major milestones in a console game development contract that are usually beyond the direct control of the publisher: (i) console manufacturer concept approval; and (ii) console manufacturer technical certification requirements ("TCR"). Since these milestones are required in order to sell the game for the platform, a publisher will typically (and quite reasonably) reserve the right to terminate the project in the event that these milestones are not met.

Concept approval typically occurs very early in the development cycle. Essentially, it means that the game passes certain product requirements that a particular console manufacturer has for games in their product portfolio. Concept approval is largely a marketing issue and properly the responsibility of the publisher. However, since the basis for a concept approval application is often the game design document (story summary, gameplay summary, etc.) and game technology details **<JM>** (how the game optimizes the features of a given console, etc.) developers should attempt to ensure that such materials are properly categorized as a pre-production milestone and that the developer is paid for their work whether or not the game receives concept approval.

> **Joe Minton**
>
> Make sure you are in the loop on what information is being furnished by your publishing partner to first party. You want to be absolutely positive that they are not setting up future promises by promising things (in order to make the concept approval happen easily) which are not in your implementation plan.

Once a publisher has accepted the gold master of the game, the publisher must send the gold master to the console manufacturer for TCR approval before shipping. This is the final developer milestone for a console game, and since it is critical, publishers typically enlarge this final milestone to motivate the developer to perform. Each console manufacturer has a set of technical requirements for games developed for their console. From the developer's perspective, TCR approval is similar to the procedure of submitting the gold master to the publisher for acceptance. The console manufacturer reviews the game for technical deficiencies and the developer makes any changes or corrections and then resubmits the game. Since the console manufacturer will likely communicate with the publisher rather than directly with the developer, a development contract should provide that the publisher provide the developer with feedback in a timely fashion during TCR.

Conclusion

As with all agreements, articulating of the expectations of the parties is key. In addition, the developer should consider the relative value of merely having an executed contract, as opposed to a contract the developer can credibly execute on, in assessing the relative priority of milestone related definitions and contract provisions during negotiations. **<MD><EB>**

> **Mike Dornbrook**
>
> All my comments under the first essay (Breach) apply here. Maybe it's the nature of the games with which I've been involved, but we've always found it impossible to agree with publishers on defined deliverables. They have needed full discretion to reject any milestone. Since this could put us into material breach even though we were producing a world-class product, we chose to protect ourselves through rights in termination.
>
> **Ed Bartlett**
>
> One thing that is not mentioned is late payment of milestones by publishers. This has been come increasingly common practice in recent years, to the point where it has almost become an accepted part of the development process. This is one area that developers must strive to meet the publisher's head on, as it always has a knock-on effect in other areas. Insist on a late payment penalty at the contract stage. If they are given the room to exploit this, many publishers will, regardless of if you are on-time, etc.

Moral Rights

by Paul Gardner

Introduction

Moral rights were first introduced into UK copyright law over thirteen years ago. However, their origins can be traced back much further to nineteenth century France. Although it is quite common for development contracts to refer to moral rights, for many developers and publishers, the concept of moral rights remains something of a mystery.

Sample Clause

Typically, the way that moral rights appear in a development contract is by way of a waiver of moral rights from the developer in favour of the publisher along the lines of the following:

> *"Developer waives absolutely and agrees never to assert any moral rights in or relating to the Game that Developer may have in the United Kingdom and, so far as it is legally possible, any broadly equivalent rights that Developer may have in any other country of the world."*

Discussion

Why do moral rights exist? Although moral rights have become part of UK copyright law, it is important to understand that the basis of copyright and moral rights is very different. Copyright is an economic right and exists to enable the owner of a work to obtain an economic benefit from that work. However, moral rights are not an economic right at all, but rather exist to protect the reputation of the individual creator of a work.

What are moral rights? As a general rule, under UK copyright law, the creator of a copyright work is entitled to the following two moral rights in relation to that work:

- The right to be identified as the creator of that work (*"the right of paternity"*).
- The right to object to derogatory treatment of that work (*"the right of integrity"*).

Unlike copyright, the right of paternity does not arise automatically but has to be asserted in a written document signed by the creator. The right of paternity is not infringed unless the creator has asserted that right. However, the right of integrity does arise automatically and does not have to be asserted.

What is meant by derogatory treatment? UK copyright law defines the expression, *"treatment"* as, *"any addition to, deletion from or alteration to or adaptation of the work"* and states that treatment will be derogatory if, *"it amounts to distortion or mutilation of the work or is otherwise prejudicial to the honour or reputation of [the creator]"*.

In the context of a computer game, this might for example consist of adding a comic element to an otherwise serious game, or using a game character in a prejudicial way, such as using Lara Croft in pornographic material.

Do moral rights apply to all categories of copyright works? Moral rights apply to most categories of copyright works including literary, dramatic, musical and artistic works and also to films. However, although UK copyright law classifies computer programs as literary works, it expressly provides that moral rights do not apply to computer programs.

At first sight, this exception might appear to make moral rights irrelevant for the purpose of computer games. However, any computer game will of course incorporate many copyright works beyond the computer program itself, such as the artistic works that appear on screen and the musical works in the game, and moral rights will apply to these works. Moral rights will also apply to the game manual. Accordingly, moral rights have a very significant application to computer games.

Who is entitled to moral rights? As mentioned above, as a general rule, the moral rights in a work belong to the creator of that work. So for example, an individual working on a freelance basis will be entitled to moral rights in any work that he/she creates.

The position in relation to employees is a little complicated. Under UK copyright law, the copyright in a work created by an employee in the course of employment is automatically owned by his/her employer. By contrast, since moral rights exist to protect the reputation of the creator of a work, the moral rights in a work created by an employee in the course of employment belong to that employee and not to his/her employer. However, although an employee will have moral rights in a work created in the course of employment, those rights do not apply to anything done in relation to that work by or with the authority of his/her employer. For example, if the employer grants another person a licence to modify a work created by one of its employees, then that employee cannot object to what he/she may claim to be derogatory treatment of that work. Accordingly, in practice moral rights have little relevance in relation to works created by employees.

Similarly, it also follows from the nature of moral rights that they are inalienable, which means that they are personal to the creator and cannot be transferred by the creator to any other person.

Where a work is created by the collaboration of two or more individuals and the contribution of each individual is not distinct from the other, then those individuals will jointly own the copyright in that work. In this situation, each of those individuals will have moral rights in respect of that work.

So is a waiver of moral rights effective? Although a creator of a work cannot transfer his/her moral rights in that work, under UK copyright law it is possible for a creator of a work to waive his/her moral rights in respect of that work. To be effective, a waiver must be in writing and signed by the creator.

So does the sample clause work? Although there are no fundamental flaws with the sample form of waiver set out above, it does highlight the following issues:

(a) In most cases, the developer entering into the contract will be a company rather than an individual. Where the developer is a company, the developer will have no moral rights to waive. Although some of its employees may have moral rights in the game (or in some works included in the game), these rights will not apply to any use of the work authorised by the developer. In this situation, the developer needs to ensure that it obtains a waiver of moral rights from any individuals who are involved in the development of the game but who are not one of its employees. In turn, the publisher should include in the development contract a warranty from the developer that it has obtained all such waivers and (more importantly) ask the developer to provide a copy of these waivers to check that this has actually been done.

(b) The waiver seeks to waive moral rights in countries other than the UK. However, as noted above, in countries in continental Europe moral rights cannot be waived. Accordingly, while there is no harm including the reference to waivers in respect of other countries, it is unlikely to have any effect.

(c) Most publishers will agree to provide the developer with some form of credit. Similarly, a developer may seek to procure a credit on behalf of any individuals who are providing a particularly significant element of the game, for example the music, but who are not one of its employees. In these cases, it makes sense to tie in the credits provision with the provision dealing with moral rights. In other words, rather than the contract containing a waiver of moral rights, it would logically contain an express assertion of the right of paternity by the individual but then set out an agreed form of credit in the usual way. The publisher or developer should still require a waiver of the right of integrity.

(d) The waiver simply refers to the generic term, *"moral rights"*. Although this term would include the right of paternity and the right of integrity, it is slightly misleading to use this generic term. The reason for this is that under UK copyright law there are two additional rights that are not true moral rights but which are referred to as moral rights. These rights are a *"moral right"* not to have one's name falsely used as the name of the creator of a work and a right of privacy in relation to photographs. Clearly, this waiver could not apply to these rights, so it would be more accurate for the waiver to expressly refer to the right of paternity and the right of integrity and also the provision under which the waiver is given. Based on this approach, a waiver might appear in the following form: *"In accordance with section 87 of the Copyright, Designs and Patents Act 1988, Developer waives absolutely and agrees never to assert his/her moral rights (i) to be identified as the developer of the Game and (ii) to object to derogatory treatment of the Game and any "any moral rights in or relating to the Game."*

(e) The waiver is expressed to apply to the Game. As mentioned above, the Game will in fact contain a number of different copyright works. Under UK law, it is possible for a waiver to relate to a specific work or works or a specific description. Accordingly, it would be possible for a developer to give a waiver in respect of some, but not all, of the works comprised in the Game. For example, the developer might not wish to give a complete waiver in respect of a game character.

(f) The waiver is expressed to be absolute and will therefore be unlimited in scope and time. Under UK law, if a waiver is given in favour of a prospective owner of copyright, then it shall be presumed to apply to that person's licensees and successors in title. However, the developer might want to limit the waiver to the particular publisher to whom it is giving the waiver, or at least to limit the waiver so that it only applies to that publisher and its licensees.

(g) A wavier of moral rights by one creator will not affect the moral rights of the other creator(s). Accordingly, it is important to obtain a waiver from all of the creators of a work of joint ownership.

The international dimension

Although this article focuses on the position in Europe and, in particular, the UK, moral rights are not limited to Europe. This is because moral rights are now embodied in the Berne Convention, which is one of the three key international copyright conventions. Most of the countries in the world are now members of the Berne Convention, including the US and Canada, which means that moral rights are now a feature of the copyright law of most countries in the world. However, the Berne Conventions sets down a minimum level of protection that member countries have to provide for moral rights, but allows member countries to adopt a higher level. This means that there is a significant difference between the levels of protection given to moral rights by members of the Berne Convention. As one would expect, counties in continental Europe provide the highest level of protection and other countries, such as the US, provide a fairly limited level of protection. The level of protection provided in the UK is somewhere in the middle of this spectrum.

Conclusion

Dealt with correctly, moral rights need not cause any problems. More generally, they perhaps provide a useful reminder that in this creative industry, perhaps greater recognition should be given to individual creators on whose shoulders so much of the future development of the industry rests.

"Equitable Remuneration" in European Development Contracts

by Vincent Scheurer

Introduction

Provisions dealing with "equitable remuneration" and "rental rights" are often found in European agreements for the development of video games or components of video games. This note describes why such provisions are used and what they are intended to achieve.

Sample Clause

> *"The Contractor acknowledges and agrees that the Fees include adequate and equitable remuneration to the Contractor for any exploitation by the rental or hiring of any product containing all or part of the Deliverables insofar as such remuneration is or will be payable by the Company or its assignees by statute or otherwise".*

Discussion

Rental Right

To understand the purpose and intent of this provision one needs first to take a step back in time to the emergence of video recording and playback technology, when the act of *renting* films first emerged as a viable business proposition. At that time renting copies of a work to the public was not necessarily copyright infringement in all European countries.

This prompted European lawmakers to extend the list of the different acts restricted by copyright, by including the acts of renting or lending the work to the public. Accordingly, since 1996 in the UK the owner of copyright in any work, including a computer game, can prevent others from renting or lending copies of that work without his or her permission. This additional right is known as the "rental right".

Equitable Remuneration

So far, so good. However, at the same time as the creation of the rental right, European lawmakers also decided that:

> *an author of a film or "phonogram" (a sound recording) has an additional right to receive "equitable remuneration" specifically in respect of the rental or hiring of that work if he or she assigned or transferred the rental right in that work to a film or phonogram producer; and*
> *this right to obtain remuneration could not be waived by the author; and*
> *as an extra twist, the person liable to pay equitable remuneration to the author is the person "for the time being entitled to the rental right" (not necessarily the producer who contracted with the author in the first place)*
> .

To understand why the right to receive "equitable remuneration" cannot be waived, one should recall that continental European lawmakers and Anglo / American lawmakers sometimes see intellectual property rights in a very different light.

Anglo / American copyright laws have tended to concentrate on the freedom of a party (typically a corporation) to commercially exploit a work to the fullest extent possible. In contrast, continental European intellectual property rights laws have often concentrated more on protecting the rights of *individual* creators. This focus on individuals' rights can lead lawmakers to insist (somewhat paternalistically) that some rights of individual creators cannot be waived or transferred by the individual at all, even if the individual wants to do so.

So it is with the right to receive equitable remuneration in return for transferring a rental right. The rental right can be transferred or given up, but the right to be paid for the rental or lending of the work cannot.

How much is "equitable remuneration"?

Very little guidance exists as to the appropriate fee due to the author. In the UK the appropriate amount is whatever the individual author agrees with the producer (although in the absence of any agreement, the Copyright Tribunal will decide the appropriate amount). Accordingly, it is advisable to include express reference to equitable remuneration in agreements between authors and producers of films or sound recordings.

How does this affect video games?

The right to equitable remuneration applies only where an author has transferred his rental right concerning a sound recording or a film to the producer of the sound recording or film. Clearly, this may nevertheless affect the development of a video game, as video games often include substantial FMV and sound recordings. Accordingly, in video games development:

The author(s) of any literary, dramatic, musical or artistic work incorporated in a sound recording or a film are entitled to equitable remuneration in respect of their rental rights if (as is often the case) they assign those rights to the producer of the sound recording or film (often the game developer).

The relevant author(s) are however unable to give up their right to receive equitable remuneration in respect of those rental rights and are entitled to receive equitable remuneration from the person "for the time being entitled to the rental right" (typically the ultimate publisher).

Thus, the publisher of a game which incorporates a film or sound recording may be required to pay equitable remuneration directly to the original author(s) or director(s) of the film or sound recording, quite independently of the development contract.

How do game publishing contracts address this?

The possibility that a publisher may be required to make unexpected further payments directly to individual authors will generally be covered in the extensive and overlapping warranties and indemnities usually found in development contracts. These would transfer that risk to the developer.

What can the developer do?

The developer (or any other person) who produces a sound recording or film which will be incorporated into a game should ensure that the contract under which the different rights to such works are obtained from their individual authors in Europe (be they contractors or employees) expressly addresses the issue of equitable remuneration. Such a contract should expressly state that the payments made to the individual under that contract include a sum deemed to be the full amount payable by way of "equitable remuneration" for all future rental or hiring of the work by any person. That is the purpose of the example wording set out above.

Conclusion

As noted above, the developer will normally indemnify the publisher against such claims, so the publisher should be adequately protected against direct claims made by individual authors under its standard contract wording. Provided that the developer (a) has a contractual right to defend such indemnity actions, and (b) can show that it has already paid the requisite "equitable remuneration" to the claimant, then the developer should be able to defeat such a claim at nominal cost. This illustrates the importance of the developer retaining control over the defence of suits brought by third parties against publishers, but which are covered by the developer's indemnity.

Developer Representations and Warranties with Respect to Intellectual Property

by Daniel O'Connell Offner

Introduction

In every development agreement, a publisher will inevitably require a developer to provide representations and warranties generally encompassing the developer's right to enter into the agreement and perform its obligations thereunder, and more specifically related to intellectual property. In particular developer's representations and warranties will cover the developer's intellectual property in existence at the time of entering into the agreement, and the intellectual property created under the agreement. The developer's indemnification obligations will be based in part upon these representations and warranties, so publishers are usually looking for the broadest possible representations and warranties. The goal of the publisher is to create a checklist of issues that are covered by the representations and warranties, which in turn are linked to developer's indemnification obligations.

Sample Clause

This is a sample clause for IP representations and warranties:

> *Developer represents and warrants that (a) the game, software, content, engine and all elements thereto (other than materials provided by publisher) are wholly owned original works of authorship developed by its employees, or under their direct supervision, and, do not infringe upon the copyrights, trademarks, technology or other rights of any person, firm or corporation; (b) that with respect to Developer's trademarks, Developer owns or controls all necessary rights thereto, and Developer's non-exclusive license thereto and Publisher's allowed use hereunder shall not violate any other party's rights or contracts between Developer and other parties; (c) any and all permissions and clearances to the content, engine and software, including, but not limited to, third party tools used in the development of the Game and contained in the software, for their authorized use as contemplated herein, have been obtained by Developer, and Publisher's exploitation of the Game hereunder, including, but not limited to, publishing and sublicensing of the Game, shall not violate any such permissions and clearances; (d) the credit requirements and other materials delivered by Developer to Publisher, including, but not limited to, any and all third party credits under this Agreement shall be complete and accurate and Publisher shall incur no liabilities to any third parties arising out of the use of such materials and compliance with such credit requirements pursuant to Publisher's rights in the Game(s); (e) Developer shall be responsible for any and shall pay any third party payments or residuals for use of the Game(s), engine, third party tools, and software as contemplated and to be allowed hereunder (i.e., music publisher royalties, if applicable); and (f) Developer has no knowledge of any claim which, if sustained, would be contrary to Developer's warranties, representations, and agreements herein contained.*

Discussion

The representations and warranties set forth in subsection (a) are perhaps the most important to the publisher. Most development agreements are "work for hire" agreements whereby publisher will own the game and all elements thereto (except in some cases, the developer will retain ownership of its pre-existing tools and technology). The first portion of subsection (a) ensures that the materials have been developed by developer's employees as a "work for hire," and that no third party will retain any ownership interest therein, including developer's employees and independent contractors. The last portion of subsection (a) is designed to provide that the materials delivered by the developer will not infringe upon the rights of any third party. This subsection combined with subsection (b) is designed to protect the publisher from third party claims that the game infringes upon some intellectual property owned by that third party.

The representations and warranties set forth in subsection (b) are designed to protect the publisher against third party claims arising out of publisher's use of developer's trademarks and forces the developer to clear its name and logo, if any, in the territories in which the game is being released.

In case the developer is not creating everything itself, or if the developer is using licensed content that it has obtained, the representations and warranties set forth in subsection (c) seek to ensure that in the event the developer has used any third party intellectual property, i.e., third party content, engine, tools and/or software, the developer has obtained the necessary permissions to use such third party materials, and to sublicense such rights to the publisher. This provision is necessary to protect the publisher from any claims by a third party that publisher has violated a third party's copyrights and/or patents, i.e., that content, tools or technology used in the game are owned by such third party and are being used by publisher without such third party's permission. The importance of this provision is that it forces the developer to inventory the items that are not owned by the developer, but which have been put into the game by developer, and to clear the rights associated with those items.

Please note that some development agreements will also contain some variation to subsection (c) in which developer represents and warrants that the game will not violate the privacy and/or publicity rights of any third party. This representation and warranty is necessary to protect the publisher from any claims by third parties that their likeness is used in the game without their consent. In order to prevent any violation of such representation and warranty, developers should ensure that their employees are aware that they cannot use the likeness of a person without obtaining an appropriate waiver. **<RM>**

> **Ray Muzyka**
>
> To be sure that this is not occurring, a good practice might be to have a company-wide policy of never using copyrighted source material as reference unless a waiver is obtained. An alternative would be to buy libraries of source art to establish a library of approved reference art for artists to use. The same logic applies to music or sound samples.

The representations and warranties set forth in subsection (d) seek to ensure that the publisher will not be held liable in the event that the developer has failed to provide proper credits in the game. This representation and warranty is often viewed as a follow-on to subsection (c) as it relates to third party intellectual property included in the game, but is actually applicable with respect to credits promised to the developer's internal team members as well.

The representations and warranties set forth in subsection (e) tie to those set forth in subsections (c) and (d). If the developer has used third party materials, i.e., content, tools, technology, software, music, etc., the developer must provide the proper credits to the publisher as explained in the preceding paragraph. In addition, the developer must represent and warrant that the developer has paid or will pay all third parties in connection with such use of the third party materials. This representation and warranty is intended to ensure that the publisher will not be responsible for making such payments to third parties. Please note that in some cases the publisher may be providing materials from a third party such as licensed content, music or technology, and the publisher should be covering the costs related to such third party materials.

In such circumstances, the publisher should also make similar and comparable representations and warranties to the developer with respect to such third party materials.

The representation and warranty set forth in subsection (f) confirms that the developer is not aware of any circumstances that are contrary to the other representations and warranties. This provision is intended to ensure that the publisher is not entering into an agreement with a potential claim in existence.

Generally, a publisher will try to make the developer's representations and warranties as broad as possible to provide as much protection to the publisher as possible. The developer, on the other hand, will try to make the developer's representations and warranties as narrow as possible to limit its potential liability. A developer may try to add clauses like "to the best of developer's knowledge" or "to the best of developer's ability" to the representations and warranties, while a publisher will rarely agree to such revision. **<MM>**

Matias Myllyrinne

A developer may also try to have a "process of approval" i.e. having the publisher's legal team check through (and suggest alternatives to) risky asset categories in the game and signing off on them, after which they are not covered by the warranty. A publisher is in a much better position to pursue legal defense should a third party claim arise. Such risky categories vary from genre and game but include all "real world" items and products which may be held to be substantially similar to protected brands or designs. A manufacturer of the real world product may pursue a claim against the developer/publisher e.g. gun and car manufacturers etc. may pursue far fetched claims against game developer even if the original bares little resemblance to the item depicted in the game. Such risks are increased should the item be essential to the game.

Compliance with the developer's representations and warranties is significant in that any breach will generally result in termination by the publisher, and a demand for indemnification with respect to any losses suffered by the publisher as a result of such breach. Developers can ensure compliance with these representations and warranties by (i) causing all employees and independent contractors to sign work for hire agreements acknowledging that any and all work product arising out of such employee's employment or an independent contractor's contract will be owned by the developer; (ii) seeking to clear and register developer's trademarks in the classes of goods and services in which such marks are being used; (iii) cataloging the third party content, tools, technology, software, or any other materials that are used in the game, as well as any likenesses for which the developer has obtained waivers; and (iv) ensuring that such third parties have granted the developer and its publisher permission in writing to use those materials, as well as sublicense the right to do so.

Publisher IP Representations and Warranties

As stated above, a developer should also seek to protect itself from liability by requesting that the publisher provide similar or comparable representations and warranties when the publisher is providing third party materials or its own materials for incorporation into a game. **<MD>** In addition to the general representations and warranties regarding publisher's right and authority to enter into the agreement and perform all obligations thereunder, a developer should request that the publisher provide representations and warranties with respect to any materials provided by the publisher in connection with the development of a game. For example, if a publisher enters into an agreement with the developer for development of a product incorporating a licensed property or other licensed content, a developer should request representations and warranties similar to the following: "Publisher represents and warrants that Publisher has the right to grant the rights, sublicenses and licenses granted to Developer under this Agreement, and any and all materials provided to developer by Publisher under the Agreement do not and will not infringe any intellectual property rights or any other proprietary rights of any third party." In addition, a developer should request that the developer's representations, warranties and indemnification obligations (as discussed above) will not apply to any breach by the publisher of the publisher's representations and warranties.

Credits

Lawyers Panel

Jim Charne – Chair, Lawyers Panel
Jim Charne is a California, New York, and New Jersey lawyer who has provided legal representation for clients in all phases of interactive software entertainment since the mid-1980's. He entered the industry in 1983 as a producer for Activision, and served as VP Legal & Business of console developer Absolute Entertainment. Jim is a member of IGDA, AIAS, G.A.N.G., AIMP (Association of Independent Music Publishers), SAG (Screen Actors Guild) and NARAS (the Recording Academy), and served as the first President of the Academy of Interactive Arts and Sciences (AIAS) from 1998 to early 2001. Jim has been chair of the Legal and Business tutorial at GDC since 1998, and writes "Famous Last Words," a monthly column on games contracting issues for www.igda.org. In March, 2004, the week before GDC, he will chair the first ever segment on the games industry for PLI's annual three-day continuing legal education program, "Counseling Clients in the Entertainment Industry." Jim can be reached by email at charne@sprintmail.com or on the web at www.charnelaw.com.

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Dan Offner is a partner at Offner & Anderson, P.C., a law firm in Los Angeles, California. He practices intellectual property and corporate law for videogame publishing, developer, and toy company clients.

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David S. Rosenbaum counsels clients in the interactive, film, television, publishing, licensing and merchandising, and amusement industries. David is regularly involved in transactions ranging from development and publication of video and computer games and related technology licensing; mergers and acquisitions in the interactive industry; licensing and merchandising of brands, character, entertainment and sports properties; production, marketing and distribution of films and television productions; and comic book licensing and publishing. David has negotiated agreements for his clients with leading video game hardware manufacturers and publishers, film studios, television networks, sports leagues and book publishers. David lectures frequently on legal and business issues in developing and publishing video games, including at events offered by GDC, E3, and California Lawyers for the Arts.

Vincent Scheurer

Vincent Scheurer comes from an in-house background and specialises in commercial and corporate work in connection with the digital media and Internet industries. He concentrates on agreements for the development and exploitation of interactive software products, particularly in the entertainment and educational field, and on Internet related agreements. His recent work includes advising on international distribution and licensing agreements for software games and the acquisition and exploitation of trade mark licences within software products, including product placement agreements. He also advises on the agreements concerning the exploitation of rights over the Internet and other new communications structures as well as Internet and e-commerce service provision, development and maintenance agreements. Vincent qualified as a barrister in 1994. He worked as an in-house lawyer for a software house before joining Osborne Clarke in 1999 as a non-practising barrister.

Don Thornburgh
Don Thornburgh is an attorney and founder of Strategic Law Group in Los Angeles, California. His practice focus is intellectual property in technology, entertainment, multimedia products and services, and Internet issues. He has advised a diverse client base, including those engaged in the development of

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Commentators

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- **Joe Minton –** President & CEO, Cyberlore Studios
- **Ray Muzyka** – Joint-CEO, BioWare Corp.
- **Matias Myllyrinne -** Business and Finance Director, Remedy Entertainment
- **Tom Sloper** – President, Sloperama Productions

About the IGDA

The International Game Developers Association is the independent, non-profit association established by game developers to foster the creation of a worldwide game development community. The IGDA's mission is to build a community of game developers that leverages the expertise of our members for the betterment of the industry and the development of the art form. Do the right thing and join the thousands of members, studios and partners that help make this mission a reality.

Personal Membership

The IGDA membership is made up of programmers, designers, artists, producers and many other development professionals who see the importance of working together to advance games and game development as a craft. Your involvement is critical to the success of your career, the IGDA and our industry.

By joining the IGDA, you join a worldwide community of game developers that shares knowledge, insight, and connections. From local chapter meetings, to online discussions, to committee output, the IGDA provides invaluable information and resources.

Studio Affiliation

Your team is your most valuable asset. As a Studio manager, you can reward and inspire your development team by affiliating with the IGDA. By joining the Studio Affiliation Program, a studio provides all of its employees with personal IGDA memberships, allowing them to connect with their peers and grow professionally and personally. In addition, Studios receive their own unique benefits and discounts, all while showing support for the community. Refer to the back cover of this report to see all the great Studios that are part of the IGDA.

Industry Partner

Your organization is essential to game development. Make a difference in the community you've helped to create by becoming an IGDA Partner. Send the message to game developers that your organization supports the growth and development of games as an art form, and backs the community at its roots. Gain exposure with IGDA members for whom game development is a way of life. The IGDA upholds the common agenda of game developers and the game industry. Be a part of that agenda by becoming an IGDA Partner.

Make a difference:

www.igda.org/join