General Counsel

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Contract Law & Performance License Agreements

As commercially distributed planetarium shows have become more and more sophisticated, an increasing number of show distributors have started requiring purchasing institutions to enter into performance license agreements that govern the terms and conditions by which the show may be presented to audiences. While most of us view these agreements as mere formalities that receive only a cursory glance, understanding these agreements is critical when it comes to knowing what a purchasing institution may and may not do with the show materials.

Despite the fact that the transaction looks and feels like a sale, planetarium shows are rarely sold outright. The "purchaser" is actually a licens*ee* which, in return for payment of a license fee, receives permission from the producer (the licens*or*), to do certain things with the producer's content. The contract that governs the rights of each party is called the license agreement. Because a license agreement is simply a type of contract, this installment of *General Counsel* begins with a primer on basic contract law and then walks through some basic provisions that appear in many planetarium performance license agreements.

Contract Law Basics

Behind the legal jargon that tends to accompany most written agreements, a contract is fundamentally just a promise or collection of promises that can be legally enforced between the parties. A valid contract has four key elements: offer, acceptance, consideration, and sufficient definiteness. The first two, offer and acceptance, are often lumped together and referred to simply as a "meeting of the minds." That is, an enforceable contract cannot exist unless the parties involved actually understand and agree to the transaction set forth in the agreement.

The third requirement for a valid contract, consideration, simply requires that there be some sort of bargained for exchange between the parties. In a typical contract that generally means that one party is paying for the products or services of the other party. There is, however, no requirement that a transaction involve money. Two parties might enter into a barter arrangement whereby one party provides certain items in return for the services of the other party. Assuming the other requirements for a valid contract were met, such an agreement would be enforceable. Finally, the fourth requirement, sufficient definiteness, simply requires that the contract be presented in such a way that both parties clearly understand the rights and obligations of one another such that they can be performed.

Once a legally enforceable agreement has been entered into, the parties are bound by the terms and conditions to which they agreed. Any deviation from such terms is considered a breach of the contract which may subject the offending party to pay damages, that is, certain financial penalties to compensate the non-breaching party for losses that arise out of the breach. In many cases, the consequences of a breach are actually written into the contract. In situations where the contract is silent on such matters, various legal principles help the parties determine the appropriate result. Fortunately, the majority of contract disputes never make it to a dramatic made-for-TV trial; instead the parties usually work out a new arrangement that is mutually beneficial to both parties.

It is important to note that contract law is state law, and that the interpretation of contracts may vary from state to state. Fortunately much of it has been standardized to such a point that the basic principles are the same regardless of which state law governs a particular agreement. That said, the potential for differences among states highlights the importance of seeking the advice of a licensed attorney in the case of questions in this area.

Why Do We Even Need an Agreement?

While performance license agreements are fairly commonplace in many industries, it seems as if license agreements are a fairly recent phenomenon in the planetarium community. I believe the reason for the recent proliferation of such agreements is the rapidly increasing complexity of planetarium productions. Shows that once were prepared entirely in-house are now comprised of elements from numerous third-party providers.

A contemporary show producer might have contracts with dozens of visual artists, graphic designers, narrators, composers, writers, advisors, and other professionals. Each of these contracts contains its own unique obligations that the producer must adhere to. In order to ensure downstream compliance, the producer then incorporates these restrictions into its own agreement with presenting institutions. An artist may, for example, create and license certain works for use in a specific show; use outside of the show would require additional permission from the artist. To ensure that the use of the artist's work remains true to the original agreement, the producer must impose the same restrictions on its licensees, and the easiest way to do that is by way of a written license agreement.

Performance License Agreements: Basic Clauses

With a basic understanding of the law that underlies contractual relationships we can move forward to discuss some key provisions that appear in typical planetarium show performance license agreements. The first and arguably most important clause in such a license is known as the *grant clause*, which allows the licensee to exploit the

General Counsel is intended to serve as a source of general information on legal issues of interest to the planetarium community. Planetarians seeking information on how the principles discussed in a General Counsel column apply to their own circumstances should seek the advice of their own attorneys. Christopher S. Reed is currently pursuing Juris Doctor and Master of Intellectual Property degrees at the Franklin Pierce Law Center in Concord, New Hampshire, where he also serves as editor in chief of IDEA®: The Intellectual Property Law Review.

copyrighted work in such a way that would otherwise only be allowed by the copyright owner. Grant clauses can be narrowly crafted to provide only specific rights under certain circumstances.

A typical planetarium show license grant should, at a minimum, include the right to publicly perform the show within the presenting institution's facilities. It may also be desirable to obtain synchronization rights from the producer, which would allow the presenting institution to add material to the show. Note that a license to publicly perform materials within the planetarium does not immediately grant the planetarium rights to use show content in marketing and advertising materials. In order to engage in such use, specific rights must be granted in the agreement.

As with all contractual rights and obligations, a grant clause can be conditioned upon or limited by certain terms. A license agreement may, for example, limit the performance a particular show to only school groups, or require that the presenting institution include all of the show's credits and copyright notices. Though we have yet to see such complexity in planetarium license agreements, many commercial film exhibition licenses restrict the performance of films to specific time windows, and often include strict limitations on theater quality, cleanliness, and accessibility.

One word of warning regarding license grants: Most well-written licenses include what is known as a *rights reservation clause*, which essentially provides that all rights which are not expressly granted to the licensee are retained by the copyright owner. This means that you get *only* what is included in the license – no more, no less. Exemptions and defenses that may be otherwise available to a user of copyrighted materials, like fair use and the classroom exemption, cannot be claimed because those rights were not expressly granted to the licensee in the agreement. In short, by entering into a performance license agreement you have, in essence, waived such rights. Of course, every agreement is different, and this is an area where the law is so complex and diverse that it is impossible to address all possible scenarios in a short article. Accordingly, consultation with your own counsel is essential if you are ever faced with a question relating to the extent of your rights under a license agreement.

Beyond the grant clause, the next most important aspect of a performance license agreement is the *royalty* or *fee* clause which provides for the amount that the licensee will pay in return for the rights granted in the agreement. Currently, most planetarium show licenses are based on a flat fee, which is one reason why buying a show package feels like a purchase rather than a licensing arrangement. As programs become more complex, and thus expensive, it is conceivable that we may see producers start to adopt a running royalty model. Such a framework would allow for more flexible pricing of show materials: a producer might offer a per-showing license fee with different rates for different audiences (school groups versus public shows), or a flat time-specific license fee, allowing unlimited showings during a particular window of time.

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No license agreement would be complete without a *term* clause which provides for the duration of the agreement. Like the grant and royalty clauses, the term clause allows for some customization and flexibility should the parties to the agreement desire. Generally, the term of a typical planetarium show license is perpetual, granting rights to the presenting institution for an indefinite period of time, again, making a licensing arrangement look and feel as if it is an outright purchase. Otherwise, the term clause is specifies a period of time, usually in terms of years, after which the license expires.

Closely related to the term clause is the *termination* clause which governs situations in which the agreement may be terminated before the specified term. While the parties to an agreement may identify virtually anything as a termination-triggering event, the most common in license agreements simply involves the licensee's use of the licensed materials outside the scope of the grant clause.

Most agreements also include a *transfer* or *assignment clause* which specifies the conditions, if any, under which the rights granted to the licensee may be transferred to another party. Except for a few specific circumstances, absent specific prohibitive language in the agreement, most contracts, including license agreements, are freely transferable. Most planetarium show licenses, however, expressly prohibit such transfer.

In addition to the substantive clauses that define the conditions under which a planetarium show may be used, most license agreements include a variety of boilerplate clauses which tend to appear in most contracts. The *choice of venue/forum* and *choice of law* provisions govern where a dispute may be adjudicated and the law that the court will apply. Planetarians at state-owned institutions should be mindful of the fact that many state governments are prohibited from entering into agreements that are governed by law other than its own.

Standard contracts also generally include an *indemnity* clause which determines who pays the legal bills and any other associated costs in the case of a breach or other events that are specifically enumerated in the contract. Most contracts also include a *warranty disclaimer* clause which disclaims certain warranties which, absent the specific contract language, would arise automatically by operation of law upon the licensing of the intellectual property. Finally, a *no waiver* clause provides that even if the copyright owner decides not to enforce certain provisions in the contract, it has not waived its rights to enforce the clause in the future.

Conclusion

While the recent shift to requiring signed license agreements may seem like an unnecessary complexity, the use of carefully crafted licenses is necessary to ensure that the intellectual property rights of the producer and its contractors are sufficiently protected. On a more practical note, the move from a traditional "purchase" distribution model to one based on more comprehensive licensing arrangements will allow producers to better design pricing and rights frameworks that better reflect the economic value that is derived from commercially distributed show materials. As license agreements become the rule, rather than the exception, to acquiring new shows and multimedia content, it is important to recognize the value of fully reading and understanding the terms and conditions upon which such materials are used. As always, should questions arise, it is essential that you consult an attorney to fully understand your rights and responsibilities. ☆