

The Legalities of Licensing

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In discussing licensing, mutilating an old cliché seems appropriate: licensing has become the tail that wags the art world dog.

Licensing of art in its essence is a form of exploitation of the artist's copyrights and/or, if they are well-known enough, the exploitation of their trademark as manifested in their names or signatures.

When an artist licenses an artwork, they are in fact granting a "copyright license" to the manufacturer of the product. For example, if someone wants to place an image in a calendar, a copyright license is granted for the calendar's use.

If they wish to use the image on the side of a lunchbox, that requires a license, as would a screen saver, notepad, pencil, water bottle, place mats, towels, music boxes, magnets, key chains, carrying cases, Christmas ornaments, greeting cards, postcards, posters, stamps, etc.

The list of licensed art products is limited only by the marketer's creativity or the marketplace, but each

use requires either a separate license or a form of blanket license. A number of key elements should be addressed in any licensing agreement between an artist (or their exclusive agent/publisher) and a licensee:

Artist representations: The artist will generally be expected to warrant to the licensee that they are the sole copyright owner of the images and have the right to grant the rights being conveyed in the agreement.

Artist's credit: In order for an artist to be guaranteed that they receive credit as the artist of the artwork on the product or in an advertisement, it must be specifically included in the license agreement. It is not an inherent right.

Copyright: Copyright in the licensed product may be held by either the

artist or the licensee. This is an area of negotiation. Even if the licensee holds the copyright in the licensed product (something most artists generally resist) the copyright in the underlying artwork remains with the artist. All the licensee is getting is the right to copyright that specific product, e.g., a jigsaw puzzle, in their own name. The copyright in the licensee would only go to the elements which they have added to the original art. In many cases that is negligible.

Promotional approvals: The artist might grant the licensee the right to use their picture or portrait in a dignified manner in conjunction with the advertising or promotional materials. In those cases, there is usually some form of approval by the artist prior to the release of the materials. The artist can also negotiate some approval of any ads which contain

products bearing their images.

Advances: Advances can take the form of a flat fee or royalty payments. Royalties generally are the preferred route for both licensees and licensors. No one has a crystal ball and has the ability to predict the success of the product, so artist fees based on sales is the safest course for both parties.

More often than not, a non-refundable advance against royalties is paid to the artist. Specifically, the artist is paid a lump sum up front as an initial payment of prospective royalties. The artist then will receive additional funds only once the advance has been recouped by the licensee. If the product is not that successful, and the advance is never recouped, it is a loss borne by the licensee; the artist is never required to return any of the advance.

Royalty percentages: The royalty percentage paid is based on the nature of the product. There is no single royalty number for licensed artworks. While calendars generally generate a royalty of approximately 10 percent, ceramic goods pay approximately in the five percent range.

Each product and each market has found its own percentage niche. Obviously, the more well known the artists, the more clout they have, the higher the percentage they will be able to command. The reverse is, of course, also true: if you have a very large well-known and established licensee and an unknown artist, the royalty percentage that the artist will get will be smaller.

Royalties are generally based on sales. But what is a sale? An area of frequent battles is in the definition of the word "sales." Is a sale based on the retail or the wholesale price? Generally, if you are dealing with a wholesaler, it will be based on the wholesale price, but what if the licensor sells wholesale and retail through its own stores or mail order?

Then, is a sale based on both levels or only the wholesale level? Is a sale counted from the time the

licensee received the funds from its customers or from when the goods are shipped? If it is from when they ship the goods, and the licensee's customers turn out to be a bad credit risk and do not pay the licensee, the artist is still entitled to their royalty (this is obviously the position that artists take into negotiations).

If the royalty is based on funds received and the licensee is not paid, then the artist is also not paid (this is obviously the licensee's initial negoti-

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ating position). When a licensee provides discounts, are artists' percentages reduced accordingly, or do they get paid the same amount regardless of the licensee's discounting policy? This area is one of intense negotiation in many licensing agreements.

Guarantees: A number of licensing contracts provide for guarantees which are different than the advance. An advance is a one-time advance payment. A guarantee provides that the artist will receive a certain level of revenue in royalties no matter what the amount of the sales. Guarantees are also often linked to option clauses: the license agreement is for a certain number of years, and if the artist has earned a certain amount of money through royalties, the licensee has the right automatically to extend the term of the license. If they don't reach the guaranteed level, then any

renewal would be the discretion of the artist. The options linked to guarantees are also known as "performance criteria."

The more exclusive and binding a contract is on an artist, the more likely that they will receive sizeable advances and/or guarantees. If a licensee is precluding the artist from going elsewhere in terms of licensing their artwork or images, then the artist is generally well advised to seek guarantees, because if the current licensee falls down on the job, the artist loses this important source of revenue.

Accounting: Accounting is very important in all royalty-based transactions. It should be, from the artist's point of view, as frequent as possible. The artist should also obtain a right to review the licensee's books. They should insist on late fees and interest charges on delayed payments. Additionally, if an audit of the licensee's books shows a discrepancy to the detriment of the artist, the audit cost should be borne by the licensee.

Quality approval: Another very important area for an artist is the approval of the quality of the licensed goods. The artist, generally, in a licensing agreement will have right of approval of the product. This usually works out that the artist approves final samples or proofs, and then there are representations in the contract that the final product will conform to the approved sample. There are, then, clauses put into the contract which provide for the appropriate remedies if the produced goods do not conform to the approved samples.

Indemnification: Indemnification clauses run both ways and are important in ensuring that the artist will appropriately indemnify and hold harmless the licensee from any type of copyright or trademark violations for which the licensee is found liable as a result of breach by the artist. Conversely, the licensee should indemnify the artist for any claims made

against them regarding the nature and exploitation of the licensed products produced by the licensee.

Termination: There should be a very precise listing of the reasons for termination of the agreement by either party, e.g., under what circumstances? Are there any cure provisions? For how long? What is the nature of the ability to cure?

Sell-off rights: An important area to be considered in every contract is sell-off rights. When a contract expires or is terminated as a result of lack of sales, generally speaking, a licensee is granted the right to sell-off remaining inventory. However, if a contract is terminated by the artist for breach by the licensee, sell-off rights are normally not granted to the licensee.

Sell-off rights are simply the right to sell off remaining stock for a period of time after the contract expires. This is a very dangerous area for an artist. The licensee, once the contract is over or about to be over, has no interest in the artist's career or market, and has a very strong incentive not to be stuck holding inventory it cannot sell. The normal tendency, therefore, of a licensee is to "dump" the artist's product on the market.

This could be extremely detrimental to an artist's reputation, not only in the area of licensed goods, but also in the sale of their artworks or paintings or limited edition prints. Dumping can also destroy an artist's market for future licensed goods, and jeopardize any ability the artist has to acquire a new licensing agent.

What licensing entity would want to come out with a line of products at full price when the same products by the artist are being dumped on the market by the previous licensee at 10 cents on the dollar? Therefore, anti-dumping and/or buy back clauses are important for the artist to include in a contract.

Choice of forum: Forum clauses are often found in contracts where a specific law is determined to be the law governing interpretation of the contract as well as choosing the forum

(which state) where contract disputes will be resolved. Obviously, each party wishes to litigate any dispute on its home turf, and subject to the laws of the state most favorable to them. This is always an area of negotiation and is usually resolved by clout or horse trading.

Arbitration vs. litigation: Often contracts provide clauses stating that disputes arising out of the contract will be handled by arbitration instead of litigation. The attraction to both parties of arbitration is that it is usually quicker and less expensive than liti-

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gation. However, before either an artist or licensee jumps in and automatically demands arbitration, they should be aware of the fact that arbitration provides fewer opportunities in the area of discovery, injunctions, juries, etc.

Therefore, an analysis should be made by either party of the nature of the breach by the other party and what remedies they would wish to have in case of a dispute. For example, if an artist issues a license to a product which conflicts with the rights granted to the licensee, and the licensee wished to get an injunction against the artist, they would not be able to do so if they had agreed to an arbitration clause. Most arbiters cannot issue injunction but

can only order damages for loss of sales, and perhaps some profits from the sales made by the licensee.

An artist might be limited in the amount of discovery regarding books and records of a licensee under arbitration. There are many factors to consider, and no single right answer regarding the choice of litigation or arbitration. This should be determined after appropriate analysis.

The licensees are always solely responsible for all costs incurred in the manufacture and sale of their licensed goods. There should be statements in the contract that say the rights going to the licensee are those limited to the contract and no others. The more specific one can be in regard to the license being granted, the less likely there will be problems incurred later on over what products the licensee has been issued to manufacture and to market.

If the agreement is non-exclusive, or its exclusivity is limited to a certain type of products or location, the extent and the nature of the media, duration, and products should be clearly and carefully spelled out. There should be provisions regarding registration of copyright and trademarks for the licensed products. Depending on the nature of the product, if it is one where there is potential liability for the artist based on harm to consumers, they should ensure that the licensee has appropriate insurance and that it should cover the artist.

Licensing can be a wonderfully lucrative and career-enhancing opportunity for artists, publishers and licensing agents, but should be approached carefully. Appropriate due diligence should be exercised by artists or their representatives prior to entering into any licensing agreement. ■■

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