OUTLINE

• Some background
• Likely set up
• Form
• Agent Fees
• Minimum Guarantees
• Creative Control
• Net Revenue Definition
• Tips for Licensors
Some Background

- Global video game revenue was 180B in 2020
- Global film revenue was 100B in 2020
- US pro sports revenue was 75B in 2020
Some Background

• AAA games cost 40-80M routinely with some budgets over 100M
• AAA games employ 300-700 people for 4-6 years
• Smaller games or mobile games routinely cost 8-15M
• Development cycle is about 2 years.
Likely Set Up

• You represent a small to medium size game developer.

• You are licensing an IP to use in game development.

• You want to get the big stuff right, but don’t need to be an expert in games.
What form to use?

- T-shirt form or other physical goods
  - Manufacturing
  - Samples

- Software development form
  - Is this work for hire?
  - Support and uptime?
What form to use?

- Marketing form
  - The marketing team supervising?
  - Attempts to make this a promotional item instead of independent content
  - Launch date “support” silliness
Agent Fees

• They should not come out of development dollars if possible.
• Cap these
• Pay them later in net revenue
• Non-productive royalties can sink game development
• There is no “gravy” in development funds
Paying Minimum Guarantees?

• They should not come out of development dollars if possible.
• Pay them later in net revenue
• Non-productive royalties can sink game development
• There is no “gravy” in development funds
• One payment on execution is plenty until the game launches – annual MGs start after launch
Licensor Creative control

- Licensor controls licensor IP
- Licensor will get final approval over the game
- Have an approved world Bible to reference
- Licensor will demand some kind of production liaison
  - Pick the right person for this – the voice of the Licensor
Licensee Creative control

• Developer should control all game aspects unrelated to the IP
• Developer should control all game play and game design elements
• Developer should control all elements that are not the licensed IP — tree art approval
• Beware “protect the brand” arguments
• Developer picks the launch date
Net Revenue Definition

• Avoid catch-all terms (except with mutual prior written approval)
• Include sample calculations and sample royalty reports
• Internal costs are suspect
• Unsupervised spend is suspect – marketing
• Potential fixes: notice, budget approval, not to exceed caps
• Have audits
Intellectual Property

- Copyright ownership does not matter
- Copyright reversion can matter - benchmarks
- Sequel rights matter
- Publishing control matters
- Developer tool/IP reservation – build a system
Net Revenue Definition

• How is marketing shared between the parties?
• Consider hosting and live team costs
• Do not let the developer be starved for revenue at the start – some revenue share must be paid from the first dollar
• Consider a waterfall royalty system
• Consider performance bonuses for units sold
Tips for Licensors

• Know a band of thieves when you see them
• Know what different people in game development do and how that is different than IT and software development
• Prior success is the best indicator of future success
• The team needs to be established, not leaving just to fool a licensor and take investment
• Beware revenue graphs, they are all lies
Questions?

Greg Boyd

Frankfurt Kurnit Klein & Selz
28 Liberty St
New York, NY 10005
212-826-5581
gboyd@fkks.com