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for

Industrial Designers

READY-TO-USE WITH NEGOTIATION CHECKLISTS

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Endorsed by the Industrial Designers Society of America

Licensing is a form of intellectual property exploitation that allows the designer to capitalize on the financial earning power of patents, copyrights, and trademarks covering proprietary concepts by making them available for use in exchange for some level of compensation. Licensing allows the designer to exploit the value of the design without having to give up ownership and control of the design or having to work to bring the design to commercialization. The designer licensor usually collects lump-sum payments and/or running royalties without assuming any business risks.

An important part of the licensing process is a determination of the value of the designer's concept, and this involves the examination of a number of factors. Does the designer's concept represent a technological breakthrough? Has the concept been fully developed or commercialized? What are the real and the perceived benefits of the concept? Is the concept adequately protected by patent or other intellectual property rights? These are some of the questions the designer must answer before he or she can determine the licensing potential of his or her concept.

The designer should realize that a concept not protected by a patent or otherwise will likely have little or no licensing potential. No one wants to pay for a license to a concept that the rest of the world can practice freely. Likewise, prospective licensees may not have a strong interest in a concept that has limited marketability.

It is important that the designer size up the market in which his or her concept would compete. The designer will need to assess the commercial potential and marketability of his or her concept before being able to measure its licensing value. This may require market studies and an analysis of the designer's concept in comparison to similar products as well as unrelated alternatives. The designer should look at other

license agreements that he or she may have access to for determining customary royalties and conditions. When this analysis is complete, the designer is ready to examine licensing as a way to exploit his or her proprietary concept.

A license is basically a contract and requires the essential elements of an offer, acceptance and consideration. The license is a negotiated agreement that should always be in writing and signed by both the designer and the licensee. The license agreement can be simple or complex depending on the terms and conditions required by the parties. A sample license agreement for industrial designs is provided at the end of this section that can be used for most simple licensing situations. Remember that each licensing agreement is a distinct transaction with terms that are negotiated and agreed to by the parties on a case-by-case basis.

There are several prerequisites to entering into an effective license. First, the designer must have ownership of the concept and the right to license it. If the designer created the concept for his or her benefit and without any direct or indirect involvement of another party, the designer's ownership of the concept is relatively clear. Make sure that the designer's employees and consultants who worked on the concept are required by a written contract to assign all rights to the designer. However, check to be certain that the designer is not under any obligations to assign his or her rights to the concept to an employer or others.

Secondly, the license must specify what rights are being granted by the designer to the licensee. Is the license exclusive or nonexclusive? Are full rights to make use, sell, import, and distribute being granted to the licensee? Is the license restricted to a specific state, region, or country? Also, the license should clearly indicate the consideration (e.g., royalties or lump-sum payments) that is being paid by the licensee to the designer.

Under a license, the designer grants permission to the licensee to practice the concept within certain respects. The designer can give or grant the licensee permission to make, have made, use, offer for sale, sell, import, or distribute the proprietary concept and products which use or incorporate it. In granting a license, the designer can do so on an "exclusive" or "nonexclusive" basis. Where the license is exclusive, the designer agrees to license the concept only to the licensee, and it usually means that the designer gives up his or her own right to practice the concept. If large licensing fees, royalties or investments are required, the licensee is likely to press for an exclusive license. If the designer plans to use the concept in his or her own business and grants an exclusive license, the designer should expressly retain the right to practice the concept in the license agreement. In granting a nonexclusive license, the designer remains free to grant licenses to others.

In addition to granting a license on an exclusive or nonexclusive basis, the designer can also restrict the license to a specific activity known as "field of use" or to a specific territory. For example, the designer can grant the right to use the concept, without the right to make or sell it. The field of use can be further divided, such as between consumer and industrial uses. The designer can also grant licenses for a particular geographic territory, such as by city, state, region, or country.

The designer will also need to consider the duration of the license in view of his or her licensing goals. Is the designer seeking short term or long-term licensing objectives? The license can generally be for any period of time through the term of the intellectual property covering the concept. If the license agreement does not specify the duration, the license is usually good for the term of the intellectual property protection. From a practical standpoint, the duration of the license is governed by the period that the intellectual property is in effect, the licensee's plans for commercialization of the concept, and the relative obsolescence of the concept. Keep in mind that there

are restrictions on the period for which royalties can be charged under a patent license. It is generally a violation of the U.S. antitrust laws to require payment of royalties after a patent has expired, unless the license includes other intellectual property rights such as trade secret know-how or trademarks.

Perhaps the most important factor to the designer in licensing his or her concept is the amount that the licensee will pay for the license. Licenses customarily provide for the payment of running royalties based on a percentage of the sales of product containing the concept; although, in many cases upfront fees and milestone payments are required. A common issue facing licensors in evaluating a license is the royalty rate that the licensee should pay for the license. Each license has to be evaluated on a case-by-case basis because there is no magic royalty rate for all situations.

The royalty rate is determined by a number of factors, such as: the custom of the industry in which the licensed concept will be used; whether the license is exclusive or non-exclusive; whether the license includes a variety of intellectual property rights such as patents, trademarks, trade secrets, and technical assistance; whether the license restricts the scope of the licensee's use of the concept; and whether the size of the market and its pricing is sufficient to support the royalty charged for the license. Typically, royalty rates for general concepts which require significant refinements by the licensee range from about 1 to 5 percent, whereas royalties for finalized and proven concepts usually run from about 5 to 15 percent.

The designer should also consider the following issues in structuring the royalty arrangement for licensing his or her concept:

- ☐ The time and frequency of royalty payments
- ☐ The requirement that the licensee keep accurate and complete accounting records
- ☐ The right of the licensor to inspect the licensee's records

- ☐ Definition of the net sales or net profits against which the royalties are to be calculated

Many other terms and conditions may be included in the license as deemed necessary by the designer and the licensee, but the license must avoid provisions which violate the antitrust laws or which constitute patent misuse. It has already been explained that a patent license cannot provide for royalty payments after the patent has expired. The license must also avoid illegal price-fixing between the designer and licensee. Tying arrangements should also be avoided, such as where the licensee is required to purchase unprotected products from the licensor to maintain a patent or other intellectual property license.

Selecting the right licensee is essential for the designer to be successful in licensing his or her concept. The designer would want to grant licenses only to reputable companies which are seriously committed to commercializing and marketing the concept. Being viewed as a leader in a particular market or industry, possessing an entrepreneurial spirit, being receptive to new ideas, and having the demonstrated ability to successfully launch new products are attributes which should be considered in the selection of a licensee.

Being able to negotiate effectively is an important part of the designer's success in licensing and profiting from his or her concept. Even for the most successful designers, it may be difficult, because of lack of experience in the art of negotiation and legal and business acumen, to handle a licensing transaction. While licensing is presented very basically in this chapter, it can however in practice be very difficult and complex. To the extent that the licensing deal takes on complex issues different from what is outlined in this chapter, it is advisable that the designer hire an attorney to assist in the structuring and review of any license transaction.

Filling in the Form

In the preamble, begin the preparation by filling in the date of the agreement and the

names and addresses of the designer and the licensee.

In paragraph 1, indicate whether the designer is granting the licensee an exclusive or a non-exclusive license. Fill in the title, if applicable, and the description of the design or concept that is being licensed. Mark the appropriate box(es) to indicate if the licensee has the right to make, use, import, or sell the licensed design. Also include the geographical area and the period of time where the license is to be effective.

In paragraph 3, fill in the amount of any nonrefundable advance that the licensee will pay the designer upon signing of the license agreement. Additionally, specify the royalty rate as a percent of net sales of the licensed product that the licensee will pay to the designer. Where the licensed product will not be sold, but will be used or otherwise transferred by the licensee, indicate the percentage increase over the licensee's cost of acquisition or manufacture that will be used in calculating net sales.

Mark the appropriate box in paragraph 4 to indicate whether the licensee will make reports to the designer on a monthly, quarterly, or yearly basis.

In paragraph 6, specify the number of samples of the licensed product that the licensee will give to the designer at no cost. Further, indicate the percentage increase above the licensee's manufacturing costs at which the designer can purchase additional samples.

In paragraph 15, put in the name of the state whose laws will govern the license agreement. Also include the name of the state where the licensee consents to the jurisdiction of the courts.

Include in paragraph 16 the addresses of the designer and licensee where notices, payments, and statements shall be sent. Include in paragraph 17 any additional terms and conditions which are a part of the license agreement.

At the end of the license agreement, fill in the names of the designer and the licensee. Have the agreement signed by authorized signatories for the designer and licensee, and include the signatories' titles.

Negotiation Checklist

- ☐ Decide what the effective date of the licensing agreement will be, and make sure that the parties are clearly identified by names and location.
- ☐ Determine whether the licensee is being granted a nonexclusive or an exclusive license and structure the rest of the agreement accordingly. The designer should negotiate for a nonexclusive license if he or she wants freedom to license others.
- ☐ State the title, if any, of the design concept and include a clear and complete description (including any patent, trademark, and copyright registration numbers).
- ☐ Decide whether the license includes the broad rights to make, use, import, sell, copy, and distribute licensed products, or if these rights are restricted to certain activities after taking into consideration the designer's overall plans regarding the marketing or licensing of the design.
- ☐ Decide what the geographical area of the license will be after understanding the potential markets for the licensed products.
- ☐ Decide on the period of time during which the license will be effective.
- ☐ Reserve all patents, copyrights, trademarks and all other intellectual property rights in the design to the designer.
- ☐ Require that credit and copyright notice (if the design is copyrightable) appear in the designer's name on all licensed products. Require that the patent numbers (if the design is patented) appear on the licensed products.
- ☐ Require the licensee to pay an advance to the designer, which will be applied against the royalties due.
- ☐ Indicate that any advance paid the licensee is nonrefundable.
- ☐ Specify a royalty based as a percentage of net sales of the licensed product.
- ☐ Define net sales to mean invoice price, after deduction of regular trade and quantity discounts, freight, insurance, rebates, returns, allowances, sales and use taxes, and agents' commissions where separately identified in the invoice.
- ☐ Provide that net sales for licensed products which are not sold, but are otherwise used or otherwise transferred, means the net selling price at which products of similar kind, quality, and quantity are being offered for sale by licensee.
- ☐ Provide that where licensed products are not being offered for sale by the licensee, net sales for licensed products that are otherwise used or transferred shall be the licensee's cost of acquisition or manufacture, determined by U.S. generally accepted accounting standards, increased by a specified percent.
- ☐ Require that royalties shall be deemed to accrue when the licensed products are sold, shipped, invoiced, used or otherwise transferred, whichever first occurs.
- ☐ Require that the licensee provide written royalty reports to the designer on a regular basis; preferably monthly or quarterly, and yearly only if demanded by the licensee.
- ☐ Require that the licensee include any royalty payments which are due along with the regular royalty reports.
- ☐ Specify the information to be contained in the royalty report, such as the number, description, and aggregate net sales of licensed products sold, used, or transferred during the reporting period.
- ☐ Make sure that the designer has the right to terminate the license after thirty days notice if the licensee does not make the required payments.
- ☐ Provide that all rights granted under the license agreement shall immediately revert to the designer if the agreement is terminated.

- ☐ Require that the licensee maintain adequate records of the licensed products sold, used, or transferred.
- ☐ Give the designer the right to inspect the licensee's books and records after the designer has given prior written notice.
- ☐ Negotiate for the designer to receive a certain number of licensed products at no cost.
- ☐ Give the designer the right to purchase additional samples of the licensed products at the licensee's manufacturing costs increased by a specified reasonable percentage.
- ☐ Provide that the designer shall have the right to approve the quality of any reproductions of the design and that the designer's approval will not be unreasonably withheld.
- ☐ Obligate the licensee to use its best efforts to promote, distribute, and sell the licensed products.
- ☐ Provide that the licensee's use of the design shall inure to the designer's benefit if the licensee acquires any trademarks or other rights in and to the design.
- ☐ Require the licensee to assign and transfer any trademark or other rights in the design to the designer upon termination of the license agreement.
- ☐ Make it clear that all rights not specifically transferred by the license agreement are reserved to the designer.
- ☐ Require the licensee to indemnify the designer against any costs arising out of the use of the design for the licensed products.
- ☐ Limit the designer's liabilities by providing no warranties or representations (including infringement of any third parties' rights, and assuming no responsibilities with respect to any product containing the design).
- ☐ Restrict assignment of the license by providing that neither the designer nor the licensee can assign the license, except that the designer should be free to assign rights to any payments due under the license agreement.
- ☐ Provide that nothing in the license agreement shall constitute a joint venture or any similar relationship between the designer and licensee.
- ☐ Choose the state where the designer is located or most familiar as the place where the agreement will be interpreted and governed.
- ☐ Recite that the agreement is binding on the client and designer, as well as other parties who may stand in their place, such as heirs, successors, assigns, and personal representatives.
- ☐ Include in the agreement any additional terms and conditions (such as minimum royalties, insurance, etc.) that are believed to be necessary or desirable.
- ☐ Make sure that the agreement reflects the entire understanding of the parties, and that modifications can only be made in writing and signed by both parties.
- ☐ Make sure that the agreement is properly executed by authorized signatories for both parties.
- ☐ Compare paragraphs 13-18 to the standard provisions in the introduction.

A
Guide
to
Licensing
Artwork



MARILYN
MOORE

ONE:

You and Your Art

Most artists are very sensitive about their own creativity. Why shouldn't they be? They have to survive the rigors of training, the assault of criticism and the loneliness of solitary work. Artists have every right to feel protective of their work. They have exposed a portion of their souls in each work that they create. Each new work reflects a particular insight or some way of seeing and understanding that is unique and personal to the artist. With time, prospects of some financial gain and a healthy disinterest give some artists the ability to release their proprietary hold and be objective and critical of their work. Others will always remain emotionally connected and unable to let go.

Self-Analysis: The First Step

Before deciding to enter the licensing arena, you should ask yourself several questions about you and your art. Complete honesty is essential.

You may be embarking on an endeavor for which you are not suited — an endeavor that might demoralize you, damage your creativity or divert you from your artistic calling. On the other hand, you may find yourself on a path to an exciting creative process that can bring you great financial and artistic rewards, heightened creativity and a new career! The following questions can help you find out if you fit the commercial artist profile.

- Are you willing to let go of your art? Letting go — or putting your work into someone else's hands — is true surrender. The extent to which you are willing to exploit your work and the level of control you feel you need to protect your work are pertinent issues to consider before entering the commercial world. Presumably, your canvasses were painted to hang on the wall. Will you be offended if your painting is reproduced on coffee mugs, wall calendars and shower curtains? It is best to explore your personal emotional limits as an artist before you let your "babies" leave home and fend for themselves. It will also save you from later embarrassments and regrets.

- Can you accept commercial standards of reproduction? The craft of transforming a single piece of art into a run of mass-produced greeting cards, linens, book jackets or porcelain plates is painstakingly difficult. Each medium has its own standard of "commercially acceptable quality." If you compare the colors in an original painting with its

reproduction on a commercial product, you might be surprised by the contrasts. The differences can be due to printers' ink tolerances, color separating techniques, material absorption and manufacturing limitations. Reputable and successful manufacturers do strive for quality reproduction and make every effort to get as close to the original as possible. Finding and then settling for an acceptable reproduction quality in certain product categories can be essential to your ongoing relationships with manufacturers.

- Will you create more for a client and will you deliver on time? Licensing agents, art directors and manufacturers do respect your calling as an artist. They know that it takes time, inspiration and motivation to create. But when you put yourself into the licensing arena, you are opening yourself up to potential commitments that may require grueling work and back-breaking deadlines. A single piece of art may be so popular as a licensed property that the manufacturer will want to create a series, expand the line or commission a particular subject matter. The artist's cooperation is vital to the ongoing success of the business.

- Can you take criticism, direction and rejection without taking it personally? Art directors and product developers have no-nonsense jobs. If your art doesn't fit their product requirements, they can't use it. It does not matter that your painting

won a blue ribbon in a juried show; or that your neighbor thinks it would make a beautiful greeting card; or that the work of art took more of your time, more of your heart and more of your skill than anything you have ever created before. If it doesn't fit, it doesn't work. The art director may dismiss it because the dimensions are wrong. The product manager may tell you that your themes are unsuitable or that your style is overdone or unpopular. You can listen. You can learn. You can adapt. But don't take this kind of rejection as a personal reflection on your talent and ability as an artist.

- Can your art stand the scrutiny of the professional eye? You do have a responsibility to be objective about your work. Some pieces are well-executed. Others might be sketchy and not fully realized. When you prepare to show your work, it is important that you understand that it will be subjected to critical evaluation. Are the colors clean? Are the lines pure? Have you achieved the level of skill that would be expected from a professional who works in the style and medium you have chosen? Your ability to be consistent in your work is important. Nothing is more disappointing than when a product manager is attracted to a particular work only to discover that it is a "lucky accident." In this case, the artist cannot produce more work of similar quality because his skill is not sufficiently developed.

- Does your art have a broad appeal? Shirley Henschel, president of Alaska Momma, Inc., a licensing company, successfully represents a select number of artists to manufacturers of consumer products. Calendars, greeting cards, housewares, home furnishings, games, linens and apparel are just a few of the product categories that bear the work of her clients. "To put together a good licensing program, I want art that has broad consumer appeal," she says. Shirley meets with leading manufacturers at their offices and in her own in New York City as well as at the numerous industry shows she attends throughout the year. "The art should be in color; black and white is too limiting. And the art should be representational. Abstract art is just not accessible. I find that often illustration is more effective than fine art because it tells a story. Fine art can be harder to sell."

Self Expression vs. Mass Appeal

The art world is filled with many works of self-expression. It fills our art galleries and graces our homes. Many artists express their deepest feelings and relive their most meaningful experiences through the medium of their choosing. We respond to the emotional content and the symbolism. We value it because of its unique and singular expression of a mood, an idea, a place and a person.

Art that is best suited for licensing has differ-

ent criteria. Perhaps from its very inception it was created to appeal to others. The theme is clear; the content is recognizable. The images — figurative, illustrative, symbolic and decorative — are popular with the consumer and appropriate to the product on which they appear.

SIX:

Negotiating Terms of the License Agreement

You've organized your artwork, researched the potential manufacturer and made a concise and thorough presentation of your artwork to the product manager. What happens next? If you are fortunate, the product manager says, "Yes! It's time to negotiate!" At this point, whether you are representing yourself or working through an agent, you will want to be familiar with the essentials of a design license agreement. You will want to understand just what it is that the manufacturer wants from you and what you are agreeing to. You will need to understand what the manufacturer intends to do with your work, exactly what he will pay you for that privilege and what the payment method will be.

The Starting Point: A Verbal Agreement

During the meeting with the product manager, it is a good idea to jot down notes about who is

agreeing to what and then read them back to the parties in the room before ending the conversation. This will ensure that both parties understand the essentials of the all issues involved. These notes can help you when you review the final contract. This friendly exchange, a kind of "gentle person's verbal agreement" prior to drawing up a contract, is much of the glue that will bind the parties to the eventual legal agreement. When all is said and done, it is the *mutually* agreed-upon intentions and purposes that will make a licensing agreement succeed. The contract, then, becomes a piece of paper that simply documents what has already been agreed upon during negotiations.

Some artists are unable negotiate. They do not know how to balance their need to protect their work with their obligation to satisfy the client. In that state of mind, many artists fail to recognize opportunities to advance their careers, or, in their eagerness to please, fail to recognize the warning signs of potential abuse. In such cases, a licensing agent or an attorney who specializes in licensing and copyright issues can be helpful. Licensing agents will be discussed in Chapter Seven.

Using an Attorney

An attorney can be very helpful during the negotiation of the written contract. Using the format that follows, review your negotiations with an

attorney. If the attorney is familiar with licensing issues, he or she may raise questions about the agreement and point out the ramifications of your decisions. Even attorneys who are not familiar with licensing practices can review your agreement and provide good counsel to be sure that it properly protects your interest. Attorneys with licensing experience may have opinions regarding the terms you have agreed to. This is only natural. Listen to their opinions and consider their advice. It can be truly valuable.

One very wise attorney cautions his clients: "You have to make an agreement that you are comfortable with because you want to do the work. You know how much it means to you. I can advise you, I can warn you, I can encourage you. But I can't agree for you."

Whose Form to Use

Now that you (the artist) and your licensee (the manufacturer) have come to general terms, you will want to draw up the written contract. Herein begins the battle of forms. You may be given the manufacturer's standard form agreement and asked to sign it, or you may be able to negotiate the use of your own form agreement. There is an advantage to being the party that writes the contract. There will be no buried clauses that you won't understand, the language is your own and

the terms are clearly stated as *you* understand them.

Should the licensee insist on drawing the contract, you should review it with your attorney. Although you do not want to be “difficult” and convey an attitude of mistrust at the very beginning of what can be a profitable working partnership, it is important to review the contract thoroughly. Then, if your lawyer finds some troublesome language or contradictory clauses, he or she can guide you in discussing these problems with the licensee and you can feel confident that you are on firm and rational legal ground. This also give the licensee an opportunity to at least explain and justify a company policy or to eliminate the troubling language from the contract.

All of these conversations and negotiations are best conducted in an atmosphere where there is a presumption of fairness and trust. With knowledge and experience, you will find that contracts that begin under adversarial conditions are rarely productive. Knowledge is your best defense and ignorance is no defense. Your attorney can help you acquire that knowledge.

Points To Remember When Negotiating a License Agreement

Licensing is a partnership. Sensible negotiations require the ability to walk in your partner's

shoes for at least a part of the time. You want to have a healthy degree of objectivity about your partner's value to you and your value to the partner, and a desire to find the path toward mutual trust and agreement.

Before you reach that point, however, it is helpful for you to know what your absolute bottom line is — not just what you want, but what you need. Do you need exposure? Cash? An introduction to a new product category? Are you overworked? Underutilized? Frantic? Bored? Having the answers to these and similar questions — knowing what your needs are and honoring them — will put you in a better position to negotiate on your own behalf while protecting your basic interests. Most licensing agreements are not difficult. Most are straightforward and clear in intent. The industry is made up of honorable people who respect your contribution to their success. They want to come to a reasonable agreement with you and get on with their work of creating products.

Basic Terms of the License Agreement

A review of the essential ingredients in a license agreement will help you make the decision that is right for you, both professionally and personally. An agreement that is good for you may be disastrous for another artist. In the same way, an agreement that is acceptable at this stage of your

career may be unacceptable to you later. If you can understand the issues involved, you can at least make an informed acceptance or rejection of the offer.

The Grant

The grant of rights is where the artist (the Licensor) grants the manufacturing company (the Licensee) the *right to use* art (the Works) created by you. That is the whole essence of your agreement. *How* the manufacturer can use it, *where* he or she can use it, and the *length of time* that he or she can use it will be your areas of discussion and negotiation. The *extent* of use is the issue.

Some companies may want to buy your work outright. They will purchase the art and its copyright and subsequently own it as if they were, in fact, the creator of the art. A "work for hire" agreement requires that the artist relinquish all of his or her rights to the work in any format, as well as the copyright to the work itself. Obviously, this is the broadest extent of "use."

Some artists are paid handsomely for work for hire, particularly in high-fashion cosmetic packaging design and designer textiles. Other artists have carelessly signed away all rights to their art through ignorance or carelessness. Certainly, it would be wise for artists to put a high premium on any work for hire work agreement, if they con-

sider it at all. Sample work for hire agreements are included in the Appendices.

The Rights

As an artist, you may grant an "all rights" agreement. Typically, this type of agreement acknowledges that the copyright is held by the artist and the actual "work" is owned by the artist. But the licensee has the right to exploit the work *in any manner*. The artist owns the actual painting but has signed away the reproduction rights. The artist cannot license the work to another manufacturer for any purpose whatsoever during the term of the agreement. In this type of agreement, the manufacturer becomes the exclusive licensee of the artwork which is the subject of the agreement.

The artist may also grant an exclusive license to the manufacturer for specific product categories. In this scenario, the licensee would be the only manufacturer for a particular product category, leaving the artist to grant other licenses for the artwork in other categories. The artist may also grant non-exclusive licenses, where in any given category, the artist may grant numerous licenses for the same artwork. Most manufacturers are reluctant to sign agreements which do not give them any form of exclusivity, due to the highly competitive nature of the manufacturing industry.

Product Categories and Market Channels

It is typically desirable for the artist to grant rights by product category. For instance, you may encounter a manufacturer specializing in stationery, greeting cards and wall calendars. Another party manufactures placemats, dishtowels and pot holders. Still another publishes journals and notebooks. Each manufacturer wants reproduction rights to your art, but only for the product categories in which they manufacture. As the licensor, you may grant licenses for the same piece of art to each of these manufacturers, granting each exclusive use of the artwork in their category for the term of the agreement. This is a smart way to approach licensing as it allows the artist to build recognition for the artwork in various categories. Some artists make the mistake of granting one manufacturer a broad range of product categories. This often does not allow the artist to receive full recognition in the marketplace, because few manufacturers can manufacture products in all the applicable categories. Therefore, it is advisable for the artist to structure the license agreement so that each manufacturer is granted the rights to reproduce the artwork only on the types of products that he or she can bring to market.

Some licensors are able to further refine the extent of use by defining the specific markets where the products will be sold. A manufacturer may sell

bookmarks to the mass market only, or through catalogue sales only, leaving the independent retailing and department store distribution to a different manufacturer. The art can then be redesigned and used in a different style by another licensee for that same product in a different market. This practice is common in the licensing of animated television and movie characters. Nevertheless, it is wise, if possible, to define the market in which the licensed products will be sold and to reserve any rights that will not be exploited by the manufacturer.

Territory

Some companies distribute only in their own country. Others have the ability to distribute globally. It is important for the artist to know up front what the licensee's distribution capabilities are. Granting rights to a licensee for a territory that the licensee cannot reach, or withholding rights for a territory that you cannot personally exploit are equally foolish moves. Many companies are expanding their international trade, and most artists will want their licensed product to participate in that growth. But if the artist already has a foreign business connection that is interested in the artwork, the territory provision in the license agreement should hold back that territory from a grant of rights. Some companies may even help the art-

ist make a foreign licensing connection through a sub-licensing clause in the agreement.

Term

All licensing agreements should have a term — a fixed period of time for which the license is granted. The term might be as short as two years or as long as the licensee keeps the product in stock. Except for work for hire agreements that acquire the work once and for all time, the artist might agree to a single term, or one with a renewable clause, or even a combination of yearly terms provided certain sales goals are reached. When the term expires, all rights to the work should revert back to the artist.

Without term limits, one unwise agreement would almost certainly be disastrous to the entire licensing program. At least term limits can lessen the effects of a licensing mistake. Even a bad agreement will eventually expire and you can start negotiating all over again!

Payment Options

Flat Fee

Frequently, a single image to be used for a card or book jacket, or a design that will be used for a special promotional product line in the mass mar-

ket will command a flat fee payment rather than a royalty.

Let's suppose that you have shown a series of paintings to a greeting card company and the product manager says that she would like to use them for cards. She says that she has management orders to pay only flat fees for newly acquired work — no ongoing royalties. How do you respond? Some artists expect the continuous revenue flow of the royalty system and will never agree to a flat fee. For other artists, it depends on the situation. An artist might consider a flat fee arrangement for a short term use of a piece of artwork. Many artists ask for more information before considering a flat fee payment. What will the print run be? What will the retail price be? What are the expected sales quantities? With that information, the artist can compare the potential royalties over the life of the product with an up front flat fee offer. The artist may need to weigh the risk of unearned royalties against the certain payment at hand.

All artists at some times in their lives are grateful for flat fee work. It pays the mortgage, it buys the groceries. It is a guaranteed payment in advance of production, not dependent on royalties to be earned from future sales. Sometimes it can be in your best interests to ask for a flat fee payment. If a manufacturer is introducing a new product category to their business and has no history of sales in that category, you may be better off

getting all of your money up front rather than waiting to see how the product performs in the marketplace. Of course, if the product is a runaway best-seller, you won't share in that success through royalties. On the other hand, if it does not live up to expectations, you will not share in the failure. A sample flat fee license agreement is included in the Appendices.

Royalties

A royalty is a payment to the artist (usually a percentage of the manufacturer's receipts, but sometimes a fixed amount) based on the price of the products sold. A fair royalty rate is arrived at through a discussion of the general practices of the industry, an understanding of the company's policies and guidelines and an honest dialogue about each party's expectations. Here is where your prior networking can help you. If other artists like yourself have had ongoing happy relationships with the manufacturer you are negotiating with, you can feel comfortable that you will be offered a fair deal. You don't want to have unrealistic expectations — or accept so little that your work is devalued. Mutual respect makes a solid foundation for a successful royalty agreement. A sample royalty-based license agreement is included in the Appendices to this book.

The Advance

Typically, the manufacturer will make an advance payment against royalties to be earned. This payment should be non-refundable and helps to offset the cost to the artist for time and materials. Additionally, the advance serves as a good faith offering by the manufacturer that confirms his or her obligations and commitment to the project. Without an advance, the artist is essentially agreeing to work on speculation, hoping that the manufacturer will indeed produce the product. Some projects that proceed through negotiation do not actually make it to market. The advance is insurance for the artist against that unfortunate event where few or no royalties are earned. Once a product is produced and sold, the advance will have to be earned back before additional royalties are paid to the artist.

Royalty Rates

Some royalties are calculated as a percentage of a retail price of the product sold (typically in the book publishing business), others as a percentage of a net selling price (the price charged to wholesalers) and still others as a percentage of net receipts (accounting for extra selling discounts and promotions). There is a growing trend toward a net receipts basis, where manufacturers ask their

licensors to share in the risks as well as the rewards of a highly competitive selling environment. Occasionally, there is an offer of a fixed sum for each unit sold. It may seem attractive at the time, but the artist should be aware that if the product has a long life in the marketplace, that fixed sum will not keep pace with inflation.

The royalty rate and compensation provisions are often the most hotly debated provisions in the negotiation process. Royalty rates can vary from two to twenty percent and even more, depending on the rate basis, the market, the industry, the category and the value of the work to the company. Any discussion here of typical rates can only be misleading to an artist, because of the many factors that determine fairness.

Guarantees

Some artists can specify a certain minimum of royalty earnings that must be achieved annually for as long as the agreement is in force. Should the sales not earn that sum, the manufacturer must make up the difference each year for the term of the contract. A guarantee may be offered in lieu of an advance or in addition to one. Artists with celebrity status may feel that their exposure in the marketplace requires a guarantee from the manufacturer in order to protect the value of their names.

Details of the License Agreement

The above are the essential points that you will most likely cover in your negotiations. These mutually agreed-upon points will then be translated into a licensing agreement, a binding legal contract that commits you and the manufacturer to its terms. But if it's that simple, why are contracts so long and wordy? The answer is that the rest of the contract covers the details. The details will define how you will work together; what you can expect of each other; what you cannot expect of each other and what your remedies will be if either of you fail each other.

In addition to the specific business terms, all license agreements should include the important "boilerplate" provisions. When things are going well between licensor and licensee (and most of the time they do), neither party concerns itself with the "boilerplate" provisions of the contract. But lawsuits, judgments and penalties arise out of that same boilerplate. You should at least understand each provision's content and intentions and be sure that the agreement fully protects your interests.

Quality of Merchandise; Samples

The license agreement should require the licensee to manufacture the product in style, appear-

ance and quality to the licensee's own highest standards. This is not to say that it will be to *the artist's* standards. The agreement will require that the licensee submit samples of the finished licensed product and that the quality of all future products be consistent with the submitted sample. Here, also, is where an agreed number of finished samples is specified.

Royalties; Reports and Payments

A procedure for payments and sales reporting should be outlined in the agreement. Negotiation points are the frequency of the reports, the form of payments and whether payment is through an agent or directly to the artist.

Books and Records

The licensee promises to keep accurate records and will let the artist, or a representative of the artist, inspect the books if necessary.

Diligence

In this clause, the licensee agrees to use the best business practices to promote and sell the products. It might not be a bad idea to agree upon what constitutes best efforts on the part of the licensee, in order to avoid problems later on.

Copyrights

In every license agreement, there should be a clear statement of who will own the copyright to the original work, adaptations and modifications. The agreement establishes and confirms ownership of the original material. It also assigns responsibility for registering copyrights and trademarks.

Legal Markings

The licensee should agree to mark all products and packaging with appropriate copyright notices and trademarks to protect the works under universal copyright and trademark laws.

Nature of the Relationship

The agreement should clearly state the relationship between the two parties. In most cases, the agreement will stipulate that the relationship is a license and is not to be construed as anything else, e.g., employee-employer relationship, partnership, joint venture etc.

Representations and Warranties

Both parties warrant that they have the right to form the agreement. Every artist will be asked

to make certain representations and warranties to the manufacturer. These reps and warranties include:

- the artist has the right to license the work;
- the work is original;
- the same rights have not been granted to another party for the same products;
- the work is free from any liens or pending lawsuits; and
- the work is not illegal.

Indemnities

The artist may promise that if there are any suits brought against the artist with respect to the works or ownership of the works, the licensee will not be held liable. In return, the licensee promises that if there are any suits or claims arising out of the manufacture of the products, the licensor will not be liable.

Infringements

This clause states who will prosecute known infringers and who will bear the costs of doing so. This clause also stipulates how any sums that are recovered from these law suits will be distributed.

Term and Termination

These provisions outline the procedures and conditions for termination of the agreement. Considerations for renewal and procedures for disposing of finished products after termination are also discussed.

Notices and Statements

This section of the license agreement dictates how and in what form the parties will communicate, i.e., first class mail, registered mail, E-Mail, telephone, etc.

Assignment

Can the licensee assign the agreement to another manufacturer? Most agreements clearly state that this is not an option. This part of the agreement also states that it should be binding on any heirs and successors in the business and accrue to the benefit of the licensor's heirs and survivors.

Jurisdiction

If a situation arises where either party seeks legal remedy, in what court would it be heard? The state where you reside? Where the manufacturer is located? Is arbitration an option for dis-

pute resolution? Several years ago I was involved in a suit where, buried in the boilerplate, was the statement that suits would be tried in another state. Because my attorney did not have a license to practice there, I needed to hire another attorney at considerable expense and discomfort. We finally settled out of court, but the distress of that experience stayed with me. Now I always check the jurisdiction clause. Some licensors suggest that all suits be brought in the state of the party who must defend. This is presumed to discourage frivolous suits. However you resolve this issue, you should be aware that different states' laws can help or hinder your quest for justice and the defense of your actions.

Severability and Integration

These clauses are included in almost every type of license agreement. A severability clause states that if any clause of the contract is invalid, it will not affect the remainder of the agreement. An integration clause provides that the license agreement is the final and entire understanding between the parties and that it incorporates all prior written or oral agreements between the parties.